

## The Honorable Steve Scalise

1. **I have long fought to eliminate unnecessary rules and regulations that hinder innovation, stifle job creation in our economy, and limit access and/or choices for consumers. One area where I have a particular interest is in the video marketplace, where the '92 Cable Act was based on a dramatically different set of industry competition than exists today. The result of these outdated rules and regulations is less competition, less innovation, and less freedom for consumers and job creators alike. As a result, small and rural multichannel video programming distributors (MVPDs) are increasingly forced to choose between offering video service at a loss or dropping the serve offer altogether. The and eliminate outdated laws for the sake of consumers and other stakeholders so that there is finally a more level playing field.**
  - a. **Please explain what, if any tradeoffs you have seen your member companies make as it relates to investment and the buildout of broadband as business operation costs increase, and the freedom to innovate and meet consumer demand remain stuck in the 20<sup>th</sup> century.**

### **Answer:**

Small and medium-sized multichannel video programming distributors (MVPDs) are at the forefront of deploying new high-performance broadband networks, especially in rural areas. Over the past five years, ACA members have invested more than \$10 billion to upgrade and expand their networks, both in rural areas and as overbuilders bringing competition in urban areas, and they plan to continue to spend billions each year to meet their ever-growing subscribers' demands for real-time, high-speed access to the Internet and other IP services. ACA members are also using their capital to bring service to unserved areas. To date, ACA members have invested private funds to build out to more than 840,000 homes that the Federal Communications Commission would consider as located in high-cost areas and otherwise be eligible for federal universal service support.

ACA members' networks support the provision of the triple-play of multichannel video, broadband and phone services. Despite online video's growth in recent years, most households continue to subscribe to traditional multichannel video service— and continue to take this service as part of a bundle with broadband internet access. As a result, few MVPDs see a viable business model in offering only broadband today. The viability of multichannel video service is therefore fundamental to MVPDs' decisions to invest in new broadband deployments.

In recent years, the economics of multichannel video service for MVPDs have been worsening, particularly for smaller MVPDs. As ACA has noted, the cost of content for small cable operator members continues to increase at 10 percent annually while they limit retail rate increases to 4 percent annually. As a result, video margins have declined from 2012 to 2015 from 22 percent to 13 percent, and they have fallen further since then. In addition, cord-cutting has reduced the number of multichannel video subscribers for smaller MVPDs by about 6 percent annually.

In 2015, ACA contracted with the business consulting firm, Cartesian, to develop research and supporting analysis regarding the effect of video programming cost increases on broadband deployment

in different market scenarios. This study, which ACA published as a paper, "[High and Increasing Video Programming Fees Threaten Broadband Deployment](#)," found that if trends continue, traditional MVPD margins will be reduced substantially each year, and multichannel video service will become a losing proposition for most small to medium-sized providers. As a result of the revenue loss from video, MVPDs will have less free cash available for new investment which in turn will act as a drag on broadband deployment. In fact, because margins are shrinking today, this deleterious effect is already occurring.

ACA applauds your efforts to eliminate outdated rules and regulations that artificially keep broadcast and non-broadcast programming costs higher than would be expected in a free market. By fixing the broken pay television marketplace, the Congress would also be promoting investing in broadband networks.

### **The Honorable Yvette Clarke**

- 1. I have learned by representing the 9<sup>th</sup> Congressional District of New York and the Smart Cities Caucus that cities are eager to bring high-speed broadband and 5G technology to their constituents. I am concerned, however, by the recent adversarial tone between the industry and cities. I think it is wrong to characterize cities and industry as adversaries and not partners.**
  - a. Can you all commit to helping reach a good faith consensus on how to bring high-speed broadband and 5G technology to cities aiming to deploy smart technology for their constituents? What are your plans for this commitment and engagement?**
  - b. Will you commit to working with my office to resolve some of these disputes, and find a path forward that works for all consumers, cities, and the industry?**

### **Answer:**

ACA's broadband providers share the objective of local governments to bring high-speed broadband to consumers. We are particularly aware of this common aim because many ACA members are municipally-owned providers. We thus have a close connection to local governments, and we recognize the significant contributions they make to their communities. We also know that most other ACA members have excellent working relationships with local governments, and some have even forged partnerships to develop broadband capabilities. ACA continues to work to promote such partnerships and closer relationships between providers and local governments. Given the advantages of working together, ACA stands ready to join efforts aimed at finding consensus between cities and providers on ways to expedite the deployment high-speed broadband networks. Further, ACA commits to working with your office to help resolve any disputes that exist now or may arise later, and on ways to minimize or eliminate these disputes altogether.