

**TESTIMONY OF THOMAS RUTLEDGE  
CHIEF OPERATING OFFICER  
CABLEVISION SYSTEMS CORPORATION**

**on**

**Video Competition in a Digital Age**

**before the**

**Committee on Energy and Commerce  
Subcommittee on Communications, Technology and the Internet**

**UNITED STATES HOUSE OF REPRESENTATIVES  
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## **TESTIMONY OF THOMAS RUTLEDGE**

### **CHIEF OPERATING OFFICER, CABLEVISION SYSTEMS CORPORATION**

Good morning, Chairman Boucher, Ranking Member Stearns, and Members of the Subcommittee. My name is Tom Rutledge and I am the Chief Operating Officer of Cablevision Systems Corporation. I also currently serve as the Chairman of the Board of Directors of the National Cable & Telecommunications Association, the principal trade association of the cable industry.

First, I want to acknowledge this Subcommittee's role in shepherding an era of increased competition and innovation in the media, broadband and telecommunications markets. The 1996 Telecommunications Act and successive legislation have enhanced the ability of companies like Cablevision, to provide a host of new services – especially voice services -- to customers with capabilities unheard of only a decade ago, and at prices that are a fraction of what they were when only the Bell companies offered phone service. Cablevision itself has invested more than \$5 billion to provide more than 5 million households and businesses passed by our network with access to the most advanced communications network in the country.

I appreciate the opportunity to talk with you today about “video competition in a digital age,” for it is a topic we at Cablevision live and breathe every day. We face the most robust competition in the nation from companies many times our size – including Verizon, AT&T, DirecTV, and DISH. To succeed against these significantly larger competitors, Cablevision has chosen to compete through investment and innovation, as opposed to regulatory forum shopping. As a result, consumers in the New York market have benefited substantially from the cost savings and new choices in services and features, none of which would have been possible if the regulatory environment for these products undercut those investments. We believe that

customers will benefit from the Subcommittee’s continued support of a regulatory environment that creates incentives for investment and innovation resulting in new, groundbreaking products by encouraging risk-taking and rewarding risk takers. In particular, any mandates that force video providers to share the fruits of their investments with their competitors should be rejected – especially in the nation’s most competitive markets.

I will first discuss the state of competition, both nationally and in our markets, and then touch on Cablevision’s efforts to differentiate itself from its competitors through innovation and investment.

**Video Competition Continues to Grow**

Today, video competition is irrevocably entrenched and new forms of competition are upending the landscape. The two national DBS companies, DirecTV and DISH – which in their infancy, more than 15 years ago, were the genesis of the program access rules that exist today – rank second and third in customers among all multichannel video programming distributors (“MVPDs”). Meanwhile, while the two largest telephone companies, which launched their video service only four or fewer years ago, have already risen to be part of the list of the ten largest MVPDs in the country.

**Growth of Non-Cable Video Competition**

<b>Provider</b>	<b>2Q 2009 Growth</b>	<b>2Q 2009 Total Subscribers</b>
DirecTV	460,000	18.3 million
DISH Network	26,000	13.6 million
Verizon FiOS	300,000	2.5 million
AT&T U-verse TV	248,000	1.6 million

Video competition is also emerging from programming distributed using the Internet, taking advantage of the hundreds of billions of dollars of investment in broadband by cable companies and others. Robust high-speed Internet service essentially invented by cable operators and their competitors – with ever-increasing speeds – has made possible the delivery of an enormous variety of video content. YouTube, which was only launched in December 2005, is now nearly ubiquitously used for posting and viewing Internet content of all sorts. In July 2009, 158 million U.S. Internet users watched online video, the largest audience ever recorded. The number of online videos that were viewed reached another all-time high in July with a total of 21.4 billion videos viewed during the month, or more than twice as many videos as were viewed in February 2008.

### **Video Competition in the New York Marketplace**

Cablevision operates in the most competitive market in the country – New York City and the surrounding tri-state area. We have faced strong DBS competition from both DISH and DirecTV for years. Moreover, the telephone companies – now the eighth and tenth largest MVPDs – have focused their launches in our service area. Since launching in New York in 2006, Verizon FiOS has more than 400,000 customers in New York and New Jersey and expects to double that number by year-end. We face similarly strong competition in Connecticut from AT&T, which covers nearly 100 percent of our service area.

**Cablevision is Far Outsized by its Principal Competitors.** Cablevision's chief competitors – Verizon, AT&T, DirecTV and DISH – are all significantly larger than Cablevision. In particular, as the nation's largest communications companies, AT&T and Verizon dwarf Cablevision in terms of the resources they bring to bear.

### Comparative Size of Cablevision Competitors

Provider	Market Capitalization October 2009	2008 Revenues
AT&T	\$151 billion	\$124 billion
Verizon	\$82 billion	\$97 billion
DirecTV	\$27 billion	\$20 billion
DISH	\$8 billion	\$12 billion
Cablevision	\$7 billion	\$7 billion

### Cablevision's Track Record of Innovation

Innovation is the driving force behind employment, revenue growth, and sustainable leadership in our industry. The history of Cablevision offers many examples of the type of innovation that generates value for consumers, and a few examples of where outdated rules are undermining and jeopardizing investment.

Cablevision has a long history of being the industry leader in adopting and deploying new technologies and creating new service opportunities for consumers, and the growth of competition has further spurred our activity. In 1971, Cablevision's founder and Chairman, Charles F. Dolan, created HBO, and then, in 1976, rolled out SportsChannel, one of the nation's first regional sports services. In 1986, Cablevision pioneered the first 24-hour local news channel, News12 Long Island. Cablevision was also the nation's first regular provider of sports coverage in high definition ("HD") – more than 10 years ago, when few households owned HD sets.

In response to the intense competition we face in the New York marketplace, we have built on this legacy of innovation. Let me outline some of our latest developments.

*MSG Varsity.* Last month, Cablevision launched MSG Varsity, a multi-platform suite of services comprised of a 24/7 television network, a comprehensive online destination, and a groundbreaking interactive service -- all dedicated to local high school sports, academics and activities. More than 600 high schools throughout Cablevision's footprint have the opportunity to participate and will receive money for equipment and scholarships as well as extraordinary access to curriculum and training in multimedia creation and distribution if they choose to participate. This significant undertaking requires an overall investment by Cablevision of tens of millions of dollars and has resulted in more than 100 new jobs.

*Digital Video.* Cablevision was the first cable operator to launch a robust digital video offering, which included video on demand ("VOD") and interactivity for every customer. Long before HD sets were common in the marketplace, we designed and upgraded our network with the belief that HD programming and interactivity would dominate the future. We were the first cable company to offer all of our customers HD VOD, and today, we offer more than 100 HD channels -- and unlike the majority of our competitors, we offer HD free of charge with our customers' service packages.

We are a leader in the cable industry in the transition to an "all-digital" network. As of the end of this year, we will no longer sell an analog video product to new customers and soon will stop providing analog cable in New York City completely. Our principal competitors -- DirecTV, DISH, Verizon FiOS and AT&T -- already operate an "all-digital" network. Going all-digital will enable us to use our bandwidth more efficiently and offer more HD and interactive services. In addition, if the Federal Communications Commission permits us to encrypt our basic tier, we will be able to turn on and off our service remotely, eliminating the

need for service appointments, which can be difficult for working families, and reducing emissions caused by trucks when traveling to service appointments.

We were the first major cable operator to develop and implement an open-standard, downloadable security solution to comply with the Commission's separate security requirement, and we have committed to the FCC to deploy it throughout our footprint.

*Revolutionary Triple Play Offer and First Wide Scale Deployment of Voice.* In 2004, Cablevision was the first communications company to offer the "Triple Play" – the revolutionary bundling of video, voice over IP, and data services that has led to significant savings for our customers and prompted similar offers by others. This innovative offering was made possible after Cablevision became the first cable operator, in 2003, to deploy a VoIP phone product across its entire service area. We delivered a voice service with more features at approximately half the price of the comparable offering by the incumbent telephone company. Today, 41% of the homes we pass choose our voice service.

*Fastest Broadband.* Launched in 2009, our Optimum Online Ultra service offers up to 101 Megabits per second -- the fastest download speed in the country. Consistent with our approach of offering every household access to the best services, Ultra is available to every home Cablevision passes. More than 52 percent of homes passed by our network take a broadband service from Cablevision, including almost 48 percent of homes in the Bronx, and we have a broadband market share in the communities we serve of approximately 75 percent. Our recent introduction of our Optimum Online Ultra service was a result of Cablevision being the first cable provider to deploy the DOCSIS 3.0 standard across its entire service area.

*WiFi.* In 2008, we began deploying what is now the country's largest WiFi mesh network at an investment of more than \$300 million. Our WiFi network offers speeds of up to

3.0 Mbps downstream – up to twice as fast as cellular 3G networks – and access to the network is free to our Optimum Online customers. This is part of our commitment to respond to our customers’ demands and deliver the services they want when they want and where they want. Since its launch in September 2008, Optimum Online customers have accessed the Internet more than five million times using Optimum WiFi and are averaging more than two million minutes online every day over the WiFi network.

*RS-DVR.* In 2007 we were the first to develop a remote, network-based digital video recorder (“RS-DVR”). The RS-DVR provides consumers with all the functionality of a traditional DVR without having to have a DVR attached to the television. It also allows customers to record remotely, to view recorded programs on multiple TVs, and to have larger storage capacity at a lower cost.

*Interactive Television.* We also enhance the value of our digital television service by offering interactive television applications, such as “telescoping,” which allows a viewer to navigate directly from a 30-second commercial to a dedicated advertiser channel or content they select. And we are always looking for ideas that further add value to our service. For instance, this year, we partnered with the New York Yankees and the YES Network to allow Cablevision customers to be the first in the nation to watch Yankees games live online.

*Original Local Programming.* Cablevision is committed to serving its local communities and has spent significant resources creating its own original local content. In addition to our recent launch of MSG Varsity, Cablevision has invested widely in local programming.

- **News 12.** In 1986, Cablevision launched News 12 Long Island, the nation’s first 24-hour, hyper-local news channel, as a terrestrially delivered programming channel unique to its customers. Today, our award-winning News 12 Networks include seven

individual local news channels and five traffic and weather channels serving Long Island, New Jersey, Southwestern Connecticut, Westchester County, the Hudson Valley, Brooklyn, and the Bronx. It is the country's largest and most watched 24-hour local television news network. To differentiate itself and deliver value to customers, Cablevision is now rolling out innovations like "News 12 To Go," a traffic and weather service delivered to customers' mobile phones.

- Cablevision's investment in News 12 has in turn spurred investments by its competitors in local programming. Verizon recently announced the launch of its own exclusive regional channels, FiOS One Long Island and FiOS One New Jersey, that will feature news, sports, weather and local information, and entertainment programming to compete with News 12 Network.
- **MSG HD/MSG+ HD.** In 1998, Cablevision's MSG network was the nation's first regular provider of sports coverage in HD. In 2003, MSG and its sister network, MSG+, launched their HD counterparts. Cablevision's investment in these HD networks was particularly risky and innovative because it required a sizable, ongoing investment at a time when HDTV sets were very expensive and very few people had them. Indeed, no other provider asked to carry these HD networks for almost six years. As HD has matured, MSG HD and MSG+ HD – terrestrially delivered services – have enabled Cablevision to differentiate its cable service from other providers. Those other providers (including Verizon and AT&T) can and do offer the satellite-delivered MSG and MSG+ services, which contains every live game carried on MSG HD and MSG+ HD, so Verizon and AT&T subscribers don't miss a single game.

These investments in local and regional programming were risky and substantial. Our competitors did not share these risks, and we would have been far less likely to commit the necessary resources to these projects if we were compelled to share the benefits with them. Fortunately, Congress limited the program access requirements to satellite-delivered programming – creating a terrestrial “safe harbor” within which a cable operator could distinguish itself from its rivals by expanding the program choices available to its customers. And that is exactly what we have seen in the New York market.

Notably, our competitors have programming that is not available to us, such as the NFL “Sunday Ticket” package that the NFL makes available only to DirecTV subscribers. DISH Network has exclusive distribution rights to numerous foreign language programming services. Verizon has been touting in advertisements that its new regional FiOS1 services “won’t be found on cable TV.” As these promotions make clear, programming line-ups give MVPDs an opportunity to distinguish themselves from their competitors. In a marketplace like New York, characterized by high levels of innovation on all sides, this is the best possible result for consumers.

In such a competitive marketplace, the forced sharing of programming, even satellite delivered programming, is unnecessary as well as counterproductive. The FCC and the courts have both recognized that sharing requirements reduce incentives for innovation and investment, and so should be sparingly applied. Congress enacted the program access rules in 1992 to jumpstart competition; in 2009, especially in markets where competition has firmly taken hold, the costs (in terms of investment incentives and innovation) of forcing cable operators to share programming vastly outweigh their benefits. Consumers are best-served by having MVPDs compete through product differentiation strategies – not by compelling rivals to offer copycat

versions of the same product so that video service becomes a commodity where the company with the deepest pockets wins. Removing the exclusivity ban in any local market with robust competition would promote consumer welfare by encouraging innovation and investment in programming and allowing for product differentiation among distributors, providing consumers with more choice and more competition.

Thank you, and I am happy to answer any questions you might have.