
UTILITY TAX NEWS, TRENDS & POLICY

This non-confidential edition includes excerpts from articles, studies and research related to the utility industries (telecom, cable, gas, electricity). Readers should note that some sources may require a subscription for a full review.

Topics

- Online Video / Over-The-Top
- Subscriber Trends
- Wireless
- Video
- Cable
- Prepaid/Post Paid
- Solar, Power & Utilities
- Selected Legislative Proposals

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OVER THE TOP TELEVISION

T-Mobile – Looking at Pay-TV Industry: T-Mobile has done more for the cellular subscriber than any other provider by lowering prices. Question is will they do the same for pay-TV? If so we could see a big drop off in cable revenues in the future. Now that T-Mobile has spent two years disrupting the wireless industry, executives are thinking the pay-TV market may also be in need of a shake-up. **Source:** *Fierce Wireless, February 15, 2017.*

Innovation: T-Mobile executives discussed why the traditional video business is ripe for disruption. T-Mobile has reshaped the landscape of the U.S. wireless market in recent years, launching multiple initiatives that forced its rivals to follow suit, and the company is clearly considering applying that tactic to video. That kind of innovative, outside-the-box thinking is likely to be more effective than simply acquiring media companies or trying to grow an OTT video business from scratch. **Source:** *Fierce Wireless Editor, February 17, 2017.*

Frontier Communications OTT: Still reeling from customer and revenue declines, Frontier is looking to gain some salvation by taking a plunge into the OTT video business. President & CEO Dan McCarthy strongly hinted that the company could launch its own direct-to-consumer streaming video service sometime soon because of technology advances and "some changes in the landscape" on the OTT end. While he didn't offer any specifics, he indicated strong interest in the idea as one way to generate fresh growth. **Source:** *www.lightreading.com, March 3, 2017.*

SUBSCRIBER TRENDS

Cord Cutting in 2017: There are two main reasons why cord-cutting could really take off in 2017. First off, the demand among pay-TV subscribers for a cheaper, better alternative to their current "fat bundles" is stronger than ever. With the launch late last month of DirecTV Now by AT&T Inc. and fresh-bundled OTT video offerings from the likes of Hulu LLC, YouTube Inc. and Facebook in the works for next year, cable operators and other conventional pay-TV providers will find themselves competing against a slew of new market-savvy rivals. And that lineup doesn't include any possible moves by such other aggressive video players as Apple Inc. and Amazon.com Inc. The US pay-TV industry still has 96.5 million subscribers (Telco Transformation). Citing the latest US Census Bureau stats, Americans formed 800,000 new homes last year, up from about 500,000 in 2015. Given that the national pay-TV penetration rate is 81%, this should have led to about 650,000 new pay-TV households. Yet the industry instead lost 1.7 million subscribers, indicating that "there were closer to 2.5 million lost or missing pay-TV subscribers in 2016. *Editor's Note: Yes there is churn but I think the bigger OTT providers have been around a lot longer and have the edge. It is the new OTT providers that have emerged in the last year were most of the churn would be taking place, they have limited programming and are not that well known.* **Source:** *Parks Associates, February 1, 2017; http://www.lightreading.com/video/ott/cord-cutting-hits-new-heights-/d/d-id/730836?itc=lrnewsletter_cabledaily*

HBO: 4Q2016 results broke the 2 million subscriber mark after hovering around 1 million subscribers for an extended period of time. In 2016, HBO launched OTT products on Microsoft's Xbox platforms, new Samsung smart TVs, Sony's PlayStation platforms and Amazon Prime Channels, in addition to its international expansion.

Dish: Finally had a quarter where it could report video subscriber gains -- 28,000 in Q4 -- even though it ended up in negative territory for the year, down about 226,000 subs compared to the end of 2015. The bad news is that if continued gains come from the Sling TV side of the house while satellite subscribers slide, then Dish is likely to face ARPU declines in the near future. Overall, Dish reported revenue of \$3.72 billion in Q4, down from \$3.78 billion in the prior-year quarter, but up slightly for the full year. Analysts had estimated revenue at \$3.76 billion.

\$10 Digital TV Antenna: Here's the premise from a December 2016 column about \$10 TV antennas and escaping the largest bills: You're paying a lot for monthly cable or satellite TV; You're not enjoying TV as much because you're paying to be bombarded by commercials and you'd like local programs; You also watch online streaming services like Netflix, Amazon Prime, Hulu, HBO Go, or you rent videos (why rent videos, by the way?); You have a digital TV (If you don't have a digital TV, I'd suggest you consider getting one because most technology is based on things from after 2009. If you don't have a digital TV, you'll need to get a digital converter in addition to the \$10 antenna.); You are ready to "cut the cord," "go off the grid," "stick it to the man" or you've developed another phrase that shows your desire to get rid of your subscription-based TV; You are not required to pay off any subscription contract. **Source:** *Los Angeles Daily News, January 11, 2017.*

Netflix Streaming Services Surpassing Digital Video Recorders: Netflix has hit a new milestone: More U.S. television households now have the streaming service than a digital video recorder, according to a recent study. About 54% of U.S. adults said they have Netflix in their household, while 53% have a DVR (Leichtman Research Group). It's the first time that households with Netflix (including those that use shared accounts) have surpassed the level of those with a DVR in the history of LRG's studies. In 2011, according to the research firm, 44% of TV households had a DVR and 28% had Netflix. **Source:** *Variety, March 6, 2017.*

Amazon Collecting Sales and Use Taxes: MuniServices has reported on Amazon collecting sales and use taxes. Collecting sales and use tax when there may not be sufficient constitutional nexus to require collection should not make Amazon any more liable for collecting UUT on Amazon Prime OTT. Amazon is finally agreeing to collect sales and use tax in states where it does not have a physical presence for several reasons, some of which could come to bear on the UUT/OTT issue.

WIRELESS

Comcast Change to Wireless: It's no secret that some of the nation's biggest cable operators are positioning themselves to expand into the wireless market in the coming months. Comcast reportedly putting down nearly \$2 billion as a deposit to participate in the incentive auction and Charter Communications has applied for regulatory approval for 5G experiments. **Source:** *Fierce Wireless, February 14, 2017.*

Hulu Live Service: Began sending out 100 invites to a beta test for its upcoming live TV service. While the beta test doesn't necessarily confirm when the service will launch, it does seem to add credibility to recent comments that the service would see the light of day within a month. **Source:** *Fierce Wireless, January 17, 2017.*

Apple and Samsung' Launch – Wireless Competition: Much of the discussion at the Mobile World Congress trade show has centered on the increasing amount of competition among the U.S. wireless carriers, as highlighted by the push toward unlimited wireless data plans. February 2017 marked the complete and total return of unlimited data to the U.S. wireless market. T-Mobile and Sprint have long offered unlimited data options at various price points, but T-Mobile last year went "all in" on unlimited with the launch of its T-Mobile One plan (a plan that now represents the only real pricing option from T-Mobile). And the iPhone 8 ought to arrive shortly after Samsung begins selling its own Galaxy S8, a device the company is widely expected to announce at an event in New York scheduled for March 29, **Source:** *Fierce Wireless, March 1, 2017.*

Verizon: 4Q2016 earnings showed that wireless isn't cutting it either as competition from T-Mobile US and Sprint continues to take its toll. Wireless service revenue fell 4.9%, driven by weakness in average revenue per user. Postpaid churn—a measure of how many of Verizon's most valuable customers left the network—was a higher-than-expected 1.10%. The carrier reported postpaid net subscriber additions of only 591,000 while analysts had been expecting 726,000. Shares dove 4.4%, posting their worst day in more than five years.

VIDEO

Dish Video Subscribers: Despite the growth of its over-the-top skinny bundle service Sling TV, Dish reported a decline in total video subscribers for 2016 and a small rise in average revenue per user (ARPU). That's a counterintuitive result. Sling TV is markedly cheaper than satellite TV service from Dish, which should make it easier for Dish to attract new video customers. At the same time, the addition of more Sling TV customers to the Dish subscriber mix should be putting serious downward pressure on ARPU. **Source:** *www.lightreading.com, February 23, 2017.*

Mobile Video Consumption: Worldwide consumption of mobile video will grow nearly 900% from 2016 to 2021 (Cisco). This will account for 78% of all mobile traffic by the end of that time period, up from 60% last year. **Source:** *Fierce Wireless, February 7, 2017.*

Digital Video Platforms That Could Change the Playing Field

www.emarketer.com, December 27, 2016.

Facebook Live: The social network's live video platform went public in January 2016, building on the momentum generated by Meerkat and Twitter's Periscope in 2015. By September 2016, Facebook Live was being used by 51% of the top 500 brands as ranked by their Facebook followers, according to analytics firm Socialbakers.

Pinterest Video Advertising: In Q2 2016 Pinterest unveiled a video ad platform after a long testing phase. Video on Pinterest is not just about offering marketers views, but about offering action; 55% of people on Pinterest use the platform to shop for products, compared with 12% on other social networks.

Twitter Sports Streaming: Twitter is staking its future on the NFL; also signed partnerships to carry full Major League Baseball and National Hockey League games, as well as live highlights from the English Premier League.

Walmart's Vudu Movies on Us: Unveiled this service as a free, ad-supported streaming version of its Vudu digital storefront. Vudu Movies on Us does not carry new releases and specializes in blockbusters. Its business model is a tacit acknowledgment of shifting consumer preferences, with increasing numbers of people choosing to stream on demand rather than rent or purchase digital copies.

DirecTV Now: Launched this service from AT&T's DirecTV is the latest attempt to capture cord-cutters by offering them a programming mix they might get on a traditional platform, only in standalone digital mode. Like the SlingTV service from competitor Dish Network and Sony's Playstation Vue, DirecTV Now provides access to live TV channels for monthly subscription fees that vary according to the number of channels and options. These services will have even more competition in 2017 when Hulu and YouTube introduce their own live TV offerings.

CABLE

Comcast to Let Customers Access YouTube Through Cable Boxes: Comcast Corp. and Alphabet Inc.'s YouTube announced a deal that will allow Comcast customers with the latest gear to search for and watch YouTube videos through their cable boxes. Comcast said nearly 50% of its subscriber base currently has those boxes. The deal follows a similar tie-up with Netflix Inc. that Comcast unveiled last July. **Source:** *Wall Street Journal, February 27, 2017.*

Cable Providers Offering Wireless: Cable wireless will lower telecom revenues and UUT remittance payments starting the FY 1st Quarter of 2017 and onward. Cable wireless providers would eventually take 20% of the big 4 (ATT, Verizon, T-Mobile and Sprint) subscribers by offering attractive pricing bundled in a quad play. Comcast had said little about its wireless plans beyond announcing last fall that it will offer the service, using a combination of its Wi-Fi hot spots and Verizon Communications Inc.'s wireless network, by the middle of this year. Comcast will offer wireless as part of its multi-product bundle as a way to keep consumers from leaving. **Source:** *Bloomberg, January 26, 2017.*

Verizon CEO Considering Cable Deal to Counter AT&T Moves: Verizon is weighing the acquisition of a cable company to help grow demand for its wireless data products. **Source:** *New York Post, January 17, 2017.*

Netflix Reality Shows: It is reported that tighter margins for producing reality shows on cable networks and Netflix, along with other subscription video on demand providers, seeking a less expensive way to keep up its breakneck content pace means non-scripted series will be more coveted by Subscription Video on Demand (SVODs). **Source:** *MoffettNathanson.*

PREPAID / POST PAID

Verizon's Prepaid Services: Verizon confirmed that it is selling prepaid services through some exclusive dealers. Verizon is attempting to boost prepaid share via this as well as launching more generous plans (the newish \$50 and \$70 plans), doing heavy advertising since May 2016, and a Walmart-exclusive plan launched last fall. Verizon's 3Q2016 results in prepaid are better than what Verizon reported in 1Q2016. Verizon lost 177,000 net retail prepaid users in the first quarter, which actually marked a slight improvement compared to the 188,000 it lost during the same period last year. **Source:** *Fierce Wireless, January 16, 2017.*

Prepaid and Postpaid Gap: The war over unlimited data has expanded into the prepaid market. The new postpaid unlimited war that began with the February launch of Verizon Unlimited has spilled over into prepaid competition," the firm observed. "Unlimited for prepaid generally involves or will soon involve compression, but Verizon is not compressing data and compression rates vary among the other postpaid carriers." All that promotional activity underscores a prepaid market that has become extremely competitive over the last two years as the economics gap between prepaid and postpaid continues to narrow. Carriers are seeing prepaid ARPU increasing even as their monthly average revenues from postpaid users wane. **Source:** *Wave7 Research; Fierce Wireless, March 3, 2017.*

SOLAR, POWER & UTILITIES

How California Utilities Are Managing Excess Solar Power: California utilities including PG&E Corp., Edison International and Sempra Energy are testing new ways to network solar panels, battery storage, two-way communication devices and software to create "virtual power plants" that manage green power and feed it into the power grid as needed. California is ramping up renewable energy as it pledges to be a bulwark against the Trump administration's pro-fossil fuel policies. California's solar farms create so much power during daylight hours that they often drive real-time wholesale prices in the state to zero. Meanwhile, the need for electricity can spike after sunset, sometimes sending real-time prices as high as \$1,000 a megawatt-hour. **Source:** *Wall Street Journal, March 4, 2017.*

2017 Power and Utilities Outlook: Aging electric infrastructure. If the new administration pursues its goal of investing significantly in infrastructure, the electric grid will compete with other infrastructure needs, such as roads, bridges, water, and airports. **Smart grid technologies.** Modernizing the electric grid to include and enable technologies such as smart meters, smart appliances, and digital automation could help utilities optimize energy resources, adapt to renewable resource needs, and operate more efficiently and cost-effectively. **New generation sources.** As utilities phase out older coal and other thermal power plants, abundant, low-priced natural gas and rapidly falling costs of wind and solar energy appear to have made gas and renewables the overwhelming choice for new generation. **New generation sources.** As utilities phase out older coal and other thermal power plants, abundant, low-priced natural gas and rapidly falling costs of wind and solar energy appear to have made gas and renewables the overwhelming choice for new generation. **Risk-based ratemaking.** The state-run public utilities commissions that typically oversee utility ratemaking traditionally based their decisions on least cost, with limited consideration of risk. **Behind-the-meter resources.** Utility customers are rapidly adding new distributed energy resources, such as solar photovoltaics, energy storage, and electric vehicles. **Source:** *Wall Street Journal, January 26, 2017.*

SELECTED LEGISLATIVE PROPOSALS

Please refer to <http://leginfo.legislature.ca.gov/> for current bill text and status updates.

Electrical Generation: Coal-Fired Generation Resources: Requires the Energy Commission to ensure that no more than a certain percentage of the electricity consumed in the state is generated from coal-fired generation resources. **AB 79 (Levine)**

Public Utilities: Requires the Public Utilities Commission to require an electrical or gas corporation to give preference to the modernization of its facilities serving disadvantaged communities if the corporation is authorized to collect ratepayer funds for the modernization of its facilities. **AB 397 (Gipson)**

Streaming Video Exemption: Prohibits the imposition by a city or county, including a chartered city or county, of a tax on video streaming services, including, but not limited to, any tax on the sale or use of video streaming services or utility user tax on video streaming services. **AB 252 (Ridley-Thomas)**

Land Use: Accessory Dwelling Units: Amends the Planning and Zoning Law which authorizes a local agency to provide for the creation of accessory dwelling units and requires the accessory dwelling units to comply with certain conditions, including that the unit is not intended for sale separate from the primary residence and may be rented. The bill includes provisions for when a local agency may require a new or separate utility connection. **AB 494 (Bloom)**

Local Ordinances: Energy Systems: Requires certain cities and counties to make all documentation and forms associated with the permitting of advanced energy storage available on a publicly accessible Web site; requires the creation of an Energy Storage Permitting Guidebook. **AB 564 (Chiu)**

California Renewable Portfolio Standard Program: Requires all retail sellers to procure a minimum quantity of electricity products from eligible renewable energy resources. **AB 920 (Aguiar-Curry)**

Compensation of Utilities for Relocation Costs: Requires the state or a local government to reimburse a utility for the reasonable relocation costs incurred by the utility to relocate its facilities as a result of a construction project financed from any voter-approved bond act of the state or local government; relates to cable television facilities and a cable operator overhead electric or communications facilities. **AB 1145 (Quirk)**

Redefining Sewer: This bill defines "sewer" to include storm drains. **SB 231 (Hertzberg)**

Wireless Telecommunications Facilities: Provides that a wireless telecommunications collocation facility is subject to a city or county discretionary permit and is required to comply with specified criteria. Defines the term "small cell" as a particular type of telecommunications facility for these purposes. Applies these prohibitions to the approval of small cell facilities. **SB 649 (Hueso)**