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February 1, 2011

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Governor of Michigan

Honorable Members of the Senate
Secretary of the Senate

Honorable Members of the House of Representatives
Clerk of the House of Representatives

The enclosed annual report, *Status of Competition for Video Services in Michigan*, is submitted on behalf of the Michigan Public Service Commission in accordance with MCL 484.3312(2), Section 12(2) of the Uniform Video Services Local Franchise Act (2006 PA 480). This report will be made available on the Commission's website at michigan.gov/mpsc. The purpose of this report is to describe the status of competition for video services in Michigan. This report also details Commission activities for 2010 and provides an overview of the survey responses from franchise entities and video/cable service providers.

The video/cable market in Michigan saw a 2.5 percent decrease in subscribership this past year. Though this is the first year that there has been a reported decrease in overall subscribers, the Commission does not believe this represents a significant trend. Michigan is simply following in a national trend of decreased subscribers, likely attributable to the economy or users opting for Internet-based programming solutions. There continue to be encouraging signs that competition in the video services market is still increasing. Providers are continuing to report more competition in their franchise areas, with one new company entering the market in 2010. In addition, video/cable providers report that they have invested over \$400 million dollars into the Michigan market in 2010.

Even though there continue to be areas throughout Michigan that still do not have a video/cable provider or have just one provider (as reported by municipalities), the information that has been provided for this report presents a positive sign that competition is developing in communities throughout Michigan. It is important to understand that video/cable competition and the entrance of new providers will continue to take time to develop fully.

Similar to previous years' reports, it is noted that the Video Franchise Act does not cover satellite providers, and as such this report does not include information on satellite providers, which may be viewed as a competitor to video service. Attempts have been made to gather data

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and information about satellite television, but without much success. Also of note, in 2010, the Commission exercised its remedy/penalty authority (pursuant to 2006 PA 480) against two companies that were found to have violated the Act.

The Commission also provides recommendations for legislative revisions pursuant to Section 12(2) of 2006 PA 480 to help improve the Commission's ability to more effectively implement 2006 PA 480.

The Commission will continue to monitor the status of video services competition in Michigan, which includes receiving and analyzing information from both franchise entities and video/cable service providers throughout Michigan. The Commission will also continue to assist individual customers, franchise entities, and providers with their questions and/or complaints. Finally, the Commission will inform the Governor and Legislature of any future developments and make the appropriate recommendations for needed legislation.

Very truly yours,

Orjiakor N. Isiogu, Chairman
Michigan Public Service Commission

Monica Martinez, Commissioner
Michigan Public Service Commission

Greg R. White, Commissioner
Michigan Public Service Commission

STATUS OF COMPETITION FOR VIDEO SERVICES IN MICHIGAN

In compliance with Public Act 480 of 2006

Orjiakor N. Isiogu, Chairman
Monica Martinez, Commissioner
Greg R. White, Commissioner

MICHIGAN PUBLIC SERVICE COMMISSION
Department of Energy, Labor & Economic Growth

February 1, 2011



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Introduction

On January 1, 2007, the Uniform Video Services Local Franchise Act (hereinafter referred to as “2006 PA 480” or the “Act”) became effective. Section 12(2) of the Act states:

The commission shall file a report with the governor and legislature by February 1 of each year that shall include information on the status of competition for video services in this state and recommendations for any needed legislation. A video service provider shall submit to the commission any information requested by the commission necessary for the preparation of the annual report required under this subsection. The obligation of a video service provider under this subsection is limited to the submission of information generated or gathered in the normal course of business.

This Act directs the Michigan Public Service Commission (Commission) to provide information regarding the status of competition for video services in Michigan, as well as any recommendations for needed legislation to the Governor and Legislature, by February 1 of each year. For the fourth year, the Commission has gathered information regarding the status of competition for video services by developing electronic surveys for use by municipalities and video/cable service providers throughout Michigan. The surveys, as well as the information collected from those surveys, are explained in further detail within the body of this report.

In addition to the survey information, this report provides a brief description of the Commission’s role as it pertains to the Act, as well as the Commission’s video franchise activities (including complaint handling) over this past year. This report also includes information as it relates to formal complaints that were handled by the Commission, the new broadband mapping, the Commission’s conclusion on the status of video competition for 2010, and lastly, recommendations for legislative changes.

I. Responsibilities and Activities of the Commission

This section provides an overview and analysis of the responsibilities and activities of the Commission since the Act became effective, and more specifically, over the course of this past year. These responsibilities and activities have been divided into the following categories: Statutory Responsibilities, Outreach, and Complaint Handling.

A. Statutory Responsibilities

The Act became effective on January 1, 2007. The Commission established a uniform statewide standardized form to be used by both video/cable service providers (providers) and franchise entities pursuant to Section 2(1) of the Act. The Uniform Video Service Local Franchise Agreement (UVSLFA) was formally approved on January 30, 2007 by the Commission in Case No. U-15169. For purposes of this report, the UVSLFA will be referred to as the “Agreement.” The Agreement, as well as the Act, can be found on the [Video Franchise section](#) of the Commission’s website.

The Act required the Commission to develop a proposed dispute resolution process which was submitted to the Legislature in compliance with Section 10(3) of the Act. Public Act 4 of 2009 established the video dispute resolution process. The Commission has been using this process for the following types of complaints: customer versus provider; franchise entity versus provider; and provider versus provider.

In addition to the requirements that have already been listed, the Act provides that the Commission shall receive and rule on requests from providers for a waiver to requirements in Section 9 (deployment of services) of the Act and monitor the providers’ adherence to their

progress for compliance through annual reports. The Commission has not received any such waiver requests.

Lastly, the Commission is given the authority to order remedies and penalties for violations of the Act. In 2010, the Commission did exercise its authority to order remedies and penalties for violations of the Act in two separate cases Pine River Cable (MPSC Case No. U-16181) and CableMax Communications (MPSC Case No. U-16182). These two cases will be described in further detail later in this report.

B. Outreach

The Commission continues to actively participate in speaking events that provide an opportunity to educate and inform interested parties. In addition, the Commission sent its video franchise Consumer Alert to more than 1,700 municipalities throughout Michigan.¹ The Consumer Alert helps to educate and inform video customers about the process for filing a video/cable television complaint. The Consumer Alert serves to inform the communities about the video complaint process. The Commission also continues to reach out to video/cable customers through its Consumer Forums² that are held every fall.

Updates and enhancements are continually being made to the Commission's [video franchise webpage](#). For example, any interested party can now go to the webpage and print the formal complaint form for complaints that are not successfully resolved via the informal complaint process. In addition, there is a link on the video franchise Web page to [Michigan's Interactive Broadband Map](#). The map is extremely detailed and very user-friendly,

¹ The Consumer Alert was sent on October 29, 2010 to every municipality throughout Michigan. The Consumer Alert was included with the Annual Survey notification letter and was asked to be shared with its respective community.

² In September and October, 2010 the Commissioners and Staff attended Consumer Forums in Southfield, Sault St. Marie, Traverse City, Kalamazoo, Greenville, Detroit, and Flint.

and it allows users to see if Internet service, including Internet service offered by video/cable providers, is available in a particular area,³ and the providers who may be offering those services.

C. Complaint/Inquiry Handling

For a third year in a row, the Commission has received over 1,000 video/cable complaints and inquiries. As in years past, complaints and inquiries are received from customers, providers, and franchise entities. The Commission follows the dispute resolution process as set forth in Public Act 4 of 2009.

1. Informal Customer Complaints

The number of customer complaints and inquiries increased slightly over the past year. The Commission continues to assist customers on a variety of issues including: Billing problems; service outages; customer service; missed appointments; delayed service; rates/fees; channel line-up concerns; video/cable competition; equipment/cable line problems; and Public, Education, and Government (PEG) programming complaints. In most circumstances, the Commission has been able to informally resolve such problems with the provider. When informal resolution is unsuccessful, the Commission is empowered by the Act to take formal action against companies that may not be in compliance.

The Commission received 1,074 customer complaints and inquiries in the video franchise area from January 1, 2010 to December 31, 2010, a 4.6 percent increase over 2009. Figure 1 shows the number of complaints and inquiries filed at the Commission for years 2007 - 2010:

³ The map provides broadband Internet information from participating providers. In addition, since providers continually expand and enhance their infrastructure, it is recommended that consumers contact the potential provider for assurance that service is available and can be offered.

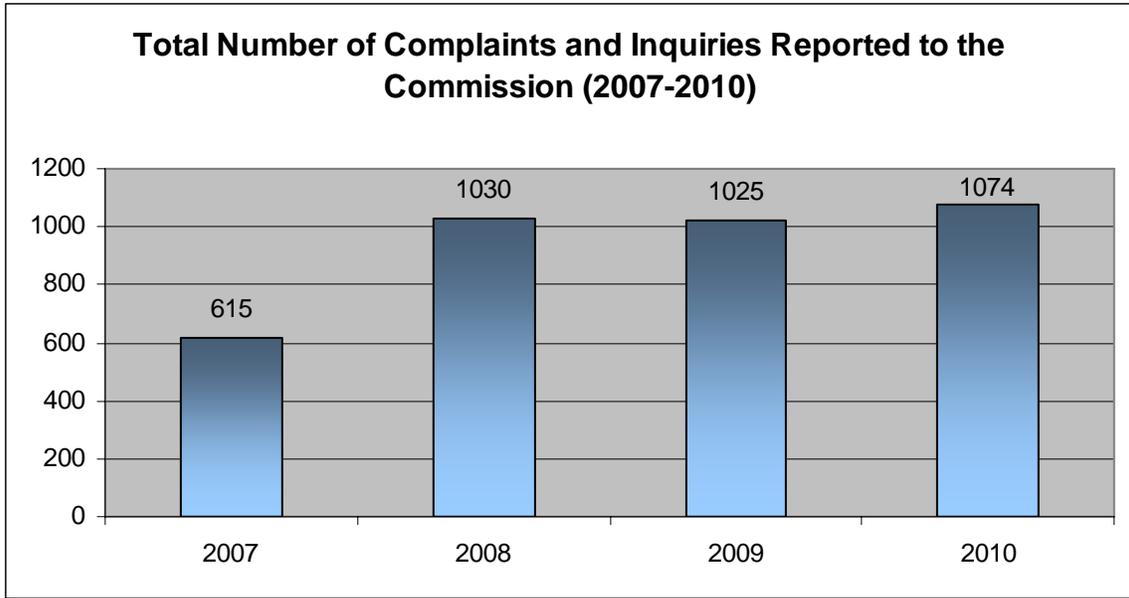


Figure 1
Source: MPSC Complaint Data

The 1,074 complaints and inquiries are those that are fully documented and reported to the Commission and do not include calls where customers were not willing to provide their name and contact information.

As previously stated, the Commission assisted video/cable customers with a number of issues. Figure 2 provides a listing of the four most common types of video/cable complaints filed with the Commission in 2010: Billing, Charges, Credits; Customer Service; Channel Line-up; and Equipment Service Problems.

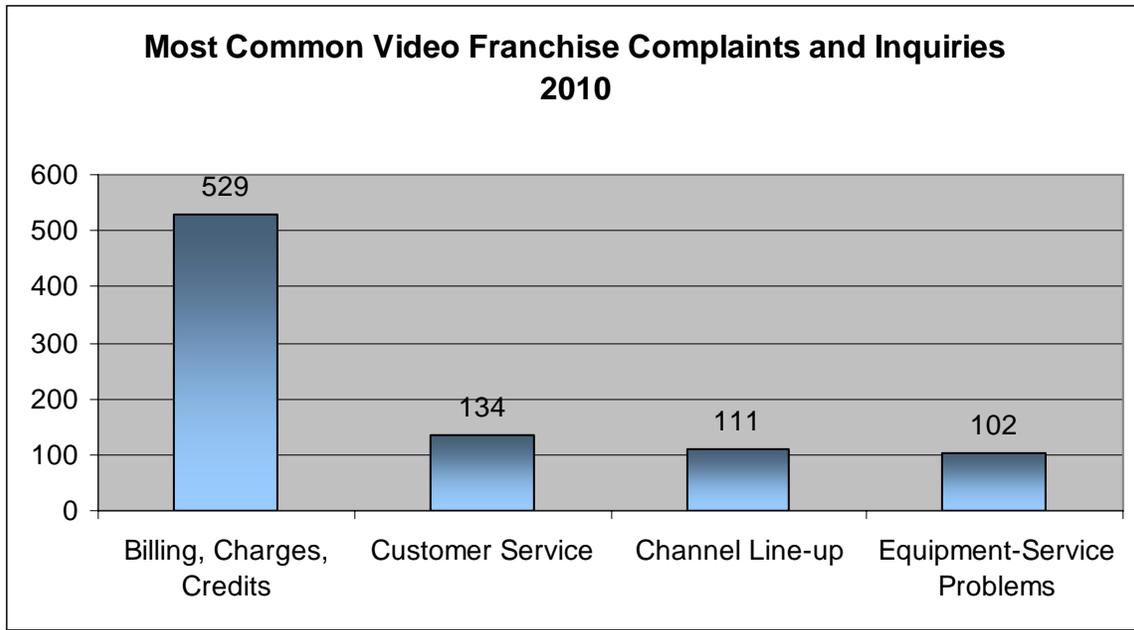


Figure 2
Source: MPSC Complaint Data

When this information is compared with last year, the most frequent complaint category remains the same: Billing, Charges, and Credits. Also, for a third year in a row, Channel Line-up⁴ complaints were one of the four most common complaints. Customer Service⁵ and Equipment–Service Problems,⁶ both new to the list from the prior year, round out the four most common complaint/inquiry issues for 2010.

As in past years, the Commission received video/cable complaints from customers of numerous⁷ providers. In comparison to the previous year, the three providers with the most complaints and inquiries filed with the Commission remained unchanged: Comcast (58 percent

⁴ This includes such things as: changes made to providers’ channel line-ups; providers removing channels from their analog tier and placing those channels on the digital tier; monthly bills not decreasing even though customers are now being offered fewer channels; subscribing to a digital tier and paying more for that service to maintain current channel line-up.

⁵ Customers voiced concerns and complaints regarding the kind of customer service that they were receiving. Complaints ranged from customer service that was rude, unhelpful, or unresponsive, to a dislike over the assumption that the customer representative was working out of state or country.

⁶ Equipment–Service Problems are issues that involve customers’ equipment not functioning appropriately, or a problem in the services that are being offered to the customer.

⁷ Commission Staff received customer complaints throughout 2010 regarding 16 different cable providers.

of all complaints and inquiries), Charter (21 percent of all complaints and inquiries), and AT&T Michigan (eight percent of all complaints and inquiries). Since these three companies have the most subscribers⁸ in Michigan, it is not unusual that they have the most complaints and inquiries filed with the Commission. The total number of complaints compared to the overall number of video/cable subscribers in Michigan remains low.⁹ In addition to the low number of complaints, satisfaction with cable and satellite companies on a national level has increased according to a national survey. According to the [American Customer Satisfaction Index](#), in 2010, subscription television service saw an overall increase in customer satisfaction, with AT&T U-verse having the highest satisfaction rate.¹⁰

2. Formal Complaints

In 2010, the Commission addressed two formal complaints cases. Both formal proceedings arose on the Commission's own motions directing both Pine River Cable¹¹ and CableMax Communication¹² to show cause why they should not be found in violation of the Uniform Video Services Local Franchise Act, 2006 PA 480, MCL 484.3301 *et seq.* At the

⁸ A company's subscribership information is confidential and therefore cannot be shared publicly in this report.

⁹ In 2010, there was a reported 2,306,338 cable/video subscribers in Michigan. This number does not include satellite subscribers.

¹⁰ According to the American Customer Satisfaction Index (ACSI), Verizon Communications FiOS system actually recorded the highest satisfaction rating. However, since Verizon FiOS is not available in Michigan, we did not recognize them. In addition, the information being provided by ACSI is on a national level. The survey may not have included all providers that are operating in Michigan, but it did mention Comcast, Charter Communication, AT&T U-verse, and Time Warner (all of which are operating in Michigan and all showed signs of improvement in customer satisfaction). It may not reflect a true representation of the Michigan market; however, the information is still valuable information that shows encouraging signs of improvements of customer satisfaction in the subscription television service industry.

¹¹ Case U-16181, initiated on January 11, 2010.

¹² Case U-16182, initiated on January 11, 2010.

conclusion of the proceedings, the Commission found both companies to be in violation of the Act and the Commission ordered penalties for both companies. The penalties included fines as well as mandated refunds to customers for services not provided. The Commission ordered both companies to cease and desist from providing any video services in Michigan and rescinded any existing franchise agreements to which either company was a party or beneficiary.

3. Improvements in the Industry¹³

As part of the survey process this year, providers were given the opportunity to share, on a voluntary basis, any information related to enhancements and improvements to their services. While this information is not required pursuant to the Act or the annual survey, it does help to provide a better concept of the improvements that are being made in the video/cable industry throughout parts of Michigan.

According to Charter Communications,¹⁴ over the past 10 years the company has invested \$1 billion into its Michigan network. In fact, the company is preparing for a major technical upgrade throughout Michigan that will enhance its broadband infrastructure. In addition, the company has stated that it continues to improve its customer service experience. Some of the improvements include: nearly 100 percent of the company's service appointments are now in a two-hour window; a call-ahead feature to confirm appointment times with customers; a revamped website that is more user-friendly; and a company goal of one-call resolution of customer issues.

According to AT&T Michigan,¹⁵ between 2007 and 2009, the company's total capital investment in its Michigan wireless and wireline networks was nearly \$1.9 billion. AT&T

¹³ The examples that have been provided should not be misconstrued to represent the video/cable industry in Michigan as a whole. The information that was submitted was done on a voluntary basis.

¹⁴ The Charter Communicator – Winter 2010

Michigan states that this investment is helping to roll-out U-verse throughout the state. In addition, the company stated that it has filled hundreds of new high-tech U-verse positions across the state, as well as hosting a U-verse dispatch center in Michigan that serves Michigan as well as 12 other states. The company has also added features to their channel line-up that includes: ESPN 3D, 130 HD channels, and Caller ID on the television (at no charge) in select areas for customers who have U-verse and Voice with AT&T.

II. 2010 Commission Survey to Franchise Entities and Providers

As in the past, the Commission developed an electronic survey to be completed by franchise entities, as well as a separate survey to be completed by providers.

A. Franchise Entities' Responses to the Commission Survey

The Commission made available on its [website](#) the online survey form for municipalities to complete. The online survey was available November 1 – November 30, 2010. Even though the franchise entity survey is not mandatory and not required by the Act, the Commission believes that it is important to continue to collect information from municipalities from all across Michigan about the video/cable environment in their communities. Notification letters were sent to over 1,700 municipalities throughout Michigan, making them aware of the location and availability of the survey, and also encouraging the communities to respond to the survey. In addition, the Commission also included its video franchise Consumer Alert that describes the dispute process for customers to file a video/cable complaint.

Of the more than 1,700 municipalities that the survey notification letters were sent, 293 communities responded. This is a decrease of 37 communities when compared to 2009. The

¹⁵ AT&T Michigan Annual Video Report – July 20, 2010

information provides useful insight as to what is occurring in some communities throughout Michigan with regard to video/cable service and competition. The following information comes from the communities' responses and only reflects the comments of those particular communities and should not be characterized as being a general consensus as to what is occurring throughout Michigan. The Commission believes that it is important to include this information in this report; however, the responses do not necessarily reflect the opinion of the Commission.

1. Provider Information

Communities provided information on the number of providers that existed in their communities prior to the Act taking effect (January 1, 2007), as well as the number of providers currently offering television service in their communities since the Act took effect; as displayed in Figure 3 below.

Prior to 01/01/2007		As of 12/31/2010
Number of Providers	Number of Communities	Number of Communities
0	20	16
1	232	166
2	40	81
3	1	29
4	0	1

Figure 3
Source: MPSC Franchise Entity Survey

In 2010, municipalities have once again indicated a slight increase (since the Act took effect) in the number of providers currently offering television services in some of their communities, as well as a slight decrease in others.¹⁶

¹⁶ It is important to note that the communities that responded this year are not necessarily the same communities that responded in previous years. Therefore, it is difficult to do a yearly comparison when inconsistencies exist among the municipality responses. This response rate represents approximately 17 percent of all of Michigan's municipalities.

Even though the number of providers in municipalities has increased slightly overall since the Act took effect, the mix of communities with a greater number of providers shows that competitive choices are becoming available. Also, while satellite providers do not have franchise agreements and do not fall within the Act, the Commission asked municipalities about the availability of satellite providers in their communities. Overall, 94 percent of communities stated that they had at least one satellite provider offering service in their community. Of the 293 respondents, 86 percent stated that they had both Direct TV and Dish Network in their communities.

2. Complaints

Of those municipalities that responded to the survey regarding customer complaints, 57 percent indicated that they no longer take video/cable complaints in their offices. Even though the Commission sent 1,775 letters to cities/townships/villages on May 19, 2009 informing them of Public Act 4 of 2009 (the dispute resolution process) and the Commission's contact information, only 47 percent of the respondents stated that they are aware of Public Act 4 of 2009. While this represents an increase of seven percent from last year, it is still low. In order to continue to educate and make municipalities more aware of the customer complaint process, the Commission sent its video franchise Consumer Alert to all municipalities throughout Michigan on October 29, 2010.

In 2010, 41 percent of the communities that responded to the survey stated that they are still receiving complaints from customers in their communities. Of those communities that are still receiving complaints, 79 percent reported that they are still attempting to resolve those complaints. A majority (69 percent) of municipalities that responded are aware that the

Commission can assist customers, franchise entities, and providers who have video/cable questions and/or problems.

The most frequent complaints received by municipalities are as follows (from most to least):

1. Customer Service
2. Rates¹⁷
3. Service/Equipment Issues
4. Other¹⁸
5. Billing Issues

Of those that responded, 94 percent indicated that they have not had any form of dispute with their provider regarding their franchise agreement. Of those municipalities that had a dispute, only two percent contacted the Commission regarding the dispute. The top three reasons for disputes were issues regarding: 1) PEG Fee / PEG Issues; 2) Agreement Language; and 3) Franchise Fee.

3. Impact of the Video Franchise Act on Communities

Municipalities were surveyed on the impacts that they have witnessed within their communities since the Act took effect. Similar to the previous years, the impacts that were evaluated are: Video/Cable Competition, Franchise Fee Payments, PEG Fee Payments, Video/Cable Complaints, and Other. The communities provided the following information on the impact of the Act in their communities (Figure 4):

¹⁷ Pursuant to Public Act 480 of 2006, neither the Commission, nor the franchise entity has rate regulatory authority or control over a provider. The Commission does not regulate video/cable rates.

¹⁸ The complaints that were combined in the “Other” category were less frequent, but nonetheless, still reported. Some of those complaints include: Availability/No Service, Channel Line-up/Programming, Lack of Competition/Monopoly, Unburied Cable, PEG Issues, Maintenance Issues, and No Local Facility.

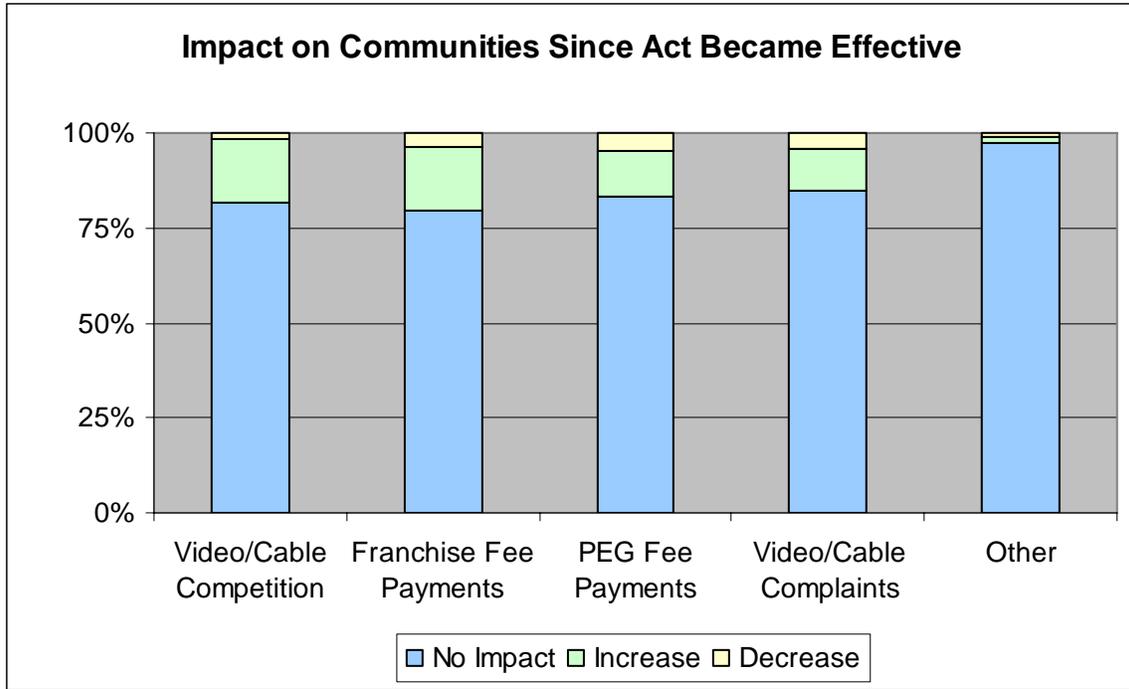


Figure 4
Source: MPSC Franchise Entity Survey

Similar to previous years, the majority of the respondents have not seen an overall change in the impact on the communities.¹⁹ For example, 82 percent of the reporting communities noted that the Act had no impact on competition, while approximately 17 percent indicated that they experienced an increase in competition and one percent reported that they experienced a decrease.

4. Changes in Quality of Service and/or Service Offerings of Providers

Like last year, the Commission asked the municipalities to report on the changes that they perceive are occurring throughout their communities during 2010 in regard to: Customer Service

¹⁹ While the information is similar to last year, in that the majority of respondents did not see any change, there appears to have been a slight increase in all of the categories. However, it is important to keep in mind that those communities who responded last year are not necessarily the same communities that responded this year. Therefore, it is important not to make a direct comparison between the two by making the assumption that this is what is happening throughout the entire state.

Quality, PEG Studio and Equipment, Service Offered by the Provider, and the Number of Customer Service Centers. Figure 5 below reflects those responses from the municipalities:

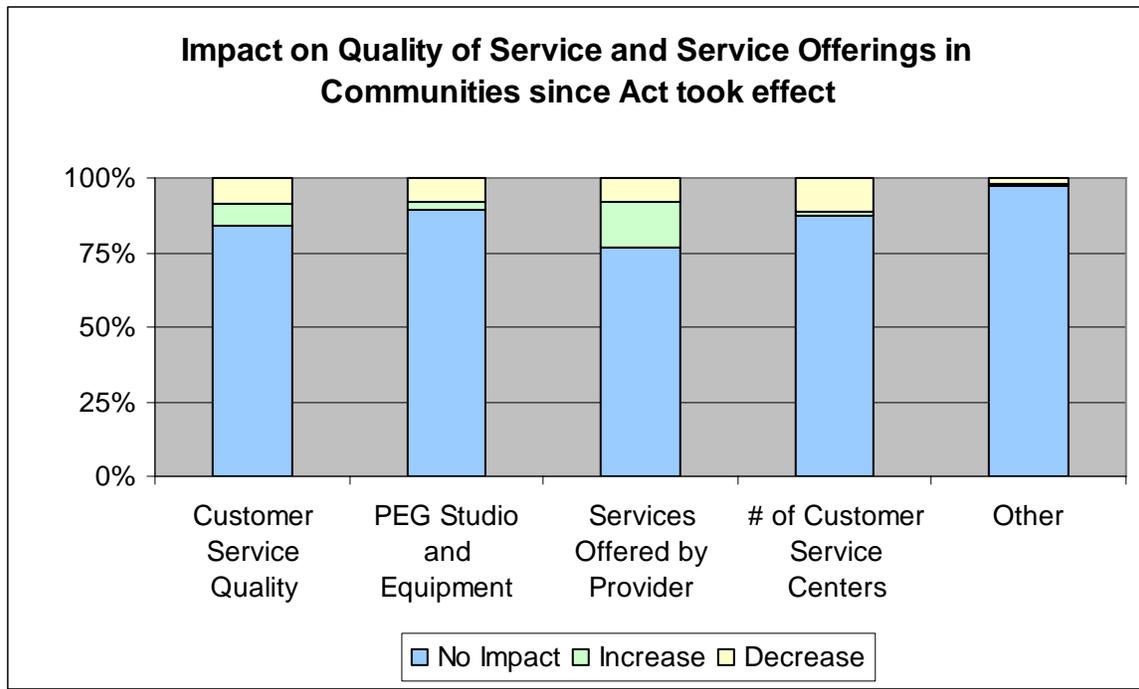


Figure 5
Source: MPSC Franchise Entity Survey

On this chart for example, 76 percent of communities that responded reported that since the Act took effect there has been no change in the services offered by the provider, while 16 percent have reported an increase in services offered by the provider, and the remaining eight percent have reported a decrease in services offered.

Overall, the vast majority of respondents have not seen any evident changes within their communities since the Act took effect. Much of the information that is being reported is very similar to the information that was reported last year.²⁰ While the majority of respondents have not seen changes occurring, there continue to be some signs of slight increases (as shown in

²⁰ It is important to remember that those communities who responded last year are not necessarily the same communities who responded this year, so direct comparisons should not be made. In addition, since a small percentage of communities responded to the survey, their responses should not be reflective of the entire state.

Figures 4 and 5) in areas that would be beneficial for communities such as: Video/Cable Competition, Franchise and PEG Fees, and Services Offered by Provider.

Municipalities also provided feedback regarding the use of PEG channels. Based on the responses, 45 percent²¹ of municipalities indicated that their community has a designated PEG channel.

5. Franchise Entities' Suggestions or Comments

Municipalities were provided the opportunity to offer any comments, recommendations, and/or suggestions²². The municipalities' comments are categorized as follows:

- PEG
 - Provider is not providing PEG when other providers are
 - Provider is charging to broadcast PEG
 - PEG channel is outdated and doesn't benefit the city
 - Desire to obtain a PEG channel, but since it wasn't offered before PA 480 took effect, the provider is not willing to comply
 - No funding / difficult to fund PEG channel
 - Burden has been placed on the locals
 - Costs have increased significantly
 - Prefer to have standards set
 - Urge to have amendments passed to require providers to carry PEG channels, and carry them at no cost to the franchise entity or the customer
 - Not able to monitor PEG channels in local government offices to ensure that no problems are occurring.
 - Providers should be made to treat PEG as though they are broadcast channels
- Requirements for Providers
 - Require providers to service entire communities (not just parts), as well as require service in rural communities
 - Require at least one provider to provide service to small rural communities
 - Require providers to increase service to rural communities
 - Require providers to offer subscriber count information to local communities
 - Require providers to provide status reports, as well as franchise fee payment reports
 - Require providers to display their local telephone number on their bill for live representatives

²¹ Since a small percentage of municipalities responded to the survey, it should not be implied that the 45 percent of those that have a designated PEG channel are reflective of the entire state.

²² These recommendations and suggestions are the sole opinion of some of the municipalities and do not necessarily reflect the views of the Commission.

- Require the providers to provide detailed maps of their routes to the franchise entity
- Require providers to cut rates if they eliminate channels
- Local Authority
 - Extend time period for franchise entities to review franchise applications
 - Give back local control and input
 - Allow for penalties for late payment of franchise fees
 - State of Michigan should stay out of township's authority
 - The Act has made it difficult to hold cable companies to reasonable customer service standards
- Competition
 - Provider doesn't service entire community
 - Community requests to have competition and choice
 - The Act has brought competition and community appreciates
 - No real effort to provide video/cable services to underserved areas
 - Areas within small distances of the city are not served
 - The Act has hurt rural communities and encourages cherry-picking
 - The Act does not encourage competition in small communities
- The Act
 - PA 480 is unconstitutional
 - The Act has absolutely no effect on the community
 - Appears to be a waste of time and tax payer dollars
 - Franchise Agreement creates an unevenness amongst the providers in how they provide services
- Rates and Service Offerings
 - Rates continue to increase
 - Continue to lose channels with current cable company
 - Rates are high
 - Provider will not upgrade, so the community doesn't have digital services
 - Lack of service options
 - Service offerings are increasing
 - Decrease in providers' services such as service drops to public buildings and customer service

B. Providers' Responses to the Commission Survey

In 2010, the Commission continued to use its electronic survey to gather responses from providers. The survey notification letter was sent on December 1, 2010 to providers of video/cable service in Michigan. A total of 42 providers were sent the notification letter, and all of the 42 providers responded.

1. Video/Cable Subscribers

During 2010, 2,306,338²³ video/cable customers were reported for Michigan. This is a net decrease of 58,809 or two and one-half percent of video/cable customers compared to what was reported in 2009. Since the Commission began tracking and recording subscriber information, this is the first year that there has been a reported overall decrease in the number of subscribers. While the Commission does not have information or evidence about the cause of the decrease, general economic hardship is likely one cause. In fact, subscribership on a national level has been decreasing dramatically.²⁴ Another factor contributing to the decline of video/cable subscribers may be due to technology-switching such as video/cable subscribers who have become satellite subscribers instead. Figure 6 shows the changes in video/cable subscribership.

²³ This number does not include satellite providers. Satellite providers are not required to have franchise agreements with franchise entities and are not required to report to the Commission. The Commission has attempted to obtain satellite subscriber information in Michigan without much success.

²⁴ According to an Associated Press article that was posted November 4, 2010 at <http://finance.yahoo.com/news/Cable-subscribers-flee-but-is-apf-3875814716.html>, “Cable companies have been losing TV subscribers at an ever faster rate in the last few months, and satellite TV isn’t picking up the slack.” In addition, an article posted by George Spangler on November 7, 2010 (World News Media - <http://www.onpublicspeaking.com/cable-networks-see-decrease-in-subscribers/3562/>) states, “All across the United States television subscribers have been canceling their subscriptions to their cable service. In fact, in the past several months the rate has increased dramatically, but many of these subscribers are not signing up with any of the cable network’s competitors such as satellite television either.”

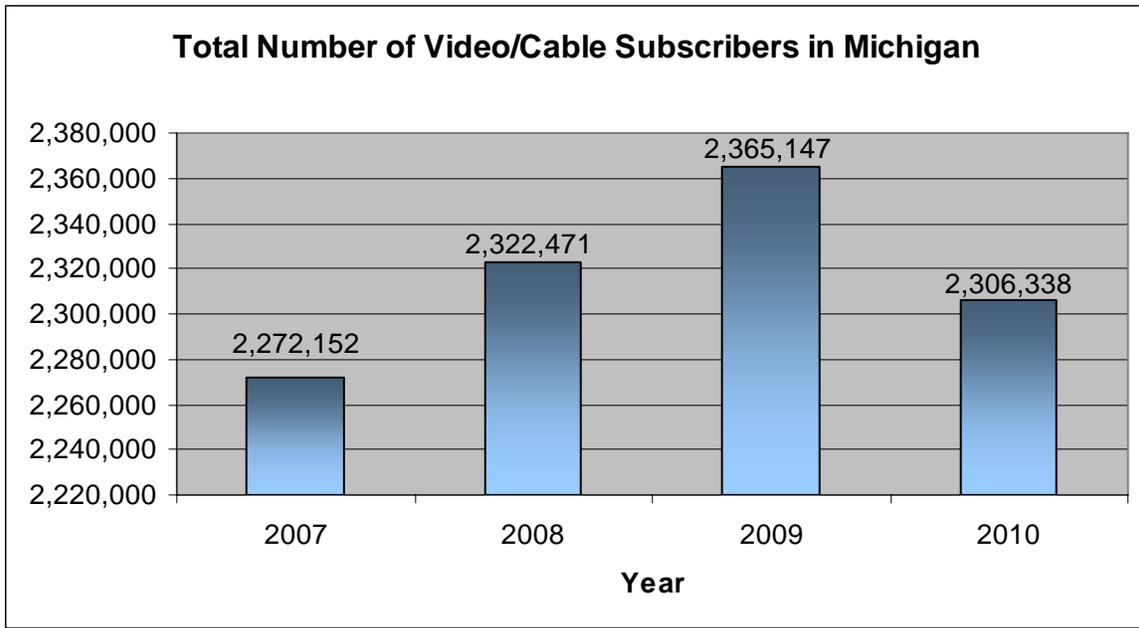


Figure 6
Source: MPSC Provider Survey

The top three companies providing video/cable service in Michigan are: Comcast, Charter Communications, and AT&T Michigan (U-verse). In 2010, there was one new company²⁵ that began offering video/cable services to Michigan’s residents. Since January 1, 2007, a total of 11²⁶ video/cable providers have begun to offer services in Michigan’s market.

Even though overall there was a net decrease of video/cable customers in Michigan in 2010, the majority of providers either saw no change or an increase in their customer base.

Figure 7 shows the customer impact on providers in 2010.

²⁵ Waldron Communication Company.

²⁶ The following companies reported offering video service in Michigan *after* January 1, 2007: Packerland Broadband; Arialink; Drenthe Telephone; Michigan Cable Partners (MICOM Cable); Bloomingdale Communications, Inc.; Sunrise Communications LLC; Michigan Bell Telephone Company (AT&T Michigan); Southwest Michigan Communications Inc.; Ace Telephone Company of Michigan Inc.; Waldron Communication Company; and Sister Lakes Cable TV.

Impact on Provider's Customer Base for 2010

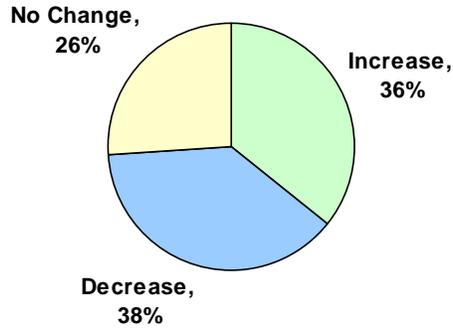


Figure 7
Source: MPSC Provider Survey

2. Video/Cable Competition

Consistent with previous years, the Commission asked providers to submit information regarding the competition they are encountering in their franchise areas. Providers submitted information on the number of competing providers they encountered in their specific franchise areas before the Act took effect, and since the Act took effect. Similar to the previous years, providers have reported a continued increase in competitors entering their franchise areas.²⁷ Figure 8 shows this comparison.

²⁷ When compared to 2009 (refer to Page 18 of the Status of Competition for Video Services in Michigan – February 1, 2010), a total of 31 franchise areas have seen one new competitor enter into the market, and two franchise areas have seen two new competitors enter into the area in 2010.

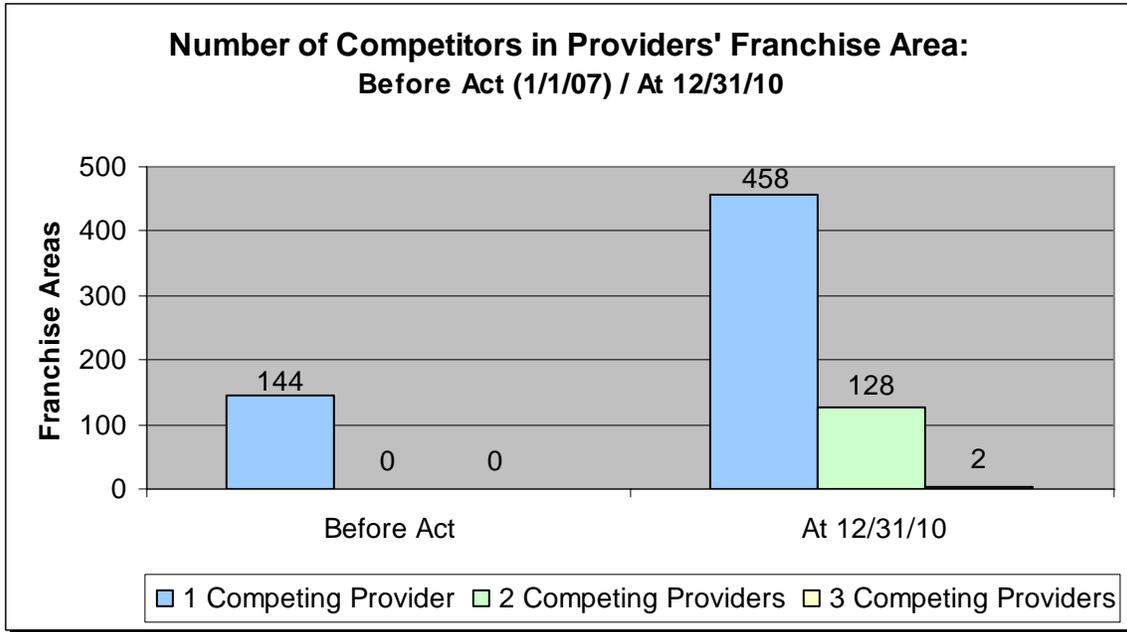


Figure 8
Source: MPSC Provider Survey

Overall, there are currently 1,937 franchise agreements (both individual franchise agreements that were entered into before the Act that have not expired, and the Uniform Video Service Local Franchise Agreements as required by the Act) in existence in Michigan. When compared to 2009, this represents a net increase of 308 total franchise agreements. Of the 1,937 currently existing franchise agreements, 1,145 are classified as the Uniform Video Service Local Franchise Agreement, an increase of 121 from the previous year.

3. Disputes

Only three of the 42 providers reported having an informal or formal dispute with a municipality regarding an Agreement. A total of four disputes with municipalities were noted by the providers. The types of disputes that providers encountered involved:

- Franchise Fees
- PEG Fees
- Carriage of PEG

4. Investment in Michigan

Similar to last year, the Commission requested information from providers regarding how much funding they have invested in their Michigan markets. From the information that has been provided to the Commission, providers' report that they have invested over \$1.5 billion in the Michigan video/cable market since the Act became effective on January 1, 2007. Of that amount, over \$400 million was reported to be invested in the Michigan video/cable market in 2010. This was an increase of about \$140 million over the amount report for 2009.

III. Conclusion

The Commission, adhering to its responsibilities as set forth in Section 12(2) of the Act, provides the Legislature and Governor with this report that includes information related to the Commission's role, activities, and responsibilities, as well as summarizing the information that has been collected from franchise entities and providers, legislative activity, and also includes the Commission's recommendations. As expected, the complaint levels while slightly higher, are for the most part on average when compared to previous years. As new and existing providers continue to build-out their systems and increase competition, the possibility of customer complaints increases. In addition, as the Commission continues to educate and inform customers of the dispute resolution process adopted in 2009, an increase in the number of complaints filed is to be expected.

Additionally, though this is the first year that there has been a reported decrease in overall subscribers, the Commission does not believe this is significant. Michigan is simply following a national trend of decreased subscribers, most likely attributable to the economy. While subscribership has decreased, both franchise entities and providers report that video/cable

competition is growing in Michigan. While the growth in competition is not overwhelming, it has nonetheless grown each year since the Commission began issuing this report. Figure 8 shows a noted increase in the number of competitive providers in franchise areas since 2007 when the Act took effect. In addition to the increase in competitive providers, companies invested hundreds of millions of dollars into the Michigan video/cable market in 2010.

As the Act enters its fifth year of existence, signs of progress and competition continue to be evident. It appears (from both municipalities, as well as providers) that providers are offering more services to customers. In addition, more areas throughout Michigan are beginning to have a choice. The Commission will continue to monitor video service competition as it develops and take appropriate action as provided by the Act.

IV. Recommendations

This section provides the Commission's recommendations for legislative action pursuant to Section 12 (2) of the Act. As in past years, the Commission offers the following two areas for consideration.

First, the Commission recommends that the Legislature extend the due date of the Commission's Annual Report from February 1 of each year, to March 1 of each year. The current due date makes it difficult for respondents to provide timely and accurate year-end information to the Commission. The year end data must be collected, analyzed and summarized in this report in 30 days which is a very short timeframe. Extending the reporting date would provide the Commission an additional 30 days in which to do its work.

Second, the Commission recommends that language be added to the Act that is similar to the language that is currently found in Section 211(a) of 2005 PA 235, the Michigan Telecommunications Act, which requires the provider to register the following information with

the Commission: the name of the provider; a description of the services provided; the address and telephone number of the provider's principal office; the address and telephone number of the provider's registered agent authorized to receive service in this state; and any other information the Commission determines is necessary. This contact information is necessary so that the Commission has accurate contact information available to it for complaints, as well as for future information and data collection. Also, the Commission recommends that if a company changes its name, goes out of business, or is merged into another company, it be required to notify the Commission of this change. Providers do not submit their Franchise Agreements to the Commission, the Franchise Agreements are submitted with the individual franchise entities. As such, this information is not available to the Commission.

The Commission will continue to monitor the status of video services competition in Michigan and inform the Legislature of any further recommendations for needed legislation.