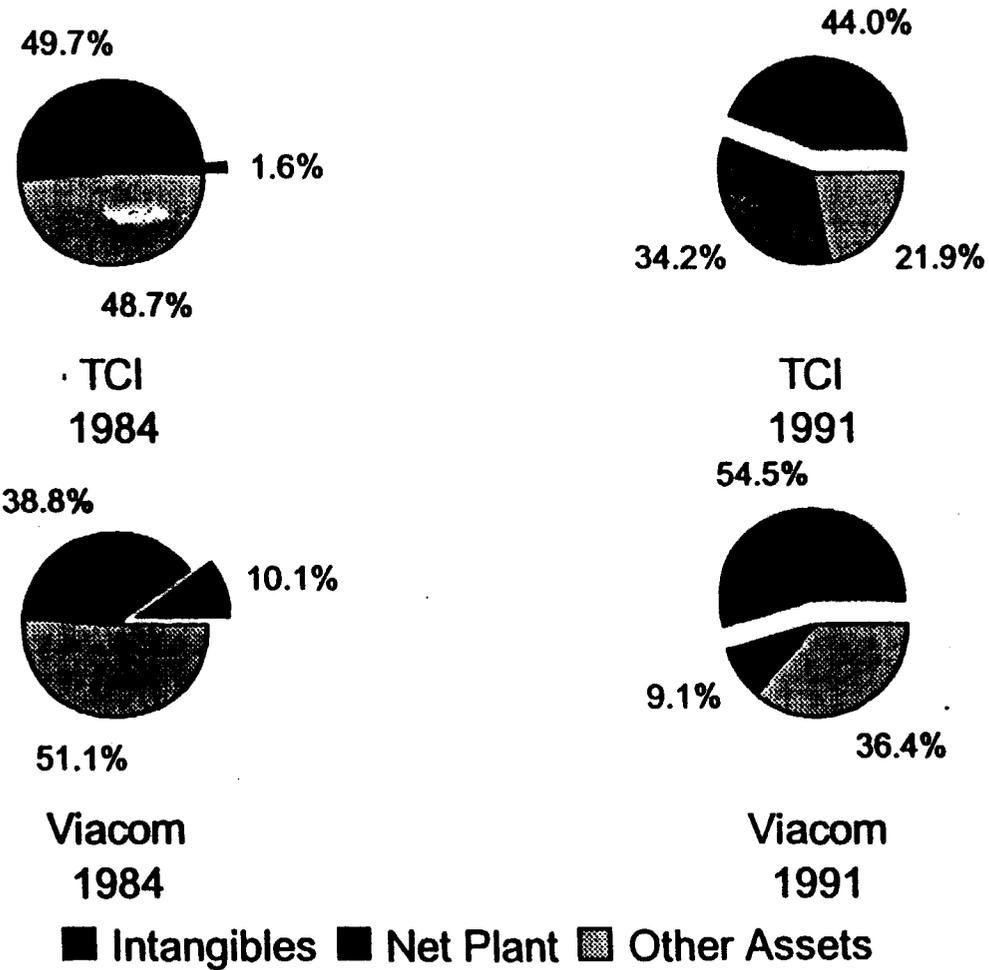


INTANGIBLES ARE NOW A MUCH HIGHER PROPORTION OF CABLE COMPANY ASSETS



Data source: "The Cable TV Financial Databook," Paul Kagan Associates, Inc., June 1992

Appendix B

we do not include a discussion here. We note, however, that while the Tobin's q 's calculated for cable by various analysts differ, the results indicate that local cable systems have considerable market power in relation to firms in a competitive industry.

The size of the monopoly "franchise value" was directly addressed in a U.S. Tax Court case involving Tele-Communications, Inc. (TCI).⁴ For three specific TCI systems the court found that 39% of the sales price was attributable to intangible "franchise value." The systems involved in this case sold well before 1984, when sales prices began to rise substantially. Generally one would expect to find "franchise value" to be an even higher proportion of the sales price for transactions occurring since rates were deregulated in most communities.

One way to apply "franchise value" figures to estimate the size of the monopoly component of rates is to assess what rates would be required to produce a reasonable return excluding the monopoly "franchise value," versus those required to produce a return on this intangible in addition to on the tangible assets. This could be done for specific systems where sufficient accounting data are available to perform a simple utility cost-of-service analysis, looking particularly at systems that sold between the passage of the Cable Communications Policy Act of 1984 and 1992 Act.

We have applied an industry average approach to use intangible franchise value to estimate the size of the monopoly component in Exhibit B-4. The result indicates that the monopoly component was in the range of 28% to 49% for the most popular basic service tier in 1991.

5. Econometric Studies

There is a large body of literature on the monopoly characteristics of cable television, including numerous econometric studies. One of the more recent studies develops a measure of how much of the cable television price increase since deregulation is due to monopoly power. We quote the abstract of this U.S. Department of Justice study:⁵

Since the deregulation of rates for basic cable television service, increases in prices have outpaced the rate of inflation.... [A]t least 45-50% of the price increase...is due to market power.

⁴ Tele-Communications, Inc. and Subsidiaries v. Commissioner of Internal Revenue. 95 T.C. No. 36. Supra.

⁵ Robert Rubinovitz, "Market Power and Price Increases for Basic Cable Service Since Deregulation," U.S. Department of Justice, Antitrust Division, Economic Analysis Group (August 6, 1991).

Exhibit B-4

METHOD TO ESTIMATE THE SIZE OF THE MONOPOLY COMPONENT OF BASIC RATES BY ADJUSTING FOR INTANGIBLE "FRANCHISE VALUE"

	Upper End of Range	Lower End of Range
Average system sales value 1991 ¹	\$ 1,850	\$ 1,850
Range of average cost per subscriber to build a modern cable system ²	\$ 700	\$ 1,200
Difference (intangible "franchise value")	\$ 1150	\$ 650
Return on capital on the difference (assume 12%) ³	\$ 138	\$ 78
Assume 80% attributable to basic and expanded basic ⁴	\$ 110	\$ 62
Monthly size of the monopoly component (surplus return divided by 12)	\$ 9.20	\$ 5.20
Estimated percent of the monopoly component, 1991 ⁵	49%	28%

¹ The approximate average of 1991 sales, reported in "The Cable TV Financial Databook," 1992; Paul Kagan Associates, Inc.; Carmel, California.

² Assumed values; the actual figure could be empirically determined by the Commission.

³ Assumed weighted debt/equity return.

⁴ Based on assumed distribution of channel capacity.

⁵ Monopoly component divided by \$18.84 (the 1991 average for the most popular basic service, as reported by the General Accounting Office).

Appendix B

6. Comparative Rates in Competitive or Municipal Systems

The Commission suggests that rates in areas with effective competition or where the franchising authority is itself the cable operator may be one way to benchmark rates. We see certain limitations in this approach, but we nevertheless believe it can provide a useful guide to the order of magnitude of the monopoly component now contained in rates where there is no effective competition. We surveyed several such systems between January 14 - 22, 1993. The results of the survey are shown in Exhibit B-5 for systems that report that they are in competition, and in Exhibit B-6 for municipal systems. We cannot be certain that all systems reported are actively competing.

Exhibit B-5

CABLE SYSTEMS IN COMPETITION*

State	City/County	Operator	Number of Subscribers	Homes Passed	Plant Miles	Basic Rate	# of Basic Channels	Basic Rate/Channel	Expanded Basic Rate	# of Exp. Basic Chan.	Exp. Basic Rate/Chan.	Converter	Installation
Arkansas	Paragould	Paragould City Light & Water	3,600	9,000	130				\$13.63	48	\$0.28	\$0.00	\$0.00
Arkansas	Paragould	Paragould Cablevision	5,770	6,329	104				\$12.19	44	\$0.28	\$0.00	\$0.00
Alabama	Troy	Troy Cablevision	1,987	n/a	n/a				\$14.00	52	\$0.27	\$2.00	\$0.00
Alabama	Troy	Storer Cable Communications	3,503	6,588	n/a	\$8.10	32	\$0.25	\$9.95	67	\$0.15	\$0.00	\$9.95
Arizona	Mesa	Cable America Corp.	7,290	4,950	70	\$8.03	20	\$0.40	\$18.13	55	\$0.33	\$0.00	\$15.95
Arizona	Mesa	Dimension	n/a	n/a	n/a							n/a	n/a
Florida	Orange County	Telesat	n/a	n/a	n/a				\$19.93	54	\$0.37	\$0.00	\$0.00
Florida	Orange County	Cablevision Industries	5,400	n/a	n/a				\$15.05	46	\$0.33	\$0.00	\$9.95
Georgia	Vidalia	TCI Cablevision of Georgia	3,707	n/a	n/a	\$10.95	24	\$0.46	\$13.45	30	\$0.45	\$0.00	\$0.00
Georgia	Vidalia	Southland Cablevision, Inc.	2,419	5,000	100	\$10.95	13	\$0.84	\$15.75	43	\$0.37	\$0.00	\$0.00
Kentucky	Glasgow	Glasgow Electric Plant Board	1,500	5,000	90				\$13.95	48	\$0.29	\$0.00	\$0.00
Kentucky	Glasgow	TeleScripps Cable Co.	5,180	6,085	119	\$8.95	18	\$0.50	\$12.50	48	\$0.26	\$0.00	\$0.00
Michigan	Negaunee	City of Negaunee Cable TV	1,370	1,800	27				\$10.85	32	\$0.34	\$0.00	12
Michigan	Negaunee	Bresnan Communications	18,808	21,331	358	\$18	30	\$0.59	\$18.95	35	\$0.57	\$2.00	\$40.00
New Jersey	Paramus	Cablevision Systems Corp.	47,080	n/a	n/a				\$22.95	25	\$0.92	\$0.00	\$0.00
New Jersey	Paramus	United Artists Cable of N.J.	186,632	n/a	n/a				\$22.30	29	\$0.77	\$0.00	\$63.00
Pennsylvania	Allentown	Service Electric Cable TV	82,000	145,000	2,100				\$21.00	56	\$0.38	\$0.00	\$0.00
Pennsylvania	Allentown	Twin County Cable	55,000	110,000	2,600				\$20.50	59	\$0.35	\$0.00	\$25.00
Pennsylvania	Pottsville	Warner Cable of Pottsville	n/a	n/a	n/a	\$11.00	14	\$0.79	\$18.74	39	\$0.48	\$0.00	\$40.00
Pennsylvania	Pottsville	Wire Tele-View	1,625	3,750	16				\$14.00	26	\$0.54	\$0.00	\$30.00
Averages:						\$9.47	21.6	\$0.65	\$16.26	44.0	\$0.41	\$0.20	\$12.32

* Some of these systems may not meet the Cable Act effective competition test of passing at least 50% of the homes in the specified community.

Rates and channels source: Telephone calls to the respective operators, January 14 - 22, 1993

System statistics source: Television and Cable Factbook, 1992

Exhibit B-6

MUNICIPAL CABLE SYSTEMS

State	City/County	Operator	Number of Subscribers	Homes Passed	Plant Miles	# of Basic Channels*	Basic Rate/Channel*	Expanded Basic Rate	# of Exp. Basic Chan.	Exp. Basic Rate/Chan.	Converter	Installation
Arkansas	Opp	Opp Cablevision	3,199	3,500	125			\$14.00	30	\$0.47	\$5.00	\$15.00
Arkansas	Conway	Conway Corp.	10,355	n/a	n/a			\$11.66	23	\$0.51	\$0.00	\$25.00
California	San Bruno	City of San Bruno	11,161	15,000	73			\$19.95	44	\$0.45	\$0.00	\$30.00
Georgia	Covington	City of Covington	5,128	9,300	n/a			\$15.00	29	\$0.52	\$0.00	\$35.00
Georgia	Monroe	City of Monroe W,L&G Com.	4,178	4,500	95			\$10.00	30	\$0.33	\$0.00	\$0.00
Kentucky	Bardotown	City of Bardotown	3,998	7,500	150			\$13.39	31	\$0.43	\$3.50	\$20.00
Kentucky	Frankfort	Frankfort E&W Plant Board	11,336	14,000	220			\$9.70	37	\$0.26	\$1.00	\$5.00
Michigan	Lowell	Lowell Cable TV	1,875	2,365	40			\$17.55	23	\$0.76	\$2.00	\$20.00
Michigan	Wyandotte	Wyandotte Municipal Services	9,004	13,000	70			\$12.00	47	\$0.26	\$0.00	\$20.00
Average:								\$13.69	32.7	\$0.44	\$1.28	\$18.89

Rates and channels source: Telephone calls to the respective cable operators, January 14 - 22, 1993

System statistics source: Television and Cable Factbook, 1992

* Too few of these systems offered more than one basic service tier

Appendix B

We compared the expanded basic (most popular tier) average rates per channel to the General Accounting Office (GAO) national survey findings for a broad sample of systems (mostly areas where there is no effective competition and no municipal system) as of April, 1991:

	<u>Rate per Channel Most Popular Tier</u>	<u>Percent Less Than 1991 GAO</u>
GAO cross-section survey result, April 1991	\$ 0.54	N/A
January 1993 survey, competitive systems	\$ 0.41	24.1%
January 1993 survey, municipal systems	\$ 0.44	18.5%

The 1993 competitive system and municipal rates were notably less than even the 1991 rates (nearly two years old) for the cross section of systems.⁶

We encourage the Commission to analyze the rate survey results it receives in January (if there are sufficient data) in the manner we have here, as it seeks to estimate the size of the average rate decrease necessary to assure that subscribers in non-competitive areas pay no more than those in areas where there is effective competition.⁷

⁶ If rates were cost based and did not include a monopoly component, theoretically one would expect rates to be even lower than they are where there has been sustained competition. Because competitive systems duplicate plant and split the subscriber base, they do not enjoy the same economies of scale as if there were only one operator in the community. This means that their average cost per subscriber is higher than it would be for a de facto monopolist. Consequently, one would expect truly cost based rates in the communities served by a single operator to be even lower than those found in the competitive communities in the long run.

⁷ In analyzing the rate data obtained for supposed "effective competition" areas, the Commission should assure that each respective area meets the tests specified in the Act to define competition. We have found for example, that many supposedly competing cable systems overlap only in small areas, and at least one of the systems in each case would not meet the test of passing at least half of the homes in the franchise area and/or actually serving at least 15% of the franchise area.

Appendix B

7. Cost-of-Service Model Results

We have recommended a cost-of-service benchmark model to determine reasonable basic and expanded basic rates (see Appendix A). We applied this model to evaluate data for certain cable systems. However, instead of applying national norms (which we believe the Commission should develop) in the model, we adjusted the model for each system we analyzed to assure that the model reflected the full operating costs and the full capital expenditure (valued at original cost) for the particular system. We were able to do this for several systems because we obtained local system financial statements filed with the several franchise authorities, and also obtained the subscriber, plant mile, and channel line-up information necessary to apply the model.

We stress that the results we obtained are based on the full actual reported costs of the systems we analyzed, so the nature of our findings cannot be attributable to any under-estimates of the applicable costs.⁸

The results of this analysis of 13 systems are shown in Exhibit B-7. Depending on whether a simple average or a subscriber-weighted average of the findings is applied, we estimated that if basic tier rates were based on actual costs, they would be only about 46% to 63% of what they actually are in these systems; expanded basic rates would be about 72% to 85% of what they actually are.⁹ In only one case did we estimate a cost-based rate higher than the actual rate (for expanded basic for one system. In every other case the cost-based estimate was lower than the actual rate, generally by a large margin.

One of the reasons, among others, that the costs of the low basic tier varied as widely as shown (from \$1.50 per month to \$12.60 per month) is the variation in the programming that is offered on that tier. When no satellite signals or distant broadcast signals are carried on the low tier,

⁸ We did make assumptions about certain factors that affect the allocation of costs to specific tiers of service. We selected these assumptions in a conservative manner so that we would not understate the cost-based basic and expanded basic rates. Therefore, if our estimates of the cost-based rates err, they likely err on the high side.

⁹ We did not select these systems randomly. They represent those for which we received sufficient data from franchise authorities to enable us to perform the analysis. We did not reject any system because of results; the thirteen systems shown are simply those for which we had enough data at the time our analysis was performed. If anything, these systems likely over-represent large urban systems, where average costs (and therefore cost-based rates) are likely to be higher than the overall national average.

Exhibit B-7

**ESTIMATES OF COST BASED RATES COMPARED TO ACTUAL RATES
FOR SELECTED CABLE SYSTEMS**

System	Subscribers	Cost-Based Basic Rate	Actual Basic Rate	Cost-Based Percent of Actual Basic	Cost-Based Expanded Basic Rate	Actual Expanded Basic Rate	Cost-Based Percent of Actual Exp. Basic
System A	3,500	\$3.90	\$10.80	36%	\$13.40	\$21.80	61%
System B	159,000	\$5.60	\$10.00	56%	\$21.90	\$26.40	83%
System C	13,000	\$5.30	\$16.70	32%	\$15.30	\$24.10	63%
System D	202,000	\$9.60	\$11.90	81%	\$28.90	\$25.90	112%
System E	115,000	\$12.60	\$18.70	67%	\$26.00	\$26.00	100%
System F	71,000	\$1.50	\$6.20	24%	\$11.90	\$20.20	59%
System G	47,000	\$4.90	\$8.70	56%	\$19.10	\$20.90	91%
System H	39,000	\$1.80	\$12.90	14%	\$13.90	\$22.30	62%
System I	43,000	\$3.70	\$7.70	48%	\$9.60	\$21.00	46%
System J	50,000	\$4.60	\$8.90	52%	\$13.90	\$22.20	63%
System K	46,000	\$6.70	\$17.70	38%	\$11.60	\$19.10	61%
System L	44,000	\$4.30	\$8.90	48%	\$11.50	\$22.20	52%
System M	71,000				\$19.10	\$22.25	86%
Simple Average	69,500	\$5.38	\$11.59	46%	\$16.62	\$22.64	72%
Total	903,500						
Average Weighted by Subscribers		\$6.79	\$10.77	63%	\$18.80	\$22.10	85%

Data sources: Actual financial statements for the selected systems; other statistics supplied by franchise authorities

Appendix B

there may be essentially no direct programming costs, only allocable joint and common costs and revenue based costs.

This finding is interesting in light of the announced plans of certain multiple system operators, including Tele-Communications, Inc., that they will begin to offer lower priced re-tiered basic in many systems within the next several months. Many of the re-tiering plans we have seen would provide a package of local broadcast stations, PEG channels, local origination, bulletin boards, and advertising for the system's pay services on the lowest tier. No satellite services would be on the lowest tier (a tiering reality already in many communities). Based on the data we have assessed, we believe the true cost-based rate for these stripped-down services should more likely be in the range of \$1.50 to \$5.00 per month (depending on joint and common cost allocations in the specific system), rather than the \$10 to \$11 range being announced by some operators.

APPENDIX 2
ESTABLISHMENT OF INTERIM RATE

For reasons suggested in the main comments, cable rates now are too high and subscribers require immediate relief. The Coalition asks the Commission to adopt an interim benchmark rate per channel that would be used as a guide by municipalities in setting rates while the Commission takes the steps necessary to establish a set of cost-based industry norms that can be used to derive rates at the local level.

The Coalition recommends an interim per channel rate based on an examination of a number of factors that, as applied below, includes rough surrogates for cable industry costs. Because the Coalition also proposes a procedure for review of the rates at the local level that should allow for adjustments should the rate prove too high or too low, the operator and the public are protected. The recommended rate is not designed to be applied over time, and is, in fact, designed as a temporary measure, to guide localities in establishing basic rates (and the Commission in establishing expanded basic rates) while a cost-based method of establishing rates is implemented. Over time, significant problems can develop if per channel rates are applied blindly. Because the cost of activating channels is quite low, per channel costs actually reduce over time. Per channel costs were higher in 1984 than they were in 1992, see Statement of Senator Danforth, Cong. Rec. 1/27/92 at 5413. Over time, it would be necessary to reduce per channel rates

by a productivity factor.¹ Similarly, allowing an increase in price equal to the per channel charge for each channel added would lead to abuses. An operator who increases rates by an amount per channel could increase profits by activating so-called "barker" or videotext channels or other no-cost services on basic and expanded basic or by eliminating programming altogether. These evasions can be stopped by localities in the short term (and the Commission can help by making it clear that communities may adjust rates to prevent such abuses), but in the longer term, a more cost-based rate method appears necessary.

The per channel cost derived below was, to the extent possible, derived by comparing current costs and rates for systems. It identifies the magnitude of the reduction required to provide consumers the immediate rate relief Congress intends. The approach is comparable to calculating a percentage reduction in current rates, based on a calculated monopoly profit component.

The Coalition believes that the per channel rate for basic and expanded basic service should not exceed \$0.32/channel. It calculates this rate examining the following:

1. An estimate of the appropriate rate for service in select communities, based on costs reported by the operators to those communities. The rates were estimated by Jay Smith and Michael Katz, and are set forth in Appendix B, Attachment B-7 ("Smith & Katz, App. B"). Five of the thirteen systems examined had per

¹ If new channels are added, the cost per channel in a given community should go down.

channel rates of between \$0.20 - .29 cents, four had rates between \$0.30 - .39, three had rates between \$0.40 - .43 cents, and one had a rate over \$0.70 per channel. The \$0.70 rate is clearly unrepresentative and would lead to substantial overrecoveries of rates in most communities. That rate was therefore ignored. A rate between \$0.32 and \$0.39 seems most typical. However, the rates in the \$0.23 - .32 range were particularly notable for two reasons: (1) the systems analyzed tended to be larger, more modern systems; rates are likely to be even less per channel on a cost basis in older systems where plant may be fully depreciated, and services (and programming costs) may be extremely limited; and (2) the data suggests that at a \$0.23 - .32 rate, operators can provide significant services, profitably. Hence, there is every reason to suppose the lower-end rates are more representative of reasonable rates.

2. An examination of rates where there is head to head competition. The survey is set forth in Smith & Katz, App. B, Exhibit B-5. As Smith & Katz point out, the data must be approached carefully. There are several reasons why, in a particular community, apparent head-to-head competition may not lead to lower prices: In Orange County, for example, Cablevision Industries has agreed to purchase the Telesat system; Telesat no longer has any incentive to cut prices to its customers pending the resolution of that sale. In 1986, when it first surveyed the Orange County system, Telesat's rates was \$11.95, \$2.00 below the Cablevision rate for the market; now Telesat charges \$19.93 for

virtually the same service, almost \$5.00 above the Cablevision rate. Similarly, in Negaunee, Michigan, the privately-owned system raised prices significantly after reaching a litigation settlement with the City. Nonetheless, the data are instructive. The rate per channel was between \$0.26 - .30 in two communities -- Paragould, Arkansas and Glasgow, Kentucky -- where there is active competition. The majority of competing systems charged \$0.35 or less per channel. Taking this into account and discounting systems where competition does not appear to be active suggests that a reasonable rate might be approximately \$0.26 - .35 per channel.

3. An examination of rates for municipal systems. Municipal systems typically price services in one of two ways: first, to keep rates as low as possible while covering costs and returning a relatively lower amount to the general fund; or second, to match rates charged by private systems, and to return the excess profits to the community. For such systems, the per channel rate may actually be closer to industry norms than competitive prices. Smith & Katz surveyed nine municipal channels and found that the rates they charged varied from \$0.26 -.76 per channel. Given the limited data, these figures may be more useful as a check on the forgoing than anything else.

4. Other indicators. A U.S. Department of Justice study estimated that 45-50 per cent of all rate increases since 1984 were attributable to the market power of cable operators. Average cable rates are now in the \$18-\$22 range; they were approximately \$9.00 in 1984. If the Department of Justice is correct, rates for basic

and expanded basic service should total \$13.50-\$15.50 (\$0.21 - \$0.37 per channel for a 48-channel service). That conclusion is consistent with Smith & Katz, App. B. Exhibit B-7, estimating that on average consumers are entitled to 30 per cent reductions in rates, 40-55 per cent in most communities. See also Exh. B-1 (comparing indexed changes in pay and basic cable rates); Exh. B-4 (estimating a 28% - 49% monopoly rate component based on an examination of intangible values).

Conclusion. The data, properly applied, points in one direction: rates for basic and for expanded basic are too high -- substantially too high. There are very good policy reasons to set the rate toward a \$0.21 per channel rate, to maximize elimination of monopoly profits. However, considering the high and low ranges described above, the Commission should rule that a community may require operators to charge no more than \$0.32 per channel for basic service, and rule that a rate for expanded basic exceeding \$0.32 per channel, or a combined rate for basic and expanded basic of more than \$0.32 per channel, would be considered presumptively unreasonable, were a complaint to be filed with the Commission. This leaves rates for private cable systems well-above rates for municipalities and in the most competitive cable markets, and well within range of rates calculated on a cost basis.

The Commission can reach this result consistent with its obligations under the Cable Act. The general conclusion, that rates are too high, accords with the conclusion of Congress. More specifically, the recommended rate is based on a direct or implicit

consideration of factors that the Commission must consider in determining whether an expanded basic rate is unreasonable.² As applied to the basic rate component, the number almost certainly overestimates the nominal cost of providing basic, particularly considering that basic programming costs may be quite low, but under the Coalition's proposal the locality could, after hearing, reduce the basic rate to more clearly reflect competitive levels in light of the services actually offered. In the meantime, adopting the rate should afford almost all consumers an opportunity for immediate rate relief.

² The analysis considered the rates charged by systems, less the identifiable monopoly component; historical changes in rates, as analyzed in relation to pay rates and growth in intangible system values by Smith & Katz; rates for systems facing competition; basic and expanded basic rates as a whole for the system; and costs and revenues. To the extent other matters are not considered with respect to expanded basic rates -- the cost for equipment, for example -- they could be considered at the time a complaint is filed, as necessary.

CABLE TV
MONTGOMERY

ACCOUNT NUMBER
[REDACTED]

BILLED FROM BILLED TO
1/08/93 2/07/93

DATE DUE
01/22/93

STATEMENT
PROCESSING DATE
12/31/92

FOR- [REDACTED]

12/07	BEGINNING BALANCE	49.31
12/21	PAYMENT	49.31-
12/31	CONV. DEP. REFUND	5.00-
1/08- 2/07	MONTHLY SERVICE	48.30
1/08- 2/07	FRANCHISE FEE 5%	2.42
1/08- 2/07	LOCAL PROGRAM FEE 1.5%	.72
1/07	AMOUNT DUE	46.44

JAN 08 THRU FEB 07, 1993

FOR DETAILED INFORMATION SEE BACK OF BILL

ACCOUNT #	INVOICE DATE	CURRENT	PAST DUE	PLEASE PAY	DUE DATE
[REDACTED]	1/07/93	46.44	.00	46.44	1/22/93

TUNE IN TO LIFETIME ON SUNDAY,
JANUARY 17 AT 8PM EST AND WATCH
CABLE'S BEST. THE 14TH ANNUAL
CABLEACE AWARDS SPECIAL WILL BE
TELEVISED LIVE FROM THE PANTAGES
THEATRE IN HOLLYWOOD.

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 DANIEL K. INOUE, HAWAII
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 J. JAMES EXON, NEBRASKA
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 TRENT LOTT, MISSISSIPPI

KEVIN G. CURTIN, CHIEF COUNSEL AND STAFF DIRECTOR
 JONATHAN CHAMBERS, REPUBLICAN STAFF DIRECTOR

United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
 AND TRANSPORTATION

WASHINGTON, DC 20510-6125

December 9, 1992

The Honorable Alfred C. Sikes
 Chairman
 Federal Communications Commission
 1919 M Street, N.W.
 Washington, D.C. 20554

RECEIVED
 LEGISLATIVE AFFAIRS

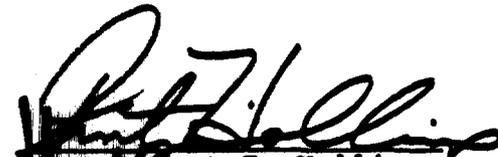
Dear Al:

The Cable Television Consumer Protection and Competition Act of 1992, which became law on October 5, 1992, has as its primary goal the protection of consumers against unreasonable cable rates. In what appears to be an attempt to evade the law, many cable companies are raising rates before the FCC's rate regulations are in place. Some cable operators have even asserted that their rate increases are a result of the Cable Act.

Those assertions are false. Nothing in the Act requires rate increases. To the contrary, the Act gives the FCC and local governments new authority to regulate rates.

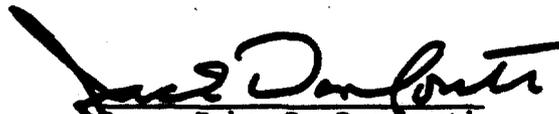
The FCC also has authority under the Cable Act to order rate rollbacks and to take action to prevent cable operators from evading the rate regulation provisions of the law. We are writing to you to underscore that the FCC's enforcement of the law must protect consumers against unreasonable rates. We urge you to pay particular attention to those cable operators who rush through rate increases in anticipation of rate regulation.

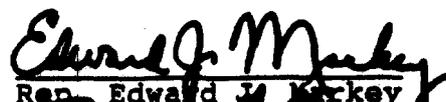
Sincerely,


 Ernest F. Hollings

 Sen. Daniel K. Inouye

 Sen. Slade Gorton


 Sen. John C. Danforth


 Rep. Edward J. Markey

 Rep. John Dingell



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INFORMATION
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Smith

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- The Science Fiction Channel, which features the best of science fiction, fantasy, classic horror, and science fact programming, 24 hours a day, was added to our program line-up in September.
- The Cartoon Network, added in October, is the world's first channel devoted exclusively to cartoons. Everyone's favorite characters are featured, including Bugs Bunny, the Flintstones, Yogi Bear, and Johnny Quest.
- Digital Music Express (DMX), introduced in November, is an optional revolutionary new audio service that connects to your home stereo. DMX provides 30 different channels of pure CD quality music all day and without commercials or D.J.s. A hand held remote control, which is included with the service, identifies each musical selection, the artist, and the album.
- Encore, an optional service featuring uncut and commercial-free movies from the 60s, 70s, and 80s premiered in June.
- Great Value Packages were introduced in June, offering new money saving prices for popular premium television services.
- WGN Television, featuring Michael Jordan and the Chicago Bulls, the Chicago Cubs, the White Sox, and many classic movies and sitcoms was offered to customers in January.
- Comedy Central, also added in January, features 24 hours of stand-up comedians, popular sitcoms, political satire, and specials all created to make you laugh.
- Great Value Coupons, which were first sent to you in October, will arrive periodically with your statement. These valuable discount coupons are exclusive to CTM cable customers and provide you with terrific savings at wonderful metro area retailers.

CTM has also experienced changes in its cost of providing your cable service. In January, 1993, CTM will be making some adjustments to its pricing schedule and policies.

So that we may better serve our customers, beginning January, 1993, CTM will begin refunding the converter deposit collected at the time of your service installation. This deposit, \$25 for each converter in your home, will be returned to you over the next twelve months as a \$2.50 per month billing credit on your January and February statements and a \$2 per month credit thereafter through 1993.**

Also, effective with your January, 1993 billing, the full service (Basic, Limited, Preferred), to which you subscribe, will be \$26.45* per month. This is an increase of \$2*. However, due to the converter deposit refund, if you have at least one CTM converter deposit, your total monthly payment will not change. If you have more than one CTM converter, the amount of your monthly payment will actually decrease.

The monthly charges for all other CTM services, such as our popular premium channels like Home Box Office, Showtime and Pay-Per-View movies will be maintained at their current levels. A detail of CTM's prices, as well as the program channels available on each level of service provided by CTM, are included with this announcement. Your January statement will automatically be adjusted to reflect the changes described.

If you have any questions at all, please contact our Customer Service Representatives at 424-4400. Our Representatives are available to talk with you any time, day or night.

Thank you for your continued subscription to CTM. We consider it a privilege to bring you the finest cable television service and we pledge our continuing efforts to make your service as enjoyable as possible.

* All prices are exclusive of the 5% local government franchise fee and the 1.5% local government access programming fee.

** All subscribers with a converter deposit on record with CTM are eligible for the deposit refund.

SERVICE OPTIONS: AT-A-GLANCE

BASIC SERVICE - \$10.00*

WMAR-2
WRC-4
WTTG-5
WJLA-7
WUSA-9
WBAL-11
WJZ-13
WDCA-20
WMPT-22
WETA-26
WHMM-32

WBFF-45
WFTY-50
WGN - Chicago
The Learning Channel
WTBS - Atlanta
C-SPAN
WAW (Univision)
The Montgomery Channel
Montgomery College
International Channel

Mont. Co. Public Schools
City of Rockville
City of Takoma Park
Mont. Co. Government
Local Weather Radar
Public Schools TV
Univ. of Md.-College Park
Univ. of Md.-Univ. College
The Oper Channel
NewsChannel 8
Basic Service...\$10.00*

LIMITED SERVICE - \$13.45*

Sci-Fi Channel
Cartoon Network
MTV
The Family Channel
The Discovery Channel
Arts & Entertainment
Headline News
Nickelodeon

BET
CNBC
E! Entertainment Television
Court TV
QVC (shopping)
The Nashville Network
VH-1
The Weather Channel

Lifetime
The Interfaith Channel
The Learning Channel
C-SPAN II
Cable Plus Preview
Cable Plus pay-per-view
and premium channel
accessibility

Basic and Limited Service...\$23.45*

PREFERRED SERVICE - \$3.00*

ESPN
USA Network

Cable News Network
American Movie Classics

TNT
Comedy Central

Basic, Limited, and Preferred Service...\$26.45*

NOTE: There is a \$25* change of service charge for existing customers.

You must have Basic Service to receive Limited; you must have Basic and Limited to receive Preferred.