Speaking out on California fight over telco desire to lay fiber optics and coaxial
cable

In a direct appeal to cable operators, GTE last week tied an end to the regulatory
class battle being waged at the FCC to prevent the
telephone company from laying fiber loops and coaxial cable through the streets of Cerritos, Calif.
With final comments to the commission
due Thursday (Dec. 10) in a major test
case that could clear the way for municipal-
ities to grant franchises to telcos, a GTE
official asked a panel session audience at the
Western Cable Show to work with, instead
of against, the phone company.

"I think it would be to our advantage and
benefit if we could perhaps pull away our
legal swords and regulatory issues and get
on with the business aspects of this," said
Tom Gillett, director of advanced operations
testing for GTE.

The California Cable Television Associ-
ation, the convention's sponsor, opposes the
GTE proposal, however.

"There are leaseback rules at the FCC
which prohibit any kind of relationship be-
tween a telephone company and... its cable
operation that goes beyond the customer-
carrier relationship," said Michael Morris,
vice president of congressional and regula-
tory affairs for the CCTA, who also ap-
ppeared on the panel regarding utilities' place
in cable. "Those rules were put there be-
cause of a concern over cross-subsidization
and those rules we feel are being violated
here."

Under the telco's plans, half of the 550
megahertz coaxial cable system would be leased to the local cable company by General Tele-
phone Co. of California, while the other half
would be leased to its parent company, GTE
Service Corp.

"Any time you have an allocation of
costs, you have a cross-subsidy potential,"
Morris said. The CCTA is concerned be-
cause GTE in its application asked to lease
250 megahertz on this system passing 10,000
homes for GTE Services Corp., which
wants to test voice, video and data systems.
The FCC wanted to know why it needs so
much capacity.

Gillett said the space is needed to exper-
iment with dial tone and video systems.

In 1984, Morris said the CCTA opposed a
similar leaseback proposal by Pacific Bell
in Palo Alto, Calif. The FCC turned down
when the application, PacBell revised its plans and the commission eventually approved the
project. It was the only modern leaseback
proposal rejected by the FCC, and Morris
said the CCTA fears approval this time
around could set a precedent.

Another important issue raised by the
CCTA was the "definite possibility" that it could severely affect the
franchise process in the future.

Beverly Hills, Calif., Mayor Benjamin
Stansbury Jr., an engineer by trade, who
appeared on the panel, lent credence to the
CCTA theory by siding with GTE's position
in the case. He said that cable companies
should lease space off a single wire from the
phone company, arguing that cable operators
have their primary focus on entertainment
product. He said cable has little interest in
providing interactive video data services as
the phone company does, and therefore the
telcos should reap the benefits of ownership.

Under the proposal GTE has submitted to
the FCC, Apollo Cablevision Co. of Cerritos
will lease cable capacity from the planned
state-of-the-art coaxial cable TV


Both sides continue work toward
network purchasing 25% interest
in Atlanta-based company

Turner Broadcasting System Chairman and
President Ted Turner and TBS Director John
Malone, in public forums at the Western
Cable Show last week, confirmed that talks
aimed at bringing NBC's money and pro-
gramming expertise into TBS were
continuing.

Indeed, the two were fresh from negoti-
ations between NBC and TBS officials in
New York last Monday (Nov. 30). Turner
and Malone were joined on the TBS side of
the table by TBS executives Terry McGuirk
and Bill Bevins and Time Inc.'s representa-
tive on the board, Nick Nicholas. On NBC's
side: President Robert Wright; Executive
Vice Presidents Ray Timothy and Al Barber;
and Vice President Tom Rogers.

The talks have encompassed a possible
$400-million cash infusion by NBC into
Turner in exchange for a 25% stake in the
company (BROADCASTING, Nov. 30).

Although the two did not discuss specif-
ics, they addressed what they described as
inaccurate press reports regarding the negoti-
ations.

Turner, reacting to reports that NBC
would buy him out, said the only way he
would leave the industry was "feet first or if
the cable operators want me to leave. I'm
here to stay if you want me." The comment,
made during the convention's opening panel
session, was greeted by a round of applause.

When asked later about specifics of the
proposal, Turner declined comment other
than to say: "You have to give up something
to gain something." He added, however, "I
would really like it to happen."

John Malone, a key Turner board member
and president of Tele-Communications Inc.,
was clear about Turner remaining as head
of TBS. "He's the locomotive who's driving
that train," he said. Malone said he would
"rather Ted stay in control and remain inde-
dependent." He said TBS would do any deal
"that helps Turner," and added that it is in
the best interests of the company to have "a
strong range of shareholders."

Malone, in the opening panel session,
said NBC's entry would be the "greatest
thing that could possibly happen to the cable
industry." When questioned later by report-
ers, Malone indicated that one of the ques-
tions surrounding the deal was whether
Home Box Office (represented in TBS by
parent Time Inc.), NBC and TBS could pool
programming resources to the satisfaction
of each party. Among TBS's incentives to
make a deal is the hope of using NBC's pro-
graming expertise to launch a new basic
cable service, Turner Network Television or,
simply, TNT.

Malone called reports that TCI and Time
Inc. were at odds in the negotiations untrue.
"We and Time have an equal interest" in
TBS, said Malone.

Malone also sought to correct reports that
TBS's ownership structure was the crux of
the deal. He described the situation as "a
very complex relationship that has nothing
to do with shares."

In addition to questions surrounding pro-
graming for TNT, which NBC participation in
TBS would help resolve, TNT faces a
channel capacity crunch. Malone, when
termed the "CCTA" TCI would use the Tem-
po TV slot to launch TNT, said that was a
possibility, if it made sense to the affected
operators. He went on to speculate that be-
cause between TCI, its affiliated companies,
ATC and Tempo TV, there would be 25 million
homes, "which would give us a nice start"
for launching TNT.

Malone was optimistic about the pros-
pects for TNT. "There's a need for this," he
said, and TCI, referring to TNT's planned
high-profile programming, and "something
just like it will get off the ground," he said.
It was possible an existing network could
evolve into what is planned for TNT.

Other TBS board members said the nego-
tiations with NBC as a positive step for
Turner. James Gray, president of Warner
Cable, said several questions have to be
answered, such as the merits and structure
of the deal. He said TBS has other financing
options available for the repayment of debt
besides an NBC cash infusion. But of the
larger question of a broadcast network get-
ing into the cable business, Gray said there
was "nothing for the industry to be nervous
about."