

20554. Comments and reply comments will be available for public inspection during regular business hours in the FCC Reference Center, Room 239, Federal Communications Commission, 1919 M Street N.W., Washington D.C. 20554.

## **XI. Ordering Clauses**

102. Accordingly, IT IS ORDERED that, pursuant to Sections 4(i), 4(j), 303(r), 612(c) and 623 of the Communications Act of 1934, 47 U.S.C. §§ 154 (i), 154 (j), 303(r), 532 (c), 542(c), and 543, NOTICE IS HEREBY GIVEN of proposed amendments to Part 76, in accordance with the proposals, discussions, and statement of issues in this Notice of Proposed Rulemaking, and that COMMENT IS SOUGHT regarding such proposals, discussion, and statement of issues.

103. IT IS FURTHER ORDERED that, the Secretary shall send a copy of this Notice of Proposed Rulemaking and Order to the Chief Counsel for Advocacy of the Small Business Administration in accordance with paragraph 603(a) of the Regulatory Flexibility Act. Pub. L. No. 96-354, 94 Stat. 1164, 5 U.S.C. §§ 601 et seq. (1981).

104. IT IS FURTHER ORDERED that, AUTHORITY IS DELEGATED to the Chief, Mass Media Bureau to conduct cost studies in conjunction with this proceeding, as described in paragraph 80.

FEDERAL COMMUNICATIONS COMMISSION

*William F. Caton*  
William F. Caton  
Acting Secretary

## **Appendix A**

Part 76 of the Commission's rules is amended to add a new Subpart P -- Accounting and Cost Allocation Requirements to read as follows:

### **Subpart P -- Accounting and Cost Allocation Requirements**

#### **76.1100 General Accounting Requirement**

For the purposes of providing accounting and costing data to the Commission and for making cost showings before this Commission, cable operators shall maintain their accounts in accordance with generally accepted accounting principles except as otherwise directed by the Commission.

Each cable operator shall also maintain accounts in a manner that will enable it to aggregate investments, expenses and revenues into categories and to make other disclosures as specified below:

#### **INCOME STATEMENT ITEMS**

##### **A. REVENUES**

1. Basic Tier Subscription Fees
2. Regulated Cable Programming Services Revenues
3. Other Cable Programming Services:
  - a. Premium Channel Revenues
  - b. Pay-per-View Revenues
  - c. Other Cable Programming Services Revenues
4. Advertising Revenues
5. Leased Commercial Access Activities
  - a. Leased Access Revenues
  - b. Billing and Collection Services Revenues
  - c. Other Leased Commercial Access Activities Revenues
6. Customer Premises Activities:
  - a. Service Installation Revenues
  - b. Equipment Sales Revenues
  - c. Equipment Lease Revenues
  - d. Equipment Installation, Maintenance, & Repair
7. Other Operating Revenues

##### **B. OPERATING EXPENSES**

8. Technical (Operation and Maintenance of Cable System) Expenses
  - a. Salaries, Wages, and Benefits
  - b. Other
9. Programming Expenses
  - a. Salaries, Wages, and Benefits
  - b. Copyright Fees and Other Cost of Programming

- c. Pay-per-View Fees
- d. Other
- 10. Marketing Expenses
  - a. Salaries, Wages, and Benefits
  - b. Other
- 11. General and Administrative Expenses
  - a. Salaries, Wages, and Benefits
  - b. Franchise Levies (Fees, Taxes, and Other Obligations)
  - c. Other

**C. DEPRECIATION AND AMORTIZATION**

- 12. Depreciation Expense
- 13. Amortization Expense
  - a. Goodwill Amortization
  - b. Other Amortization

**BALANCE SHEET INFORMATION**

**A. CURRENT ASSETS**

- 14. Cash
- 15. Accounts Receivable
- 16. Inventories (Equipment Held for Sale to Customers)
- 17. Other Current Assets

**B. FIXED ASSETS**

- 18. Land and Buildings
- 19. Headend
- 20. Trunk and Distribution System
- 21. Subscriber Devices
- 22. Program Origination Equipment
- 23. Construction and Maintenance Vehicles and Equipment
- 24. Construction Work in Progress
- 25. Other Fixed Assets
- 26. Accumulated Depreciation

**C. OTHER ASSETS**

- 27. Investments
- 28. Deferred System Development and Franchise Costs
- 29. Goodwill
- 30. Other Intangibles and Deferred Items
- 31. Accumulated Amortization

**D. CURRENT LIABILITIES**

- 32. Accounts Payable
- 33. Loans Payable
- 34. Customer Deposits

35. Other Current Liabilities

**E. LONG TERM LIABILITIES**

36. Funded Debt

37. Obligations under Capital Leases

38. Other Long Term Liabilities and Deferred Credits

**F. OWNER'S EQUITY**

39. Paid-in Capital

40. Retained Earnings (Accumulated Losses)

**SUPPLEMENTAL ACCOUNTING INFORMATION**

Supplemental disclosure shall be made of critical accounting policies. Such disclosure shall include a description of depreciation and amortization practices and other such practices as specified by the Commission.

**76.1101 Recoverable Costs**

Costs recoverable for cable services regulated by this Commission shall include operating expenses, and depreciation, amortization, return and taxes on the allowable rate base. The allowable rate base shall include, except as limited by the Commission, the average annual investment in the following:

Net Working Capital (Current Assets - Current Liabilities)

Fixed Assets (Net of Accumulated Depreciation):

Land and buildings

Headend

Trunk and Distribution System

Subscriber Devices

Program Origination Equipment

Construction and Maintenance Vehicles and Equipment

Construction Work in Progress

Other Fixed Assets

Other Assets (Net of Accumulated Amortization):

Deferred System Development and Franchise Costs

Goodwill

Other Intangibles and Deferred Items

**76.1102 Service Cost Categories**

If a cost of service showing is to be made for any cable service, the cable operator shall establish service cost categories to aggregate costs on the basis of the services they are incurred to provided. The cable operator shall provide sufficient detail to demonstrate compliance with Commission regulations in the assignment of costs to the specified service cost categories and

shall establish a sufficient audit trail to allow verification of cost assignments against the company's accounting records. In each operating unit at each organizational level that costs are identified, they shall be directly assigned to the service cost category if possible. Common costs shall be allocated to service cost categories in accordance with the allocation procedures in §76.924(f), Common Costs. Costs accumulated in service cost categories at any organizational level shall be allocated to lower organizational levels on the basis of number of subscribers.

The following service cost categories shall be established for such a cost of service showing:

(a) Basic Service Tier Activities

A Basic Service Tier Activities Category shall be established and shall include only recoverable amounts as defined in §76.1101 of this subpart. This category shall include the direct material and labor costs plus the indirect costs associated with the provision of the basic service tier to customers (basic cable service). In addition, marketing, and general and administrative overhead costs for basic cable service activities shall be included in this category. Costs associated with advertising on basic service tier channels are also includible in this category. All common costs assignable to the Basic Service Tier Activities Category, including marketing, and general, and administrative overheads, shall be determined by the methodology specified in §76.924(f) of the Commission's rules. Local franchising taxes and obligations may not be aggregated at organizational or operating levels higher than the franchise level. Such costs may be identified at the franchise level and appropriate amounts assigned to this service cost category at the franchise level only.

(b) Cable Programming Services Activities

A Cable Programming Services Activities Category shall be established and shall include only recoverable amounts as defined in §76.1101 of this subpart. This category shall include the direct material and labor costs plus the indirect costs associated with the provision of cable programming service. This category may not include Equipment Basket costs. Marketing, and general and administrative overhead costs for cable programming services activities shall be included in this category. Costs associated with advertising on the cable programming channels are also includible in this category. All common costs assignable to the Cable Programming Services Activities Category, including marketing, and general and administrative overheads, shall be determined by the methodology specified in §76.924(f) of the Commission's rules. Local franchising taxes and obligations may not be aggregated at organizational or operating levels higher than the franchise level. Such costs may be identified at the franchise

level and appropriate amounts assigned to this service cost category at the franchise level only.

(c) Other Cable Programming Services Activities

An Other Cable Programming Services Activities Category shall be established. This category shall include the direct material and labor costs plus the indirect costs associated with the provision of any cable service other than basic cable service and cable programming service, such as, per-channel or per-program premium services. In addition, marketing, and general and administrative overhead costs, as well as local franchising taxes and obligations, for such other cable programming services activities shall be included in this category. Costs associated with advertising on the other cable programming channels are also includible in this category. All common costs assignable to the Other Cable Programming Services Activities Category, including, marketing, and general and administrative overheads, shall be determined by the methodology specified in §76.924(f) of the Commission's rules.

(e) Other Cable Activities

An Other Cable Activities Category shall be established. This category shall include the direct material and labor costs and the indirect costs associated with any cable activities not assignable to the Basic Service Tier Activities, the Cable Programming Services Activities, the Other Cable Programming Services Activities, and the Equipment Basket categories, such as, leased commercial access services, billing and collection services provided to leased commercial access customers, studio and equipment engineering and rental services, sale of equipment, and maintenance and repair of equipment sold to customers. In addition, marketing, and general and administrative overhead costs for such other cable activities, as well as local franchising taxes and obligations, shall be included in this category. All common costs assignable to the Other Cable Activities Category, including marketing, and general and administrative overheads, shall be determined by the methodology specified in §76.924(f) of the Commission's rules.

(f) Non-Cable Activities

A Non-cable Activities Category shall be established. This category shall include direct material and labor costs and the indirect costs associated with non-cable activities performed by the cable services entity. In addition, marketing, and general and administrative overhead costs for such non-cable activities shall be included in this category. All common costs assignable to the Non-cable Activities category, including marketing, and general and administrative overheads, shall be determined by the methodology specified in §76.924(f).

APPENDIX B

FEDERAL COMMUNICATIONS COMMISSION

ANNUAL REPORT OF CABLE TELEVISION SYSTEMS

FINANCIAL UNIT DATA

FCC FORM 326, SCHEDULE 1

This is Schedule 1 of YOUR FCC FORM 326. It must be completed and/or corrected and returned to the Commission with Schedules 2 through 5. If the communities listed do not reflect your present consolidation, add or delete as necessary. If the pay cable fee is a "per program", rather than "per month" charge, attach a rate schedule. Include cents with all fee data.

PREVIOUSLY FILED:

SYSTEM COMMUNITIES COMPRISING THIS FINANCIAL UNIT

IDENT

NAME

TYPE

OPERATIONAL STATUS

INSTALLATION FEE

SUBSCRIBER FEE

MONTHLY PAY CABLE FEE

**SCHEDULE 2**

**CABLE TELEVISION REVENUES AND EXPENSES**

FOR PERIOD BEGINNING: 19| | mo| | | day| | | ending: 19| | | mo| | | day| | |

Line No.	ITEM	AMOUNT (OMIT CENTS)
	<b>OPERATING REVENUES</b>	
1	Installation Revenue	
2	Regular Subscriber Revenue	
3	Pay-Program or Pay Channel Gross Revenue (Pay Television)	
4	Advertising Revenue	
5	Special Service Revenue	
6	Other Revenue	
7	<b>Total Operating Revenues</b>	
	<b>OPERATING EXPENSES</b>	
	<b>SERVICE EXPENSES:</b>	
8	Salaries, Wages, and Employee Benefits	
9	Pole Rentals	
10	Duct Rentals	
11	Private Microwave Service (PMS)	
12	Common Carrier Microwave Service	
	<b>Total Tariff (Leaseback) Charges (Applies only to Systems receiving telephone company channel service.)</b>	
13	All Other Service Expenses	
14	<b>PAYMENTS TO BUY CABLE PROGRAM SUPPLIES</b>	
	<b>ORIGINATION EXPENSES:</b>	
15	Salaries, Wages, and Employee Benefits	
16	All Other Origination Expenses	
	<b>SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES:</b>	
17	Salaries, Wages, and Employee Benefits	
18	Franchise Fees	
19	Copyright Fees	
20	All Other Selling, General, and Administrative Expenses	
21	<b>TOTAL OPERATING EXPENSES</b>	
22	<b>TOTAL OPERATING INCOME</b>	
	<b>DEPRECIATION AND AMORTIZATION</b>	
23	Depreciation	
24	Amortization	
	<b>OTHER INCOME AND EXPENSES</b>	
	<b>OTHER INCOME</b>	
25	Total Other Income	
	<b>OTHER EXPENSES:</b>	
26	Interest	
27	Miscellaneous	
28	<b>TOTAL OTHER INCOME (OR LOSS)</b>	
29	<b>EXTRAORDINARY ITEMS</b>	
30		

31	<b>TOTAL INCOME (OR LOSS) BEFORE TAXES</b>																			
	<b>TOTAL ASSETS:</b>																			
32	To be entered only for those systems (fewer than 1,000 subscribers) exempted from filing schedule 3.																			

**SCHEDULE 3 BALANCE SHEET INFORMATION**

Line No.	ITEM																			
	<b>ASSETS</b>																			
	<b>CURRENT ASSETS:</b>																			
1	Cash																			
2	Accounts Receivable																			
3	Other Current Assets																			
4	<b>Total Current Assets</b>																			
	<b>FIXED ASSETS:</b>																			
5	Land and Buildings																			
6	Goodwill																			
7	Trunk and Distribution System																			
8	Subscriber Devices																			
9	Program Origination Equipment																			
10	Construction Work in Progress																			
11	Other Fixed Assets																			
12	Plant Adjustment																			
13	Less: Accumulated Depreciation																			
14	<b>Total Fixed Assets</b>																			
	<b>OTHER ASSETS:</b>																			
15	Other Assets																			
16	Less: Accumulated Amortization																			
17	<b>Total Other Assets</b>																			
18	<b>TOTAL ASSETS</b>																			
	<b>LIABILITIES</b>																			
	<b>CURRENT LIABILITIES:</b>																			
19	Loans Payable																			
20	Accounts Payable																			
21	Other Current Liabilities																			
22	<b>Total Current Liabilities</b>																			
	<b>DEFERRED CREDITS:</b>																			
23	<b>Total Deferred Credits</b>																			
	<b>LONG TERM DEBT:</b>																			
24	<b>Total Long Term Debt</b>																			
	<b>OWNER'S EQUITY:</b>																			
25	Total Stock Issued																			
26	Operator's Equity																			
27	Retained Earnings																			
28	Other Owner's Equity																			
29	<b>Total Owner's Equity</b>																			
30	<b>TOTAL LIABILITY AND OWNER'S EQUITY</b>																			
	<b>CHECK METHOD OF DEPRECIATION USED</b>																			

(1) Straight line (2) Declining Balance

31 (3) Double Declining Balance

(4) Sum-of-the-Year-Digits  
(5) Other

SCHEDULE 4		SCHEDULE 4			
PART A		Amortiza- tion method in year	Amortiza- tion method used (code)	Amount capitalized during yr.	Amount amortized during yr.
1.	Deferred System Development Costs			\$	\$
2.	Franchise Costs (recorded as assets)			\$	\$
3.	Goodwill			\$	\$
COMB		(1) Straight line (2) Declining balance	(3) Double declining balance (4) Sum-of-the-year Digits	(5) Other	
PART B		Total Capitalized	Amort. capitalized During year	Useful Life years	
4.	Capitalized Interest on System Construction	\$	\$	\$	
PART C		Total Amt. of Asset	Amount NOT Being Amortized	Amount Being Amortized	
5.	Deferred Sys. Development costs	\$	\$	\$	
6.	Franchise Costs (recorded as assets)	\$	\$	\$	
7.	Goodwill	\$	\$	\$	
PART D		Total Amt. of Allocated Costs	Method Used To Allocate Costs To System Code		
8.	Overhead Costs Allocated To System	\$	\$	\$	
PART E		Amount			
9.	Original Cost of Fixed Assets (Seller's Book Value)	\$			
10.	Portion of Purchase Price Allocated to Seller's Book Value	\$			
11.	Recorded Cost of Fixed Assets by Purchaser	\$			
PART F		Fixed asset classifica- tion	Useful Life Years	Amount	Useful Life Years
12.	Estimated Useful Lives of Fixed Assets			\$	\$
				\$	\$
				\$	\$
				\$	\$
PART G		Amount Number of Persons			
13.	Salaries to Owners	\$			
14.	Other Direct Payment Included in Total	Total Asset Type			
15.	Expense Payments to Spouse or Relatives	\$			

16. Expense Payments to Spouse or Relative \$ | | | |

TYPE | (1) Rent - (3) Payment for equipment (5) Travel & Entertainment  
 | (2) Payments for services (4) Payments for supplies (6) Other

**SCHEDULE 5** **EMPLOYMENT**  
 Indicate the number of employees for the work \_\_\_\_\_ NUMBER OF EMPLOYEES  
 week in which the last day of the \_\_\_\_\_  
 Fiscal Year fell. | FULL TIME | | | | |  
| PART TIME | | | | |

**CERTIFICATION**

THIS REPORT MUST BE CERTIFIED BY THE INDIVIDUAL OWNING THE REPORTING CABLE TELEVISION SYSTEM. IF INDIVIDUALLY OWNED, BY A PARTNERSHIP; BY AN OFFICER OF THE CORPORATION, IF A CORPORATION; OR BY A REPRESENTATIVE HOLDING POWER OF ATTORNEY IN A CASE OF PHYSICAL DISABILITY OF AN INDIVIDUAL OWNER OR HIS/HER ABSENCE FROM THE UNITED STATES.

I CERTIFY THAT I HAVE EXAMINED THIS REPORT, AND THAT ALL STATEMENTS OF FACT CONTAINED THEREIN ARE TRUE, COMPLETE, AND CORRECT TO THE BEST OF MY KNOWLEDGE, INFORMATION, AND BELIEF, AND ARE MADE IN GOOD FAITH.

SIGNATURE \_\_\_\_\_

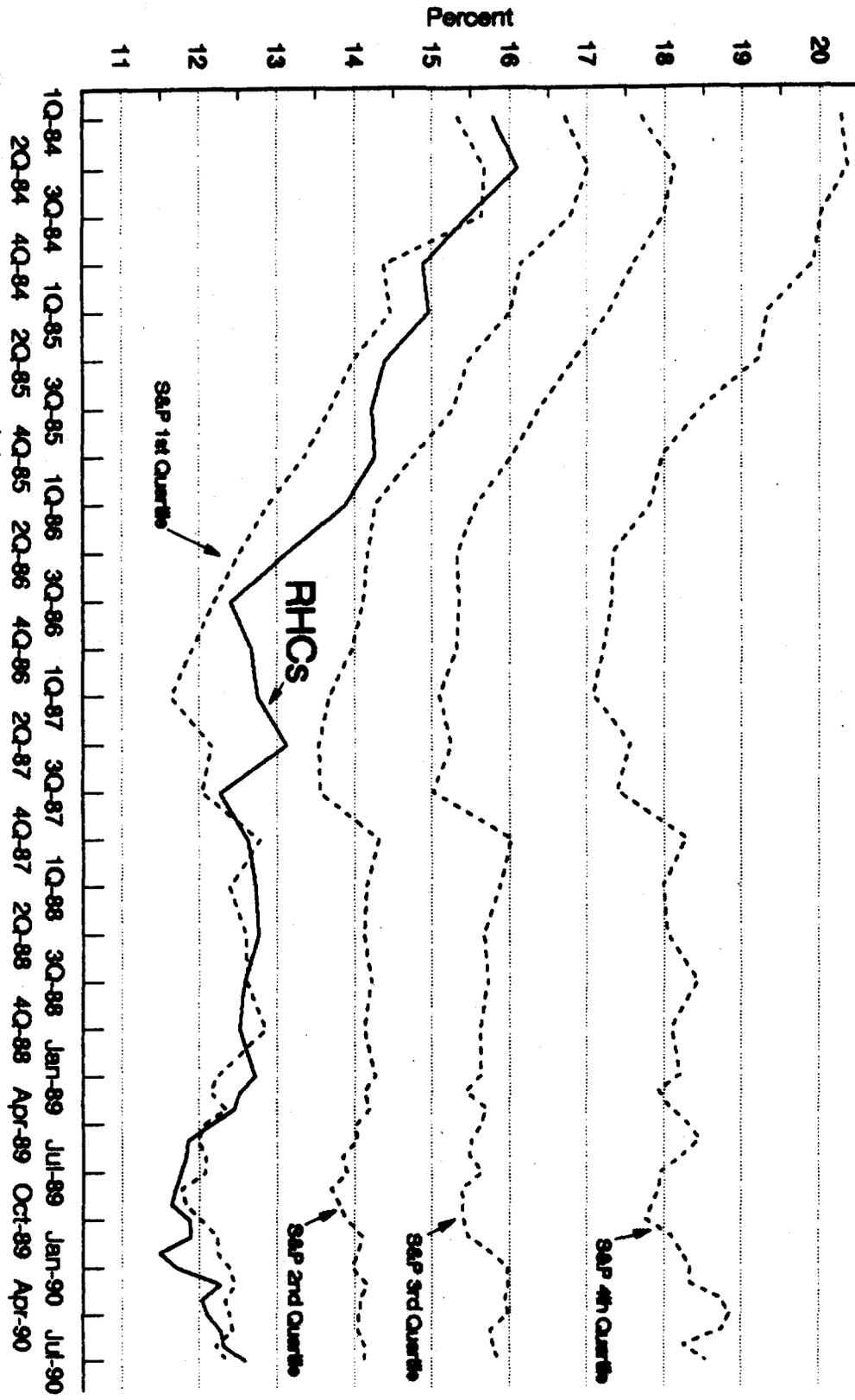
PRINTED NAME OF PERSON SIGNING \_\_\_\_\_ DATE \_\_\_\_\_

LEGAL NAME OF RESPONDENT \_\_\_\_\_

RESPONDENT'S | street address  
 ADDRESS |  
 | city | state | DATE

APPENDIX C

**S&P 400 Est. DCF Cost of Equity by Quartile  
Estimated Cost of Equity for the RHCS**



Note: The period 1984 through 1988 are quarterly  
DCFs, Jan-89 to Jul-90 are monthly DCFs.

**SEPARATE STATEMENT**

**OF**

**COMMISSIONER ANDREW C. BARRETT**

**RE: Implementation of the Cable Television Consumer Protection and Competition Act of 1992 -- Rate Regulation (Cost-of-Service)**

In this Notice of Proposed Rulemaking ("Notice"), the Commission proposes regulatory requirements to govern cost-of-service showings submitted by cable operators seeking to justify rates above the levels determined under the benchmark and price cap mechanisms as the primary method of regulating cable rates.

The Report and Order on cable rate regulation adopted a benchmark comparison as an initial means of determining rates for regulated services, as well as a price cap that will permit annual adjustments for inflation and a recovery of external costs, including programming costs, costs of franchise requirements, taxes and franchise fees.<sup>1</sup> The Commission adopted these mechanisms after evaluating the advantages and disadvantages of cost-of-service regulation, including increased the administrative burdens that such a process could impose on cable operators and regulators. At the same time, however, the Commission was concerned that the regulatory framework of the benchmark and price caps might not permit certain cable operators to recover the costs of providing regulated cable service. Therefore, the Report and Order provided an opportunity for cable operators to justify rates above benchmark or capped levels based on costs.

This Notice tentatively concludes that the Commission's regulatory requirements for determining cost-based rates should reflect a balancing of the interests of cable operators and consumers that is fair and reasonable to both. The item also: (1) states that the development of an "advanced telecommunications infrastructure" is an important public interest goal, and that cost-based rates should also be designed to ensure that cable operators can respond to incentives to provide a modern infrastructure; (2) asks whether the cost-of-service standards should follow the same goals as the benchmark, which is to yield rates that are closer to competitive levels; and (3) states tentative conclusions favoring a cost-of-service process that is tier-neutral, pragmatic in reducing administrative burdens, while still permitting cable operators to recover reasonable costs of providing service in high cost areas. Accordingly, starting from several "traditional" concepts of cost-

---

<sup>1</sup> See Report and Order and Further Notice of Proposed Rulemaking, MM Docket No. 92-266, FCC 93-177, 58 FR 29736 (May 21, 1993).

based regulation, the item discusses a number of cost-of-service standards that would limit a cable operator's opportunity to recover costs through the rate charged to subscribers.

I write separately to express my concern that in evaluating the comments that result from the Notice, it is essential to view the goals of the cost-of-service process in the context of the overall rate regulation proceeding, with special attention to the questions that must be resolved on reconsideration of the benchmark mechanism. Particularly, I am concerned that certain unintended consequences could result from establishing a cost-based standard that would unduly force cable operators to rely on the benchmark, or would not adequately consider the unique cost aspects associated with small or rural systems, system expansions, or where regional cost differences are relevant. Given the substantial questions regarding the benchmark raised on reconsideration, I believe that this Notice, and the Commission's path in regulating cable rates, should allow sufficient flexibility to yield a cost-of-service process that could conceivably withstand the administrative and conceptual pressure of significant use by operators to the extent that the benchmark issues are not resolved. Thus, while the stated goals of this Notice appear relatively balanced, especially with respect to its emphasis on the infrastructure development, I am concerned that the specific cost-of-service standards lead to a similarly balanced and responsible result.

Furthermore, the item should explicitly consider the impact of a system's cost structure on its cash flow in addition to the final price to consumers. This issue will become important in addressing the potential unintended consequences that the rate regulation mechanism could impose on small and medium-sized operators. For instance, in addition to the subscriber revenue, systems may have historically sought to augment cash flow through equipment, pay-per-view, and advertising streams. I am aware that as the number of subscribers decreases, the rate mechanism becomes more critical to a system's cash flow, such that small systems may require some flexibility and different levels of accountability for their practices, in order to enable them to meet their existing obligations and facilitate investment.

With these concerns in mind, I especially am interested in the level of debt, or "excess acquisition" costs that will become recoverable through this process. Regarding the treatment of capitalization, and the relationship between a firm's debt payments and demonstrable cash flow, I am also interested in the level of discretion certain firms may have in their cost structure in meeting capital expenses. This aspect is critical to the extent that many operators fail to demonstrate a profit due to substantial debt payments, thereby requiring a distinction between those systems with exceptional debt burdens as opposed to those systems that have chosen to expedite payments for tax purposes. The treatment of capitalization is also likely to become especially important to small operators, that may demonstrate both high debt and systematically higher rates, and may require some greater

flexibility in order to maintain financing agreements with lenders.

Finally, I am mindful of the need to establish a suitable range for a rate of return for providing regulated cable service. I greatly appreciate the attention that my colleagues have paid to this aspect of the cost-of-service proceeding, because the rate of return will become critical to the ability of firms in the industry to meet their existing financial obligations, as well as to allow for investment toward infrastructure development. Given that the regulated environment in the telephone industry reflects a rate of return standard at 11.25%, I believe that the range between approximately 10% and 14% as proposed in the Notice is appropriate at this time.