

# **Cable Industry**

## **History**

The history of the cable television industry has been characterized by wide swings in how it is perceived by the public and regulated by government. In its early period, cable television experienced rapid growth, characterized by local regulation of construction standards and timetables, channel offerings and the rates charged to customers. Cable services consisted of retransmission of off-the-air broadcast television channels not otherwise available to mostly rural residents.

In 1984, Congress deregulated most cable rates but reaffirmed the right of municipalities to continue to require municipal franchises. By that time most cable operators were offering various premium programming choices in addition to basic cable programming. In 1992, Congress passed sweeping telecommunications legislation that deregulated most cable rates.

## **Current Developments**

A major influence in the cable television industry recently has been the entry of AT&T as an industry player and their announced plans to offer telephony services over cable television facilities. These transactions coupled with the trend in the

industry to cluster operations in given geographic markets are enabling cable operators to significantly expand service offerings and enter new telecommunications markets.

During the past eighteen months the dominant cable television companies in New York have all expanded their footprint in their respective markets. There has been a clustering of systems yielding a larger base of potential customers from which to recover costs, enabling operators to significantly expand service offerings.

We expect this flurry of recent activity to result in the cable television industry continuing its efforts in new businesses such as high speed data modem services (cable modem) and residential telephony. Each of the major operations in New York is actively engaged in providing cable modem services and, in some cases, business and residential telephony. It is expected, the cable industry will enter the high speed data services market more rapidly than the telephony market. Cable modem penetration nationally is projected to grow to 3.4 million households by the end of 2003. This represents a significant new revenue stream to the cable television industry.

The deployment of digital set top converters nationally is also expected to significantly increase over the near term with the industry projecting a 23% penetration rate over the next 24 months. Digital set tops will offer consumers, among other things, more programming channels, expanded pay- per- view options, and interactive programming. Digital set tops will represent another major new revenue stream for cable operators.

The curve for telephony deployment will likely be slower than cable modem service and digital set tops. The investment in infrastructure is much greater and there remains a number of obstacles yet to overcome, including the reliability of the networks and network powering issues.

Direct Broadcast Satellite (DBS), using satellites and small microwave antennas located at the subscriber's premises, continues to be the main source of competition to the cable industry's video product. The competitive landscape for cable's multi-channel video product is not expected to appreciably change over the near term. DBS currently is experiencing a more rapid growth rate than cable television. DBS currently serves approximately 10 million customers nationally, with moderate projections expecting it to grow to between 15 and 20 million by the end of 2002. Cable had 65 million customers nationally at the end of 1998. Over the past two years DBS has added two new customers for each new cable customer.