external costs until the Commission completed its study of prices and costs experienced by small operators.

The second category of systems that were provided with transition relief is systems that charge relatively low prices for regulated services. Low-price systems are defined as systems (1) whose March 31, 1994 rates were below the benchmark rate, or (2) whose March 31, 1994 rates were above their March 31, 1994 benchmark rates, but whose March 31, 1994 full reduction rates are below their March 31, 1994 benchmark rates as determined under FCC Form 1200. During the transition period, systems whose March 31, 1994 rates were below the benchmark rate had their rates capped at March 31, 1994 levels. Systems whose March 31, 1994 rates were above the benchmark, but whose full reduction rates were below the benchmark were only required to reduce their rates to, but not below, the benchmark.

The Commission stated that it would not require small cable operators and low-price systems that were provided with transition relief to make full competitive rate reductions until the Commission collected and analyzed data about such operators' prices and costs, and determined whether the competitive rate reduction was appropriate.

Systems entitled to transition relief have been permitted to increase their rates to reflect increases in external costs and a per channel adjustment when increasing the number of channels. The Commission decided not to allow such systems, however, to increase their transition rates to reflect increases in inflation until the transition rate equals their full reduction rate. The Commission determined that because the full reduction rate rises with inflation, as well as with changes in external costs and channel changes, a transition rate system's hypothetical full reduction rate may eventually exceed the transition rate. The Commission decided, therefore, that if a system's transition rate and the full reduction rate became equal, that system would be entitled to take advantage of inflation adjustments.

The Commission also stated that after it has determined whether it should require transition relief operators to reduce their rates in accordance with an appropriate competitive differential, those systems will be entitled to an aggregate inflation adjustment equal to the GNP–PI inflation adjustments for the period beginning October 1, 1992 through the most recent June 30. For those systems that have already received some inflation adjustment, because their hypothetical full reduction rate exceeded their transition rate, the Commission stated that the system will receive the net of the aggregate inflation adjustment minus any inflation adjustment already received. The Commission found that such systems will be eligible for additional inflation adjustments on an annual basis, but no earlier than September 30 of each year to reflect the final GNP–PI through June 30 of the applicable year.

## B. Discussion

On its own motion, the Commission found that low-price systems and small operators that have been provided with transition relief should no longer be prevented from adjusting their rates to reflect changes in inflation. In the Second Order on Reconsideration, 59 FR 17943 (April 15, 1994), the Commission decided to defer implementing the inflation adjustment for transition relief systems because it was not yet requiring them to reduce their rates by the competitive differential. The Commission decided that it would provide transition relief systems with the opportunity to make inflation adjustments after it developed a better picture of the price/cost profiles of these systems and determined the appropriate competitive differential for such systems. In making the decision, the Commission stated that it expected to complete the collection of cost/price data within nine months.

Because the Commission has not yet completed the collection of this data and nearly ten months have passed since the Commission released the Second Order on Reconsideration, the Commission finds that it would be unfair to further delay implementation of inflation adjustments for transition relief systems. The Commission is concerned that a further delay in permitting transition relief systems to make inflation adjustments could be particularly burdensome on small operators because many small operators may not have the financial resources to withstand the impact of not being able to make inflation adjustments.

The Commission also finds that lowprice systems should not be required to experience any further delays in implementing inflation adjustments. In the Second Order on Reconsideration, the Commission found that because their prices are significantly lower than those charged by most noncompetitive systems, low price systems may face unusual demand, costs or other influences that were not captured in the Commission's analysis. A further delay in allowing low-price systems to make inflation adjustments may, therefore, impose a substantial burden upon those operators.

Accordingly, between April 1, 1995 and August 31, 1995, cable operators that have been afforded transition relief may adjust their rates to reflect the net of a 5.21% inflation adjustment, minus any inflation adjustments they have already received. This adjustment accounts for the 3% inflation that regulated cable operators were permitted to recover for the September 30, 1992 to September 30, 1993 period, and the 2.15% inflation factor that operators were permitted to recover between October 1, 1994 and August 31, 1995 for the October 1, 1993 to June 30, 1994 period.

With one exception, however, transition relief systems will not receive the full 5.21% inflation adjustment because, under the old rules, they received an inflation adjustment from September 30, 1992 to the date they were subject to regulation for the purpose of establishing their initial rates prior to May 15, 1994. The exception is for most low price systems that had their March 31, 1994 rates above the benchmark, but their full reduction rate below the benchmark. When these systems set their rates for the period after May 15, 1994, they lost the inflation adjustment they received prior to May 15, 1994, because they were required to reduce their rates to the benchmark. Therefore, they will be permitted to adjust their rates to reflect the full 5.21% inflation factor. If, however, their actual post-May 15, 1994 rate reduction was less than their earlier inflation adjustment, they will be permitted to receive the 5.21% inflation adjustment minus the difference between their inflation adjustment and their actual post-May 15, 1994 rate reduction.

The Commission determined in the Second Order on Reconsideration that, because the full reduction rate rises with inflation, a transition rate system's hypothetical full reduction rate may eventually exceed the transition rate. The Commission decided that a transition rate system will be entitled to take an inflation adjustment once the hypothetical full reduction rate and transition rate become equal. Therefore, those transition relief systems that have already received this inflation adjustment, because their hypothetical full reduction rate exceeded their transition rate, will only be allowed to receive the net of the aggregate inflation adjustment minus any inflation adjustment already received.

With the inflation adjustment they received prior to May 15, 1994 and the inflation adjustment the Commission is