



TACOMA PUBLIC UTILITIES

3628 South 35th Street

Tacoma, Washington 98409-3192

March 26, 2014

To the Honorable Mayor and Members of the City Council; and  
To the Chair and Members of the Public Utility Board

**RE:** Click! Network Rate Recommendation:

**BACKGROUND:** Two cable television service rate increases were planned for the 2011/2012 biennium with the annual increase occurring in September of each year. Those planned rate increases were implemented, but they did not occur within the planned intervals. The September 2011 rate increase was not implemented until April 2012, and the September 2012 rate increase was not implemented until January 2013. These rate increases were implemented later than planned due to changes made to Click!'s business plan and scheduling of meetings. The primary driver for cable television service rate increases was the steep rise in programming costs. Since programming and other operating costs continue to rise, two more rate increases were planned for the cable television service to occur in July of each year of the 2013/2014 biennium. The increase planned for July 2013 was implemented in August 2013.

**UPDATE:** Click! staff evaluated and estimated programming cost increases, customer churn and revenue requirements in the development of the 2013/2014 Budget. Cable television customer numbers continue to decline as forecasted in the Budget. After successfully completing the proof of concept trial the Internet Service Providers (ISP) reaffirmed their commitment to add 6,000 new cable modem customers by the end of 2016. Although Click! has experienced positive growth in cable modem customer numbers as a result of the ISP's renewed commitment, the new business model has not improved Click!'s ability to acquire or retain cable television customers. The bundling experiment has resulted only in a handful of new customers and only about a third of the new cable modem customers are adding cable television service.

Since the adoption of the 2013/2014 Budget, certain events have significantly impacted programming costs, which represents approximately 60% of direct costs associated with providing cable television services. Even with an impasse in negotiations, a local broadcaster raised its year-over-year license fee rate by 70%. Furthermore, license fee increases in renewal agreements negotiated by the National Cable Telecommunications Cooperative (NCTC) with other popular cable networks were significantly higher than in the past. Programming cost per customer is rising at a rate much higher than anticipated in September 2012 when the budget was developed. With the exception of programming costs, Click! has diligently cut spending in other areas to minimize the rate impact on cable television customers. Given that programming cost is Click!'s single largest and most dramatically changing expenditure, a rate increase is practically



unavoidable when the goal is to achieve and maintain a healthy financial position.

Although the proposed July 2014 cable television rate increase ensures the recovery of a substantial portion of programming cost increases, more needs to be done. Continued rate increases, at least on an annual basis, are required to ensure proper recovery of cost increases.


Click!'s need to carry out these annual rate increases has diminished its market rate differential advantage, a benefit it has historically enjoyed. Customers have a lot more choice today and are much more price sensitive. In order to balance the competing forces of market discipline and cost recovery, Click! must adopt a methodical approach to implementing rate increases annually, following industry trend, to ensure cost recovery and retention of cable television customers.

The recommendation will maintain prices that are competitive with those offered by the other cable company in the Tacoma market. The revised rate card sets Click! Network's rate for the standard level of service in the City of Tacoma at \$52.99 per month. The nearest similar product offered by Comcast in the market is priced at \$52.99 per month and \$69.49 outside the market (as of July 2013).

**SUMMARY OF REQUESTED CHANGES:** The following table shows the recommended adjustments for Click! Network's primary cable services inside and outside the City of Tacoma:

Service Type	Current City of Tacoma Rate	Proposed City of Tacoma Rate (effective 07/14)	Current Rate Outside City	Proposed Rate Outside City (effective 07/14)
Broadcast	\$16.39	\$17.99	\$17.69	\$19.49
Standard	\$48.29	\$52.99	\$49.99	\$54.99

The Proposed Ordinance also eliminates the legacy Basic package that no longer fits contractual definitions of broadcast basic service, changes the bulk rates for apartment complexes to be consistent with the standard residential rates, and adds a fee to restore service after nonpayment deactivation when processed by a live agent. Other changes not a part of the Ordinance but impacting customers are increases to the digital and premium package rates and set-top box rental prices.

  
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William A. Gaines  
Director of Utilities/CEO