

## WBOB 2014 Mid-Year Rate Increase

Hello. Thanks for tuning in.

I want to tell you about a change in TV prices that will take effect on July 1. On the surface, it's pretty straightforward. Basic Cable will increase by \$3 a month. Basic Plus will increase by \$1 a month. The reason for this increase is also pretty straightforward. Our cost to purchase the TV programs you enjoy has increased. Like a gas station or grocery store, we must adjust our prices when our costs increase. Normally, we do this only once a year. However, this year has been very unusual. The cost for some of the TV networks so many of you enjoy has increased dramatically.

The monthly rate for all other services, like High-Speed Internet and Phone service and other TV services, like HBO will remain the same. The monthly service charge for DVRs and other equipment also remain the same.

The reason these prices remain the same while Basic and Basic Plus are increasing is because the costs to provide these other services are not increasing. We are able to control other costs very well. It is only the cost of TV services that is so problematic.

For up-to-date news and information about what is happening in the TV world, you can always visit TV On My Side and select the More News link at the bottom of the page. That will show you a whole list of news stories and editorials about the TV industry. You also can find answers to many frequently asked questions at TV On My Side.

I know that you really don't care a whole lot about the cost of our raw materials any more than you care if a flood causes corn prices to rise or a refinery shutdown makes gas more expensive. You care about what you pay. It's my problem to deal with my suppliers. But, just like that gas station or grocery store, I can't ignore the costs and there are times when I must increase prices. I don't like it either because it puts me in a difficult position of raising prices (which no one likes) or reducing the product (which no one likes) or cutting back on the quality of our customer care (which no one likes). None of those are good options. We always work hard to find a balance among the price, the program networks and the service we deliver to all of you. Sometimes, that means raising the price.

I am sure most of you know why the price of gas increases at the pump and that it's not the local gas station. It happens when a large oil company raises the wholesale price of gasoline. A local gas station can either pay the higher price or stop selling gas. The same forces are at work in the TV industry. Large media companies control all of the TV programming and they raise the price. Like a local gas station, I can either pay the higher wholesale cost or stop selling cable TV. It's not much of a choice.

The cost of Basic Cable TV program networks has increased sharply this year. These large increases affect all distributors. Dish, DirecTV, AT&T, Time Warner, Armstrong Cable and all the other providers face the same problem. The cost of TV programming is rising very rapidly and it is causing retail prices to increase.

I don't like to bother you with the details of my industry, but if you are interested, I will tell you more about the forces and facts behind these changes.

I have mentioned in previous programs that seven companies control 95% of the TV networks in the US. Well, all of them have decided they want a whole lot more money. That's why the cost of all types of TV programming is increasing very, very rapidly; news, sports, kids, general entertainment, all of it. Here's a quick peek at how this works.

All of the Big 7 media owners have contracts with cable, satellite and phone providers. These contracts range from three to seven years. The contracts are for their entire bundle of networks and they require that most, if not all, of their TV channels be included as part of Basic Cable even if we don't want to carry them. That's why there are so many channels on Basic Cable. I would like to split up these channels and offer lots of smaller options for consumers. The media owners will not allow it. They force us to carry all of their channels in order to carry the ones we want. That's why Basic cable is so large.

These contracts also include an annual increase in the price. These multi-year contracts give us some certainty about annual increases, but all bets are off at renewal time. In the past year, four of the Big 7 required new rates as a result of contract renewals. These agreements are characterized by four things:

First, is a rate "reset." Even though the rates increase every year, they all demand a big increase when the contract is renewed. There is no real justification. The rate will increase even when program popularity falls. This varies from 10% to more than 30%. Viacom started their renewal process by demanding a 60% increase.

Second, annual increases are required. Typically, annual increases are in the 5% to 10% range in addition to the rate reset.

Third, network launches also are required. Almost all of these companies have new networks they demand be added or existing networks that must be moved to a level of service with more customers. That's why Basic Cable keeps growing larger.

Finally, they often demand sports surcharges. This is, perhaps, the most dangerous of their demands. Most of these media companies have big dreams about sports programs. You may have noticed that Fox launched Fox Sports 1 and NBC launched NBC Sports Network. They want to compete with ESPN as national sports networks. That means paying big bucks for sports rights and they want to be sure they can raise their prices when they do. So, they demand an unknown sports surcharge in case they are able to win the bidding for expensive rights to professional sports, like NBC's recent announcement of extending their Olympics' TV rights for almost \$8 billion.

Put all that together and it amounts to an average annual increase in the cost of TV programming of about 14% per year, not just for one of these big media companies, but for all of them. That makes their TV networks cost dollars more each month.

By comparison, MCTV's other costs are well controlled, increasing by less than the rate of inflation.

And, these increases are not restricted to cable TV networks. The price increases sought by the out-of-town owners of Cleveland TV stations are often worse. Tom Wheeler, the FCC Chairman, recently noted that the cost of carrying local broadcast TV stations has skyrocketed from \$28 million in 2005 to \$2.4 billion in 2012, an 8,600 percent increase. And, it's still going up. SNL Kagan, a respected research firm, projects the cost of local TV stations will more than triple to \$7.6 billion by 2019.

Broadcast TV stations and other channel owners have become accustomed to this pattern of rapidly escalating price hikes. They have little concern about how these costs are absorbed and who is affected. After all, they know the TV distributors like MCTV, Time Warner, Dish and others must endure the consumer criticism, deliver the bill and collect the money for them.

All of that seems so unreasonable. Why would anyone agree? Well, the simple fact is that if I don't agree, I can't carry any of their program networks. If I don't agree to the increase for Cartoon Network, I can't carry TNT. If I don't agree to the increase for MTV, I can't carry Comedy Central. If I don't agree to launch Fox Sports 1, I can't offer Sports Time Ohio. If I don't agree to a rate increase from WJW, I am not allowed to carry a different Fox TV station. I can't drop one network from their bundle. It's all or nothing. And, that's not just for MCTV. All distributors face the same problem.

Competition is supposed to help prices, but it doesn't in the TV world. Retail competition among MCTV, DirecTV, Dish Network and others hasn't helped to keep costs down. Instead, it has actually driven prices up. That is because there are multiple cable and satellite company buyers for a channel like Comedy Central, but only one seller, Viacom. As a result, Viacom is able to demand huge price increases because Viacom knows if I don't agree to pay, then consumers can simply switch to another video provider who will. That new provider also must pay the higher cost and raise their price too. Either way, Viacom gets more.

[Change Pace] These really are unprecedented times in the TV industry. I know most of you don't follow industry news as closely as I do, but it really is remarkable. Here are some recent developments in the TV industry.

Comcast, already the biggest communications company in the nation, is trying to acquire all of Time Warner, the second largest. They probably will succeed and create an industry behemoth that controls 30% of all US TV households, about 40% of all US Internet households, about a quarter of all phone lines and a giant chunk of the TV program industry, including the NBC TV Network. This merger will have a big impact on Ohio because the combined Comcast/Time Warner has already decided to leave Ohio. All of the current Time Warner systems, serving about 2.5 million Ohio homes, will be spun off to a company called Charter.

At the same time this is going on, AT&T is proposing a merger with DirecTV, designed to create another giant telecommunications company.

But, perhaps more remarkable are the news stories about TV programming. It seems everywhere you look, cable and satellite companies (the companies that deliver TV services) are at war with the companies that own the TV content. Time Warner fighting with CBS, DirecTV with The Weather Channel, Dish versus AMC Networks, Cable One battling with Viacom, the list goes on and on.

These news stories relate not only to the increasing costs for TV programming, but also to the fact that companies are starting to actively push back, and push pretty hard. Why? Well, it is all about the price of the programs.

For example, Time Warner recently acquired the TV rights to the Los Angeles Dodgers. They created a channel like Sports Time Ohio. They paid \$8 billion for those rights and now are struggling for survival because none of the other TV providers, like DirecTV, will agree to pay the price Time Warner is charging. The same thing is happening in Houston where the Astros Network is in bankruptcy.

These rapidly rising costs for TV programming are found in all markets, including NE Ohio. Within a short time, the three regional sports channels of Big 10, Fox Sports and Sports Time Ohio will cost more than \$10 per home per month. I don't know how long we can continue to carry all of these networks. At some point, they just become too expensive. And yet, those three networks are owned by Fox and tied to other Fox TV networks like FX, Fox Sports 1 and National Geographic so it is impossible to pick and choose.

ESPN is, of course, the national leader in sports programs. They have recently launched two new sports channels; the SEC Network and the Longhorn Network. While neither of these networks have much appeal locally, we will soon start to carry them as part of Basic Plus, an optional level of service. Why? Well, remember the bundle of network channels. We must start to carry SEC and Longhorn or ESPN won't allow us to carry ESPN, Disney and all their other channels. This is all part of the great difficulty that surrounds the TV program industry.

And, it's not just sports.

That brings me to another example of companies pushing back about TV program costs. For the first time in the history of the cable industry, cable TV companies are dropping networks owned by a large content company. More than two dozen cable companies representing almost a million TV homes recently stopped carrying all of the networks from Viacom, the owner of Nickelodeon, MTV, Comedy Central, Spike and a dozen other channels. DirecTV dropped all of the Viacom networks for a month in 2012, but that was a short-term dispute. This is different. None of these companies are planning to restore the Viacom networks. Instead, it is a permanent termination of those networks. The reason is simple. Viacom demanded such a large increase in

monthly fees that the cable companies decided to stop carrying those channels. That is a big deal because it has never happened before. Hopefully, it will serve as a wakeup call to the program industry to stop paying ridiculous prices for TV rights. Now, I have no illusion that sanity will come to the industry overnight. It will take time. But, it is a step in the right direction.

As I mentioned at the top of the show, visit [TV On My Side](#) for more stories, explanations, opinion and answers about the TV program industry.

But, the fight with Viacom doesn't stop with program blackouts. Now, this battle has spilled over to the Internet. Viacom puts a lot of their programs on the Internet for free and a lot of people watch that way. Well, Viacom has taken the very drastic step of blocking Internet access to their websites. Internet customers served by the cable and phone companies that stopped carrying Viacom TV channels can no longer visit Viacom on the Internet. Viacom lets web surfers from Albania watch SpongeBob, but Viacom blocks people who live in Alabama.

If you are an advocate of something called Network Neutrality, you should be very concerned. Viacom is blatantly violating the spirit of Network Neutrality by discriminating against certain Internet users in order to extract higher fees from TV viewers. Even though Viacom's websites are supposed to be free to anyone, Viacom is denying access to some users because of where they live and the ISP they use to connect to the Internet. That's the sort of vicious, bullying behavior many of the content companies use to maintain their stranglehold on the US TV industry.

[Change Pace] It's a serious problem for TV viewers and I can't say I have a solution. The companies that own the TV content are dead set on extracting higher and higher fees every year for TV programs. None of the distributors, including the very largest are able to restrain these rising costs. Sadly, it seems as if the program networks are hell bent on seeing how far they can push the system before it breaks. And, worse yet, they have no plan to fix it when it does break.

It is becoming increasingly obvious that the traditional cable TV model is in need of reform. I have been one of the outspoken voices in our industry calling for reform. MCTV works with other cable and satellite companies for legislative change at the federal level. Political leaders in Washington are starting to notice the growing consumer frustration and slowly beginning to realize that the laws governing this dysfunctional TV marketplace need to change. Let's all hope our lawmakers make meaningful reforms to reign in these large media companies before they destroy the US TV industry and before too many more Americans are harmed.

[Change Pace] At the same time, the Internet is becoming a more and more popular place to watch TV. Services like Netflix and Amazon Prime are gathering more and more programming. Devices like Amazon's Fire TV, Apple TV and Roku are becoming better. Of course, there are monthly subscription fees for services like Netflix and Amazon Prime and you must purchase some of the equipment and learn how to use it.

Nevertheless, these new services and new equipment offer benefits. Our technicians and Call Center are learning how these new services and new equipment work too. Even though we have nothing to do with these things, we want to be able to help our customers when we can. And, MCTV's High Speed Internet service is a great way to utilize these services. Toward that end, MCTV is working to ensure that your online video viewing is every bit as good as your regular TV viewing by constantly upgrading the network to increase the available Internet bandwidth.

Remember too, that even with the strict contract requirements imposed by the TV network owners, we have created options for smaller, less expensive TV packages. Please call the office if you would like even more information.

I hope you have a great summer. Please remember TV On My Side for more information about this subject.

Thanks for watching.