Web video future at heart of Comcast, NBC review

December 12 2010, By JOELLE TESSLER , AP Technology Writer

IN this Nov. 19, 2010 photo, Jeff Lawrence, CEO of "playon" displays his iPhone4, with the website on the screen, on Capitol Hill in Washington. It won't be long before an Internet-connected video screen is always at your fingertips _ whether it's a smart phone, a tablet computer or a high-end television set hooked up to a Google TV or Apple TV device. But what if there's nothing to watch? (AP Photo/Harry Hamburg)

(AP) -- It won't be long before video from the Internet is always within reach - whether it's on a smart phone, a tablet computer or a high-end television in your living room.

But what if there's nothing worth watching?

Just as the online video market is starting to take shape, federal regulators have a rare opportunity to help protect its future as they scrutinize Comcast Corp.'s proposal to take over NBC Universal.

Regulators are pushing for tough conditions to ensure that Comcast can't stifle online video services by withholding content or pushing up prices for marquee NBC programs at a time viewers are starting to turn to the Internet for recent movies or the latest episodes of "Saturday Night Live," "30 Rock" and other popular TV shows.

The concessions they extract from Comcast in its bid for NBC will help determine whether customers can someday realistically drop their cable subscriptions and go online-only for their TV.

So far, established media companies, including broadcasters and cable providers, are moving online with caution, fearful that the Internet could jeopardize business models they have relied on for decades. They have kept many television shows and movies off the Web, and built barriers around what's available online, restricting who can watch it and where.

Comcast has been resisting federal regulators' efforts to tear down some of those walls, arguing that those efforts are unnecessary because NBC Universal accounts for about 10 percent of television viewing in the U.S. and less than 10 percent of U.S. box office revenue - and is therefore too small to dictate how the industry will develop.

But the two sides are close to an agreement, which could pave the way for the Federal Communications Commission and the Justice Department to approve the deal as early as this week.

Comcast's proposed $13.75 billion purchase of a 51 percent stake in

NBC Universal would transform the media landscape. It would give the nation's largest cable television company control over a major movie studio, Universal Studios, and some of the most-watched channels on TV, including the NBC and Telemundo broadcast networks and CNBC, Bravo and Oxygen on cable.

So what regulators do - or don't do - will set key ground rules for the industry.

"Whether you're holding a remote or using a mouse, this merger will affect the prices you pay, the choices you have and the pace of video innovation for many years to come," said Colin Crowell, a former FCC senior staffer and 20-year congressional aide who is now advising several groups concerned about the combination.

Both Comcast and NBC insist that Internet video represents an opportunity to expand their reach and say they have no intention of stunting the growth of the nascent market.

But already, Comcast is participating in an industry-wide program to limit online viewing of many popular shows to cable subscribers. And NBC has joined other broadcast networks in blocking access to full episodes of its shows through Google Inc.'s Google TV software, which delivers Web content to TV sets.

Until recently, online viewing had largely been limited to personal computers, using standard Web browsers or video software. Some shows are free, with ads, just like regular broadcasts. Others carry a fee - as little as 99 cents for a single television episode through Amazon.com Inc., for example, or less than $10 a month for unlimited access to programming on Netflix Inc.

Now, though, a slew of new devices relay Internet video to television sets. The Apple TV and Roku set-top boxes, for instance, serve as bridges to deliver online programs to the TV. Some high-end sets connect directly to the Internet.

Cable companies such as Comcast worry that easy viewing of Internet video on TVs could lead customers to drop their monthly subscriptions in favor of low-cost online alternatives. Comcast's 22.9 million cable subscribers pay an average of $71 per month for cable TV.

Broadcasters, meanwhile, fear Internet video could cannibalize revenue from television commercials, which are far more lucrative than online ads. They fear cable cancellations, too, because cable companies increasingly pay them per subscriber for the rights to carry stations on their lineups.

The threat is still small, but real: Research firm SNL Kagan projects that 8.1 million households, or 7 percent of all U.S. homes with a TV, will substitute Internet video for a traditional video service such as cable by 2014.

David Krall, president of Roku Inc., said online video may appeal particularly to viewers who want to pay for programs one at a time rather than subscribe to the large bundles of channels that are the cornerstone of the cable industry's business model.

But online video will never become a true alternative unless a broad programming lineup is available on both computer screens and TV sets.

One measure regulators are considering would require Comcast to make NBC's broadcast and cable channels available to rival online providers at reasonable prices. Under current rules, cable TV companies have to share programming they own with rivals such as satellite companies, but not Internet distributors. Although any condition would apply only to

Comcast and NBC content, it would establish an important precedent and could open the door for the FCC or Congress to extend this mandate to others later.

Regulators may also prohibit Comcast from requiring a cable subscription to get online access to NBC Universal's shows and movies. That would keep NBC content out of the industry initiative that offers online viewing of such hit shows as HBO's "True Blood" and "Entourage," but only for subscribers of cable and other video services.

Comcast and others market the service as an added benefit for customers who want another way to watch premium video they are already paying for, but critics say the program ties online video to cable subscriptions.

In addition, the government is weighing whether to force Comcast to sell NBC's 32 percent stake in the Internet video service Hulu, which has become a major Web platform for NBC, ABC and Fox shows and offers a model for other programmers as they expand online.

So far, Comcast has indicated that it could accept a ban on pressuring independent programmers into restricting online distribution of their content in exchange for a spot in its cable lineups. But the company is resisting other conditions, arguing they are unnecessary.

Comcast Executive Vice President David Cohen insists that the company has no reason to limit NBC content to its own subscribers because that "would close off access to so many other customers." (Although Comcast is the nation's largest cable TV provider, only a fifth of all U.S. households with a TV now subscribe to its cable TV service.)

Executives at Comcast and NBC both say they want to distribute programming across all types of platforms, and Comcast points to its service that lets subscribers watch cable shows online as an example.

But Harold Feld, legal director for the public interest group Public Knowledge, adds a caveat: "They want to do it in a way that doesn't disrupt their highly profitable traditional business models."

So perhaps it's telling that NBC Universal General Counsel Rick Cotton sees online video as a complement rather than a substitute for cable. "Consumers can sample shows and catch episodes they missed online," he said, "but they are not trying to replicate traditional video services."