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

In a direct appeal to cable operators, GTE last week urged an end to the regulatory battle being waged at the FCC to prevent the phone 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 municipalities 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 put 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 Association, the convention's sponsor, opposes the GTE proposal, however.

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

Under the telco's plans, half of the 550 mhz coaxial cable system would be leased to the local cable company by General Telephone 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 because GTE in its allocation asked to lease 250 mhz on this system passing 16,000 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 experiment with dial tone and video systems.

In 1984, Morris noted the CCTA opposed a similar leaseback proposal by Pacific Bell in Palo Alto, Calif. The FCC turned down 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 Cerritos case, Morris said, is 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 network. GTE also intends to test advanced fiber-based technologies and new services.

The phone company plans to place a vacant conduit along the 175 miles of underground cable in the hope of eventually installing fiber optics. Initially, it would establish a lab for the placement of CATV and dial tone down fiber loops that would go to some or all of 5,000 homes in a test area.

"We will effectively have competition between transport technologies," Gillett said. If the proposal is approved, GTE will have to decide which technology fits a particular need, he noted.

The fiber network will be capable of delivering 20 TV channels over a single fiber, including four switch-to-video lines. The system will have full two-way voice and video capacity, including network-based home video-on-demand services. "It will be able to significantly penetrate today's $10-billion VCR tape business," Gillett said.

NBC-Turner talks progressing

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 programing expertise into TBS were continuing.

Indeed, the two were fresh from negotiations 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 representative 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 specifics, they addressed what they described as inaccurate press reports regarding the negotiations.

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 independent." 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 reporters, Malone indicated that one of the questions surrounding the deal was whether Home Box Office (represented in TBS by parent Time Inc.), NBC and TBS could pool programing resources to the satisfaction of each party. Among TBS's incentives to make a deal is the hope of using NBC's programing 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 programing for TNT, which NBC participation in TBS would help resolve, TNT faces a channel capacity crunch. Malone, when questioned whether TCI would use the Tempo TV slot to launch TNT, said that was a possibility, if it made sense to the affected parties. He went on to speculate that between TCI, its affilated 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 prospects for TNT. "There's a need for this," said Malone, refering to TNT's planned high-profile programing, 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 saw the negotiations 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 getting into the cable business, Gray said there was "nothing for the industry to be nervous about." □