Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Amendment of the Commission's Rules	)	MB Docket No. 10-71
Related to Retransmission Consent	)	

REPLY COMMENTS OF THE KNOLOGY COMPANIES

The Knology Companies ("Knology") respectfully submit these reply comments ("Reply Comments") in response to the Notice of Proposed Rulemaking released by the Federal Communications Commission ("FCC" or "Commission") in the above referenced preceding.[1]

Knology is comprised of 14 distinct rural cable systems located throughout the United States. These cable systems vary in size with the largest system serving 39,000 cable subscribers, and the smallest system serving 144 cable subscribers. We provide advanced telecommunication products and services including a wide selection of high definition cable programming, digital simulcasts, and internet service at speeds ranging from 1 Mbps to as high as 50 Mbps, together with traditional local, long distance and VoIP telephone service. Providing our customers with excellent value is fundamental to our strategy. We are committed to bringing our customers superior products at an affordable price while providing exceptional customer care.

The programming offered by television broadcast stations is considered "must have" viewing by Knology cable customers. We cannot sustain our cable television subscriber base without offering broadcast television programming. Broadcast television

[1] *Amendment of the Commission's Rules Related to Retransmission Consent,* Notice of Proposed Rulemaking, 26 FCC Rcd 2718 ¶ 16 (2011) ("NPRM").

programming continues to be far and away the most watched programming among our customers because it provides uniquely local and timely content that is not available from any other source. From local newscasts which inform them about what is happening within their specific community to nationally televised events that have inspired annual viewer traditions such as the Super Bowl, the Academy Awards, and seasonal professional and collegiate sports, our customers rely on broadcast television programming to inform and entertain and rely on Knology to ensure that this essential programming will be available for them to view.

Because broadcast television programming is a key component of our subscribers' viewing expectations, Knology is at a considerable economic disadvantage under the current system of retransmission consent negotiations. In all our markets, our customers have a choice of cable TV providers. Accordingly, our cable TV business model has some dependence on supplying our customers with the broadcast programming that they demand. The option of "walking away" from the retransmission negotiating table is impractical. In contrast, in the current retransmission consent market broadcast stations have inappropriate and unfair negotiating power, knowing that if a small cable operator, such as Knology, refuses to pay the exorbitant rates the broadcast stations demand and thus discontinues carriage of the related broadcast programming, viewers will likely, and swiftly, abandon that cable TV operator in favor of a competitor.

The National Association of Broadcasters ("NAB") believes that "substantial changes to the existing retransmission consent rules are not warranted." Knology vehemently disagrees with this assessment and feels that the retransmission consent rules are in dire need of modification.

The NAB says they “agree with the FCC’s long-held position that it has limited authority to involve itself in retransmission consent negotiations, consistent with congressional intent to create a retransmission marketplace in which the government would not dictate the outcome of these private negotiations”. Knology is not asking for the FCC to be involved with private negotiations; however, we do contend that the FCC has the authority to ensure that the marketplace for broadcaster carriage is equally fair for both parties involved in the negotiation. We believe that this authority was established in the 1992 Cable Act under which broadcasters were first given special protections to ensure carriage of their signal in order to minimize negative consumer impact. Initially the retransmission process functioned for the mutual benefit of both cable TV operators and broadcasters - the broadcasters provided programming, and the cable operators built and operated advanced telecommunication networks to deliver that programming to customers through a higher quality signal than customers had previously received over the air. Since that time, the marketplace has shifted dramatically. Because of the increase in cable operator competition, the emergence of several dominant national cable operators, and the growth and consolidation of broadcast groups, small and mid-size operators, such as Knology, are no longer regarded by broadcasters as essential partners working with broadcasters to deliver their product to customers. Small and mid-size operators are now at a significant negotiating disadvantage, because we do not control a large enough number of subscribers in each of our markets to provide the necessary economic leverage to secure reasonable retransmission rates. As a result, we are negotiating from a fundamental position of weakness, faced with the alternative of losing the programming our customers deem among the most valuable, or raising prices to cover extortionate increases in programming costs.

The NAB states "if the Commission's goal is to reduce subscriber prices, the Commission should identify ways to promote competition among MVPDs or regulate the rates MVPDs charge consumers." Knology is a company that answered the call to provide competition among MVPDs; in many of our markets we compete against large MVPDs including Comcast, AT&T U-verse and Charter. In each of our markets our customers have a choice of cable TV operators. Unfortunately, because we compete against much larger and better funded operators, the competitive landscape has not functioned to reduce our retransmission programming costs; on the contrary, in many cases we pay much higher rates than our competitors, justified by the broadcasters because we do not have the "economies of scale" of these larger companies. We firmly object to the assertions that "[A]s the NAB has previously explained in this and other proceedings, retransmission consent fees do not drive the rates subscribers pay for MVPD service". In our experience, the NAB claim is wholly unsupportable. Programming costs, including retransmission costs, represent over a third of our cable system operating costs. The consistently increasing retransmission fees charged by broadcasters have directly triggered increases in the rates that subscribers pay for cable service. In many cases, those rate increases grossly outpace inflation. The cost of retransmission programming accounted for 50% of our rate increase the first year we had costs associated with over-the-air signals. The NAB statement that, "[E]ven today, when some broadcasters have succeeded in negotiating monetary compensation for retransmission consent, the compensation paid by MVPDs is miniscule in comparison with recent cable rate increases," is a gross simplification of the economics of our industry which blatantly disregards the current competitive landscape. Small and mid-sized cable operators such as Knology are being held hostage by broadcasters, because our customers demand that we provide broadcast programming. As Knology is forced to pay out more and more money to the broadcasters, the only possible result is Knology passing these increases on to our customers.

Knology conducted an internal review of a random sampling of our retransmission consent agreements from 2009 to 2011, demonstrating that retransmission fee increases ranged from 16% to an astronomical 49% during this time period. By comparison, non-broadcaster programming rate increases ranged from 5% to 8% during the same time period. Retransmission rate increases during this period are out of line, not only with non-broadcast programming expenses, but also with the overall performance of the U.S. and global economy. The U.S. rate of inflation during 2008 – 2010 (2011 annual information is not available yet) was only 5.15%.

Knology is under tremendous economic pressure due to the upcoming 2011-2013 retransmission consent cycle. All preliminary indications are that retransmission rates will continue to increase astronomically. In a thoroughly negotiated retransmission consent agreement just completed in late 2010, we were unable to negotiate an economically rational rate increase. Because of our negotiating disadvantage, over the course of the next three years, our retransmission rates for this multi-station broadcaster will increase by 49% over the rates in effect at the end of 2010. This single multi-station broadcaster accounts for 21% of our total retransmission costs today. If all of our retransmission consent rates balloon to the same levels, the impact on our business and on our customers will be catastrophic. We cannot possibly absorb these unreasonable rate increases into the cost of running our business while continuing to invest in our infrastructure. In light of the current status of the U.S. economy, our customers are unlikely to be able to absorb these rate increases in the form of higher cable bills. Our only alternative will be to pass as much of the costs on to our customers as the market will bear and then to divert resources from other areas to cover the balance. For example, in order to cover the additional retransmission costs, we may be forced to reallocate investment from other areas of our company such as broadband build outs to rural communities, something Knology feels would be a much better use of its funds than increasing broadcasters' profitability.

As mentioned earlier, Knology is not asking for the FCC to become involved in private negotiations; we simply want a fair marketplace for both parties involved in the negotiations. Knology, like every other cable operator across the country, has invested millions of dollars in both building out new cable systems and/or acquiring and improving other cable systems throughout the country without any government assistance. Cable TV has benefited broadcasters by allowing broadcasters to reach their viewers without incurring the costs associated with distribution of their signal over government provided spectrum. Our proposed solution to our unfair negotiation disadvantage: complete transparency and disclosure of retransmission consent agreements. We see no reason why our customers, who are also broadcast programming viewers, should not have complete information regarding both how much we are paying for the signal as well as other terms and conditions related to the carriage of the signal through our cable infrastructure. We believe that viewers should understand that our costs of carrying broadcast programming have no rational relationship to that same content being provided free over-the-air. With broadcasters using the public airwaves we believe that they should be held to a transparency standard so that the public can hold them accountable for the use of their spectrum. Knology strongly advocates that broadcast retransmission consent agreements should be part of the public inspection files, open to the public and the FCC. Transparency in retransmission agreements is essential to provide a level playing field, giving small and mid-sized cable operators access to critical information regarding the retransmission rates negotiated by the nationwide cable operators. Not only would transparency help make the marketplace more fair and even-handed, but it also would save time and money for both the broadcasters and the smaller cable operators, which in turn will translate into lower cable rates for the consumers.

In the NPRM, the FCC seeks comment regarding whether it should eliminate its network non-duplication and syndicated program exclusivity rules. As another solution to help make the retransmission consent process fair for all parties, Knology strongly urges the commission to eliminate the network non-duplication and syndicated program exclusivity rules, since these rules have a negative impact on the retransmission consent negotiations. In all of our markets, we face intense pressure to reach retransmission agreements with each of the broadcasters so that the subscribers can have their “must have” programming. Broadcasters know they control “must have” programming and they also know the cable company can not go outside of its Designated Market Area (“DMA”) to obtain another affiliate from the same network. Accordingly, under the current system, broadcasters have a disincentive to reach a quick and mutually beneficially agreement with a cable operator. If the cable company were allowed to go outside of its DMA to obtain the "must have" programming from another network affiliate it would provide at least the possibility of some much needed competition on the broadcaster side of the negotiating table. It also serves to bring our customers more viewing options to choose from and could possibly increase the value of their video service without dramatic increases in cost. This would create a more level playing field in the retransmission agreement leading to a better "market place" negotiation.

In conclusion, Knology's ultimate goal is to make the consumer the ultimate winner. If the retransmission consent agreements are conducted with transparency and without the network non-duplication and syndicated program exclusivity rules we can accomplish this by securing the lowest possible retransmission fees, and the lower the retransmission fees, the lower the cable bills will be for consumers. Money that Knology saves in retransmission fees can be put to use for bringing even more advanced products to enhance the value of our video service as well as further investment in broadband deployments which will help the FCC achieve their goals as laid out in the National Broadband Plan. Knology believes in conducting our business based upon the core principle of "Being honest, fair and evenhanded"; we only want the opportunity to have the environment conducive to meeting the demands of this principle.

Respectfully submitted,

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June 27, 2011