

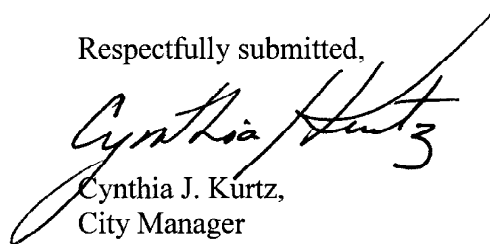
OFFICE OF THE CITY MANAGER

March 4, 2002

TO: City Council
FROM: City Manager
RE: Charter Cable TV Rate Increases

The Economic Development and Technology Committee reviewed the attached report on Wednesday, February 20, 2002. The report was presented to the Committee for information only and as such, would not have been forwarded to City Council. The Committee found however, that although Council had no authority to control rate increases, the issue is of significant concern to the community and review by the full Council should be telecast for consumer information.

Respectfully submitted,


Cynthia J. Kurtz,
City Manager

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Memorandum**City of Pasadena**

To: Economic Development and Technology Committee

From: John R. Pratt, Chief Information Technology Officer *JRP*

Date: January 9, 2002

Subject: Charter Cable TV Rate Increase

Charter Communications has announced rate increases for cable TV programming effective with the February 2002 billing. The new rate represents a 13.9% increase over 2001 rates for the combined basic and expanded basic service. The reason given for the increase is to cover the cost of increased operating expenses, in particular costs associated with expansion of their digital infrastructure and escalating programming costs.

Charter is required by Title 18 of the Pasadena Municipal Code to notify subscribers of any changes in rates as soon as possible through announcements on the cable system and in writing. Notice must be given to subscribers a minimum of 30 days in advance of the rate change. The announcement of the rate increase was included in Charter's "Update" newsletter sent in a separate mailer to all Pasadena subscribers in December 2001. Charter is not required to notify the City of rate increases in advance of its notification to customers, or to allow the City to review rate increases before they go into effect.

Currently, there are 22,614 Charter cable customers in Pasadena. Of those, 2,429 subscribe to basic cable service. The remaining 20,185 subscribe to basic/expanded basic service with optional premium channels or bundled service package.

Beginning October 1, 2001, Charter discontinued programming premium channel services (HBO, Showtime, Movie Channel, Cinemax, etc.) to Pasadena customers with analog converters. To continue to receive these premium channels, customers were required to switch to a digital converter. Starting in April 2001, Charter offered a promotion to switch from analog to digital free of charge to the customer while holding the rental cost of the digital converter at the same fee as the analog converter. The digital converter subsidy was lifted in October 2001 and the monthly rental fee was increased from \$3.94 to \$6.95. Approximately 50% of Pasadena's customers have converted to the new digital converter. The remaining 9,000 customers who receive basic and expanded basic service through their analog converter will experience the most significant increase of 24.09% for expanded basic services.

New Cable Rates & Equipment Fees

Service	2001	2002	Franchise Charge	Chg	Pct
Basic	\$15.97	\$15.61	\$0.36	\$0.00	0.00%
Expanded Basic	<u>\$21.79</u>	<u>\$27.04</u>		\$5.25	24.09%
	\$37.76	\$42.65		\$5.25	13.90%

Converter	2001	2002	Chg	Pct
Analog w/remote	\$3.94	\$3.94	\$0.00	0.0%
Digital w/remote	\$3.94	\$6.95	\$3.01	76.40%

It should be noted that Charter's basic cable rate remains unchanged at \$15.97 for 2002 when the \$0.36 "*external franchise cost*" is added back in, which represents the charge for PEG-related franchise obligations. This cost will appear as a separate itemized charge on Pasadena customer bills beginning in February 2002.

Cable Rate History 2000 – 2002

Service	2000	Chg	Pct	2001	Chg	2002	Pct
Basic	\$14.76	\$1.21	8.20%	\$15.97	-\$0.36*	\$15.61	0.00%
Expanded	\$19.95	\$1.84	9.22%	\$21.79	\$5.25	\$27.04	24.09%

*Franchise charge of \$0.36 itemized on the bill means customers will not realize any actual savings.

Clearly, Charter has increased rates for its expanded basic customers most dramatically. Charter has indicated that it is trying to encourage customers to move to digital service, probably for revenue and technical reasons. These rate increases would seem to be part of that strategy to move customers off of analog service.

The above cable rate history was collected from City records. Charter could not provide additional historical cable rate information in time for this writing. Additional information will be provided to the Committee as it is received from Charter.

2002 Channel Line-up

Service	Channels
Basic	30
Expanded	47
Digital	137

Basic service includes local and major network channels 2, 4, 5, 7, 9, 11 and 13, as well as standard cable and community access channels. Expanded service includes additional cable channels covering expanded sports, news and specialty programs. New channel offerings available in January 2002 are Court TV and Spanish language channels Azteca America and Telefutera added to basic service. Charter also finally responded to the numerous requests made by customers for Fox News, which has been added to the expanded basic service line-up. Charter has dropped two channels, Ovation and Shop NBC, from its line-up to make room for these new channels. Premium channels, packages and pay-per-view programming are optional add-ons and are not included in the basic and expanded basic services.

For additional cable TV policy and rate information, questions should be directed to Shinji Hosokawa or Lori Sandoval at 744-4220.