

ALJ/TRP/sid **

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Decision 98-07-091 July 23, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the
Commission's Own Motion into Competition
for Local Exchange Service.

Rulemaking 95-04-043
(Filed April 26, 1995)

Order Instituting Investigation on the
Commission's Own Motion into Competition
for Local Exchange Service.

Investigation 95-04-044
(Filed April 26, 1995)

ORIGINAL

OPINION

On March 7, 1997, California Cable Television Association (CCTA) filed a Petition for Modification of Decision (D.) 96-03-020 (the Decision). Among other things, the Decision established policies for increased retail pricing flexibility for Pacific Bell (Pacific) and GTE California Incorporated (GTEC), including modified pricing rules for the bundling of services in connection with the Commission's opening of the incumbent local exchange carriers (LECs) to competition.

In the Decision, we determined that the price floor for any package should be the sum of the price floors of the individual parts of the package (including any imputation requirement in establishing the price floors). We also determined that, when packaging residential services, the existing imputation rules should apply.

CCTA claims that a change to Conclusion of Law (COL) 49 of the Decision is warranted to correct an error in the treatment of shared, joint or common cost recovery for purposes of Universal Service support that will result in anticompetitive cross-subsidizing by the LECs when bundling Category II services with Category III and unregulated services. For the reasons stated below, we deny CCTA's Petition for Modification, but clarify COL 49 in D.96-03-020 to prevent the LECs from improperly pricing certain bundled services.

Positions of Parties

CCTA specifically requests that the Commission modify COL 49 of the Decision to read as follows (text additions are in bold):

"49 The Universal Service Fund subsidy payment, excluding any portion of said payment intended to recover shared, joint or common costs, should be included in the revenues received in determining whether the price of a package is above the price floor."

CCTA correctly infers that the "subsidy payment" in COL 49 is a reference to the California High Cost Fund-B (CHCF-B). CCTA believes that the recovery of shared and common costs in the CHCF-B as allowed under COL 49 of D.96-03-020 enables the LECs to bundle unregulated products or services with Category I and II services in an anticompetitive manner.

CCTA initially raised this issue in the Universal Service Proceeding (R.95-01-020/I.95-01-021) through its Exhibits 49, 50, 51, (attached to this decision as Appendix A) and the cross-examination of Pacific's witness (RT at 2368 et. seq.). In D.96-10-066, in the Universal Service Proceeding, we advised any party seeking to modify or clarify the imputation rules established in D.96-03-020 to file a petition to modify that decision. In response to our directive, CCTA filed the instant petition.

CCTA argues that D.96-03-020 must be modified because the portion of the CHCF-B subsidy payment attributable to shared, joint, or common costs should not be included as revenues in determining whether the price of a bundled package is above the price floor. CCTA argues that, by including such contributions as a source of revenue in determining whether the price for the bundled service is at or above the price floor, the LEC can discount the competitive service below its total service long-run incremental cost (TSLRIC)¹ and still meet the imputation test.

¹ In D.98-02-106 of the Open Access and Network Architecture docket, the Commission decided that the "total element" (TE) LRIC methodology should be used for pricing unbundled network elements (UNEs). D.98-02-106 adopted the TE LRICs for Pacific; TE LRICs for GTEC will be adopted in a future decision.

CCTA believes that such an outcome is contrary to the Commission's intent in establishing price imputation rules prohibiting a LEC from pricing a competitive Category III service below its TSLRIC as part of a bundled package with Category I and II services. As the Commission previously stated in D.89-10-031:

"Imputation's primary purpose is to serve as a safeguard against potential anticompetitive abuses by the LECs. First, it ensures that the price of the LECs' bundled competitive offering at least recovers the cost of providing the service, so that the customers of the LECs' regulated services do not subsidize the competitive services. Second, it promotes fair competition by preventing the LEC from underpricing its bundled competitive offerings to the disadvantage of competitors." (D.89-10-031, mimeo. at pp. 206-207.)

CCTA provides Exhibits 49-51 which it introduced in the Universal Service hearings (included herein as Appendix A) to illustrate the alleged potential for the LECs' pricing of competitive services below TSLRIC. In CCTA's hypothesis, basic service is bundled with video service, at a bundled TSLRIC of \$70 (i.e., \$50 for basic service and \$20 for video service) in the high cost area, and \$32 in the low cost area.

CCTA argues that under its hypothesis, the bundled package could be priced as low as \$29 (i.e., below TSLRIC), assuming a USF subsidy payment of \$41.² Since the minimum price which can be charged for the bundle is \$29 and the standalone rate for basic service is \$14, CCTA computes the revenue from the video service at \$15 (= \$29 minus \$14).

Although the incremental revenues associated with the video service are \$15 in CCTA's example, the TSLRIC of the video service is \$20. Thus, CCTA argues that the USF provides a subsidy not to the basic service subscribers for which it is intended, but to the LEC's competitive video service. This result is possible, CCTA argues, because

² The \$29 is derived on Line 8 of Exhibit 50, equal to the \$70 total price, less \$41 subsidy. The \$41 in subsidy is derived on Line 5 of Exhibit 50, calculated as the total cost of the line (including shared and common costs) of \$55 minus a tariffed rate of \$14.

imputation for a bundled service package is based not on the relationship of the price for the bundle to the sum of the price floors of the bundle, but upon the relationship of the price plus the subsidy received from the universal service fund to the sum of the price floors. (RT at 2371-72.) Thus, when pricing the bundle, the LEC would not have to recover its shared and common costs through the rates for the bundled service, but could instead discount the video service by the amount of the subsidy for shared and common costs it received through the CHCF-B. CCTA finds this outcome to be anticompetitive.

Comments were also filed by the Commission's Office of Ratepayer Advocates (ORA) in response to CCTA's Petition. ORA believes that the wording of COL 49 is unclear and creates confusion. ORA, however, recommends as an alternative remedy that the Commission simply delete COL 49 altogether from D.96-03-020, arguing that it is confusing and unnecessary. ORA notes COL 49 appears to have been based on a recommendation by Pacific, but without any supporting discussion in the section of the decision pertaining to "Bundling of Services." ORA also believes COL 49 is unclear regarding the identity of the "subsidy payment," although ORA assumes the reference is to the CHCF-B to which CCTA refers as the Universal Service Fund.

ORA believes COLs 42, 44, 47, and 48 of the Decision adequately address imputation and calculation of price floors. In addition, ORA argues that applying COL 49 as it now reads would ignore the difference between the LEC's price floor calculation and CHCF-B costing. The CHCF-B draws are to be based on statewide average costs, while price floors are calculated using company-specific, service-specific or service-element-specific incremental costs. ORA claims such a blending of different costing protocols would produce perverse pricing signals, as CCTA noted in its petition. (CCTA Petition, pp. 2, 6.)

In the event that the Commission decides not to delete COL 49, then ORA supports the modifications CCTA proposed in its petition. ORA agrees that it is acceptable to include the TSLRIC portion of any CHCF-B subsidy payment when calculating whether a bundled service offering, which includes reclassified Category II

services, is priced at or above the price floor. However, ORA believes that including recovery of shared, joint, or common costs in that revenue stream could lead to the very cross subsidies CCTA describes in its petition.

Pacific filed a response in opposition to CCTA's Petition. Pacific denies any subsidy or cross-subsidy results from the Commission's imputation rules set forth in D.96-03-020, because revenues from the bundled services will always exceed incremental costs. Pacific believes the Commission properly permitted universal service subsidy payments to be included in determining whether a service package is below the price floor. By allowing such subsidy payments in lieu of pricing to recover costs, the Commission kept the price floor for bundled packages as the sum of the TSLRICs for the package.

Pacific disputes the inferences drawn by CCTA in its hypothetical in attributing the package discount exclusively to the price of the competitive video service, while ignoring the fact that basic service remains priced above cost, and that the package, in total, recovers costs. As a result, Pacific claims there is no cross-subsidy involved.

Pacific notes that in the hypothetical situation presented in CCTA's Exhibit 51, basic service revenues exceed the \$50 TSLRIC by \$5 (i.e., \$14 (price) + \$41 (subsidy) = \$55 revenues). Pacific argues, therefore, that the \$14 price of its basic service could be reduced by the \$5 contribution to as low as \$9 (i.e., $\$14 - \$5 = \$9$). Consequently, Pacific denies that the \$5 contribution for shared and common costs reduces the video service below TSLRIC, but rather, is used to reduce the price of basic service.

Pacific disagrees with CCTA's premise that the pricing of the video service can be viewed in isolation without considering the pricing of the basic service component of the package. Pacific disputes CCTA's claim that the video service portion of the bundled package is priced \$5 below TSLRIC, arguing that CCTA ignores the fact that basic service is priced \$5 above cost.

Pacific argues that CCTA's proposal would establish a price umbrella under which less efficient competitors could price lower than the LEC in a manner that is anticompetitive and not in consumer interests. Pacific claims CCTA's proposal to

exclude shared and common costs would increase the LEC price floor from \$70, in CCTA's example, to \$75. CLCs could then enter an area receiving universal service funding, get the same amount of funding as Pacific (\$55 in CCTA's example) and offer its package of basic exchange service and video service for one dollar below the floor, or \$74. Pacific argues that it could not respond with a lower price if CCTA's position is adopted, even if its incremental costs were lower than the entrant's price.

Consequently, Pacific believes fair competition would be thwarted and consumers would pay higher prices. By contrast, Pacific argues that the current rules place competitive pressure on the LECs, and on all carriers receiving universal service funding, to reduce prices and to eliminate the recovery of revenues going to shared and common costs, while protecting competition because the LEC price for bundled services cannot be below incremental costs. If a CLC is more efficient than the LECs, it can enter the local market and offer customers prices that drive down the shared and common contributions that are part of the CHCF-B subsidy that the LECs now receive.

GTEC also filed a response in opposition to CCTA's motion. GTEC argues that, if the portion of the subsidy revenue attributed to shared and common costs is excluded from revenues for purposes of meeting the price floors, the LEC will have to charge a higher rate for the bundled service than it would otherwise charge, in order to price above the floor. GTEC believes this deprives the LEC of the ability to price down to the price floor which is the proper test of cross-subsidization. (D.94-09-065, p. 206.)

GTEC believes the treatment of the CHCF-B subsidy payment is analogous to the treatment of the End User Common Line charge (EUCL), which under existing imputation rules is considered revenue for determining whether a price floor is covered. GTEC argues that the only difference between the EUCL and the universal service subsidy is that the EUCL is recovered directly and the USF subsidy indirectly, but both are part of the revenues received by the LECs for providing the service in question.

Discussion

In D.96-03-020, we adopted interim rules granting additional pricing flexibility for Pacific and GTEC in conjunction with the opening of their local exchange markets to competition. Specifically, we granted the LECs the authority to offer bundled Category II and III services as long as proper imputation of price floors for each separately unbundled Category II service was verified. (See COL 36-49 of D.96-03-020.) As prescribed by Public Utilities Code Section 2882.3, cross-subsidy of enhanced services by noncompetitive services offered by the LECs is prohibited.

The question raised in CCTA's Petition is whether the treatment of the CHCF-B subsidy for shared and common costs as set forth in COL 49 produces the potential for anticompetitive pricing of bundled services by the LECs. In particular, CCTA raises the question of whether under COL 49, the shared and common costs portion of the universal service subsidy payment can be used by the LEC to subsidize a Category III service in an anticompetitive manner. The pricing of a bundled Category III service and basic service would be considered anticompetitive if the Category III service price were below incremental cost. In COL 47 of the Decision, we specifically stated that the price of the LEC's bundled competitive offerings should not be reduced below the sum of the price floors of the individual parts of a bundled package of services. By setting the total price of the package to at least cover the total costs of providing the service, there is a safeguard against anticompetitive pricing practices. The LECs are thereby prevented from using revenues from basic services to subsidize their offerings of competitive services.

Parties agree that a competitive Category III service, when bundled with a Category II service, should not be priced below its TSLRIC. Parties also agree that the universal service subsidy payment is an additional source of revenue which contributes toward the recovery of TSLRIC. The amount of funds drawn from the CHCF-B permits the LEC to correspondingly reduce the retail price of a basic service charged to the end-user.

CCTA and Pacific disagree, however, over whether the \$5 USF subsidy for shared and common costs in CCTA's hypothetical situation should be viewed as contributing toward the recovery of the cost of the Category III service, resulting in a price below the Category III service's incremental cost, or whether the USF subsidy should be viewed as compensation for the basic service component. Pacific denies that the video service in CCTA's example is priced below its TSLRIC by arguing that the USF subsidy payment is applied to reduce the price of the basic service component.

Pacific also denies that its witness Mitchell conceded that any subsidy pricing problem exists during his cross examination in the Universal Service proceeding. Pacific merely acknowledged in its reply brief of that proceeding that CCTA had raised an issue, but did not concede there was any problem. For purposes of our resolution of this dispute, we shall not rely on the cross-examination testimony of witness Mitchell regarding CCTA's hypothetical. We shall independently consider the merits of CCTA's arguments based on the pleadings before us in this proceeding.

Under the pricing rules established in D.94-09-065, the price floor of a bundled service which packages less competitive services with fully competitive services is equal to the sum of the long-run incremental costs (LRIC) of the monopoly building blocks and the competitive service plus the contribution in excess of LRIC included in the price of the monopoly building blocks. Another way to state the formula is that the price floor of the bundle is equal to the sum of the tariffed rate of the monopoly building blocks and the LRIC of the competitive element. (56 CPUC2d 117, 236-237 (1994).) Under either formula, Pacific's case fails. It is also important to note the difference between the price floor of a bundled service and the revenue generated by that service. The monthly revenue from a bundled service may never be below the price floor for that service. We calculate below the proper price floor for the bundled package that has been employed herein as an example, assuming that all the costs are monthly:

First Formula:

$$\text{Price Floor} = \$50_{\text{TSLRIC-basic service}} + \$20_{\text{TSLRIC-video}} + \$5_{\text{Contrib. to shared \& common}} = \$75^3$$

Second Formula:

$$\text{Price Floor} = \$14_{\text{Retail basic service}} + \$41_{\text{CHCF-B subsidy}} + \$20_{\text{TSLRIC-video}} = \$75^4$$

Hence, as we expected in D.94-09-065, both formulas yield the same result, with the price floor equal to \$75.³ As shown above, based on the imputation rules in D.94-09-065, the \$5 contribution to shared and common costs which is part of the CHCF-B subsidy must be imputed in determining the price floor of the bundled package since it constitutes the contribution from basic service in excess of LRIC.

Consistent with these results, Pacific would be prohibited from reducing the price of the bundled package by the \$5 contribution to shared and common costs provided through the CHCF-B mechanism because the bundled service would then be priced at \$70, or below the price floor of \$75. Based on our imputation rules, the \$5 portion of CHCF-B subsidy payment is not available as a source of revenue to support

³ No party argued that any of the components making up basic service was competitive. We will assume that, solely as a basis for our analysis here, competition in the market for basic service is insignificant, and that the \$50 TSLRIC for basic service in the example corresponds to the incremental costs of the monopoly building blocks making up that service. Further, we posit here that the contribution portion of the imputation formula is equal to the contribution toward shared and common costs identified in D.96-10-066. Although this is a reasonable assumption since we do not have any other contribution figure available, this does not mean that we are prejudging what contribution should be once we determine the prices for UNEs the Open Access and Network Architecture Development docket, R.93-04-003/I.93-04-002.

⁴ In the second formula, we consider the total price for basic service to be equal to the retail price plus the subsidy from the CHCF-B since the subsidy flows automatically with the provision of basic service in a high-cost area.

⁵ We note again that the imputation exercise might reach very different results were we to substitute the costs and contribution found reasonable in D.96-10-066, our order on universal service, with the costs and prices yet to be determined in our OANAD docket.

any downward pricing of the LEC's bundled package. These \$5 are part of the floor for the bundled service; Pacific may only price such service above \$75.

Were we to permit Pacific to price the bundled service at \$70 by discounting the \$5 portion of the CHCF-B subsidy payment aimed at recovering shared and common costs, then Pacific would be employing the \$5 to subsidize the competitive, Category III video service. Pacific's argument appears to assume that the tariffed price of basic service is set above its TSLRIC and, therefore, has a margin for price reduction. As our calculation in the second formula above demonstrates, this is simply not the case. In fact, as we have stated in prior decisions, the price of basic service is generally below cost, and we provide Pacific and other providers of basic service with a subsidy to provide this service. Since the price of basic service paid by the consumer in the example does not exceed TSLRIC, no further pricing flexibility for the basic service is permissible under the Commission's pricing rules. Therefore, the \$5 portion of the CHCF-B subsidy payment in CCTA's hypothetical situation cannot be applied to further reduce the already-below cost price of basic service, as claimed by Pacific. The only remaining place to attribute the universal service subsidy contribution is to the Category III video service. As a result, the incremental revenues from the video service would only be \$15, or below the \$20 TSLRIC. Such pricing would mean an impermissible and anticompetitive subsidization of the Category III competitive service by the partially competitive basic service.

We disagree with GTEC's claim that the shared-and-common-cost element of the CHCF-B payment is analogous to the EUCL charge. The EUCL charge is collected pursuant to federal regulations to reimburse the LECs for the cost of telephone access lines allocated to the interstate jurisdiction and cannot be used to subsidize other services. The universal service subsidies covering shared and common costs do not directly offset any specific direct costs as does the EUCL charge, but, instead, are a contribution of common funds which should not be available to reduce the cost of competitive services.

Having undergone the analysis of the proper price floor for bundled services above, however, we must also determine that CCTA's Petition fails, for it would have the unintended consequence of providing a pricing umbrella. If, as discussed above, we include in the price floor of a bundled service the contribution for shared and common costs, then the LECs should be able to price above that price floor up to a ceiling, if applicable. The modification to COL 49 sought by CCTA would more than safeguard against the LECs' potential cross-subsidization of fully competitive services by less competitive services; in fact, it would force the LECs to price at least \$5 above a reasonable price floor. Going back to the example cited earlier, Pacific would have to price its bundled video/telephony service at \$80 or higher to satisfy the Commission's rules if we adopted CCTA's Petition. Hence, we must deny the Petition to Modify as sought by CCTA.

We must now determine what, if anything, we should do to clarify D.96-03-020. We believe that this order has caused some confusion, and we decline to simply delete COL 49, as suggested by ORA. Instead, we will require that, pending the final orders on pricing and imputation we will be issuing for Pacific and GTEC in OANAD, the contribution to shared and common costs embedded in the subsidy received by the LECs to serve high-cost areas be part of the price floor of any bundled service that combined subsidized basic service. Pacific will be permitted to price anywhere above the price floor specified above, and below any applicable ceilings. We emphasize that this requirement is an interim and expedient measure to ensure that Pacific does not price below the price floor for any bundle of services which includes basic service. D.94-09-065 did not define the contribution portion of the imputation formula except to state that it "is the difference between the tariff rate of a monopoly building block and its LRIC."⁶ This is the only measure of contribution available to us today, prior to the conclusion of OANAD. In other words, the contribution of basic service toward

⁶56 CPUC2d 117, 236 (1994)

Pacific's shared and common costs determined in D.96-10-066 is the only Commission-adopted difference between the LRIC of basic service and its tarified rate, which is the retail rate plus the total subsidy from the CHCF-B. We know that the definition of contribution is being debated in OANAD; as a result, we have decided the interim requirement we adopt today should sunset with the issuance of the pricing orders in OANAD. In OANAD, we are considering the proper contribution that should be imputed, along with the long-run incremental costs of UNEs, into the price floor of services. If, after the issuance of the pricing orders in OANAD, parties wish further clarification on this issue, they may petition the Commission.

The clarification to COL 49 does not prevent the LEC from pricing its bundled services equal to the LRIC for the bundled package plus the contribution above LRIC provided by the basic service. The modification to COL 49 only prevents the LEC from enriching itself unfairly by engaging in below-cost pricing of Category III services subsidized by use of the CHCF-B subsidy payment attributable to shared and common costs.

Findings of Fact

1. In D.96-03-020, the Commission established policies for increased pricing flexibility for Pacific and GTEC, and also addressed the pricing rules for the bundling of LEC services.
2. D.96-03-020, COL 49, allowed for the inclusion of California High Cost Fund-B subsidies intended to recover shared or common costs of basic service in determining whether the price of a bundled package that includes basic service is above the price floor.
3. The universal service mechanism enables the LEC to be reimbursed for its costs in excess of subsidized prices charged to provide high cost areas with basic service.

4. The Commission's imputation test as adopted in D.94-09-065 guards against potential anticompetitive abuses by the LECs by ensuring that the price floor of a bundled service which packages less competitive services with fully competitive services is equal to the sum of the long-run incremental costs (LRIC) of the monopoly building blocks and the competitive service plus the contribution in excess of LRIC included in the price of the monopoly building blocks. In this manner, the customers of the LECs' regulated basic services do not subsidize the competitive services.

5. D.94-09-065 defines the contribution of monopoly building blocks that must be imputed in the price of a bundled service as the difference between the tariff price of those blocks and their LRIC.

6. Until we determine in OANAD the prices of UNEs making up basic service, it is reasonable to assume that basic service is a monopoly building block.

7. Until the OANAD pricing phase is completed, the only available measure of the contribution from basic service needed to perform the calculation of the price floors of bundled services that include basic service, is that which we determined in D.96-10-066. There, the difference between the tariffed rate for basic service (the retail rate plus the total universal-service subsidy) and the LRIC of the same service was the contribution to shared and common costs.

8. The Commission's imputation test promotes fair competition by preventing the LEC from improperly underpricing its bundled competitive offerings to the disadvantage of competitors.

9. Under the Commission's imputation test, a competitive Category III service, when bundled with Category I or II services, is not to be priced below its TSLRIC.

10. If the LECs are required to impute the contribution of basic service toward shared and common costs calculated in D.96-10-066 into the price floors of bundled service packages that include said basic service, the Commission will ensure that the LECs meet the imputation requirements of D.94-09-065.

11. The total revenue generated for a bundled service consists of the price paid by the end-user plus the CHCF-B subsidy payment.

12. As long as the total revenue for a bundled service, as defined in Finding of Fact no. 10, is above the price floor for that same service, as defined in Finding of Fact no. 10, the imputation rules are satisfied.

13. Consistent with Finding of Fact no. 12, Pacific would be prohibited from reducing the price of the bundled package by the \$5 contribution to shared and common costs provided through the CHCF-B mechanism because the bundled service would then be priced at \$70, or below the price floor of \$75 under CCTA's example.

14. With the price floor of a bundled service defined as in Finding of Fact No. 10, the granting of CCTA's Petition for Modification would have the unintended resulting of creating a price umbrella enabling CLCs to set inefficient prices.

Conclusions of Law

1. The Commission should clarify that, until the pricing phase of OANAD concludes, it is reasonable to require the LECs to impute into the price floors of bundled services which include basic service, the contribution toward shared and common costs calculated in the Universal Service proceeding.

2. Based on Conclusion of Law no. 1, the \$5 contribution to shared and common costs set forth in CCTA's example, which is part of the CHCF-B subsidy, must be imputed in determining the price floor of the bundled package, because it constitutes the contribution from basic service in excess of LRIC.

3. COL 49 of D.96-03-020 should be clarified as set forth in the order below to avoid the potential for anticompetitive subsidization of Category III services.

4. The Petition for Modification of COL 49 of D.96-03-020 as filed by the California Cable Television Association should be denied, as set forth below.

O R D E R

IT IS ORDERED that:

1. D.96-03-020, Conclusion of Law no. 49 shall be modified to read as follows (with text insertions shown in bold):

"The California High Cost Fund-B (CHCF-B) subsidy payment, should be included in the revenues received in determining whether the price of a package is above the price floor. Thus, revenues will equal the retail prices of the bundled services plus all subsidies received. Until we issue pricing orders for Pacific and GTEC in the UNE phase of our Open Access and Network Architecture Development proceeding, Pacific and GTEC should impute into the price floors of any bundled services they offer that include basic service, the total long-run incremental cost of such basic service, plus the contribution toward the LECs' shared and common costs determined in Decision 96-10-066."

2. D.96-03-020 shall be further modified with the addition of Ordering Paragraph no. 16a, which reads as follows:

"The LECs shall impute into the price floor of a bundled service that includes basic service, the total long-run incremental cost of basic service, plus the contribution of basic service toward the LEC's shared and common costs identified in D.96-10-066. This order will sunset upon the issuance of pricing order(s) for Pacific and GTEC, respectively, in our Open Access and Network Architecture Development proceeding."

3. The Petition for Modification of Decision (D.) 96-03-020, Conclusion of Law (COL) 49 filed by the California Cable Television Association is denied.

This order is effective today.

Dated July 23, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLÓN
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

APPENDIX A

**CCTA'S HYPOTHETICAL EXAMPLE OF THE
SHARED AND COMMON COSTS
ON BUNDLED SERVICE PRICE FLOORS**

APPENDIX A

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TABLE I, II

SUBSIDY ANALYSIS
LOCAL SERVICE

HIGH COST AREA

1. RATE	14
2. TSLRIC	50
3. SHARED AND COMMON	5
4. TOTAL COST (L2 ÷ L3)	55
5. SUBSIDY (L4 - L1)	41

LOW COST AREA

1. RATE	14
2. TSLRIC	12
3. SHARED AND COMMON	5
4. TOTAL COST (L2 ÷ L3)	17
5. SUBSIDY (L4 - L1)	3

TABLE IA, IIA

SUBSIDY AND IMPUTATION ANALYSIS

Local Service Video Service Bundled Video and Local

HIGH COST AREA

1. Rate	14		7
2. TSLRIC	50	20	70
3. Shared and Common	5		5
4. Total Cost (L2 + L3)	55	20	75
5. Subsidy (L4 + L1)	41		41
6. Total Price Floor (L2)		70	
7. Subsidy (L5)		41	
8. Minimum Price of Bundled Package Consistent with Price Floor (L7-L6)		29	

LOW COST AREA

1. Rate	14		7
2. TSLRIC	12	20	32
3. Shared and Common	5		5
4. Total Cost (L2 + L3)	17	20	37
5. Subsidy (L4 - L1)	3		3
6. Total Price Floor (L2)		32	
7. Subsidy (L5)		3	
8. Minimum Price of Bundled Package Consistent with Price Floor (L7 - L6)		29	

TABLE IB, IIB

FURTHER SUBSIDY AND IMPUTATION ANALYSIS

Local Service	Video Service	Bundled Video and Local	Incremental Analysis of Video
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HIGH COST AREA

1. Rate	14		7	15
2. TSLRIC	50	20	70	20
3. Shared and Common	5		5	
4. Total Cost (L2 + L3)	55	20	75	
5. Subsidy (L4 - L1)	41		41	
6. Total Price Floor (L2)		70		
7. Subsidy (L5)		41		
8. Minimum Price of Bundled Package Consistent with Price Floor (L7 - L6)		29		

LOW COST AREA

1. Rate	14		7	15
2. TSLRIC	12	20	32	20
3. Shared and Common	5		5	
4. Total Cost (L2 + L3)	17	20	37	
5. Subsidy (L4 - L1)	3		3	
6. Total Price Floor (L2)		32		
7. Subsidy (L5)		3		
8. Minimum Price of Bundled Package Consistent with Price Floor (L7 - L6)		29		

(END OF APPENDIX A)