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Rising TV Fees Mean All Viewers Pay to Keep Sports Fans Happy

By BRIAN STELTER

For a glimpse of how out of control sports bidding wars have become, look no further than your cable television bill.

Time Warner Cable subscribers in Southern California will eventually see their monthly bills increase thanks to an impending $7 billion deal with the Los Angeles Dodgers, believed to be the most lucrative for any sports team in history. DirecTV, the country's most popular satellite service, and Verizon FiOS have started adding a $2 to $3 monthly surcharge in markets like New York and Los Angeles to pay for regional sports networks.

Per-subscriber fees for sports networks keep going up: ESPN, the granddaddy of them all, passed the $5-a-month mark last year.

The eye-popping price tags have restarted debate about a topic near and dear to sports fans, fairness: many TV customers never watch the mightily expensive channels at all, yet almost all must pay. There was a shudder in the industry when John Malone, the business tycoon who helped create the modern-day cable system, said in November that "runaway sports rights" costs amounted to "a high tax on a lot of households that don't have a lot of interest in sports." The only short-term fix, he said, was government intervention.

The price increases reflect the leverage big sports leagues have as distributors like Time Warner Cable and programmers like ESPN desperately try to hang onto live programming in the age of the digital video recorder and the Internet.

Sports are the television industry's bulwark against rapid technological change: while the companies fear cord-cutting by customers who can cobble together a diet of TV on the Internet, they rest a little easier knowing that former customers would be hard-pressed to find their favorite teams live online.

Pretty much everybody in the business agrees that the overall costs are outrageous. Nobody has an easy solution.

The latest example of this is likely to come on Monday when the Dodgers' owners are expected to announce a 20- to 25-year deal to create a regional sports network with Time Warner Cable. The cost per subscriber in Southern California is likely to be between $4 and $5 a month, though Time Warner Cable will swallow some of the amount itself.

In assessing the impending Dodgers deal, Michael Nathanson, a media analyst at Nomura Securities, wondered earlier this week "if we have reached the top of the sports rights bubble."

But while the price is steep, the alternative might have been worse; the other bidder, Fox Sports, could have turned around and charged Time Warner Cable even more per subscriber.

“When a team sees their rights fees, and therefore the costs to consumers, rise more than sixfold, as is rumored, for the exact same games that they got last season, that’s an unsustainable model,” said Dan York, who oversees DirecTV’s decisions to carry and not carry networks. Yet Mr. York said DirecTV hopes to continue to carry the Dodgers in the years to come.

As both he and his counterparts at Time Warner Cable know, the games are popular with a segment of its customer base.

News Corporation, knowing the same thing, acquired a 49 percent stake in the Yankees-branded YES Network for nearly $2 billion two months ago. News Corporation is planning a national rival to ESPN, tentatively named Fox Sports 1, joining other competitors like Comcast, which has the one-year-old NBC Sports Network, and CBS, which has the CBS Sports Network. The National Football League has its own network, which clawed its way onto all the major distributors’ lineups despite costing nearly $1 per subscriber per month. An increasing number of college conferences have their own television homes, as well.

For the most part, all of these networks are requirements, not options for cable customers. (Some distributors charge extra for packages of sports channels for die-hard fans, but the big networks remain in the packages that most customers get.) Some games are hugely popular: On the high end of the ratings, NBC’s “Sunday Night Football” averaged 21.4 million viewers this season. But Dodgers games, like those of many local teams, were lucky to garner 100,000 viewers on any given day.

But analysts and industry critics say that if anything ever causes distributors to try more of an “à la carte” model of pricing, it’s sports programming.

“The cable industry has done everything it can to bundle programming and force consumers to buy things they don’t want,” said Gene Kimmelman, a former Justice Department antitrust lawyer. “Finally, one piece of their bundle has become so expensive that it may finally force the cable industry to shift gears and split the bundle out of fear of pricing its own customers out of the market.”

Some executives at the distributors privately agree. They talk of a bubble caused by the high license fees commanded by sports leagues, and demanded by the networks that pay those fees. They say they want to keep costs down, and some have even threatened to drop low-rated channels from their lineups. But they continue to agree to pay more and more for sports.

Chris Bevilacqua, an investor and consultant who has spearheaded the creation of several college networks, said, “If consumers were that upset by the costs, they’d be dropping their cable subscriptions in droves.”

To date, that is not happening. Cable alternatives like Aereo (a service that streams broadcast networks via the Internet for a small monthly price) are sprouting up, but none are stealing share from the distributors that have been around for years. In fact, over the last two years ESPN has signed new long-term deals with seven of the top ten distributors in the country.

What is more common are customers who lower their monthly bill, albeit temporarily, by leaping from one distributor to another. Verizon FiOS, perhaps testing the waters, announced a sports-free package of channels this week that is $15 cheaper than a similar package with sports.

Along with regional sports networks and the ESPNs of the world, sports costs are baked into the television industry through the deals that distributors make to carry local broadcasters' television signals. If a distributor is not willing to pay what a CBS-affiliated station wants them to pay, for instance, its customers may miss out on the Super Bowl, which is Feb. 3 on CBS.

Companies are rarely willing to take that risk as nothing provokes the public quite like missing a sporting event. Time Warner Cable's blackout of MSG Networks, which carries the Knicks, rankled thousands of customers last year; Gov. Andrew M. Cuomo eventually put pressure on both companies to make the deal that ended the blackout.

David Goodfriend, the chairman of the Sports Fan Coalition, said sports leagues were the root of the problem, because they "get exemptions from federal antitrust laws so they can legally collude and drive up prices for television coverage of the games." The coalition wants to cut what it calls "vast public subsidies."

Washington regulators have not shown a special interest in the subject. When Mr. Malone, speaking to The Los Angeles Times, brought up government intervention in sports rights costs, he said that "usually markets have a way of correcting themselves."

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