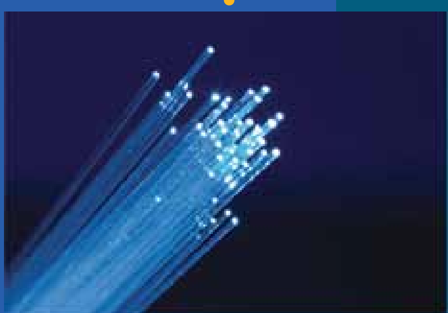
CALIFORNIA PUBLIC UTILITIES COMMISSION

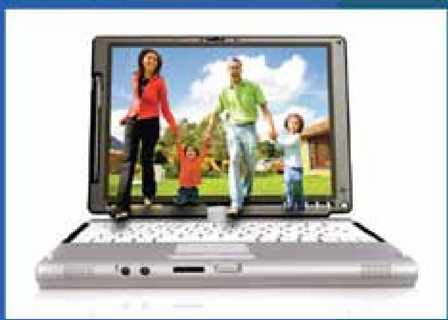
Communications Division

Second Annual Report to the Governor and the Legislature

August

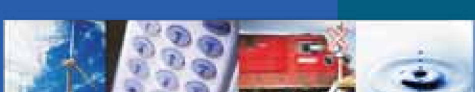
2009 DIVCA Report






The Digital Infrastructure and Video Competition Act of 2006

"To promote competition, the state should establish a state-issued franchise authorization process that allows market participants to use their networks and systems to provide video, voice, and broad-band services to all residents of the state…" DIVCA 5810



Executive Summary

This second annual report under the Digital Infrastructure and Video Competition Act of 2006 (DIVCA),[1] is submitted on behalf of the California Public Utilities Commission (CPUC) to the Legislature and Governor. As indicated by the Act's title, the purpose of DIVCA is twofold:

1) Promote widespread competition in the video and broadband markets.

2) Accelerate the deployment of video and advanced broadband infrastructure and services within California, especially in unserved and underserved areas.

As required by DIVCA, this Report is based on data for calendar year 2008, that were submitted by state-issued video franchise holders and their affiliates, on April 1, 2009. This Report publishes these data in an aggregated fashion, along with our analysis and findings.[2]

This Report is not intended to be a comprehensive market analysis of the video and broadband services offered in the state. The CPUC does not receive data describing the activities of entities which have not been granted state video franchises. Neither locally-franchised cable operators without a state-franchised affiliate, nor independent ISPs, whose wireless broadband services are a key element of rural broadband service, are included in this report.

The data submitted indicate how many households were offered video and broadband services by state-issued franchise holders throughout the state as well as the number of households that subscribed to those services. The Report also shows the progress that state-issued video franchise holders made in deploying video infrastructure and increasing broadband penetration[3] during 2008.[4]

The Report's **key findings** are summarized below and on the next two pages:

- AT&T and Verizon combined more than tripled the number of households to which they offer video during 2008.

- Verizon has exceeded its two year build out obligation / milestone by offering video services to more than 25% of the households in its telephone service area.

[1] A.B. 2987, 2005-2006 Session, (Ca. 2006); Cal. Pub. Util. Code, Division 2.5, The Digital Infrastructure and Video Competition Act of 2006. ("DIVCA").

[2] This report does not include the services offered by Internet service providers, locally-franchised cable operators, satellite or wireless service providers unaffiliated with holders of state video franchises, as DIVCA does not require them to provide data to the state.

[3] Penetration is defined as number of subscribers / number of households in the relevant area.

[4] Some providers made changes in the methodologies they used in their data gathering / reporting processes for 2008. Those changes in methodologies may have resulted in changes in the data they reported that do not align with the data they reported in prior years using different methodologies.

- The number of households subscribing to video from **state-issued video franchisees and their local affiliates** increased by 13% to 7.1 million in 2008.

- Incumbent cable companies are shifting from local to state-issued franchises. As a result, the number of households **subscribing to video** from state-issued video franchise holders increased by 40% during 2008.

- 55% (up from 37% last year) or 7.0 million of the households in California[5] are **located in census tracts in which two or more state video franchise holders offer <u>video</u> services**. This means that more households have more video choices.

- 93% (up from 79% last year) or 11.8 million of the households in California are **located in census tracts in which two or more state video franchise holders offer <u>broadband</u> services**. This means that more households have more broadband choices.

- The number of **broadband capable wireless devices** used by customers of video franchise holders grew to more than 3 million during 2008. Fifty eight percent (58%) of those are associated with a data plan; the rest are used for voice or text messaging only.

- There are now more than 1.7 million **mobile wireless devices in the state being used to access broadband data**.[6] This is a 133% increase over the prior year.

- The state-wide residential **<u>wireline</u> broadband penetration rate** increased to 62% (7.9 million households) during 2008.[7] This compares with 55% (6.8 million households) recorded a year earlier. The seven percentage point increase translates into a 12.7% annual growth rate.

- The **median broadband penetration rate** among counties in 2008 is 47.5%, up ten percentage points from 37.5% in 2007.

- Marin, Contra Costa and Orange counties are tied for having the highest residential wireline broadband penetration rate of 74%.

Speed tiers for broadband services are new metrics made possible by the change in FCC reporting rules this year. These new state-wide data show:

- 58% of residential broadband connections have a **download speed** greater than 3 mbps.

- 34% of residential broadband connections have an **upload speed** greater than 768 kbps.

[5] There were 12,733,414 households in the State on 1/1/2009, according to the California Dept. of Finance.
[6] Mobile wireless subscribers include those customers subscribing to monthly mobile broadband wireless service plans from state video franchisees, when the addresses on the mobile bills are located in geographical areas that are served by terrestrial mobile wireless services.
[7] For the purposes of this DIVCA report, residential wireline broadband includes 879 connections of fixed wireless.

The type of broadband technology being used for broadband service is a new metric made possible by the change in FCC reporting rules this year. These new state-wide data show:

- **Cable modems** serve 47% of residential broadband subscribers.

- **DSL** is used to serve 49% of residential broadband subscribers.

- **Optical Fiber to the home** is used to serve 4% of residential broadband subscribers

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