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## Monday Blues: Cable Gets Title II Wake-Up Call from the President

Oh, what a way for cable to start the week. Cable MSO stocks fell sharply as President *Obama* took the unprecedented move of calling on the **FCC** to reclassify consumer broadband under Title II. While the president said ISPs should receive forbearance from rate regulation and other common carrier provisions, it wasn't enough to calm investors. **Comcast** closed down 4% Mon, while **Time Warner Cable** shed 5% and **Charter** lost 6.24%. **Cablevision**, not in any way part of the mega merger, slid 1.7%. "If the FCC appropriately forbears from the Title II regulations that are not needed to implement the… principles that most ISPs have followed for years—it will help ensure new rules are consistent with incentives for further investment in the infrastructure of the Internet," Obama said. The Washington grapevine swung both ways on Obama's bold net neutrality move, with some believing it could be an attempt to bolster FCC chmn *Tom Wheeler*'s Title II hybrid approach and others thinking it's the president exerting pressure for a full Title II reclassification. Obama's proclamation flipped the notion that full-on Title II is off the table, but the ball is in Wheeler's court. Unlike **Dept of Energy** and the **Justice Dept**, the FCC is an independent agency, a point Wheeler noted in his response to Obama's comments. Wheeler noted that staff recently began exploring a hybrid approach that would combine the use of Title II and Sect 706. "The reclassification and hybrid approaches before us raise substantive legal questions. We found we would need more time to examine these to ensure that whatever approach is taken, it can withstand any legal challenges it may face," Wheeler said, explaining that Title II brings with it a host of policy issues, from privacy to universal service as well as legal issues over the ability of Title II to cover mobile. Under a best-case scenario, it would seem unlikely that the FCC could vote on new net neutrality rules before Feb, one attorney said. Then comes the lawsuits, which could go into 2016 before being decided. Given that it seems unlikely the FCC will be able to act this year, the agency also will be acting when Republicans, opponents of Title II, control both the House and Senate. That could make things even stickier. Possibilities include Congress tying appropriations to the FCC not acting on net neutrality or completely revising the Communications Act. And given the way politics works, the GOP's unhappiness about this is unlikely to be contained to only net neutrality. For Washington wonks wondering if the White House has to submit an ex parte on Obama's statement, we can tell you it has already been filed. The letter states that in addition to Obama's statement, **National Economic Council** dir/asst to the pres for Econom-

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ic Policy *Jeff Zients* met with Wheeler last Thurs to convey the points set out in the president's statement.

***How Many Ways Can They Say It?*** It was entertaining Mon to see how many different ways ISPs could tell the President he was wrong on this Title II approach. The most popular response seemed to focus on how it could negatively impact jobs and the economy. **NCTA** pres/CEO *Michael Powell* said the cable trade group was "stunned" the president would abandon the bipartisan policy of lightly regulating the Internet. "The **FCC** is an independent agency and it should exercise independent judgment in crafting new rules," said Powell, a former FCC chmn himself. "This is truly a matter that belongs in Congress and only Congress should make a policy change of this magnitude. Congress can easily unravel the legal and jurisdictional knot that has tied up the FCC in crafting sustainable open Internet rules, without resorting to rules of the rotary-dial phone era." **Time Warner Cable** chmn/CEO *Rob Marcus* said the MSO is committed to an open Internet, "but we disagree with the President's statement that an open Internet can only be achieved by reclassifying broadband as a public utility. Regulating broadband service under Title II, as the President proposes, will create unnecessary uncertainty, lead to years of litigation and threaten the continued growth and development of the Internet." **Suddenlink** chmn/CEO *Jerry Kent* said the president has proposed a solution in search of a problem, with no legal content being blocked by ISPs and no paid prioritization taking place with respect to broadband Internet access. "Now is not the time—with an economic recovery that is tentative, at best—to discourage private sector companies from making new investments and creating jobs," Kent said. **Comcast** evp *David Cohen* also called on Congress to intervene: "This would be a radical reversal that would harm investment and innovation, as today's immediate stock market reaction demonstrates. And such a radical reversal of consistent contrary precedent should be taken up by the Congress." **ACA** chief *Matt Polka* gets credit for historical reference in his statement: "Common carrier regulation of telephone service crafted in 1934 under President *Franklin Roosevelt* should not be applied to a thriving, bustling broadband Internet market in 2014 under President *Barack Obama*."

***Republicans Ready to Rumble:*** Republican lawmakers' statements on *Obama's* Title II shout-out offered up a preview of what could go down once the new Congress is seated. "We are extremely troubled and disappointed by the president's urging the **FCC** to regulate the Internet as a utility under Title II of the Communications Act. Today's announcement is just the latest in a long line of decisions that reveal this administration simply doesn't know how to grow the economy," said a statement from **House Commerce** chmn *Fred Upton* (R-MI), **Communications** subcmte chmn *Greg Walden* (R-OR) and vice chmn *Bob Latta* (R-OH).Sen *John Thune* (R-SD), who is expected to lead the **Commerce** cmte come Jan, said Obama's "stale thinking" would invite legal and marketplace uncertainty. Thune and Sen Republican leadership wrote FCC chmn *Tom Wheeler* earlier this year, suggesting the FCC work with Congress to develop clear statutory authority for open Internet rules. Sen **Roger Wicker** (R-MS), leading Republican of the **Sen Commerce Communications** subcmte, called on the FCC to act independently. "President Obama's net neutrality plan would create uncertainty, discourage investment and innovation, and threaten the online experience that Americans rely on and enjoy," Wicker said.

***What Does the Fox Say:*** The potential **Time Warner-Fox** merger was "more of an opportunity, not a necessity," said 21st Century Fox CFO *John Nallen* at **RBC Capital Markets**' investor conference Mon. Given the changes in the video industry, "it could have been a pretty powerful combination… The mix of entertainment, sports and content development assets is one that we found attractive," the exec said. He emphasized that the possible marriage is "more about the power it can bring." However, the company concluded that such a deal won't deliver enough value to shareholders. "We have moved on," Nallen said. The priority now is to focus on "organic" growth. "On our own, we will do just fine," he said. In terms of international markets, Latin America growth has been strong, while Nallen said the company has hit headwinds in some markets like EU. The past year hasn't been the best for ad sales. "Advertisers have been a little less confident in the economy, and they have pulled back a bit," Nallen said. An example is the auto industry. A Fox brand that isn't heavily dependent on ad sales is **Fox Sports 1**, which has affiliate contracts through fiscal year 2016. Now that the **MLB** playoffs are done, FS1 will get into "a full pattern schedule" with high-profile sports programming. The sports net, which has acquired **NBA** rights, is looking at potentially acquiring some **NFL** rights. "We will engage with NFL and find out what they are offering," Nallen said. Meanwhile, don't count on Fox to follow **HBO** or **CBS**' footsteps any time soon. Despite the availability of streaming service through Fox apps, Nallen said the company doesn't intend to launch standalone OTT products.

# BUSINESS & FINANCE

***Programming:*** **SundanceTV** expanded its original scripted slate with its next wholly owned original series "Hap and Leonard." Based on the *Joe Lansdale* Southern noir book series, the series was greenlit for six 1-hour eps. Filming will start in 2015 with the debut scheduled in early 2016. -- **Showtime** picked up a 2nd season of its drama series "The Affair" and a 5th season of "Homeland," to air in 2015. -- **Starz** booked original series "Ash Vs. Evil Dead," a follow-up to the classic horror film franchise *The Evil Dead*. The 10 half-hour ep series premieres in 2015. Starz will retain all domestic and international multiplatform rights including TV, home ent and digital.

***People:*** **Travel Channel** named *Robert Madden* svp, marketing, creative, communications and brand strategy. He will join the team on Dec 1 and report to the net's pres *Shannon O'Neil*. Madden was most recently gm and svp of digital for **Food Network** and **Cooking Channel** at **Scripps Nets Interactive**. -- **WE tv** upped *Lauren Gellert* to the newly created position of evp of development & original programming. Gellert, most recently svp of original production and development, will report to WE tv pres *Marc Juris.* Prior to WE tv, Gellert was vp of production and development at **ION Media Nets**. -- **Universal Sports Net** upped *Janet Brown* to CFO, reporting to pres *Scott Brown* (no relation). She joined the company in 2010 as controller.

## CableFAX Daily Stockwatch

| Company | 11/10 Close | 1-Day Ch |
|---|---|---|
| **BROADCASTERS/DBS/MMDS** | | |
| DIRECTV: | 87.27 | (0.13) |
| DISH: | 63.67 | (0.04) |
| ENTRAVISION: | 5.14 | (0.05) |
| GRAY TELEVISION: | 9.38 | (0.32) |
| MEDIA GENERAL: | 14.62 | (0.12) |
| NEXSTAR: | 44.52 | 0.77 |
| SINCLAIR: | 26.85 | (0.19) |
| **MSOS** | | |
| CABLEVISION: | 18.60 | (0.32) |
| CHARTER: | 146.62 | (9.75) |
| COMCAST: | 52.95 | (2.2) |
| COMCAST SPCL: | 52.83 | (2.16) |
| GCI: | 12.32 | 0.53 |
| GRAHAM HOLDING: | 779.95 | 2.29 |
| LIBERTY BROADBAND: | 46.73 | (2.79) |
| LIBERTY GLOBAL: | 45.74 | (0.86) |
| SHAW COMM: | 26.02 | 0.20 |
| TIME WARNER CABLE: | 136.50 | (7.1) |
| **PROGRAMMING** | | |
| 21ST CENTURY FOX: | 34.74 | 0.13 |
| AMC NETWORKS: | 61.20 | (0.74) |
| CBS: | 52.13 | 0.82 |
| CROWN: | 3.40 | UNCH |
| DISCOVERY: | 32.26 | (0.36) |
| DISNEY: | 89.78 | (0.22) |
| GRUPO TELEVISA: | 35.37 | 0.20 |
| HSN: | 69.67 | (0.03) |
| LIONSGATE: | 35.05 | 1.59 |
| MSG: | 74.68 | (0.47) |
| SCRIPPS INT: | 73.34 | (1.85) |
| STARZ: | 30.97 | 0.02 |
| TIME WARNER: | 77.33 | 0.33 |
| VALUEVISION: | 5.89 | 0.12 |
| VIACOM: | 70.35 | (0.52) |
| WWE: | 13.15 | (0.12) |
| **TECHNOLOGY** | | |
| ADDVANTAGE: | 2.55 | 0.03 |
| AMDOCS: | 47.50 | (0.01) |
| AMPHENOL: | 50.68 | (0.28) |
| AOL: | 44.64 | 1.96 |
| APPLE: | 108.83 | (0.18) |
| ARRIS GROUP: | 30.46 | (0.38) |
| AVID TECH: | 10.30 | UNCH |
| BLNDER TONGUE: | 1.28 | (0.02) |
| BROADCOM: | 41.35 | 0.34 |
| CISCO: | 25.15 | (0.18) |
| COMMSCOPE: | 25.32 | (0.06) |

| Company | 11/10 Close | 1-Day Ch |
|---|---|---|
| CONCURRENT: | 7.05 | 0.07 |
| CONVERGYS: | 21.46 | 0.51 |
| CSG SYSTEMS: | 25.75 | 0.17 |
| ECHOSTAR: | 48.78 | (1.09) |
| GOOGLE: | 547.49 | 6.48 |
| HARMONIC: | 6.91 | (0.16) |
| INTEL: | 33.26 | (0.32) |
| INTERACTIVE CORP: | 65.91 | 0.21 |
| JDSU: | 13.62 | UNCH |
| LEVEL 3: | 46.29 | 0.44 |
| MICROSOFT: | 48.89 | 0.21 |
| NETFLIX: | 387.27 | 3.11 |
| NIELSEN: | 43.02 | (0.32) |
| RENTRAK: | 80.93 | 1.25 |
| SEACHANGE: | 6.45 | (0.09) |
| SONY: | 20.50 | 0.88 |
| SPRINT NEXTEL: | 4.88 | 0.16 |
| TIVO: | 12.95 | (0.17) |
| UNIVERSAL ELEC: | 58.85 | 0.12 |
| VONAGE: | 3.60 | 0.09 |
| YAHOO: | 49.41 | 0.86 |
| **TELCOS** | | |
| AT&T: | 35.12 | 0.21 |
| CENTURYLINK: | 39.84 | 0.41 |
| TDS: | 26.03 | (0.32) |
| VERIZON: | 50.72 | (0.14) |
| **MARKET INDICES** | | |
| DOW: | 17613.74 | 39.81 |
| NASDAQ: | 4651.62 | 19.08 |
| S&P 500: | 2038.26 | 6.34 |

# Cablefax TECH by Joyce Wang

## Rise of OTT Escalating Bandwidth Demand

Driven by the viewing of OTT services like **Netflix** across multiple devices, the average HH bandwidth requirements are expected to increase 31% annually over the next 5 years, from a peak hour average use per HH of 2.9 Mbps in 2014 to 7.3 Mbps in 2018, according to a recent study by network vendor **Ciena** and **ACG Research**. In addition, the use of Internet video, which includes smart TVs, is expected to grow from 12% of overall peak average bandwidth in 2014 to 25% in 2018, a compound annual growth rate (CAGR) of 56%. Again, the use of Internet video represents the largest contributor to HH bandwidth consumption by 2018. Additional use of 4K streaming video services, which consume 3 to 4 times more bandwidth than HDTV, will grow from 2% in 2014 to 12% in 2018. And recent moves by cable programmers like **HBO** and **CBS** to offer standalone OTT service would only accelerate the trend, Ciena's dir of industry marketing *Mitch Simcoe* told us. "I believe that other pay-TV providers will also pursue this streaming video model." To protect their business model, MVPDs could potentially start unbundling to allow subs to pick their own bundle, he said, noting the Canadian government has already initiated a process toward unbundling TV channels. On the broadband side, ISPs will have to beef up their networks to meet the bandwidth growth of OTT by increasing the broadband access speeds in the last mile. Moving subs to higher broadband tiers creates new revenue opportunities, and cable ISPs are well-positioned with their hybrid-fiber coal plant, Simcoe said. Deploying high-performance packet-optical network could also improve OTT performance, he said. Simcoe also said that centralizing caching per metro area and high-performance packet-optical networks can reduce the need to push it any closer to the user. Meanwhile, accessing OTT video via a WiFi connection in and out of home is becoming a necessity. "It is uncertain whether Wi-Fi represents a revenue opportunity for MSOs but rather a way to expand broadband coverage outside of the home. The way for MSOs to monetize Wi-Fi isn't as a revenue service on its own but rather a way to promote the 'content everywhere' concept where subscribers can access their content outside of the home without consuming data capacity from their mobile plans," Simcoe said. On the regulatory side, **Verizon's** net neutrality victory against the **FCC** is expected to provide ISPs with the legal means and financial incentives to support the development of streaming video, the Ciena and ACG study said. However, that might not be the case if FCC chmn *Tom Wheeler* decides to implement Title II framework, following *President Obama*'s remarks calling for strong Open Internet rules (See full story in this issue).

***RealNetworks Continues Transition:*** **RealNetworks**, the video streaming provider founded in 1994, said its RealPlayer Cloud video upload and sharing service launched a year ago has passed 8mln registered users. The company is looking to become a provider of comprehensive online services instead of just a video player vendor. The company is offering 365 gigabytes of cloud storage space for $4.99 a month, in celebration of RealPlayer Cloud's 1-year anniversary. The service will soon be available in **Microsoft's** Xbox One's app store, allowing users to watch and share personal videos on their TVs. Later this fall, users will be able to upload video captured on their Xbox One to their RealPlayer Cloud account, allowing sharing and viewing of game-capture video across devices. RealPlayer Cloud was one of the 1st 10 apps launched on **Google's** streaming device Chromecast. And the Google dongle seemed to be most popular streaming device for RealPlayer Cloud users, with some 96% of them who stream to their TVs using it, according to RealNetworks.

*Got tech news? Reach out to Cablefax Tech editor Joyce Wang at jwang@accessintel.com*