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July 19, 2000

Honorable William Kennard
Chairman
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Dear Chairman Kennard:

Thank you again for testifying at yesterday's Judiciary Committee hearing on broadband issues. Your testimony was most helpful to the Committee.

As I mentioned at the hearing, I am very concerned about the recent 10% rise in cable rates in my district. (See attached article from the Chicago Sun-Times). Before cable rate regulation expired in March 1999, I proposed extending it. When I did so, I was met with vehement opposition from the cable industry and many promises of good behavior. However, now that regulation has gone away, we are seeing the seemingly inevitable exorbitant increases.

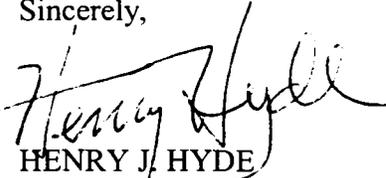
I am now wondering if we made a mistake in letting regulation expire. It is true that satellite television, which can now provide local broadcast channels, is something of a competitor. In addition, a few communities in my district have a new entrant cable company. However, neither of these competitors seems able to restrain these increases.

I would appreciate your doing a brief study of the state of competition in the cable industry in my district. I would be interested in your advice on whether the justifications offered by AT&T — upgraded service, better programming, and more expensive programming — justify the increases. I would also be interested in your advice as to whether we should consider reimposing rate regulation.

Honorable William Kennard
July 19, 2000
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My constituents are suffering under these rate increases, and they need answers. I would appreciate any help that you can offer. Thank you in advance for your response and thank you again for testifying.

Sincerely,



HENRY J. HYDE
Chairman

Enclosure

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LENGTH: 575 words

HEADLINE: AT&T to raise cable rates

BYLINE: BY ROBERT MANOR

BODY:

AT&T, the biggest cable operator in Illinois, plans to raise rates for 1 million Chicago area customers by almost 10 percent in July.

Pat Keenan, spokeswoman for AT&T Broadband, said rates also will go up for customers of TCI and Jones Intercable, which AT&T bought last year.

Keenan said the average customer's bill for expanded basic service, now at \$ 29.59 a month, will rise to \$ 32.40 in July, an increase of 9.5 percent. Those figures vary by community, and do not include taxes, franchise fees, pay-per-view or premium channels like HBO.

"Three-quarters of that increase is attributable to programming costs," Keenan said, adding that about 1 million of AT&T's 1.7 million customers in Illinois will be affected. The company raised fees for 700,000 customers earlier this year.

Federal regulation of cable fees was eliminated in March 1999, and critics at the time warned that charges would go up around the nation -- in part because nearly all cable companies are effectively monopolies.

AT&T does have some competition in the Chicago area, but most customers still have no choice in their cable provider.

"No community enters into an exclusive contract to do business with us," Keenan said. "We don't want anyone to feel captive."

Still, rates are rising here faster than in the rest of the nation. Last year, AT&T raised rates between 5 percent and 6 percent.

The U.S. Bureau of Labor Statistics said cable charges rose 3 percent last year. Paul Kagan Associates, a consulting firm, predicted rates will rise 4 percent this year. The national average cost for expanded basic cable was \$ 28.92 at the start of the year.

It could be worse. AT&T said it is raising cable charges by as much as 21 percent in some parts of the country.

AT&T has been spending heavily to improve the old TCI system so it can offer local phone service and high-speed Internet access. But Keenan said customers

benefit even if they don't use cable for the phone or Internet.

"Even if you don't take high-speed digital Internet, you are getting improved reception because of improvements in the system," she said. "The reliability has improved."

Keenan declined to say what Chicago city residents are paying for expanded basic service, except to say it will rise 9.5 percent this summer.

Ameritech, which competes with AT&T in the southern part of the city, said AT&T charges \$ 32.99, not counting taxes and franchise fees. After the increase, that would rise to \$ 36.12.

"We are at \$ 30.25," said David Pacholczyk, spokesman for Ameritech. He said the company has no immediate plans to raise its rates.

21st Century competes with AT&T along the northern lakefront, and it charges \$ 29.45 a month.

"We have no plans to raise charges," said Marc Miller, a vice president at 21st Century. But competition is limited in both areas as 21st Century and Ameritech have not completed building their systems and cannot reach all potential customers.

Prime Cable, which serves customers in neighborhoods on the North and Northwest sides, raised its charge in March from \$ 32.95 to \$ 35.25. Prime, which has no direct competition, is reportedly a takeover target by AT&T.

City Cable Commissioner Joyce Gallagher said cable companies are largely free to charge what they want, and will continue to do so until competition is widespread in two years or so. "It's what the market will bear until we have total competition in Chicago," she said.

GRAPHIC: 21st Century competes with AT&T for cable customers along the northern lakefront, but neither company has completed its system, leaving some potential customers without a choice of cable providers. GRAPH; See roll microfilm.

LANGUAGE: English

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