subject to regulation unless the system faces effective competition. In particular, the 1992 Cable Act directed the Commission to establish regulations designed to protect subscribers from unreasonable rates for certain types of cable services offered by such systems. Rate-regulated services consist of the basic service tier ("BST") and the cable programming services tier ("CPST").

3. Every cable operator subject to rate regulation must offer a BST that includes all local broadcast stations that the operator carries on its system, plus all public, educational, and governmental ("PEG") access channels required by the operator's franchise agreement with its local franchising authority. If it so chooses, a cable operator may offer additional programming on its BST beyond these minimum requirements. Subscribers to a rate-regulated cable system must purchase the BST in order to have access to any other tier of service. CPSTs include all non-BST programming offered over the cable system, other than programming offered to subscribers on a per channel or per program basis. There is no general requirement that an operator offer a CPST, and some operators offer no CPST. Per channel and per program offerings are generally exempt from rate regulation.

4. Congress identified several specific factors that the Commission must consider in establishing regulations governing BST and CPST rates. The Commission may take other factors into account as well. In addition, the 1992 Cable Act required that the Commission "seek to reduce administrative burdens on subscribers, cable operators, franchising authorities and the Commission" in establishing its

regulations.

5. Under the primary method of rate regulation adopted by the Commission, a regulated cable system determines the maximum permitted initial rates for cable services pursuant to a benchmark formula. In selecting a primary regulatory model, the Commission employed a benchmark formula instead of the cost-of-service methodology that is traditionally applied to public utilities because of the often significant administrative costs and burdens on regulators and regulated companies associated with cost-of-service regulation. However, operators subject to regulation do have the option of setting rates in accordance with a costof-service methodology that the Commission has developed.

6. To set or justify its initial rates in accordance with the benchmark formula, a cable operator first must use

FCC Form 1200. This form generates a maximum permitted rate as of May 15, 1994 for a particular franchise area, based upon various characteristics specific to the cable system within that franchise area. These variables include channels per tier, number of regulated non-broadcast channels per tier, number of subscribers in the local franchise area, number of tier changes, the census income level for the franchise area, number of additional outlets and remote control units in the franchise area. system-wide subscribership, whether the system is part of a multiple system operation ("MSO"), and the number of systems in the MSO. A benchmark operator may, and sometimes must, adjust the rates permitted by Form 1200 to take account of changes in inflation and other costs since May 15, 1994. Currently, the operator must use FCC Form 1210 to calculate these adjustments. As of the effective date of the Form 1240 promulgated pursuant to the recently adopted Thirteenth Order on Reconsideration, 60 FR 52106 (October 6, 1995), operators may make rate adjustments as provided by FCC Form 1240 in lieu of Form 1210. Whereas an operator can file Form 1210 as often as once per calendar quarter to adjust rates to take account of costs already incurred by the operator, Form 1240 will be filed no more than annually but will permit the operator to adjust rates based on costs to be incurred within the coming year. In addition, operators may increase rates to reflect the addition of new programming services to regulated tiers. Our rules provide two methods for adjusting rates for the addition of programming services. First, an operator can add channels to CPSTs using our original "going-forward" rules, which allow the operator to charge subscribers the cost of the additional programming plus up to an additional 7.5% markup on that cost. Second, an operator may add programming services under the Commission's more recently adopted going-forward option, which allows an operator to charge subscribers up to \$0.20 per channel for additional channels and up to a further \$0.30 in associated licensing fees. The latter going-forward rules similarly require specific decreases in subscriber rates when an operator deletes channels from its lineup, depending on when the channel in question was added.

7. Enforcement of the Commission rate regulations is divided between qualified local franchising authorities and the Commission. A local franchising authority may enforce regulation of the cable operator's BST

once the Commission has received and approved the local franchising authority's certification that it has the legal and practical ability to do so. Upon receiving notification that the franchising authority has been certified by the Commission to regulate rates, a cable operator opting for benchmark regulation must justify its existing BST rates pursuant to the benchmark formula. Once regulated, the operator also must seek local approval for future BST rate increases. The operator seeks such approvals by filing the forms described above. The operator also must justify its rates for equipment and installations associated with the BST. The franchising authority must then review the forms, may request additional information if reasonably necessary to complete its review, and ultimately issue an order approving or disapproving the rates proposed by the operator.

8. The participation by local franchising authorities in the regulation of cable service is critical. Generally, the Commission establishes federal standards and procedures concerning various aspects of cable service which local franchising authorities implement. These rules include but are not limited to subscriber rates, cable service technical standards, and customer service. Local franchising authorities are the first line of enforcement of these numerous regulations. While the Commission may be on hand, either by statute or informally, to help resolve any disputes that may arise between a cable provider and a local franchising authority, the responsibility to oversee cable service regulations falls primarily on the franchise authorities. Generally, the Commission gives significant deference to decisions by local franchising authorities. For example, where a cable operator appeals a franchising authority's rate decision, the Commission will not conduct de novo review of the decision; rather, the Commission will defer to the local authority's decision provided there is a rational basis for the decision. This process is just one example of the Commission's significant reliance upon local franchising authorities in the regulation of basic cable service. Moreover, in all but the most rare situations, local authorities administer cable service regulation without federal

9. An operator's CPST is subject to regulation directly by the Commission. Commission enforcement of CPST rate regulation is triggered by the filing of a complaint by a subscriber or franchising authority or other relevant state or local regulatory authority. Upon the filing of