There is little danger that adoption of this franchise area-based definition will result in a windfall to large MSOs. It is the large franchise areas, not the small ones, that will drive rates for large system operators. For example, if a large MSO system serving a metropolitan franchise area with 30,000 subscribers also serves a neighboring franchise area with 900 subscribers, it would not be practical for the large MSO to adopt different rate strategies for the two franchise areas to take advantage of small system relief. Its rates will be dictated by the larger franchise area, where rate rules will likely be more rigorous.

On the other hand, if a small system MSO operates in a franchise area with 600 subscribers, and it has the opportunity to purchase a nearby system in a franchise area with 500 subscribers, the acquisition would be far less attractive if it would trigger a whole new level of rate regulation. The subscribers in both franchise areas then would stand to lose the benefits of the more efficient operation of these two small systems from a single headend and a single office. This same disincentive would exist for line extensions into different franchise areas or interconnection of neighboring systems owned by a single operator. On the other hand, if the 1,000-subscriber limit were determined based on the franchise area rather than the integrated system, there would not be

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[Footnote continued]

technically and economically efficient companies. NTCA Comments filed August 25, 1993, at 4.

an incentive to limit line extensions into neighboring franchise areas for fear of exceeding the 1,000 subscriber limit.

VI. THE DEFINITION OF "SMALL SYSTEM" SHOULD NOT DEPEND UPON THE NUMBER OF SUBSCRIBERS SERVED BY A SMALL SYSTEM MSO

As discussed above, the future of the cable television industry is interconnection and consolidation. To obtain the capital base necessary to justify expansion of the high quality programming choices for viewers in rural areas, and to provide other options such as interactivity to outlying areas, it will be necessary to interconnect many small systems. With interconnection, it is likely that there will be continued consolidation of ownership of cable systems. The Coalition urges the Commission not to artificially interrupt this trend toward consolidation -- and improved service -- by imposing an artificial cap on the number of subscribers that a "small system" MSO may serve. It is imperative that cable systems continue to expand their service offerings, while at the same time improving efficiency through interconnection and consolidation, to be able to compete effectively with DBS.

The benefit of any subscriber cap would be wholly illusory. It is true that without a subscriber cap, larger MSOs would technically qualify as "small systems" in franchise areas where they serve less than 1,000 subscribers. But, this represents such an insignificant portion of their operations that the treatment of these systems as "small systems" will have no meaningful impact. In addition, where large MSOs have a franchise area with less than 1,000 subscribers, in most cases the franchise area is part of a technically integrated system where the rates would be disciplined by a larger franchise area in the system. It would be completely impractical for these operators to establish different rate structures for franchise areas within a single, integrated system to take advantage of any "small system" relief from administrative burdens. In any event, the benefit that a large MSO could eke out of any special treatment for "small systems" would pale in comparison to the harm that would be created by artificial limits restricting natural expansion and consolidation. In short, the danger that is posed by the imposition of a subscriber cap on "small system" MSOs far outweighs any benefit of such a cap.

CONCLUSION

After deregulation in the mid-to-late '80s, a number of companies went into the business of bringing cable television to sparsely populated, rural areas that previously had not been served. These companies were able to provide this service in part because deregulation had made it economically feasible to do so and in part because they were able to operate efficiently with one central headquarters office servicing multiple small systems covering a wide geographic territory. Even with the centralized operation, which is necessary to enable these companies to continue to provide high-quality programming to low density areas, there are substantial fixed costs associated with operating multiple headends in multiple communities. And, because there is a limited subscriber base over which to spread these costs, the operating margin for these systems does not compare with that of companies serving metropolitan areas. Compounding the problems caused by high costs and limited subscriber bases is the inability of these companies to take advantage of the substantial programming discounts or the type of leverage available to the largest operators. The FCC should not punish these systems by excluding them from the definition of "small systems."

In addition to the practical reasons for retaining small system MSOs in the definition of "small systems," the FCC must weigh the policy considerations that should shape the definition. The cable television industry is already in the process of consolidating ownership and interconnecting plant in anticipation of the imminent metamorphosis of the cable industry into an interconnected information network offering universal service. The FCC must not adopt a short-sighted definition of "small systems" that will discourage any members of the industry from moving forward. Defining the 1,000-subscriber "small system" based on franchise area would not discourage interconnection, as would a definition based on the number of subscribers to an integrated system. Similarly, the imposition of a subscriber cap on those system operators eligible for "small system" relief would artificially restrict the consolidation of system ownership.

In view of the foregoing, the Coalition respectfully requests that the Commission define "small systems" as those franchise areas with less than 1,000 subscribers, regardless of ownership.

Respectfully submitted,

COALITION OF SMALL
SYSTEM OPERATORS

By Gardner F. Gillespie
Gardner F. Gillespie
Jacqueline P. Cleary

Hogan & Hartson
555 13th Street, N.W.
Washington, DC 20004-1109
202/637-5600

Attorneys for the Coalition of Small System Operators

Dated: August 31, 1993

EXHIBIT 1

NAME OF OPERATOR	TOTAL SUBS	TOTAL COMM. UNITS	TOTAL STATES SERVED	TOTAL HEADENDS	HEADENDS WITH LESS THAN 1,000 SUBS.
Douglas Communications Corp. II	103,090	494	13	437	428
Galaxy Cablevision	54,887	200	6	129	112
MW1/USA Cablesystems, Inc.	37,334	484	16	443	443
Vantage Cable Associates, L.P.	30,737	126	7	126	123
Triax Communications Corp.	326,052	1,075	16	444	361
Buford Television, Inc.	77,206	260	8	168	154
Classic Cable	29,904	78	5	73	65
Midcontinent Media, Inc.	72,502	174	4	170	162
Star Cable Associates	60,279	150	6	62	33
Leonard Communications, Inc.	61,500	226	9	125	110
Phoenix Cable, Inc.	26,900	58	8	37	25
Harman Cable Communications	32,500	29	6	22	15
ACI Management, Inc.	26,000	125	8	45	39
Frederick Cablevision	41,427	21	1	9	3
Fanch Communications/ Mission Cable Co., L.P.	189,603	514	13	306	331
MidAmerican Cablesystems, L.P.	12,173	101	5	81	80
Schurz Communiations	56,232	9	1	3	1
Rigel Communications	10,500	31	2	31	29
Horizon Cablevision, Inc.	23,347	81	1	16	6
Community Communications, Co.	12,167	35	2	28	28
Balkin Cable	6,758	10	1	29	4

FOR SYSTEMS WITH FEWER THAN 1,000 SUBSCRIBERS

NAME OF OPERATOR	AVERAGE SUBS.	AVERAGE HOMES PASSED PER MILE	AVERAGE MILES PLANT	AVERAGE ACTIVATED CHANNELS	AVERAGE SUBS. PER MILE
Douglas Comm. Corp. II	191	40	8	16	24
Galaxy Cablevision	396	37	19	28	20
MW1/USA Cable Systems, Inc.	84	29	7	21	12
Vantage Cable Associates, L.P.	221	45	7.23	21	30
Triax Comm. Corp.	364	39	15	22	25
Buford Television, Inc.	322	24	29	24	11
Classic Cable	331	51	10	25	39
Midcontinent Media, Inc.	240	57	5.85	16	41
Star Cable Associates	429	28	32	26	13.4
Leonard Comm., Inc.	252	40	9.6	19.9	26
Phoenix Cable, Inc.	313	24.4	24.6	18	12.7
Harman Cable Communications	410	47	8.8	21	46.9
ACI Management, Inc.	426	21.3	42.3	25	10
Frederick Cablevision, Inc.	511	33.5	22.3	40	32.9
Fanch Communications, Inc./Mission Cable Co., L.P.	462	40.44	10.64	28	24.1
MidAmerican Cablesystems Limited Partnership	150	49	6.2	19.4	24.2
Schurz Communications, Inc.	440	55	8	30	55
Rigel Communications, Inc.	275	15	5	18	10.5
Horizon Cablevision, Inc.	507	34	26	32	20
Community Communications Co.	217	27.2	20.2	15	17
Balkin Cable	550	49	22	37	25

EXHIBIT 2

United States Senate

WASHINGTON, D.C. 20510
March 5, 1993

Mr. James H. Quello
Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, DC 20554

Dear Mr. Chairman:

As the Congressional Delegation from the state of South Dakota, we are writing relative to the implementation of the Cable Television Consumer Protection and Competition Act of 1992. When you consider the important service provided to rural areas by small cable system operators, we hope you bear in mind the particular problems of many small systems. The people of South Dakota have a special understanding of the burdens faced by small systems. Many of our constituents reside in sparsely populated areas where only small operators have been willing to offer multichannel video programming.

The rules crafted by the Commission should take into account the special danger of excessive administrative burdens on these small systems. Congress specifically recognized the danger of overburdening systems with less than 1,000 subscribers in the context of the rate regulation provisions in the 1992 Cable Act. The Commission, too, should be wary of imposing excessive administrative tasks which could stunt the growth of small systems and diminish service to rural America. There are three areas where excessive regulation of small systems is of particular concern: customer service, anti-trafficking and rate regulation.

We support the idea of customer service standards for cable systems. Nevertheless, the imposition of industry-wide standards on small systems could unfairly punish operators who have limited resources available. We therefore urge the Commission, where appropriate, to consider an exemption from Commission rules regarding certain customer service requirements for systems with fewer than 1,000 subscribers. For example, telephone answering requirements or service and installation deadlines could be unduly burdensome in situations where small systems would have great difficulty achieving the requirements without the substantial expense of purchasing equipment or hiring additional employees. Of course, franchise authorities would retain the ability to regulate all aspects of customer service practices, but we believe these decisions are best left to the local authorities who understand the special situations faced by small cable operators.

The anti-trafficking rules, and specifically the three-year holding period requirement, may also pose disproportionate problems for small systems and in some cases, could serve as a detriment to consumers. Because of their marginal operations and the economies stemming from acquiring geographically clustered systems, the Commission should consider granting systems with fewer than 1,000 subscribers a waiver of the three year holding period requirement. There is little danger that trafficking in these small systems would become widespread (especially because many franchise authorities already regulate the sale of cable systems), and application of this rule to small systems could jeopardize their continued viability.

The greatest potential threat to small systems is rate regulation that does not take into consideration the unique problem faced by small systems. We encourage the Commission to consider separate rate benchmarks for systems with fewer than 1,000 subscribers. Most importantly, the Commission should recognize that small operators have limited revenue opportunities. Small system benchmarks should not unduly restrict the few revenue streams available to small systems. The Commission should also recognize in its rules that local franchise authorities are in an advantageous position to determine whether regulation of a given system's rates is warranted. If a franchise authority decides not to seek certification to regulate rates, the Commission should take into account that decision and consider leaving those rates unregulated until such time, if any, as the franchise authority requests certification.

The valuable service provided by small operators to residents of South Dakota and throughout the country should be encouraged and regulation should be tailored so as not to adversely affect the ability of rural cable systems to extend their services to sparsely populated areas. The 1992 Cable Act provides the Commission with discretion to separately regulate small systems and, where appropriate, exempt those systems from the rules or waive the rules in order to accommodate the special circumstances in which these systems operate.

Thank you for your attention to this important matter.

Sincerely,

Tom Daschle

Larry Pressler

Tim Johnson

cc: Commissioner Sherrie P. Marshall
Commissioner Andrew C. Barnett
Commissioner Ervin S. Duggan

ALEX McMILLAN
9TH DISTRICT
NORTH CAROLINA

EXHIBIT 3

COMMITTEE ASSIGNMENT
ENERGY AND COMMERCE COMMITTEE
BUDGET COMMITTEE
REPUBLICAN LEADER'S TASK FORCE ON HEALTH
REPUBLICAN LEADER'S TASK FORCE ON THE ECONOMY

Congress of the United States
House of Representatives
Washington, DC 20515-3309

May 25, 1993

Mr. James Quello
Acting Chairman
Federal Communications Commission
1919 M Street
Washington, DC 20554

Dear Chairman Quello:

It is my understanding that the Federal Communications Commission (FCC) will soon issue a Notice of Proposed Rulemaking regarding a cost of service showing for purposes of cable rate regulation. Accordingly, I requestfully submit some particular concerns expressed by Prestige Cable TV which serves a rural area of my district.

One of the goals of the 1984 Cable Television Act was to assure that cable television penetrated rural America. As a result, in the early 1980s companies generally built cable plant only if they could pass 40-50 homes per mile (referred to as 'density'). Recently, however, density standards have been lowered to just 15-20 homes per mile. Not surprisingly, this expansion was pioneered, not by the large companies who already operated in suburban and urban areas, but by the smaller companies who incurred high capital costs per potential customer to do so.

Ironically, these large, established suburban/urban cable systems raised rates faster than the newer, smaller, and higher-cost rural systems. Congress responded with the Cable Consumer Protection Act of 1992. The FCC, however, has neglected the comparative pricing discipline of smaller companies and has developed rules that do not take into account the high costs sustained by smaller cable systems serving rural areas. The benchmark determination formulated by the FCC in no way considers density. This will create a large disincentive for smaller companies who want to serve rural America.

For purposes of illustration, let me describe two cable systems in my district. In southeast Charlotte, Time-Warner has operated a cable system since the late 1960s. The Charlotte system serves roughly 102,000 subscribers with a density estimated at 102 homes per mile, at a price of $22.50 for basic cable. In contrast, Prestige Cable has operated a system in the more rural southern Iredell County, and northern Mecklenburg County since 1982. The system serves 12,000 subscribers in areas with an average density of 37 homes per mile, at a price of $19.25 for basic cable. Although the northern

Mecklenburg/southern Iredell area is growing rapidly and may not be the perfect example of a rural area served by cable, it does underscore one of the inequities in terms of ratemaking treatment under the FCC cable regulations.

Capital costs to serve rural areas are substantially higher than the cost required in suburban/urban areas:

	Suburban/ Urban	Rural/ Small Town
Cost per Mile of Cable Plant	$19,000	$18,000
Homes per Mile	75	25
Cost per Potential	$253	$720
Fixed Plant Capital Cost per Sub @ 60% Penetration	$423	$1,200

The complaint most often heard from my rural constituents concerning cable is lack of availability, not price or poor service. Thus far, the new rate regulations will discourage companies from continuing to build in low density areas; nor will the rules permit existing operators to recoup the investment already made to provide low density cable. The 1984 Cable Act encouraged low density builds, while the 1992 law penalizes this activity.

I therefore strongly encourage you to consider the density issue in the proposed rulemaking concerning cost of service showing. I believe this consideration is vitally important toward the goal of serving rural America.

Sincerely,

Alex McMillan
Member of Congress

AM:11

EXHIBIT 4

BOB DOLE
KANSAS
141 SENATE HART BUILDING
(202) 224-6521

COMMITTEES:
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
RULES

United States Senate

WASHINGTON, DC 20510-1601

July 21, 1993

Mr. James H. Quello
Acting Chairman
Federal Communications Commission
1919 M Street Northwest
Washington, D.C. 20554

Dear Chairman Quello:

The Cable TV Act (Public Law 102-385, Sec.3(i)) grants the Commission authority to design regulations to reduce administrative burdens and cost of compliance for small systems of 1000 subscribers or less. We would like to know then why small operators are complaining that there is no such relief? We understand that similar concerns were voiced to you at the National Cable Television Association's national convention in June.

As you know, proponents of the Cable TV Act hailed it as a victory for consumers. However, rural customers will think otherwise if their cable systems are forced out of business because they could not comply with the regulations. We would appreciate your prompt attention to this matter, and look forward to reviewing your efforts to carry out this provision in good faith.

On a final note, we are concerned that you may be hearing from a limited number of Members of Congress on the implementation of the Cable TV Act and therefore you may have concluded that the rest of Congress is uninterested in your actions. Be assured that we are very interested in the Commission's activities on this issue and are available to provide you with whatever assistance or feedback you need.

Sincerely,

Bob Packwood
BOB PACKWOOD

Bob Dole
BOB DOLE

Conrad Burns
CONRAD BURNS

Ted Stevens
TED STEVENS

Larry Pressler
LARRY PRESSLER

John McCain
JOHN McCAIN

Malcolm Wallop
MALCOLM WALLOP

Trent Lott
TRENT LOTT

Richard Shelby
RICHARD SHELBY

Al Simpson
ALAN SIMPSON

Hank Brown
HANK BROWN

EXHIBIT 5

MW1/USA CABLESYSTEMS
SIGNAL CARRIAGE RULES
IMPACT ON BUSINESS

ITEM	COST PER	QUANTITY	TOTAL COST
NOTIFICATION LETTERS			
EDUCATIONAL STATIONS	$2.36	20	$47.20
COMMERCIAL STATIONS	$2.36	423	$996.28
LABOR FOR LETTERS	$960.00	1	$960.00
SOFTWARE AND SUPPLIES			
SOFTWARE	$320.00	1	$320.00
FILING CABINETS AND FOLDERS	$175.00	1	$175.00
ADDITIONAL STAFF (3 MONTHS)			
CLERICAL STAFF MEMBER	$3,800.00	1	$3,800.00
SENIOR MANAGEMENT (50%)	$7,540.00	1	$7,540.00
CUSTOMER NOTIFICATION			
INFORMATIONAL STUFFERS (4 X 38,000)	$0.05	152,000	$7,600.00
CHANNEL CHANGE MAILER	$0.30	38,000	$11,400.00
CHANNEL LINEUP	$0.26	38,000	$9,880.00
LABOR FOR NOTIFICATION	$680.00	1	$680.00
CHANNEL ADDITIONS			
ADDITIONAL CHANNELS	$1,250.00	565	$706,250.00
A/B SWITCHES (1/3 OF CUSTOMERS)			
SWITCHES AND HARDWARE	$5.00	12,540	$62,700.00
OUTSIDE LABOR (50% OF CUSTOMERS)	$5.00	6,270	$31,350.00
TOTAL CASH REQUIREMENTS			$843,700.48

ESTIMATED COST TO COMPLY WITH NEW SIGNAL CARRIAGE RULES **$843,700.48**

PER CUSTOMER	**$22.20**

EXHIBIT 6

Cost for either adding an off-air channel or for swapping one off-air carrier for another:

$420.00	Tower contract labor and expenses, consisting of 2 workers, 4 hours each at $40/worker/hour, and $100 in mileage reimbursement.
$280.00	Antenna (In virtually every instance, an existing antenna cannot be used for a replacement off-air signal.)
$150.00	Retune Processor
$150.00	Preamplifier
$50.00	Miscellaneous cable, fittings, etc.
$30.00	Internal labor to remove processor, to install an agile processor to be used temporarily while the removed processor is re-tuned, and to install the re-tuned processor. (One hour of labor plus driving time and expenses.)
$1,080.00	Total per-channel cost of adding or changing off-air channels.