ILSR INSTITUTE FOR Local Self-Reliance

Community NETWORKS

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Comcast Spends Big on Local Elections:

Would Lose Millions in Revenue from Real Broadband Competition

By H. Trostle & Christopher Mitchell

Summary

Comcast has a lot to lose from a competitive market in broadband Internet access. The cable firm is often the only option for broadband Internet access as defined by the Federal Communications Commission today.[1] Comcast faces no competition in four out of ten census blocks where it offers broadband service and in 73 percent of the blocks that have competition, there is only one other option.[2] The cable giant joined incumbent telephone company CenturyLink in Seattle with a $50,000 donation to their preferred candidate, who just happens to oppose a municipal fiber network.

In Fort Collins, the state cable association and Chamber of Commerce have spent more than $200,000 opposing an effort to amend the city's charter to add authority for a telecommunications utility (although the city has not yet decided how it would use such authority). Comcast is almost certainly the one writing big checks to those organizations.

And yet, Comcast is probably under-spending relative to the threat it faces from encouraged local Internet choice. Evidence from other cities suggests that a real choice in broadband services could reduce Comcast's revenues by millions of dollars per month. Competition in Fort Collins would cost Comcast between $5.4 million and $22.8 million per year. In Seattle, robust competition would cost between $20 million and $84 million per year.

A few tens of thousands of dollars is a small price to pay to secure tens of millions in monopoly profits per year. Massive firms monopolizing single industries threatens our political system because of the large incentive they have to protect their turf. They can justify spending more single-handedly to influence elected officials than all sides typically spend in a campaign. And campaign expenditures are only one of many tools firms like Comcast use to protect their business from competition. Comcast also has regular access to decision-makers via direct meetings, trade associations, and via their "philanthropic" pursuits.

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1 The Federal Communications Commission (FCC) defines broadband as at least 25 Megabits per second (Mbps) download and 3 Mbps upload. https://www.fcc.gov/reports-research/reports/broadband-progress-reports/2016-broadband-progress-report

2 According to the FCC's Form 477 June 2016 version 2 dataset, Comcast provides service in over 1.6 million census blocks and faces at least one competitive broadband ISP in only about 930,000 of them. These numbers are more than a year out-of-date, and we await the FCC publishing the next Form 477 dataset. https://www.fcc.gov/general/broadband-deployment-data-fcc-form-477 This is the best available data set but it does not guarantee competition in blocks with more than one provider as they may have split the census block to avoid competing.

Seattle

In Seattle, Comcast and CenturyLink have thrown their weight behind a mayoral candidate with a donation of $50,000. This is pocket change compared to what they stand to lose. According to our estimates, Comcast could stand to lose an estimated $1.68 million - $7 million in revenue each month if faced with competition.

At the end of 2016, Comcast reported approximately 138,000 video subscribers. Comcast has roughly the same number of broadband subscribers as video. Comcast gets an Average Revenue Per User (ARPU) per month of about $50 for Internet service customers. In our experience with municipal networks, we would expect Comcast to lose between 20 and 30 percent market share as well as a decreased ARPU from remaining subscribers due to more intense price competition.

We conservatively estimate Comcast losing 20 percent of its 138,000 subscribers and a decrease in ARPU of 5 percent for the remaining subscribers. A high bound is Comcast losing 30 percent of its subscribers that are largely video customers, for which Comcast's ARPU is $150 per month. Additionally, for this estimate, Comcast's ARPU would decline 5 percent due to price competition.

As a result of serious competition in Seattle, Comcast would lose between $1.66 million and $7 million per month. That works out to between $20 million and $84 million per year. Spending tens of thousands of dollars in Seattle is a no-brainer. **Spending more to protect its market share would be a sound investment but could backfire by drawing too much attention.** Comcast faced criticism previously for its donations to the previous Mayor Murray, who claimed he was not influenced by Comcast's support. Before resigning in disgrace, Mayor Murray did little to create Internet choice following a curiously framed municipal fiber study that deliberately

Table 1: Comcast's Potential Losses in Seattle

Low Estimate to Comcast Internet Service	Each Month
20% of Comcast subscribers at $50 ARPU	$1.38 million
80% of Comcast subscribers minus $2.5 ARPU	$276,000
Total Comcast Lost Revenue	**$1.66 million**
High Estimate to Comcast Video Service	
30% of Comcast subscribers at $150 ARPU	$6.21 million
70% of Comcast subscribers minus $7.5 ARPU	$830,000
Total Comcast Lost Revenue	**$7 milion**

inflated costs to make any city effort appear too risky.

It isn't just campaign contributions that wear down local leaders, the constant meetings and pressure from client organizations help. But the scale of potential losses in monopoly profits from competition demonstrate Comcast's strong motivation to protect its turf.

Fort Collins

Fort Collins, Colorado, is far smaller than Seattle but is getting a lot more attention from the cable giant. The city is home to approximately 164,000 people or about 65,500 households. In November 2015, Fort Collins overwhelmingly voted 83 to 17 percent to opt out of a state law that prevents cities from considering municipal networks, without active opposition from Comcast in that referendum. In November, 2017, Fort Collins voters will decide a referendum on amending the city's charter to add authority for a telecommunications utility -- the next step toward a municipal network.

Comcast is the dominant Internet service provider in the city and is contributing heavily to the opposition to the referendum. At last count, 57 percent of the households in Fort Collins subscribe to Comcast. Opponents of the referendum, which include the Chamber of Commerce and Colorado Cable Telecommunications Association (Comcast being a dominant member of both), have spent $200,000 as of two weeks before the vote.

If Fort Collins were to build a competitive municipal network, Comcast could lose between $523,000 and $2.13 million per month. That is from $5.4 million to $22.8 million per year. This calculation uses 37,335 residential Comcast customers (57 percent of the 65,500 households in town) and the same assumptions as above.

Comcast has a relevant history in Colorado, having previously spent on the order of half a million dollars (via the CCTA) to stop competition in Longmont, just south of Fort Collins. Longmont went on to build a fiber network that has done quite well, offering a $50/month gigabit connection citywide.

Table 2: Comcast's Potential Losses in Fort Collins

Low Estimate to Comcast Internet Service	Each Month
20% of Comcast subscribers at $50 ARPU	$373,500
80% of Comcast subscribers minus $2.5 ARPU	$75,000
Total Comcast Lost Revenue	**$450,000**
High Estimate to Comcast Video Service	
30% of Comcast subscribers at $150 ARPU	$1.68 million
70% of Comcast subscribers minus $7.5 ARPU	$224,000
Total Comcast Lost Revenue	**$1.9 million**

Comcast's reaction? It has blatantly lied about the network in communication with Fort Collins City Council.

In a related note, the campaign against the referendum this year also lies, claiming that a yes vote in the referendum will result in borrowing $150 million. Fort Collins has no plans to borrow $150 million; the city simply needs to authorize an upper limit for borrowing in the event they decide to move forward with any investment.

About the Authors

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For up-to-date information on community networks and building local power, follow @ILSR and @MuniNetworks on Twitter.

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Conclusion

The big cable companies like Comcast have a stunning amount at stake in preventing additional choices and competition in the areas they currently monopolize. Our analysis doesn't even consider the additional costs that competition would mean for Comcast (often increased marketing, and earlier technical upgrades).

If Comcast faced more competition, the lost revenues wouldn't just disappear. It would remain in the pockets of subscribers in the form of lower monthly rates and in the salaries of people working for the new competitor. Money that today flows to Comcast executives and shareholders far outside these cities would be more likely to stay in the local and regional economies.

Spending a few hundreds of thousands of dollars once or twice to stop a referendum is a smart investment to stop competition that would cost many millions of dollars in lost revenue year after year. It also puts into perspective the relatively small price North Carolina cable and telephone firms paid to block all local Internet choice from local governments there.

Given the many reasons that communities have to create local Internet choice, including better educational opportunities, dramatic community savings, key economic development wins, and more, some wonder why communities might decide against local investments. The answer is that the big cable and telephone monopolies are highly motivated to preserve the broken broadband market.