

**TESTIMONY**

of

**MICHAEL WILLNER  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
INSIGHT COMMUNICATIONS**

on

**THE ROLE OF TECHNOLOGY IN ACHIEVING A HARD DEADLINE  
FOR THE DTV TRANSITION**

before the

**SUBCOMMITTEE ON TELECOMMUNICATIONS AND THE INTERNET  
COMMITTEE ON ENERGY AND COMMERCE  
U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, D.C.**

**FEBRUARY 17, 2005**

Mr. Chairman, Congressman Markey, members of the subcommittee, my name is Michael Willner. I am President and CEO of Insight Communications, the nation's ninth largest cable operator. I am also a Director of the National Cable & Telecommunications Association (NCTA) and serve on its Executive Committee. Thank you for inviting me to testify about the "The Role of Technology in Achieving a Hard Deadline for the DTV Transition," and the cable industry's efforts to advance the digital transition.

## **I. INSIGHT COMMUNICATIONS: COMPANY OVERVIEW**

Insight Communications provides bundled, state-of-the-art services to 1.3 million cable customers living in Illinois, Indiana, Kentucky, and Ohio. The company pursues an aggressive business plan to deliver leading-edge technology to its customers and has successfully upgraded its infrastructure to support numerous advanced services including high definition television (HDTV), digital video recorders (DVR), video-on-demand (VOD), subscription video-on-demand (SVOD), two tiers of high-speed Internet access service, voice telephony, and standard analog video. At the end of the third quarter of 2004, Insight Communications served 1.3 million basic customers; including 440,000 digital customers; 312,000 high-speed Internet customers, and 63,000 circuit-switched telephony customers. The capital investment required to make these enhancements was approximately \$500 million, a huge commitment for a company of our size.

Insight Communications was an early proponent of HDTV programming and first launched high definition service in 2002. Insight carries at least one major broadcast network in HD format in almost all of our markets. Insight carries nearly all local HD signals in all markets

– provided the local broadcaster offers HD and does not demand unreasonable economic concessions that require our customers to pay for programming which the broadcaster is obligated to provide for free over the public airwaves. Currently 33,000 Insight customers have HDTV-enabled set-top boxes in their homes, and 95 percent of our customers have access to HD services (98 percent of Insight’s digital customers).

## **II. THE CABLE INDUSTRY IS LEADING THE TRANSITION TO DIGITAL TELEVISION IN THE UNITED STATES.**

Insight’s investment in digital technology and its provision of HDTV and an ever-increasing array of advanced digital services exemplifies what the entire cable industry is doing to expedite the transition to digital television. Since enactment of the Telecommunications Act of 1996, the cable industry has invested nearly \$100 billion to transform its infrastructure and provide not only advanced video services but also competitive voice and data services to consumers throughout the nation. This is precisely what we said we would do if Congress established a stable regulatory environment that allowed companies to invest, take risks, and compete in the video marketplace. Congress provided impetus for the industry by passing the 1996 Telecommunications Act – and we acted accordingly.

Cable's own transition from analog to digital technology has been spurred by competitive market forces. The technological advances which have transformed our business and benefited consumers stem from cable operators risking their own private capital – without any government guarantees, subsidies, or gifting of public airwaves. Moreover, the delivery by cable operators of large and increasing amounts of high definition programming from broadcasters and cable networks has occurred without any government requirement to do so.

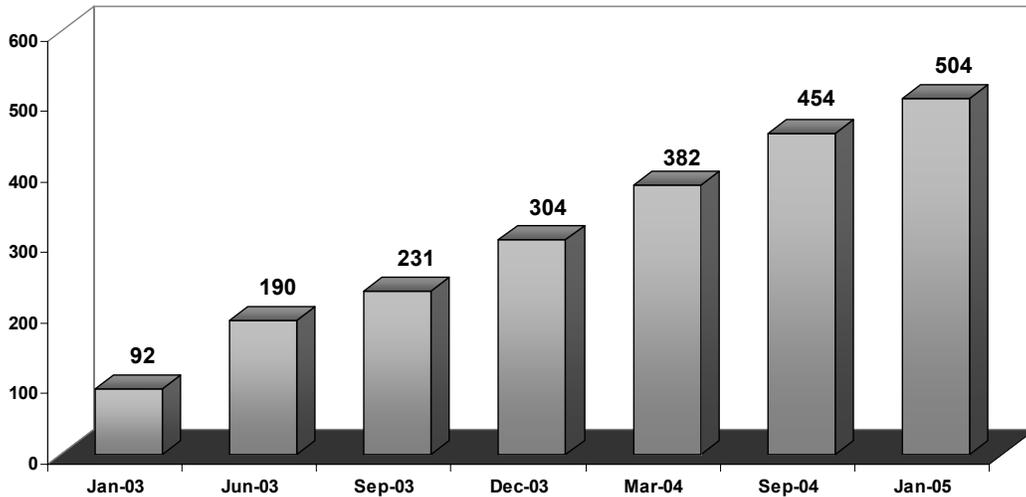
As the Federal Communications Commission recently noted, most television households today have a choice of at least three multichannel video programming distributors – at least one local cable operator, and two nationwide Direct Broadcast Satellite (DBS) services. Those DBS services are vigorously competing for every one of our customers. If we do not offer compelling high definition programming for the ever-increasing number of consumers with high definition television sets, we will lose those consumers to competitors who do offer such services.

A. **Cable operators are now offering packages that include a full mix of broadcast, basic, and premium networks featuring HD content.**

When I testified before this subcommittee last summer, I reported that as of March 2004, cable companies were offering high definition television on systems passing 84 million homes. By January 2005, that number had grown to 92 million, – almost a 10 percent increase in less than a year. Those kinds of increases cannot go on much longer, because these numbers mean that we are already offering high definition television to most of our subscribers. In fact, in *all* of the top 100 markets – and in 184 of the 210 markets in the nation – at least one cable operator now offers HDTV.

During the digital transition, while broadcasters are transmitting both analog and digital signals, cable operators are only required to carry the analog signals. Nevertheless, cable systems are now voluntarily carrying an additional 504 digital signals from broadcast stations that offer HDTV or other compelling digital content – a more than five-fold increase just since January 2003 (and a 32 percent increase since March 2004, when 382 stations were being carried).

### Local Digital Broadcast Channels Carried by Cable Operators



Source: NCTA estimates based on company data.

Indeed, the most recent – and most comprehensive – example of the cable industry’s desire to carry compelling high definition and other digital broadcast programming is the agreement, announced two weeks ago, between the NCTA and the Association of Public Television Stations (APTS). That voluntary agreement was reached because the public broadcasters showed us that they had a plan to offer digital programming that is attractive to our customers. The agreement will ensure that local public television stations’ digital programming will be carried on cable systems serving the vast majority of the nation’s cable subscribers – and it was done without any government intervention.

Moreover, cable operators are also providing digital tiers that include substantial amounts of high definition programming. Eighteen different cable networks are producing HD programming, including Cinemax HDTV, Comcast SportsNet HD, Discovery HD Theater, ESPN HD, ESPN2 HD, HBO HDTV, HDNet, HDNet Movies, INHD, INHD2, MSG Networks

in HD, NBA TV, NFL HD, Showtime HD, STARZ! HD, The Movie Channel HD, TNT HD, and Universal HD. Unlike many broadcast stations that offer HD programming for only a few hours a day, most cable networks that offer HD do so on a 24-hour or nearly full-time basis.

**B. National Digital Technical Standards Are Helping to Speed the Transition.**

Along with creating and carrying compelling digital programming, the cable industry has joined with the consumer electronics industry and various organizations to establish digital standards. In December 2002, the cable and consumer electronics industries entered into a landmark agreement that set the stage for a national "plug and play" standard between digital television products and digital cable systems. As a result of this agreement, cable customers can buy unidirectional DTVs and other devices that connect to digital cable systems without a set-top box, thus allowing easy access to HDTV and other services offered by cable providers.

The agreement ensures that the next generation of digital television sets will receive one-way cable services without the need for set-top converter boxes; enable consumers to receive HDTV signals with full image quality; allow the easy recording of digital content for personal use; permit an array of new devices to be easily connected to the new HDTV sets; give access to cable's two-way services through digital connectors on high definition digital sets; and encourage manufacturers to speed the production of new sets and services for delivery to market.

In September 2003, the FCC adopted rules tracking the voluntary agreements between the cable and consumer electronics industries and imposing legal obligations on cable operators to facilitate the commercial availability of "digital cable-ready" equipment. Specifically, the FCC's rules assure consumers that cable operators will provide them with Point of Deployment

(POD) separate security modules, now called CableCARDS, that will work in their CableCARD-enabled equipment purchased at retail. The FCC also required that these “cable-ready” DTV sets include digital tuners – a requirement the cable industry supported – so that owners of those sets will retain the option of receiving broadcast signals over-the-air.

As cable operators implement the "plug and play" agreement, unidirectional digital cable-ready products have made their way into the marketplace. Today, more products and innovations are clearly on the way, as evidenced by the vast array of equipment on display last month at the Consumer Electronics Show in Las Vegas. Meanwhile, discussions are continuing between the cable and consumer electronics industries to reach similar agreement on *two-way* digital “cable-ready” products.

### **III. A HARD DEADLINE FOR THE RETURN OF THE BROADCASTERS’ ANALOG SPECTRUM REQUIRES STEPS TO MINIMIZE COSTS AND DISRUPTIONS FOR OVER-THE-AIR AND CABLE VIEWERS ALIKE.**

Largely as a result of the marketplace forces that have required cable operators to carry packages of compelling digital and high definition programming, sales of digital and high definition television sets are increasing at a rapid pace. More than 7.2 million units were sold in 2004 – a 75 percent increase over the previous year – and all signs indicate that this accelerating trend will continue in 2005.

Nevertheless, it is still the case that only a small portion of the nation’s households own digital television sets. There are 250 million analog television sets in viewers’ homes. The large majority of over-the-air *and* cable households still watch television on analog sets and will continue to do so for the foreseeable future. Consequently, cable operators have introduced

digital and high definition services in a manner that gives viewers options that do not require them to: (1) purchase digital television sets, or (2) obtain digital set-top boxes that allow digital programming to be viewed on analog sets.

Thus, cable operators still typically provide the most popular and widely-viewed programming in analog format. This allows viewers with “cable-ready” analog television sets to watch this programming without a set-top box. Cable operators also offer optional tiers of digital program networks, as well as digital pay-per-view programming and other digital services. Most of this programming can be viewed on analog television sets in “standard definition,” but only with a digital set-top box that converts the digital signals to an analog format allowing all TVs to receive them. As previously discussed, cable operators offer digital high definition programming provided by cable networks and local broadcast stations. To view this programming, customers need a high definition television set and a more complex and expensive set-top box (or a cable-ready HD set).

Today, nearly 40 percent of our customers purchase digital tiers and services. Eventually, it will be most efficient and desirable to provide all our programming and services digitally. But that will occur gradually so the consumer can choose if and when to purchase a new digital television set. In the meantime, most of our customers still have analog sets and do not purchase digital tiers. For now and the foreseeable future, we serve our customers best by making the most popular services available in analog format, even though we also provide the same services in high definition on digital channels.

When Congress sets a date certain for the digital transition, the cable industry will be ready, willing, and able to complete a smooth transition. And broadcasters could be too – if they only wanted to be. A smooth transition will occur if we recognize and deal with the different

impact that ending analog broadcasting will have on two different groups of consumers: (1) people who receive their broadcast signals from cable and DBS, and (2) people who receive broadcast signals directly (over-the-air). If Congress were to require broadcasters to transmit only digital signals in the next few years, households that rely on over-the-air reception would have to incur some costs to continue watching television. They would have to: (1) replace their analog TVs with new high definition sets; (2) replace their sets with new analog TVs equipped with digital tuners; (3) obtain a set-top box that converts digital signals into analog format so that they are viewable on analog sets; or (4) become cable or DBS customers. Motorola currently estimates the cost of set-top converter boxes to be \$67 per unit. Some costs and inconvenience for over-the-air viewers will be unavoidable unless Congress is willing to wait to recapture the analog spectrum until all over-the-air viewers have replaced their existing sets – which would delay the conversion indefinitely.

Cable customers, on the other hand, need not face such costs. Cable operators, if permitted to do so, can convert the broadcasters' new primary digital signal to analog so customers who choose not to purchase new digital sets or digital tiers can continue to receive service without any additional equipment. Whether we convert to analog at the head-end or in the set-top box should be determined by the cable operator, who will decide on a market-by-market basis the method that is least disruptive and most cost-effective to the customer. Cable operators have been converting cable networks from their digital format received at the head-end to analog for well over a decade so that they can be viewed by customers without digital TVs or set-top boxes. Indeed, broadcast network affiliates have for years been receiving digital network feeds in digital format via satellite and fiber optic cables which they convert to analog before transmitting the programming over-the-air. The digital broadcast transition will be advanced if

that same conversion right applies to local broadcast signals. Cable operators, in order to minimize the expense and disruption imposed on their customers by the digital transition, should be permitted the discretion to convert digital broadcast signals to analog at the headend.

Consumers with analog TVs will receive the same quality signal they are receiving today and those with digital TVs will enjoy the benefits of the digital signals where such benefits exist.

The cable industry has already shown that where broadcasters provide compelling high definition (and/or multicast) programming, we will voluntarily carry such programming digitally *in addition to* providing the analog signal – just as we carry some popular non-broadcast cable program networks on analog channels while also carrying their programming digitally in high definition. And we will continue to do so.

#### **IV. MULTICAST MUST CARRY**

Broadcasters continue to suggest that they need multicast must carry in order to facilitate the digital transition. Their argument is a diversionary tactic and nothing more. Multicast must carry will not solve any consumer issue in the post-transition, digital world. Must carry simply allows broadcasters to provide any content they choose, including home shopping and info-commercials, while blocking competing services from utilizing cable's valuable bandwidth.

Multicast must-carry would have virtually no effect on the attractiveness of digital sets and would do nothing to expedite the date on which the transition might end. It is hard to see why any cable subscriber would purchase a digital set to watch additional standard definition programming that is not significantly better in picture quality than the hundreds of channels already available on cable systems. Moreover, giving broadcasters guaranteed carriage of their

multicast channels will remove their incentives to invest in and develop compelling content that consumers will want to watch and cable operators will want to carry.

Cable operators will continue to make analog televisions and VCRs work long after the broadcasters shut off their analog transmissions by providing a digital-to-analog set-top box or by converting the digital TV signals at the head-end. The only steps that need be taken in order to implement a hard deadline for the return of the broadcasters' analog spectrum are: (1) ensuring the availability of affordable digital-to-analog equipment for over-the-air viewers, and (2) permitting cable operators to convert digital broadcast signals to analog.

#### **IV. CONCLUSION**

Mr. Chairman, the cable industry has made a massive commitment to digital technology – not just to digital television but to a digital platform that will provide an ever-expanding array of competitive voice, data, and video services to American consumers. We are also committed to managing the digital transition in a way that makes the most advanced services available without imposing unnecessary costs and disruption on our customers. The government's need for the return of the analog spectrum (for important public safety and wireless purposes) means that some inconvenience, particularly for over-the-air viewers, may be inevitable. The cable industry has demonstrated, through its voluntary commitment to carry high definition programming during the transition, and its comprehensive agreement to carry public broadcasters' high definition and multicast digital programming during and after the transition, its willingness to help minimize the disruption for broadcasters and their over-the-air viewers.

We also continue to be required by law to carry the broadcasters' analog signals during the transition and their primary digital video programming streams after the transition is

completed. We need to fulfill that obligation in a manner that imposes the least expense and disruption on the largest group of television viewers in the nation – *i.e.*, our own customers, who number 70 million. We can do that if we have the discretion to convert broadcast television signals at the headend when that conversion best serves the needs and interests of local customers.

Thank you again for inviting me to testify before you today. I know that my entire industry stands ready to work with the subcommittee in its efforts to expedite the transition from analog to digital television.