



Alaska Public Interest Research Group

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## Introduction

Across the country cable companies hold virtual monopolies on their local markets. In cable markets across America only 1% of cable television service providers face competition with another wireline cable service provider<sup>1</sup>. Where such competitors, known as overbuilders, do exist, prices for consumers are on average 17% lower<sup>2</sup>. The transition to digital television ushered in a new era of cable television subscription expansion, which brought with it record profits, even in the face of a national recession<sup>3</sup>. With these systemic concerns in mind the Alaska Public Interest Research Group set out to investigate cable television consumer issues.

This is also true in Alaska, where General Communications Inc. (GCI) has access to 90% of the local market and a 65% market penetration<sup>4</sup>. Furthermore, GCI has access to 98% of the Anchorage market, that is, their cable lines pass almost all Anchorage homes. There is virtually no competitor to GCI's wireline cable services. GCI has also continued to rake in profits, which increased 18.5 percent for the first quarter of 2009<sup>5</sup>.

The rates for basic cable television service are important because they are the only cable TV rates that can be regulated according to the FCC. Basic cable rates can be regulated by a FCC approved local franchising authority (LFA). At present there is only one LFA operating in the state and that is the Regulatory Commission of Alaska. Furthermore, the RCA can only regulate the basic cable operations in the city of Juneau. However, there is the possibility that the RCA could regulate cable rates across the state.

The deregulation of basic cable rates coupled with the transition from analog to digital broadcasts has provided an unfair boon to cable companies operating in Alaska. Evidence has shown that cable television companies are reaping enormous benefit from the federally mandated transition from analog to digital broadcasting. They have used the opportunity to entice thousands of customers to sign-up for cable television service. Taken with the deregulated nature of basic cable television service in Alaska this means that GCI has raked in millions.

## Methodology

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<sup>1</sup> "The Failure of Cable Deregulation: A Blueprint for Creating A Competitive, Pro-Consumer Cable Television Marketplace". US Public Interest Research Group. August 2003.

<sup>2</sup> "The Failure of Cable Deregulation: A Blueprint for Creating A Competitive, Pro-Consumer Cable Television Marketplace". US Public Interest Research Group. August 2003.

<sup>3</sup> "Comcast Profit up as Digital Transition Helps." Reuters. April 30, 2009. <http://www.reuters.com/article/rbssBroadcasting/idUSN3045743920090430>

<sup>4</sup> "About GCI". GCI. <http://www.gci.com/about/index.htm>

<sup>5</sup> GCI Reports First Quarter 2009 Financial Results. May 6, 2009.

Basic cable television rates were analyzed for markets across Alaska and in markets across the nation. Data were obtained from the websites of GCI, Comcast, and Time Warner Cable. The data obtained related to the basic cable television subscriptions tier.

The three comparison markets selected were Stockton, CA, Grand Rapids, MI, and Rochester, NY. These three cities are all roughly the same size as Anchorage, AK. Thus, the rates in these cities should be comparable to those in Alaska. The exact population closely mirrors that of Anchorage at around the 250,000-300,000 person range.

The cable companies selected all hold a near monopoly upon cable service provided in those areas making them a nice comparison to GCI's market in Anchorage and Alaska.

The current national average of \$15.64 was calculated using data available from 2005 and adjusting for inflation<sup>6</sup>. Furthermore, disparities in the cost of living were taken into account when comparing the cost of basic cable rates in the selected cities to the rate in Anchorage.

### Key Findings

Rates for basic cable television service are much higher in Alaska than in the lower 48. An analysis of cable markets across Alaska and in markets across the country show that the rates for Alaska are on average 60% higher. There is no regulatory authority for the whole state of Alaska that could set basic cable television service rates. Juneau's basic cable television service is regulated and it is the the lowest priced package available from GCI. Juneau is the only regulated market in the state.

Rates in Alaska are significantly higher for basic cable television service. While the rate for basic cable service are \$9.95 (\$13.03 when adjusted for cost of living disparities) in Rochester, NY it is \$24.99 in Anchorage<sup>7</sup>. Alaskan rates are routinely higher than those found in places Outside. For example, the lowest Alaskan rate, Juneau's at \$22.49, is still much higher than the highest rate from the cities surveyed, Grand Rapids at \$15.99 (\$20.31 when adjusted for cost of living)<sup>9</sup><sup>10</sup>.

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<sup>6</sup> "What is the Average Cable Bill?". Lifetips. <http://cabletv.lifetips.com/cat/64841/paying-your-cable-bills/>

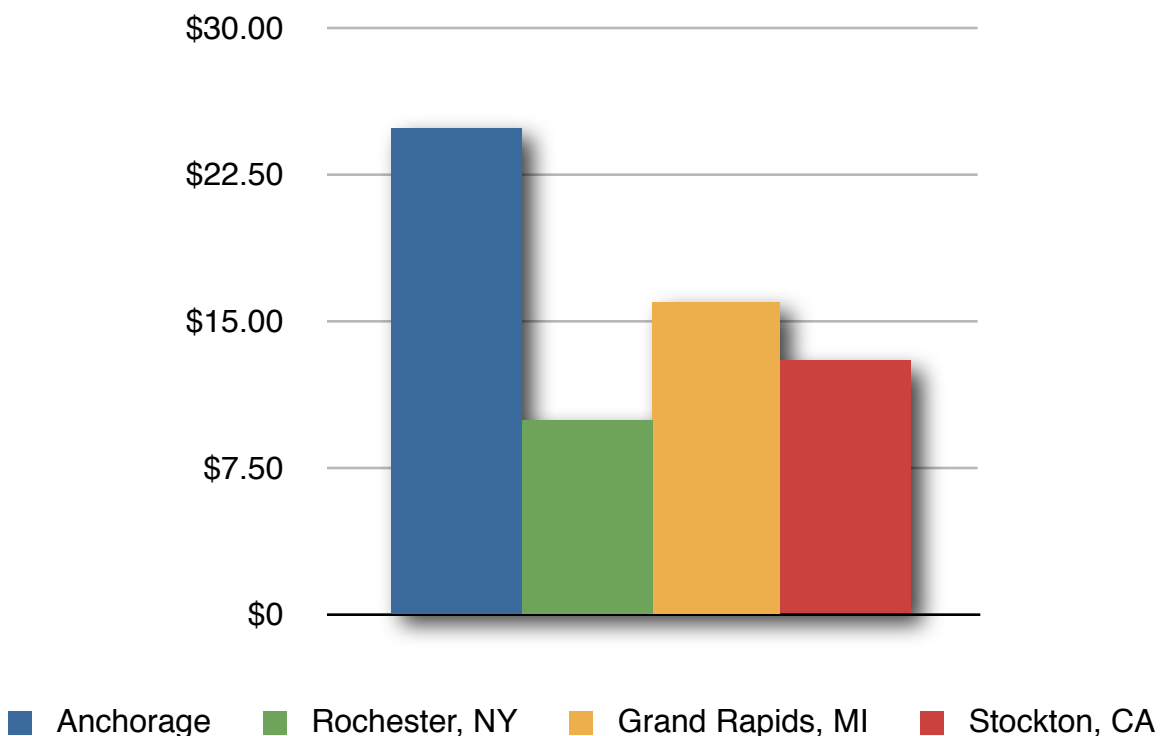
<sup>7</sup> Live Chat Support. Time Warner Cable. <https://www.timewarnercable.com/CustomerService/Chat/Chat.ashx>

<sup>8</sup> Anchorage Channel Lineup. GCI. [http://www.gci.com/forhome/promos/channels/anchorage\\_zxc9.htm](http://www.gci.com/forhome/promos/channels/anchorage_zxc9.htm)

<sup>9</sup> Juneau Channel Lineup. GCI. [http://www.gci.com/forhome/promos/channels/juneau\\_qwe3.htm](http://www.gci.com/forhome/promos/channels/juneau_qwe3.htm)

<sup>10</sup> Live Chat. Comcast. [https://www.comcastsupport.com/sdcxuser/asp/frameset.asp?mainframe=%2Fsdcxuser%2Frrn%2Fissue\\_new.asp%3Fcontact\\_method%3D1%26Kernel%3A%3AKernel%3A%3Asik\\_iss\\_type%3D4c283834-0182-4253-9c90-646fe35178c5](https://www.comcastsupport.com/sdcxuser/asp/frameset.asp?mainframe=%2Fsdcxuser%2Frrn%2Fissue_new.asp%3Fcontact_method%3D1%26Kernel%3A%3AKernel%3A%3Asik_iss_type%3D4c283834-0182-4253-9c90-646fe35178c5)

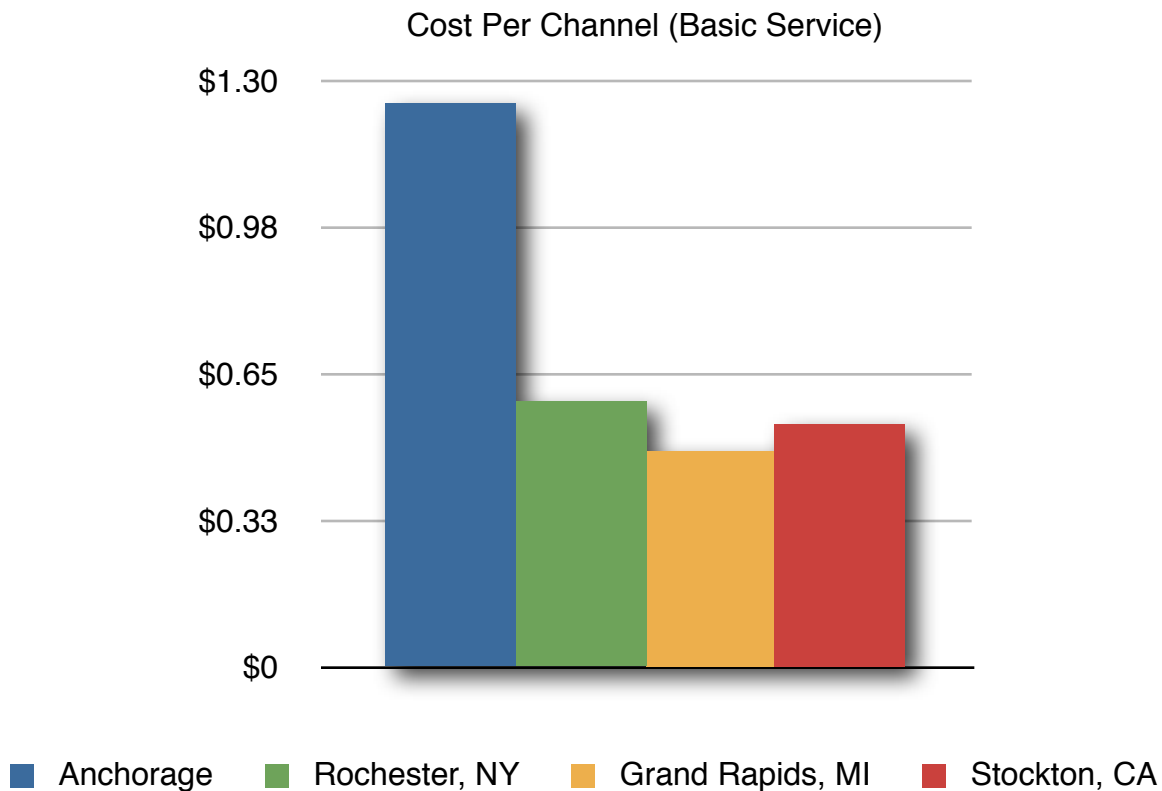
Basic Cable Television Rates



There is a greater number of channels for most basic cable services in the lower 48. For example, the basic cable service in Grand Rapids contains 33 channels, while some basic cable packages provided by GCI in rural Alaska contain only 13 channels<sup>11</sup>. The costs associated with these inferior channel selections is much higher, as high as \$27.19 in Barrow<sup>12</sup>.

<sup>11</sup> Barrow Channel Lineup. GCI. [http://www.gci.com/forhome/promos/channels/barrow\\_yui4.htm](http://www.gci.com/forhome/promos/channels/barrow_yui4.htm)

<sup>12</sup> Barrow Channel Lineup. GCI. [http://www.gci.com/forhome/promos/channels/barrow\\_yui4.htm](http://www.gci.com/forhome/promos/channels/barrow_yui4.htm)



Only one city has regulated basic cable rates in Alaska. Juneau also has the lowest rates in the state for basic cable television service. According to the Federal Communications Commission, a local franchising authority (LFA) has the right to regulate basic cable television service. The LFA for the city of Juneau is the Regulatory Commission of Alaska. The RCA could be the regulating authority for all markets within Alaska. To have this regulation in place the commercial subscribers would need to petition the RCA to have the basic cable television rates regulated.

Complaints regarding the service that cable companies in general provide can be referred to the Attorney General's Office of Consumer protection. These complaints can include such practices as deceptive advertising, or channel switching where in the cable company moves a channel to a higher tier of service without giving notice or lowering their rates.

GCI profits a great deal from its basic cable subscribers. They have 130,000 basic cable subscribers according to their most recent earnings report. At an average price of \$24.62 these subscribers net GCI roughly \$38.5 million annually. Which contributes substantially to the jump in profits that GCI saw in the first quarter of 2009. If the prices were regulated at the Juneau rate of \$22.49 GCI would make \$35 million annually from

its basic cable package<sup>13</sup>. Thus, consumers are unwittingly increasing GCI's revenue by \$3.5 million due to the unregulated nature of this industry. Those are costs out of consumers pockets.

### Recommendations

Without local regulation and market competition, consumers in Alaska will continue to pay steep prices for basic services in cable television and other markets. While other goods and services are often priced slightly higher in Alaska when compared to other parts of the U.S., AKPIRG research has shown basic cable television rates at two to three times the national average in Alaska.

Basic cable television service should be regulated across the state of Alaska. This will either need to be done through a citizen petition to the RCA from the subscribers in the various markets or through legislative mandate. The RCA has shown that it can meet the Federal Communications Commission guidelines for a local franchising authority, thus the barriers to make the RCA the LFA for all Alaskan markets are significantly lowered.

LFA's are particularly vital to markets where little or no competition exists. Because GCI has such high market saturation for cable television service in Alaska and virtually no competition, it is necessary to implement structured regulation for basic consumer protection and overall stability to the market.

Alaskans deserve cable service that matches packages offered across the nation. The only way to do this is through the regulation of basic cable television packages.

### Conclusion

Across the country, the last year has proven what a disaster deregulated business sectors can be. Alaska has a cable television market dominated by one company with virtually no regulation. GCI charges up to 250% more than other cable television suppliers in similar markets, while boasting about huge increases in profits in 2009.

Regulation of basic cable packages will bring down costs for consumers. Consumers currently face the prospect of having to deal with a near monopoly on cable television choice here in Alaska. One of the consequences of this monopoly is the high price of basic cable television. The FCC allows for the regulation of basic cable television service under such conditions. Citizen groups may wish to petition the Regulatory Commission of Alaska, and mandate that the RCA become the local franchising authority for the whole state of Alaska.

Consumers bear the brunt of the near monopoly that is held on cable television service in Alaska. In general slightly higher costs of goods and services is normal in Alaska

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<sup>13</sup> GCI Reports First Quarter 2009 Financial Results. May 6, 2009.

when compared to the rest of the U.S., but the 200-300% cost difference for basic services appear exorbitant. Consumers in Alaska are feeling the effects of the global recession, fighting against falling wages and huge energy and cost of living expenses. They deserve protection from huge corporations out to take advantage of consumers because of little competition and no regulation.