term. Telephone bonds are highly rated, while most cable debt is not even considered investment grade. Telephone is an essential basic utility service, while cable is an optional entertainment service. Regulators are generally perceived as protective of LECs, whereas they are seen as hostile to cable.

In short, cable's financial, business, and regulatory risks are all far higher than the risks of investing in the telephone business. By any logic, the allowed return for cable service must also be far higher than that prescribed for the telephone industry.

B. The Rate Of Return Finding Is Based On Stale Data And Must Be Revisited Expeditiously In Light Of Changed Financial Market Conditions.

Both short and long term interest rates have risen significantly since the Commission reached its decisions in this docket.[35/] Given the prevalence of variable-rate debt and the lack of long-term financing in the cable industry, interest rate changes such as this have a greater and more rapid effect on the cost of debt for cable than would be the case for a traditional utility financed with 30 year bonds.

Because conditions have changed so rapidly, the Commission must act expeditiously to revise its cost of capital findings. In the interim, the Commission must at minimum announce immediately that all cable operators in

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35/ The prime rate has risen from 6.00% to 6.75%, while LIBOR has risen from 3.75% to 4.68%. Compare Cost of Service Order ¶ 189, citing The New York Times, Feb. 18, 1994, at D 12 with The New York Times, May 9, 1994, at D 5. Aa-rated utility bonds and long-term Treasury bonds have risen almost 100 basis points during the same time period. Id.

cost of service cases may recompute the presumptive rate of return using current, individual cost of debt information.

C. Regulation Has Increased The Risk Of Investing In Regulated Cable Television Operations.

It is apparent from the Order that the Commission believes the risks of regulated cable service to be lower than the risks of other parts of the operators' business. This may be true of the telephone industry, but it is not true for cable.

The Commission's actions have greatly increased the uncertainty, and therefore the risks, perceived by potential investors in cable. The large rate decreases imposed on reconsideration in the Rate Regulation proceeding have left investors with the indelible impression that the Commission is hostile to cable. More concretely, the Commission's proposal in the Further Notice to consider imposing a productivity adjustment that will have the effect of limiting future rate increases for regulated cable systems to less than the rate of inflation creates a strong note of uncertainty about the future for all cable systems, and raises the unsettling possibility that all will eventually be forced to resort to cost of service showings to obtain sufficient revenues to stay in business.[36/]

The Commission should take no comfort in the notion that it has saved cable television from itself by regulating it. Instead, it must acknowledge that it has greatly increased the difficulties facing this industry. It must then act

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36/ Comcast intends to address the "productivity adjustment" in detail in its comments in response to the Further Notice.

quickly to create new cost of service rules under which cable systems can justify the rates they _must_ charge if they are to survive and grow.

V. THE COMMISSION SHOULD RECONSIDER ITS DECISION TO ADOPT A UNIFORM SYSTEM OF ACCOUNTS FOR CABLE TELEVISION SYSTEMS MAKING COST OF SERVICE SHOWINGS.

The Order adopts the concept of a detailed uniform system of accounts for cable systems making cost of service showings. An actual proposal, modeled closely on Part 32 of the Commission's rules, the Uniform System of Accounts for Telephone Companies (USOA), is offered for comment in a separate rulemaking docket.

Comcast will offer its comments on the accounting proposal in the rulemaking proceeding. However, to the extent that the determination to use a uniform accounting system will not be reconsidered in that docket, Comcast asks that it be reconsidered in the instant proceeding.

It is not feasible for cable operators that are parts of larger organizations to create new accounting systems for only those systems that must use cost of service to justify rates. _All_ systems would have to be converted to the new accounts. This would be expensive and time consuming. Most of this expenditure would be wasted because, as the Commission has stated, "it is unnecessary to require uniform accounting under the benchmark/pricecap approach."[37/]

37/ Order, ¶ 218.

Moreover, the requirement that a special accounting system be used by systems in cost of service is not consistent with the manner in which rate cases arise or with the filing deadlines established by the Commission's rules. A cable system receives only 30 days notice that it is about to come under regulation either through certification of its franchising authority or through the filing of a valid complaint. It is simply not possible to adopt a new accounting system in the amount of time allotted for the filing of a cost of service case.

Comcast also believes that the Commission has vastly underestimated the task of imposing a uniform system of accounts on an industry that does not currently use uniform accounting. It took the Commission the better part of a decade to revise the telephone USOA. It is highly unlikely that a uniform accounting system for cable could be adopted and implemented in time for the cost of service cases that will arise in the first five years under regulation. The large effort on the part of both the industry and the Commission that devising this accounting system will require will most likely be undertaken in vain, because most of the cases will be decided before it is in place.

VI. CONCLUSION

For the reasons stated above, the Commission must stay or withdraw both the presumptive disallowance of preregulation investments in tangible and intangible assets of cable television systems, and the presumption that rates calculated using returns on investments above 11.25% are unreasonable. It must provide in its cost of service rules mechanisms for allowing regulated cable systems to, over time, recover and earn return on preregulation investments. It should also reconsider its decision to impose a uniform accounting system in the cable industry.

Respectfully submitted,

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