

**ATTACHMENT A**

**A RESOLUTION TO APPROVE THE 2004 TIME  
WARNER CABLE FCC1240 & FCC1205 RATE ORDER  
Resolution No. 114/2003-04**

**BE IT RESOLVED that:**

- Section 1:** The Board of Aldermen has received public comments on the Time Warner Cable FCC1240 & FCC1205 Rate Filing for 2004;
- Section 2:** The Board of Aldermen adopts the report on the Time Warner Cable FCC1240 & FCC1205 Rate Filing for 2004 as its own;
- Section 3:** The Board of Aldermen approves the 2004 Time Warner Cable FCC1240 & FCC1205 Rate Order.
- Section 4** This resolution shall become effective upon adoption.

**This the 2nd day of March 2004.**

# *Action Audits, LLC*

## **Town of Carrboro Review of Time Warner Cable's FCC1240 & FCC1205 Rate Filings for NC-649 and NC-0130**

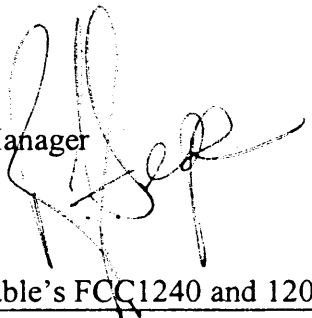
December 18, 2003

### **REPORT**

TO: Steven E. Stewart, Town Manager

FROM: Robert Sepe, President

RE: Review of Time Warner Cable's FCC1240 and 1205 rate filings



We have reviewed Time Warner Cable's FCC1240 and FCC1205 filings, documents gathered by the Town and consulted related FCC rules, regulations and publications. The values stated in the Company's FCC rate requests is the responsibility of the cable operator.

Supplied data were reviewed to determine whether the cable operator calculated "updated" rates consistent with the procedures prescribed by the FCC in accordance with the FCC's 13th Report and Order, and the FCC's Cable Rate Regulation rules §76.900 - §76.990 and the Telecommunications Act of 1996.

Original computations were performed and compared with information provided by Time Warner Cable. The accompanying report provides a basis for the opinions expressed herein.

-1-

On October 1, 2003, Time Warner Cable submitted a FCC1240-Basic Cable Service Tier and FCC 1205-Equipment and Installation charges to seek an upward adjustment in the rate charged for basic cable television service, installation and equipment rental for the 2004 calendar year. The consultant evaluated the information Time Warner Cable (TWC) submitted, requested and received supplemental information and evaluated the information with respect to conformance to FCC rules. The Consultant performed independent calculations to verify the proposed rate structure sought.

The Town of Carrboro is composed of two federally identified cable television districts, NC-0130<sup>1</sup> (4614 subscribers) and NC-0649 (404 cable customers) or 5018 Time Warner Cable television customers in Carrboro.

- a. NC-0130 TWC subscribers will be charged a "selected" monthly rate of \$13.00 for the Basic Service Tier (BST) in 2004 which is slightly below the Maximum Permitted Rate (MPR). The MPR includes the **BST charge** of \$11.86 plus the "Add-on" Cost of Service Network Upgrade Charge of \$1.45. The "selected" monthly combined rate of \$13.00 is 31-cents less than the Maximum Permitted Combined Rate of \$13.31, and represents a 15-cent rate reduction in the "selected" monthly combined rate compared to the prior year.
- b. NC-0649 TWC subscribers will be charged a "selected" monthly rate of \$12.25 for the Basic Service Tier (BST) in 2004 which is slightly below the Maximum Permitted Rate (MPR). The MPR includes the **BST charge** of \$10.61 plus the "Add-on" Cost of Service Network Upgrade Charge of \$1.81. The "selected" monthly combined rate of \$12.25 is 17-cents less than the Maximum Permitted Combined Rate of \$12.42, and represents a 65-cent rate hike in the "selected" monthly combined rate over the prior year.

---

<sup>1</sup>The Town recently requested Time Warner to petition the FCC to consolidate the Carrboro CUIDs into a single unit.

-2-

The following tables document recent shifts in the “selected” BST rate.

NC-0130 Selected Basic Rate History

Year	Selected Rate	+/-	% increase
2000	\$11.10		
2001	\$12.20	\$1.10	9.91%
2002	\$12.40	\$0.20	1.64%
2003	\$13.15	\$0.95	7.79%
2004	\$13.00	\$-0.15	-1.21%

NC-0649 Selected Basic Rate History

Year	Selected Rate	+/-	% increase
2000	\$11.10		
2001	\$12.60	\$1.50	13.51%
2002	\$10.75	\$-1.85	-14.68%
2003	\$11.60	\$0.85	7.91%
2004	\$12.25	\$0.65	5.60%

-3-

The following table shows the selected Basic Service Tier rate for various communities in North Carolina. This information is for comparative purposes.

2004 TWC BST Combined Selected Rates

Community	Price
Apex**	\$13.50
Benson*	\$10.92
Carrboro**	\$13.00/\$12.25
Chatham County*	\$10.92
Chatham**	\$14.30/\$11.25
Clayton**	\$12.25
Durham County**	\$14.95
Fuquay-Varina**	\$13.50
Garner**	\$13.00
Hillsborough**	\$13.00/\$12.25
Holly Springs**	\$13.50
Knightdale**	\$12.25
Lee County*	\$10.95
Lumberton**	\$10.80
New Hanover County <sup>2</sup> **	\$7.24/7.24
Orange County**	\$13.00/\$12.25/\$14.30
Oxford**	\$13.00
Pittsboro**	\$14.30
Raleigh**	\$12.25
Sanford*	\$10.95
Siler City*	\$10.95
Smithfield**	\$13.50
Wake Forest**	\$13.00
Wendell**	\$13.00
Wilson**	\$14.30
Zebulon**	\$12.25

\* Charter Communication

\*\* Time Warner

<sup>2</sup> NHC is served by Time Warner Cable and Charter Communications. Each has a county wide franchise and a requirement to compete for customers in situations where communities want service from the other operator.

# Analysis of the Proposed Rate Adjustments:

Time Warner's FCC1240 rate adjustments reflect the following external cost elements: external costs for true-up and projected periods, inflation from true-up and projected periods; franchise related (peg) expenses, any program expense adjustments, generally FCC regulatory fees, franchise fees and sales taxes are external to the calculation of the subscriber monthly bill.

External Cost: Time Warner's Form FCC1240 rate adjustments reflect multiple external cost elements. An external cost is an expense a cable operator incurs during the normal course of business and may be included in rate calculations. External cost categories are state and local taxes; franchise fees; costs of complying with franchise requirements, including costs of providing public, educational, and governmental access channels; retransmission consent fees and copyright fees incurred for the carriage of broadcast signals; other programming costs; FCC regulatory fees, and costs associated with channel additions.

The FCC1240 Form must be filed with the local franchise authority ninety (90) days before the rates are scheduled to take effect and may be filed no more frequently than annually. The FCC Form 1240 rate filing method represents a departure from the quarterly method of updating cable rates, in that it allows cable operators to estimate their future costs over a 12-month period: this is referred to as the projected period.<sup>3</sup> The FCC1240 form allows operators to recover prior period expenses, referred to as the true-up period. If a cable operator incorrectly estimates its costs for a projected period, it must correct those estimates by using the true-up process in the next FCC1240 rate filing.

Time Warner's projected period covers the 12-month period of January 1 to December 31, 2004. The operator's true-up period covers the 12-month period of October 2002 through September 2003.

Inflation Adjustment: In its FCC1240 rate filing, Time Warner used an inflation factor of 2.39% for the last nine months of the 2003 true-up period, because that was the official rate published by the FCC. On October 7, 2003, the FCC revised the official inflation figure for the 2003 Q2-Q4 true-up period to 1.00%. Time Warner did not use the new value in its calculations for the FCC1240 submitted October 2, because the FCC requires cable operators to use the "then current" rate prior to the issuance of revised inflation figures.

Had TWC used the new inflation rates, Time Warner's Maximum Permitted BST rate would have decreased slightly.

---

<sup>3</sup>FCC 1210 Forms allow for the recovery of past costs, only, not future costs. Future costs are recoverable through the use of the FCC1240 Form only.

Franchise Related Expenses(Public Access or I-Net): Time Warner Cable reported no franchise related expenses for 2003. Franchise related costs incurred by the operator may include such expenses as public, government and education access facilities and equipment, signal transportation, headend accommodations as well as Institutional Network related expenses.

Programming Cost Adjustment: Time Warner will collect for the projected period \$1.80 monthly, per subscriber, during 2003 for anticipated BST external costs, most of which is attributable to programming costs. Various cable operators have advised that program service providers customarily increase service fees annually. Time Warner attributes its programming cost changes to what it must pay for each service offered. However, this amount is relatively low compared to upper cable tier service programming costs. Most of the channels on Time Warner's BST are obtained without cost to the company.

With respect to upper tier programming and rate increases, the GAO reported in October 2003 that "(d)uring the past three 3 years, the cost of programming has increased considerably (34%), driven by the high cost of original programming,[]".<sup>4</sup>

FCC Regulatory Fees: The Federal Communications Commission collects a "Regulatory Fee" from cable operators to fund the FCC's regulatory oversight of cable television matters. This fee is passed on to subscribers by the operator.

The FCC permits cable operators to internalize or externalize the regulatory fee. The fee (~\$.66/year) is collected incrementally (~\$.05/month) from it cable television subscribers. These revenues are not subject to franchise fees or other taxes and must be remitted to the federal government to compensate the FCC for the cost of operating the Media Bureau<sup>5</sup>. An examination of the monthly bills sent to cable customers determined the fee is external to the monthly BST rate, hence it is excluded from the rate treatment process.

Cable television subscribers served by Time Warner will contribute more than \$3362<sup>6</sup> in regulatory fees to the Federal government during the projected period! There are 67 million cable television subscribers in the United States which pay an annual 66-cent regulatory fee to the Federal government. This amounts to \$35.5 million annually to fund the FCC's cable television regulatory enforcement activities.

Franchise Fees: The Town levies a 5% franchise fee on the cable operator's gross receipts. Franchise fees are levied on cable program services, advertising revenues, launch fees Home

---

<sup>4</sup>Issues Related to Competition and Subscriber Rates in the Cable Television Industry, United States General Accounting Office, October 2003.

<sup>5</sup>The Cable Service Bureau was folded into the Media Bureau in a recent FCC reorganization.

<sup>6</sup>5094 \* \$.66 = \$3362

Shopping/QVC commissions and advertising. The Cable industry has demonstrated uncanny adroitness with respect to passing franchise fee on to its customers.

The Cable industry stopped paying franchise fees on cable modems. At least 25% of Time Warner's cable customers subscriber to its high-speed Internet service. Many local governments believe that Time Warner and other cable operators terminated the franchise fee levy on cable modem service prematurely as the FCC has not issued a final ruling on the matter. In a similar maneuver, Time Warner intends to pass on to its customers a pro-rata share of the franchise fee levied on advertising revenues in January 2004. Normally, this expense is typically born by the business, not added as a line item on the customer's monthly statement.

Summary: That nationally rate hikes across most viewed cable tiers averaged 6%. However, in markets where there is head-to-head wireline competition rates were 15% less than in those markets without competition. GAO report noted that the cost of programming increased 34% during the past three years

Many subscribers view a hand full of channels and would prefer to purchase "just those channels." The GAO noted that "an a-la-carte approach would facilitate more subscriber choice but require additional technology and customer service."<sup>7</sup> Whereupon, advertising revenues to cable networks would decrease and programming costs would be increased to offset the revenue loss. One possible outcome is that the cost per channel would increase and minimize any reduction in the cost for cable service.

### **FCC1235Cable System Upgrade Costs**

Time Warner Cable submitted in 2000 and 2001 an abbreviated FCC1235 Cost of Service Filing for Cable Network Upgrades for BST services<sup>8</sup> to establish a Cost of Service rate. This fee is "Added on" to the BST rate. Under the FCC's rules, cable operators are permitted to recover system upgrade outlays on a tier-by-tier basis. FCC rules allow capital upgrade costs to be apportioned among the cable tiers, e.g., BST, cable program service tier (CPST), new product tiers (NPT), etc.

---

<sup>7</sup>Issues Related to Competition and Subscriber Rates in the Cable Television Industry, United States General Accounting Office, October 2003.

<sup>8</sup>Since 1995, pursuant to the Social Contract, Time Warner collected substantial pre-capitalization upgrade fees amounting to several dollars monthly from CPST subscribers. The FCC has ruled that these funds cannot be applied to off-set that portion of the cable operator's cost to upgrade the portion of the network used to distribute BST services. Consequently, Time Warner is able to recover from its BST customers only the cost of the network upgrade associated with the distribution of BST cable services.



Time Warner will continue to charge a monthly fee to recover FCC1235 Network Upgrade costs for 2003; an amount approved several years ago. The charge is added to the BST-Selected rate to create the combined rate subscribers pay. Subscribers will be charged a combined rate which includes the "Add-on" and the BST rates.

### FCC1205 Equipment & Installation Rates

Time Warner calculated the FCC1205 maximum permitted equipment<sup>9</sup> and installation<sup>10</sup> rates by aggregating its costs on a national basis. The 2001 year costs were aggregated on a regional basis.<sup>11</sup> Rates climbed steadily until this year when Time Warner sold a significant number of its assets (cable properties) to Bright House Networks.

Year	HSC	+/-	% increase
2001	\$28.39		
2002	\$35.83 <sup>12</sup>	\$7.44	26.21%
2003	\$37.62	\$1.79	5.00%
2004	\$37.50	(\$0.12)	-0.32%

---

<sup>9</sup>§76.923 (c)(1) Costs of customer equipment may be aggregated, on a franchise, system, regional, or company level. When submitting its equipment costs based on average charges, the cable operator must provide a general description of the averaging methodology employed and a justification that its averaging methodology produces reasonable equipment rates.

<sup>10</sup>§76.923 (c)(3) Installation costs may be aggregated, on a franchise, system, regional, or company level. When submitting its installation costs based on average charges, the cable operator must provide a general description of the averaging methodology employed and a justification that its averaging methodology produces reasonable equipment rates.

<sup>11</sup>Time Warner is treated as a single company for FCC 1205 rate-making purposes. TWC files a single FCC 1205 throughout the United States with over 3000 local franchise authorities, LFAs, to establish uniform rates for equipment and installation charges.

<sup>12</sup>Company-wide national aggregation - 3000 franchises

The following table chronicles FCC1205 equipment and installation rates since 2001. Beginning in 2002, Time Warner's rates are based on national aggregation.

FCC1205	2001 regional	2002 national	2003 national	2004 national	Delta
Remote Control	\$0.28	\$0.35	\$0.35	\$0.34	(\$0.01)
Addressable 1	\$4.26	\$8.49	\$7.34	\$7.99	\$0.65
Non-addressable 2	\$0.93	\$0.68	\$0.59	\$0.68	\$0.09

Time Warner aggregated its equipment and installation expenses on a national basis to establish a uniform rate structure in its ~3000 franchises. In addition to equipment rentals, a variety of installation services are tied to the HSC rate. The next table lists the differences in the amount of time required to install cable service since 2001. The 2001 installation average installation times represent North Carolina "regional" values where as the later years reflect Company-wide aggregated measurements.

Average Hours* per Installation	2001 FCC1205 NC regional	2002 FCC1205 company	2003 FCC1205 company	2004 FCC1205 company	Delta +/-	% change
Average Hours per Unwired Home Installation	0.96	1.20	1.22	1.26	0.04	4.17%
Average Hours per Pre-wired Home Installation	0.84	0.85	0.85	0.88	0.03	3.57%
Average Hours per Additional Connection at time of Installation	0.55	0.54	0.53	0.50	-0.03	-5.45%
Average Hours per Additional Connection Requiring Separate Installation	0.73	0.85	0.84	0.88	0.04	5.48%

\*time in hours is expressed as decimal equivalents

Time Warner did not provide documentation to support the basis for Total Maintenance Hours (Schedule C(B)), the average time required to wire a home (Schedule D(A)), time required to complete a "pre-wire" (Schedule D(B), extra average time required to install an additional outlet simultaneously with a primary installation (Schedule D(C)), average time required to install an additional outlet subsequent to the primary installation (Schedule D(D)), average time to perform a hard disconnection (Schedule D(E)), average time to perform a tier change, and the average time

to perform an "apartment" installation (Schedule D(F)).

Time Warner calculated the FCC1205 maximum permitted equipment<sup>13</sup> and installation<sup>14</sup> rates by aggregating its costs on a national basis. The prior year costs were aggregated on a regional basis.<sup>15</sup>

The guiding principle of the Cable Act of 1992,<sup>16</sup> is to protect subscribers from unreasonable rates by ensuring that cable rate levels are equivalent to rates that would be charged in the presence of effective competition.<sup>17</sup> Anecdotal evidence of rates examined in various markets where Time Warner faces true effective competition reveals that Time Warner's BST rates are between 15% to 78 % higher than those in these competitive markets and that basic cable installation rates are between 200% - 4500 % higher than effectively competitive markets. The GAO recently reported that "cable rates are substantially lower (by 15%) than in markets without competition."<sup>18</sup>

---

<sup>13</sup>§76.923 (c)(1) Costs of customer equipment may be aggregated, on a franchise, system, regional, or company level. When submitting its equipment costs based on average charges, the cable operator must provide a general description of the averaging methodology employed and a justification that its averaging methodology produces reasonable equipment rates.

<sup>14</sup>§76.923 (c)(3) Installation costs may be aggregated, on a franchise, system, regional, or company level. When submitting its installation costs based on average charges, the cable operator must provide a general description of the averaging methodology employed and a justification that its averaging methodology produces reasonable equipment rates.

<sup>15</sup>Time Warner is treated as a single company for FCC 1205 rate-making purposes. TWC files a single FCC 1205 throughout the United States with over 3000 local franchise authorities, LFAs, to establish uniform rates for equipment and installation charges.

<sup>16</sup>Specifically, the 1992 Cable Act requires the Commission's regulations "shall be designed to achieve the goal of protecting subscribers of any cable system that is not subject to effective competition from rates for the basic service tier that exceed the rates that would be charged for the basic service tier if such cable system were subject to effective competition." Communications Act, § 623(b)(1), 47 U.S.C. § 543(b)(1)

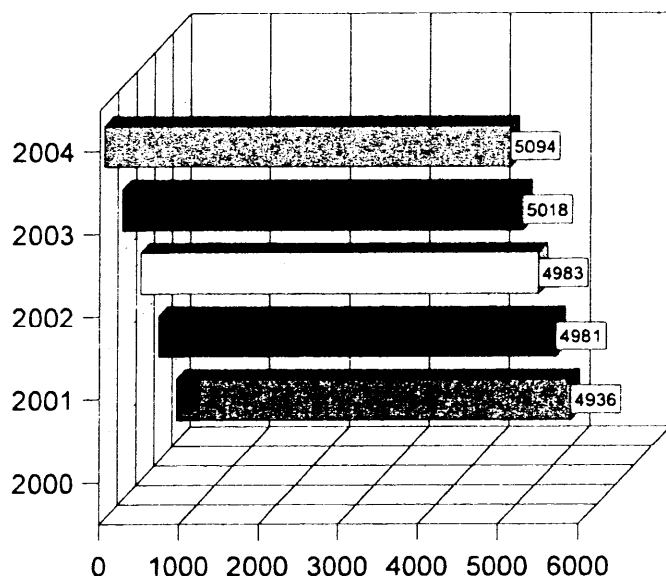
<sup>17</sup>As the FCC stated in its first rate rulemaking order: "The priority established in the Act is clearly to protect the interests of subscribers. An important focus for both basic tier and cable programming service rates, consistent with providing system operators a fair return, is the establishment of rate levels equivalent to rates that would be charged in the presence of effective competition. The criteria to be applied in setting both basic tier and cable programming service rates include a comparison with 'the rates for cable systems, if any, that are subject to effective competition.'" See Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992, 8 FCC Rcd 5631 at para 8 and footnote 10 [April 1993 Report and Order].

<sup>18</sup>Issues Related to Competition and Subscriber Rates in the Cable Television Industry, United States General Accounting Office, October 2003.

It is the Consultant's opinion the FCC's rate making process no longer yields rates that would be found in a competitive head-to-head wireline and no longer satisfies federal law.<sup>19</sup> It fails to consider whether the proposed national rate structure yields prices that are comparable to those found in competitive environments.<sup>20</sup> Lexington (NC) is such a competitive environment where Lexcom Cablevision and Time Warner Cable compete head-to-head for cable television customers.

### Subscriber History

Time Warner believes it will have 5094 subscribers by the end of the Projected Period, an increase of 76 customers.



<sup>19</sup>The 1992 Cable Act (§ 623(b)(1), 47 U.S.C. § 543(b)(1)) required the Commission to prescribe rate regulations that protect subscribers from having to pay unreasonable rates by ensuring that rates for regulated services do not exceed rates that would be charged in the presence of effective competition. For a system that is not subject to effective competition, the Commission is obligated to ensure the reasonableness of rates charged for the basic service tier ("BST").

<sup>20</sup>The FCC wrote in "In the Matter of IMPLEMENTATION OF SECTION OF THE CABLE TELEVISION CONSUMER PROTECTION AND COMPETITION ACT OF 1992 RATE REGULATION, MM Docket 92-266, that... "The priority established in the Act is clearly to protect the interests of subscribers. An important focus for both basic tier and cable programming service rates, consistent with providing system operators a fair return, is the establishment of rate levels equivalent to rates that would be charged in the presence of effective competition."

## **Upper Tier CPST Rate Regulation Expiration**

A sunset provision within the Telecommunications Act of 1996 terminated upper cable service tier regulation on March 31, 1999. Since then, the cable operator is allowed to change upper service tier rates at will upon thirty (30) days notice to the franchise authority and subscribers.

## **Market Trends**

**Rate Hike:** The FCC reported that cable television service rates in the United States increased more than 6 percent last year, while the number of new subscribers declined said the Federal Communications Commission in the Tenth Annual Video Competition Report released December 2003. About 69 million people subscribe to television service offered by cable operators like Charter Communications, Time Warner or Comcast. The hike in the cost of cable service has caught the attention of Senator John McCain, Republican of Arizona and chairman of the Commerce Committee. McCain is expected to conduct a series hearings regarding the cost of cable service and the lack of wireline competition in the industry. The FCC also reported that Satellite companies now have about 18 million customers and it was now possible for a number of major cable system operators to begin losing more subscribers than they gain.

Cable Modem High Speed Internet Service: The total number of residential cable modem in the U.S. and Canada topped the 14-million as of September 30, according to research from Cable Datacom News publisher Kinetic Strategies Inc. The following table shows the pervasiveness with which the cable industry has been able to capture the demand for high-speed Internet Service Provider market with its cable modem product.

Cable Operator	Cable Modem Customers
Comcast	4,861,000
Time Warner	3,046,000
Cox	1,844,125
Charter	1,489,700
Cablevision	984,835
Adelphia	876,991
Bright House	600,000
Mediacom	261,000
Insight	206,500
RCN	187,431
CableOne	121,461
Other	200,000
Total	14,681,043

A recent SkyREPORT poll predicts cable modem subscribers will number 32 million<sup>21</sup> by 2005, more than double the current number.

Cable Phone: Time Warner Cable believes that Video over Internet Protocol (VoIP) services will enable cable operators, like Time Warner to compete with local telephone companies on a national scale. In May 2003, Time Warner Cable began offering residential VoIP in Portland, Maine and has 7,200 customers of which 70% have transferred to transfer their old wireline

---

<sup>21</sup>Source: [www.skyreport.com](http://www.skyreport.com) December 5, 2003

phone numbers to the "cable phone." Time Warner intends to launch VoIP phone service in North Carolina in 2004.<sup>22</sup>

## Recommendation

The Consultant recommends the Town:

Approve the FCC1240 maximum permitted BST rate and the FCC1235 "Add-on" rate applications and FCC1205 Equipment and Installation rates submitted by Time Warner Cable **as compliant with FCC rate regulations and approved subject to conditions.**

## Proceeding

The franchise authority must either approve or deny the operator's FCC1240 BST, FCC1235 Upgrade "Add-on" charge and FCC1205 Equipment and Installation charges by finding the rates to be either compliant or not compliant with the FCC's Rate Regulation Rules. This determination must be based upon a finding of fact. The franchise authority should adopt the Consultant's report as its own, and the public must be granted an opportunity to offer comment on the matter. It is suggested that a public comment period on the matter coincide with a regular public meeting.

A rate order, conveying approval is attached. To be valid, the order must be executed following the conclusion of:

- a. a public meeting where the **Town** grants interested parties an **opportunity to comment**; and
- b. **adoption** by the **Town** of the report as its own - required by FCC rules (this requires a motion to adopt, and a vote).

It is appropriate for public comment to be heard, as related to the various rate issues, at the time the **Town Board** meets to deliberate this matter. Although a statutory public hearing is not required, it is customary to call for public comment in these matters. The comment period may be publicized by issuing a press release to the print and electronic media or announced in other appropriate ways. The Company must be notified of the public meeting and advised to have a representative present to respond to Town officials, the public and otherwise offer comment.

---

<sup>22</sup>[www.convergedigest.com/Bandwidth/newnetworksarticle.asp?ID=9551](http://www.convergedigest.com/Bandwidth/newnetworksarticle.asp?ID=9551)

# STATE OF NORTH CAROLINA

## TOWN OF CARRBORO, NC-0649/0130

### BEFORE THE TOWN BOARD

IN THE MATTER OF:	)	An Order Finding Time Warner Cable's 2004
The Review of FCC1240 Annual Rate	)	FCC1240 Basic Service Tier, FCC1235 Cost of
Adjustment Request, FCC1235	)	Service Rates and FCC1205 Installation Rates
Abbreviated Cost of Service Rate Request,	)	Comply with the FCC's Rules and are Subject to the
and FCC1205 Equipment and Installation	)	Conditions Stated Herein
Rate Request filed by Time Warner	)	
Cable	)	

---

**WHEREAS**, in accordance with the provisions of the Cable Television with the provisions of the Cable Television Consumer Protection and Competition Act of 1992 (1992 Act), the Federal Telecommunications Act of 1996 (1996 Act), the Town Code, and regulations adopted pursuant to that Code, the Town Board is permitted to regulate rates for basic cable services and associated equipment;

**WHEREAS**, Time Warner Cable of Raleigh-Durham (Time Warner) submitted FCC1240 Updating Annual Maximum Permitted Rates filings for Regulated Cable Services with the Town. Time Warner's filings encompass external costs, inflation, and program costs for the True-up period of October 2002 through September 2003, and the projected period of January through December 2004;

**WHEREAS**, the Town received a report from its Consultant stating that Time Warner submitted its FCC1240 before the FCC published its October 2003 updated inflation factors; Time Warner's FCC1240 rate calculations comply with the FCC's rate-making rules;

**WHEREAS**, Time Warner submitted a consolidated "Company" FCC1205 Determining Regulated Equipment and Installation Costs filing with the Town to set the regulated rate for the Hourly Service Charge, Installation Services and Equipment rental rates;

**WHEREAS**, the Town is certified with the FCC to regulate basic service tier rates provided by Time Warner in the Town;

### NOW THEREFORE THE TOWN BOARD MAKES THE FOLLOWING FINDINGS:

**THAT** Time Warner's Combined Maximum Permitted Rate for Basic Tier Service for NC-0130 (\$13.31) complies with the FCC's Rate Regulation Rules;

**THAT** Time Warner's Maximum Permitted Rate for Basic Tier Service for NC-0649 (\$12.42) complies with the FCC's Rate Regulation Rules;

**THAT** Time Warner's \$1.81 "Add-on" Rate for Basic Tier Service complies with the FCC's rate regulation rules;

**THAT** Time Warner's \$1.45 "Add-on" Rate for Basic Tier Service complies with the FCC's rate regulation rules;



**THAT** Time Warner's "Company" \$37.50 HSC complies with the FCC's rate regulation rules;

**THAT** Time Warner may charge a Basic Service Tier rate below the approved combined maximum permitted rate;

**THAT** Time Warner may base its installation rates on its 2003 FCC1205 HSC rate of \$37.50;

**THAT** Time Warner has substantiated adjustments to its FCC1205 equipment rates;

**THAT** Time Warner has substantiated the other adjustments to its cable service rates based on past and estimated cost elements; and

**IT IS THEREFORE ORDERED:**

**THAT** Time Warner's Maximum Permitted Rate for Basic Tier Service (\$12.42) for NC-0649 and (\$13.31) for NC-0130 comply with the FCC's Rate Regulation Rules, its FCC1235 "Add-on" \$1.81 for NC-0649 and \$1.45 for NC-0130 comply with the FCC's Rate Regulation Rules and that Time Warner may charge a combined "selected" BST rate below the approved maximum permitted rate, but not above it; inclusive of the "Add-On" charge, for Basic Tier Service comply with the FCC's Rate Regulation Rules and that Time Warner may charge a combined "selected" BST rate below the approved maximum permitted rates, but not above it;

**THAT** the maximum permitted Basic Service Tier rate for Time Warner subscribers in the Town for the projected period shall not exceed \$13.31 in NC-0130 nor \$12.42 in NC-0649 monthly;

**THAT** Time Warner's Equipment, Installation and HSC rates comply with the FCC's rate regulation rules;

**THAT** the Town reserves its right to revise this Rate Order subject to subsequent contrary findings by the Board; and

**THAT** this Rate Order shall become effective immediately, copies will be released to Time Warner and the public.

**ISSUED BY ORDER OF THE CARRBORO TOWN BOARD**

This the 17th day of February 2004.

\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
Clerk

Deliver Report and Executed Order via Certified U.S. Mail to: Paul Baccellieri, VP Finance, Time Warner Cable 101 Innovation AV., Suite 100, Morrisville, NC 27560.

Copy to: Action Audits, LLC., 101 Pocono LN., Cary, NC 27513.

# **Exhibit I**

**Recalculated TWC  
FCC1240**

(Attached)

**FCC FORM 1240**  
**UPDATING MAXIMUM PERMITTED RATES FOR REGULATED CABLE SERVICES**

Cable Operator:

Name of Cable Operator Time Warner Cable		
Mailing Address of Cable Operator 101 Innovation Avenue, Suite 100		
City Morrisville	State NC	ZIP Code 27560

YES

NO

Does this filing involve a single franchise authority and a single community unit?

x

If yes, complete the franchise authority information below and enter the associated CUID number here:

NC-0130

YES

NO

Does this filing involve a single franchise authority but multiple community units?

x

If yes, enter the associated CUIDs below and complete the franchise authority information at the bottom of this page:

Recalculation of TWC's 2004 October 1, 2003 rate filing for calendar year 2004  
 Carrboro1240 for CUID #NC-0130

Does this filing involve multiple franchise authorities?

If yes, attach a separate sheet for each franchise authority and include the following franchise authority information with its associated CUID(s):

Franchise Authority Information:

Name of Local Franchising Authority <b>CARRBORO</b>		
Mailing Address of Local Franchising Authority		
City	State	ZIP Code
Telephone number	Fax Number	

For what purpose is this Form 1240 being filed? Please put an "X" in the appropriate box.

Original Form 1240 for Basic Tier

x

Amended Form 1240 for Basic Tier

Original Form 1240 for CPS Tier

Amended Form 1240 for CPS Tier

Indicate the one year time period for which you are setting rates (the Projected Period).

01/01/2004

TO

12/31/2004

(mm/yy)

Indicate the time period for which you are performing a true-up.

10/01/2002

TO

09/30/2003

(mm/yy)

Status of Previous Filing of FCC Form 1240 (enter an "x" in the appropriate box)

YES

NO

Is this the first FCC Form 1240 filed in any jurisdiction?

x

Has an FCC Form 1240 been filed previously with the FCC?

If yes, enter the date of the most recent filing:

04/16/1998

(mm/dd/yy)

YES

NO

Has an FCC Form 1240 been filed previously with the Franchising Authority?

x

If yes, enter the date of the most recent filing:

09/30/2002

(mm/dd/yy)

COG

Status of Previous Filing of FCC Form 1210 (enter an "x" in the appropriate box)

Has an FCC Form 1210 been previously filed with the FCC?

YES

NO

x

If yes, enter the date of the most recent filing:

(mm/dd/yy)

Has an FCC Form 1210 been previously filed with the Franchising Authority?

YES

NO

x

If yes, enter the date of the most recent filing:

05/25/1995

(mm/dd/yy)

Status of FCC Form 1200 Filing (enter an "x" in the appropriate box)

Has an FCC Form 1200 been previously filed with the FCC?

YES

NO

x

If yes, enter the date filed:

(mm/dd/yy)

Has an FCC Form 1200 been previously filed with the Franchising Authority?

YES

NO

X

If yes, enter the date filed:

08/05/1994

(mm/dd/yy)

3. Cable Programming Services Complaint Status (enter an "x" in the appropriate box)

Is this form being filed in response to an FCC Form 329 complaint?

YES

NO

x

If yes, enter the date of the complaint:

(mm/dd/yy)

4. Is FCC Form 1205 Being Included With This Filing

YES

NO

x

5. Selection of "Going Forward" Channel Addition Methodology (enter an "x" in the appropriate box)

☐ Check here if you are using the original rules [MARKUP METHOD].

☐ Check here if you are using the new, alternative rules [CAPS METHOD].

2000 MPR=\$8.66

using the CAPS METHOD, have you elected to revise recovery for

2001 MPR=\$10.68

channels added during the period May 15, 1994 to Dec. 31, 1994?

2002 MPR=\$11.01

6. Headend Upgrade Methodology

2003 MPR=\$11.76

NOTE: Operators must certify to the Commission their eligibility to use this upgrade methodology and attach an equipment list and depreciation schedule.

2004 MPR=\$11.86

☐ Check here if you are a qualifying small system using the streamlined headend upgrade methodology.

## Part I: Preliminary Information

### Module A: Maximum Permitted Rate From Previous Filing

Line Description	1999 MPR Basic	TWC MPR 2003	c Tier 3	d Tier 4	e Tier 5
Current Maximum Permitted Rate	\$11.7640	\$11.0079			

### Module B: Subscribership

Line Description	a Basic	b Tier 2	c Tier 3	d Tier 4	e Tier 5
Average Subscribership For True-Up Period 1	4,614	4,623			
Average Subscribership For True-Up Period 2					
Estimated Average Subscribership For Projected Period	4,684	4,630			

### Module C: Inflation Information

Line Description		
Unclaimed Inflation: Operator Switching From 1210 To 1240		1.0000
Unclaimed Inflation: Unregulated Operator Responding to Rate Complaint		1.0000
Inflation Factor For True-Up Period 1 [Wks 1]		1.0224
Inflation Factor For True-Up Period 2 [Wks 1]		
Current FCC Inflation Factor		1.0239

## Module D: Calculating the Base Rate

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
1	Current Headend Upgrade Segment					
2	Current External Costs Segment	\$2.0879	\$1.1329			
3	Current Caps Method Segment					
4	Current Markup Method Segment					
5	Current Channel Movement and Deletion Segment					
6	Current True-Up Segment	\$0.3937	\$0.4899			
7	Current Inflation Segment	\$0.1110	\$0.2937			
8	Base Rate (A1-D1-D2-D3-D4-D5-D6-D7)	\$9.1714	\$9.0914			

### Part II: True-Up Period

#### Module E: Timing Information

Line	Line Description	
1	What Type of True-Up Is Being Performed? (Answer "1", "2", or "3". See Instructions for a description of these types) If "1", go to Module I. If "2", answer E2 and E3. If "3", answer E2, E3, E4, and E5.	2
2	Number of Months in the True-Up Period 1	12
3	Number of Months between the end of True-Up Period 1 and the end of the most recent Projected Period	3
4	Number of Months in True-Up Period 2 Eligible for Interest	
5	Number of Months True-Up Period 2 Ineligible for Interest	

## Module F: Maximum Permitted Rate For True-Up Period 1

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
1	Caps Method Segment For True-Up Period 1 [Wks 2]		\$0.0000			
2	Markup Method Segment For True-Up Period 1 [Wks 3]					
3	Chan Mvmnt Deletn Segment For True-Up Period 1 [Wks 4/5]					
4	True-Up Period 1 Rate Eligible For Inflation [D8+F1+F2+F3]	\$9.1714	\$9.0914			
5	Inflation Segment for True-Up Period 1 [(F4*C3)-F4]	\$0.2052	\$0.2034			
6	Headend Upgrade Segment For True-Up Period 1 [Wks 6]					
7	External Costs Segment For True-Up Period 1 [Wks 7]	\$2.1159	\$1.3241	ERR		
8	True-Up Segment For True-Up Period 1	\$0.3951	\$0.4925			
9	Max Perm Rate for True-Up Period 1 [F4+F5+F6+F7+F8]	\$11.8876	\$11.1115			

## Module G: Maximum Permitted Rate For True-Up Period 2

Line	Line Description	a Basic	b Tier 2	c Tier 3	d Tier 4	e Tier 5
1	Caps Method Segment For True-Up Period 2 [Wks 2]					
2	Markup Method Segment For True-Up Period 2 [Wks 3]					
3	Chan Mvmnt Deletn Segment For True-Up Period 2 [Wks 4/5]					
4	TU Period 2 Rate Eligible For Inflation [D8+F5+G1+G2+G3]					
5	Inflation Segment for True-Up Period 2 [(G4*C4)-G4]					
6	Headend Upgrade Segment For True-Up Period 2 [Wks 6]					
7	External Costs Segment For True-Up Period 2 [Wks 7]					
8	True-Up Segment For True-Up Period 2					
9	Max Perm Rate for True-Up Period 2 [G4+G5+G6+G7+G8]					

## Module H: True-Up Adjustment Calculation

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
Adjustment For True-Up Period 1						
1	Revenue From Period 1	\$637,481.6625	\$589,390.0000			
2	Revenue From Max Permitted Rate for Period 1	\$658,237.8101	\$609,534.5171			
3	True-Up Period 1 Adjustment [H2-H1]	\$20,756.1476	\$20,144.5171			
4	Interest on Period 1 Adjustment	\$1,784.1368	\$1,731.5629			
Adjustment For True-Up Period 2						
5	Revenue From Period 2 Eligible for Interest					
6	Revenue From Max Perm Rate for Period 2 Eligible For Interest					
7	Period 2 Adjustment Eligible For Interest [H6-H5]					
8	Interest on Period 2 Adjustment (See instructions for formula)					
9	Revenue From Period 2 Ineligible for Interest					
10	Revenue From Max Perm Rate for Period 2 Ineligible for Interest					
11	Period 2 Adjustment Ineligible For Interest [H10-H9]					
Total True-Up Adjustment						
12	Previous Remaining True-Up Adjustment					
13	Total True-Up Adjustment [H3+H4+H7+H8+H11+H12]	\$22,540.2844	\$21,876.0800			
14	Amount of True-Up Claimed For This Projected Period	\$22,540.2844	\$21,876.0800			
15	Remaining True-Up Adjustment [H13-H14]	\$0.0000	\$0.0000			

### Part III: Projected Period

#### Module I: New Maximum Permitted Rate

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
	Caps Method Segment For Projected Period [Wks 2]					
	Markup Method Segment For Projected Period [Wks 3]					
	Chan Mvmt Deletn Segment For Projected Period [Wks 4/5]					
	Proj. Period Rate Eligible For Inflation [D8+F5+G5+I1+I2+I3+I4+I5+I6+I7+I8+I9+I10+I11+I12+I13+I14+I15+I16+I17+I18+I19+I20+I21+I22+I23+I24+I25+I26+I27+I28+I29+I30+I31+I32+I33+I34+I35+I36+I37+I38+I39+I40+I41+I42+I43+I44+I45+I46+I47+I48+I49+I50+I51+I52+I53+I54+I55+I56+I57+I58+I59+I60+I61+I62+I63+I64+I65+I66+I67+I68+I69+I70+I71+I72+I73+I74+I75+I76+I77+I78+I79+I80+I81+I82+I83+I84+I85+I86+I87+I88+I89+I90+I91+I92+I93+I94+I95+I96+I97+I98+I99+I100]	\$9.3766	\$9.2948			
	Inflation Segment for Projected Period [(I4*C5)-I4]	\$0.2241	\$0.2221			
	Headend Upgrade Segment For Projected Period [Wks 6]					
	External Costs Segment For Projected Period [Wks 7]	\$1.8597	\$2.0878	ERR		
	True-Up Segment For Projected Period	\$0.4010	\$0.3937			
	Max Permitted Rate for Projected Period [I4+I5+I6+I7+I8]	\$11.8614	\$11.9985			
0	Operator Selected Rate For Projected Period	\$11.55	\$11.70			

MPR 1240	\$11.86	Delta MPR & Selected	\$0.31
2001 FCC 1235 Add-on MPR	\$1.45		
Combined Maximum Permitted Rate	\$13.31		
Combined TWC Selected Rate	\$13.00		
Selected Rate Below MPR	\$0.31		

## Worksheet 1 - True-Up Period Inflation

or instructions, see Appendix A of Instructions For FCC Form 1240

Line	Period	FCC Inflation Factor
101	Month 1	1.78%
102	Month 2	1.78%
103	Month 3	1.78%
104	Month 4	2.39%
105	Month 5	2.39%
106	Month 6	2.39%
107	Month 7	2.39%
108	Month 8	2.39%
109	Month 9	2.39%
110	Month 10	2.39%
111	Month 11	2.39%
112	Month 12	2.39%
113	Average Inflation Factor for True-Up Period 1	1.0224
114	Month 13	
115	Month 14	
116	Month 15	
117	Month 16	
118	Month 17	
119	Month 18	
120	Month 19	
121	Month 20	
122	Month 21	
123	Month 22	
124	Month 23	
125	Month 24	
126	Average Inflation Factor for True-Up Period 2	

	FCC Inflation Factor*
October	1.78%
November	1.78%
December	1.78%
January	2.39%
February	2.39%
March	2.39%
April	1.00%
May	1.00%
June	1.00%
July	1.00%
August	1.00%
September	1.00%
12 Month Average	1.0154

\* published by FCC 10/2002

TWC	1.0224
Refresh	-1.0154
Delta	0.0070

## Worksheet 7 - External Costs True-Up Period

For instructions, see Appendix A of Instructions For FCC Form 1240

True-Up Period	Projected Period
X	
	12

Question 1. For which time period are you filling out this worksheet? [Put an "X" in the appropriate box.]

Question 2. How long is the first period, in months, for which rates are being set with this worksheet?

Question 3. How long is the second period, in months, for which rates are being set with this worksheet?

Line	Line Description	a Basic	b 2003	c 2002	d Tier 4	e Tier 5
------	------------------	------------	-----------	-----------	-------------	-------------

### Period 1

#### External Costs Eligible for Markup

01	Cost of Programming For Channels Added Prior to 5/15/94 or After 5/15/94 Using Markup Method For Period	\$103,191.74	\$62,908.77	\$23,075.04		
02	Retransmission Consent Fees For Period					
03	Copyright Fees For Period	\$5,785.43	\$5,424.25	\$4,777.61		
04	External Costs Eligible For 7.5% Markup	\$108,977.17	\$68,333.02	\$27,852.65		
05	Marked Up External Costs	\$117,150.4578	\$73,457.9965	\$29,941.5988		

#### External Costs Not Eligible for Markup

06	Cable Specific Taxes For Period	\$0.00	\$0.00	\$0.00		
07	Franchise Related Costs For Period	\$0.00	\$0.00	\$0.00		
08	Commission Regulatory Fees For Period	\$0.00	\$0.00	\$0.00		
09	Total External Costs For Period	\$117,150.4578	\$73,457.9965	\$29,941.5988		
10	Monthly, Per-Subscriber External Costs For Period 1	\$2.1159	\$1.3241	ERR		

### Period 2

#### External Costs Eligible for Markup

1	Cost of Programming For Channels Added Prior to 5/15/94 or After 5/15/94 Using Markup Method For Period					
2	Retransmission Consent Fees For Period					
3	Copyright Fees For Period					
4	External Costs Eligible For 7.5% Markup					
5	Marked Up External Costs					

#### External Costs Not Eligible for Markup

6	Cable Specific Taxes For Period					
7	Franchise Related Costs For Period					
8	Commission Regulatory Fees For Period					
9	Total External Costs For Period					
0	Monthly, Per-Subscriber External Costs For Period 2					



## Worksheet 7 - External Costs Projected Period

For instructions, see Appendix A of Instructions For FCC Form 1240

True-Up Period	Projected Period
	X
	12
	0

Question 1 For which time period are you filling out this worksheet? [Put an "X" in the appropriate box.]

Question 2 How long is the first period, in months, for which rates are being set with this worksheet?

Question 3 How long is the second period, in months, for which rates are being set with this worksheet?

Line	Line Description	a Basic	b 2003	c 2002	d Tier 4	e Tier 5
<b>Period 1</b>						
<b>External Costs Eligible for Markup</b>						
01	Cost of Programming For Channels Added Prior to 5/15/94 or After 5/15/94 Using Markup Method For Period	\$91,363.86	\$102,474.75	\$53,965.27		
02	Retransmission Consent Fees For Period					
03	Copyright Fees For Period	\$5,872.21	\$5,432.79	\$4,805.76		
04	External Costs Eligible For 7.5% Markup	\$97,236.07	\$107,907.54	\$58,771.03		
05	Marked Up External Costs	\$104,528.7753	\$116,000.6055	\$63,178.8573		
<b>External Costs Not Eligible for Markup</b>						
06	Cable Specific Taxes For Period					
07	Franchise Related Costs For Period					
08	Commission Regulatory Fees For Period					
09	Total External Costs For Period	\$104,528.7753	\$116,000.6055	\$63,178.8573		
10	Monthly, Per-Subscriber External Costs For Period 1	\$1.8597	\$2.0878	ERR		

# Worksheet 8

For instructions, see Appendix A of Instructions For FCC Form 1240

Question 1: How long is the True-Up Period 1, in months?

12
----

Question 2: How long is the True-Up Period 2, in months?

Line	Line Description	a Basic	b Tier 2	c Tier 3	d Tier 4	e Tier 5
01	Month 1	\$10.9500	\$9.6500			
02	Month 2	\$10.9500	\$9.6500			
03	Month 3	\$10.9500	\$9.6500			
04	Month 4	\$11.7000	\$10.9500			
05	Month 5	\$11.7000	\$10.9500			
06	Month 6	\$11.7000	\$10.9500			
07	Month 7	\$11.7000	\$10.9500			
08	Month 8	\$11.7000	\$10.9500			
09	Month 9	\$11.7000	\$10.9500			
10	Month 10	\$11.7000	\$10.9500			
11	Month 11	\$11.7000	\$10.9500			
12	Month 12	\$11.7000	\$10.9500			
13	Period 1 Average Rate	\$11.5125	\$10.6250			
14	Month 13					
15	Month 14					
16	Month 15					
17	Month 16					
18	Month 17					
19	Month 18					
20	Month 19					
21	Month 20					
22	Month 21					
23	Month 22					
24	Month 23					
25	Month 24					
26	Period 2 Average Rate					

**FCC FORM 1240**  
**UPDATING MAXIMUM PERMITTED RATES FOR REGULATED CABLE SERVICES**

Cable Operator:

Name of Cable Operator Time Warner Cable		
Mailing Address of Cable Operator 101 Innovation Avenue, Suite 100		
City Morrisville	State NC	ZIP Code 27560

YES                      NO

Does this filing involve a single franchise authority and a single community unit?

x

If yes, complete the franchise authority information below and enter the associated CUID number here:

**NC-649**

YES                      NO

Does this filing involve a single franchise authority but multiple community units?

x

If yes, enter the associated CUIDs below and complete the franchise authority information at the bottom of this page:

Recalculation of TWC's 2004 October 1, 2003 rate filing for calendar year 2004  
 Carrboro1240 for CUID #NC-0649

Does this filing involve multiple franchise authorities?

If yes, attach a separate sheet for each franchise authority and include the following franchise authority information with its associated CUID(s):

Franchise Authority Information:

Name of Local Franchising Authority <b>CARRBORO</b>		
Mailing Address of Local Franchising Authority		
City	State	ZIP Code
Telephone number	Fax Number	

For what purpose is this Form 1240 being filed? Please put an "X" in the appropriate box.

Original Form 1240 for Basic Tier

x

Amended Form 1240 for Basic Tier

Original Form 1240 for CPS Tier

Amended Form 1240 for CPS Tier

Indicate the one year time period for which you are setting rates (the Projected Period).

TO

01/01/2004                      12/31/2004

(mm/yy)

Indicate the time period for which you are performing a true-up.

TO

10/01/2002                      09/30/2003

(mm/yy)

Status of Previous Filing of FCC Form 1240 (enter an "x" in the appropriate box)

YES                      NO

Is this the first FCC Form 1240 filed in any jurisdiction?

x

Has an FCC Form 1240 been filed previously with the FCC?

x

If yes, enter the date of the most recent filing:

04/16/1998

(mm/dd/yy)

YES                      NO

Has an FCC Form 1240 been filed previously with the Franchising Authority?

x

If yes, enter the date of the most recent filing:

09/30/2001

(mm/dd/yy)

J-COG

## 3. Status of Previous Filing of FCC Form 1210 (enter an "x" in the appropriate box)

a. Has an FCC Form 1210 been previously filed with the FCC?

YES

NO

If yes, enter the date of the most recent filing:

(mm/dd/yy)

b. Has an FCC Form 1210 been previously filed with the Franchising Authority?

YES

NO

If yes, enter the date of the most recent filing:

(mm/dd/yy)

## 4. Status of FCC Form 1200 Filing (enter an "x" in the appropriate box)

a. Has an FCC Form 1200 been previously filed with the FCC?

YES

NO

If yes, enter the date filed:

(mm/dd/yy)

b. Has an FCC Form 1200 been previously filed with the Franchising Authority?

YES

NO

If yes, enter the date filed:

(mm/dd/yy)

## 5. Cable Programming Services Complaint Status (enter an "x" in the appropriate box)

a. Is this form being filed in response to an FCC Form 329 complaint?

YES

NO

If yes, enter the date of the complaint:

(mm/dd/yy)

## 6. Is FCC Form 1205 Being Included With This Filing

YES

NO

## 7. Selection of "Going Forward" Channel Addition Methodology (enter an "x" in the appropriate box)

☐ Check here if you are using the original rules [MARKUP METHOD].☐ Check here if you are using the new, alternative rules [CAPS METHOD].

2000 MPR=\$8.51

If using the CAPS METHOD, have you elected to revise recovery for channels added during the period May 15, 1994 to Dec. 31, 1994?

2001 MPR=\$9.56

2002 MPR=\$8.95

## 8. Headend Upgrade Methodology

2003 MPR=\$9.89

2004 MPR=\$10.61

NOTE: Operators must certify to the Commission their eligibility to use this upgrade methodology and attach an equipment list and depreciation schedule.

☐ Check here if you are a qualifying small system using the streamlined headend upgrade methodology.

## Part I: Preliminary Information

## Module A: Maximum Permitted Rate From Previous Filing

Line Description	Basic	2003	c Tier 3	d Tier 4	e Tier 5
Current Maximum Permitted Rate	\$9.8960	\$8.9538			

## Module B: Subscribership

Line Description	a Basic	b Tier 2	c Tier 3	d Tier 4	e Tier 5
Average Subscribership For True-Up Period 1	404	360			
Average Subscribership For True-Up Period 2					
Estimated Average Subscribership For Projected Period	410	361			

## Module C: Inflation Information

Line Description	
Unclaimed Inflation: Operator Switching From 1210 To 1240	1.0000
Unclaimed Inflation: Unregulated Operator Responding to Rate Complaint	1.0000
Inflation Factor For True-Up Period 1 [Wks 1]	1.0224
Inflation Factor For True-Up Period 2 [Wks 1]	
Current FCC Inflation Factor	1.0239

## Module D: Calculating the Base Rate

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
1	Current Headend Upgrade Segment					
2	Current External Costs Segment	\$1 9785	\$1 1451			
3	Current Caps Method Segment					
4	Current Markup Method Segment					
5	Current Channel Movement and Deletion Segment					
6	Current True-Up Segment	(\$0.1645)	(\$0.3627)			
7	Current Inflation Segment	\$0.0966	\$0.2557			
8	Base Rate [A1-D1-D2-D3-D4-D5-D6-D7]	\$7.9854	\$7.9157			

**Part II: True-Up Period**  
**Module E: Timing Information**

Line	Line Description	
1	What Type of True-Up Is Being Performed? (Answer "1", "2", or "3". See Instructions for a description of these types.) If "1", go to Module I. If "2", answer E2 and E3. If "3", answer E2, E3, E4, and E5.	2
2	Number of Months in the True-Up Period 1	12
3	Number of Months between the end of True-Up Period 1 and the end of the most recent Projected Period	3
4	Number of Months in True-Up Period 2 Eligible for Interest	
5	Number of Months True-Up Period 2 Ineligible for Interest	

## Module F: Maximum Permitted Rate For True-Up Period 1

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
1	Caps Method Segment For True-Up Period 1 [Wks 2]		\$0.0000			
2	Markup Method Segment For True-Up Period 1 [Wks 3]					
3	Chan Mvmnt Deletn Segment For True-Up Period 1 [Wks 4]					
4	True-Up Period 1 Rate Eligible For Inflation [D8 + F1 + F2 + F3]	\$7.9854	\$7.9157			
5	Inflation Segment for True-Up Period 1 [(F4 * C3) - F4]	\$0.1787	\$0.1771			
6	Headend Upgrade Segment For True-Up Period 1 [Wks 6]					
7	External Costs Segment For True-Up Period 1 [Wks 7]	\$1.9707	\$1.2563			
8	True-Up Segment For True-Up Period 1	(\$0.1469)	(\$0.3659)			
9	Max Perm Rate for True-Up Period 1 [F4 + F5 + F6 + F7 + F8]	\$9.9878	\$8.9833			

## Module G: Maximum Permitted Rate For True-Up Period 2

Line	Line Description	a Basic	b Tier 2	c Tier 3	d Tier 4	e Tier 5
1	Caps Method Segment For True-Up Period 2 [Wks 2]					
2	Markup Method Segment For True-Up Period 2 [Wks 3]					
3	Chan Mvmnt Deletn Segment For True-Up Period 2 [Wks 4]					
4	TU Period 2 Rate Eligible For Inflation [D8 + F5 + G1 + G2 + G3]					
5	Inflation Segment for True-Up Period 2 [(G4 * C4) - G4]					
6	Headend Upgrade Segment For True-Up Period 2 [Wks 6]					
7	External Costs Segment For True-Up Period 2 [Wks 7]					
8	True-Up Segment For True-Up Period 2					
9	Max Perm Rate for True-Up Period 2 [G4 + G5 + G6 + G7 + G8]					

### Module H: True-Up Adjustment Calculation

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
Adjustment For True-Up Period 1						
11	Revenue From Period 1	\$46,383.8325	\$38,998.8000			
12	Revenue From Max Permitted Rate for Period 1	\$48,380.5812	\$38,343.4971			
13	True-Up Period 1 Adjustment [H2-H1]	\$1,996.7487	(\$655.3029)			
14	Interest on Period 1 Adjustment	\$171.6346	(\$56.3279)			
Adjustment For True-Up Period 2						
15	Revenue From Period 2 Eligible for Interest					
16	Revenue From Max Perm Rate for Period 2 Eligible For Interest					
17	Period 2 Adjustment Eligible For Interest [H6-H5]					
18	Interest on Period 2 Adjustment (See instructions for formula)					
19	Revenue From Period 2 Ineligible for Interest					
20	Revenue From Max Perm Rate for Period 2 Ineligible for Interest					
21	Period 2 Adjustment Ineligible For Interest [H10-H9]					
Total True-Up Adjustment						
22	Previous Remaining True-Up Adjustment					
23	Total True-Up Adjustment [H3+H4+H7+H8+H11+H12]	\$2,168.3833	(\$711.6308)			
24	Amount of True-Up Claimed For This Projected Period	\$2,168.3833	(\$711.6308)			
25	Remaining True-Up Adjustment [H13-H14]	\$0.0000	\$0.0000			

### Part III: Projected Period Module I: New Maximum Permitted Rate

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
	Caps Method Segment For Projected Period [Wks 2]					
	Markup Method Segment For Projected Period [Wks 3]					
	Chan Mvmt Deletn Segment For Projected Period [Wks 4/5]					
	Proj. Period Rate Eligible For Inflation [D8+F5+G5+I1+I2]	\$8.1641	\$8.0928			
	Inflation Segment for Projected Period [(I4*G5)-I4]	\$0.1951	\$0.1934			
	Headend Upgrade Segment For Projected Period [Wks 6]					
	External Costs Segment For Projected Period [Wks 7]	\$1.8089	\$1.9761			
	True-Up Segment For Projected Period	\$0.4411	(\$0.1645)			
	Max Permitted Rate for Projected Period [I4+I5+I6+I7+I8]	\$10.6092	\$10.0979			
0	Operator Selected Rate For Projected Period	\$10.4400	\$9.7900			

MPR 1240	\$10.61	Delta MPR & Selected	\$0.17
2001 FCC 1235 Add-on MPR	<b>\$1.81</b>		
<b>Combined Maximum Permitted Rate</b>	<b>\$12.42</b>		
<b>Combined TWC Selected Rate</b>	<b>\$12.25</b>		
Selected Rate Below MPR	\$0.17		

## Worksheet 1 - True-Up Period Inflation

or instructions, see Appendix A of Instructions For FCC Form 1240

Line	Period	FCC Inflation Factor
101	Month 1	1.78%
102	Month 2	1.78%
103	Month 3	1.78%
104	Month 4	2.39%
105	Month 5	2.39%
106	Month 6	2.39%
107	Month 7	2.39%
108	Month 8	2.39%
109	Month 9	2.39%
110	Month 10	2.39%
111	Month 11	2.39%
112	Month 12	2.39%
113	Average Inflation Factor for True-Up Period 1	1.0224
114	Month 13	
115	Month 14	
116	Month 15	
117	Month 16	
118	Month 17	
119	Month 18	
120	Month 19	
121	Month 20	
122	Month 21	
123	Month 22	
124	Month 23	
125	Month 24	
126	Average Inflation Factor for True-Up Period 2	

	FCC Inflation Factor*
October	1.78%
November	1.78%
December	1.78%
January	2.39%
February	2.39%
March	2.39%
April	1.00%
May	1.00%
June	1.00%
July	1.00%
August	1.00%
September	1.00%
12 Month Average	1.0154

\* published by FCC 10/2002

TWC	1.0224
Refresh	-1.0154
	-----
Delta	0.0070

## Worksheet 7 - External Costs True-Up Period

For instructions, see Appendix A of Instructions For FCC Form 1240

True-Up Period	Projected Period
X	
	12

Question 1. For which time period are you filling out this worksheet? [Put an "X" in the appropriate box.]

Question 2. How long is the first period, in months, for which rates are being set with this worksheet?

Question 3. How long is the second period, in months, for which rates are being set with this worksheet?

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
------	------------------	------------	-----------	-------------	-------------	-------------

### Period 1

<b>External Costs Eligible for Markup</b>						
01	Cost of Programming For Channels Added Prior to 5/15/94 or After 5/15/94 Using Markup Method For Period	\$8,463.87	\$4,703.89			
02	Retransmission Consent Fees For Period					
03	Copyright Fees For Period	\$423.40	\$344.88			
04	External Costs Eligible For 7.5% Markup	\$8,887.27	\$5,048.77			
05	Marked Up External Costs	\$9,553.8153	\$5,427.4278			
<b>External Costs Not Eligible for Markup</b>						
06	Cable Specific Taxes For Period	\$0.00	\$0.00			
07	Franchise Related Costs For Period	\$0.00	\$0.00			
08	Commission Regulatory Fees For Period	\$0.00	\$0.00			
09	Total External Costs For Period	\$9,553.8153	\$5,427.4278			
10	Monthly, Per-Subscriber External Costs For Period 1	\$1.9707	\$1.2563			

### Period 2

<b>External Costs Eligible for Markup</b>						
01	Cost of Programming For Channels Added Prior to 5/15/94 or After 5/15/94 Using Markup Method For Period					
02	Retransmission Consent Fees For Period					
03	Copyright Fees For Period					
04	External Costs Eligible For 7.5% Markup					
05	Marked Up External Costs					
<b>External Costs Not Eligible for Markup</b>						
06	Cable Specific Taxes For Period					
07	Franchise Related Costs For Period					
08	Commission Regulatory Fees For Period					
09	Total External Costs For Period					
10	Monthly, Per-Subscriber External Costs For Period 2					



## Worksheet 7 - External Costs Projected Period

For instructions, see Appendix A of Instructions For FCC Form 1240

True-Up Period	Projected Period
	X
	12
	0

Question 1. For which time period are you filling out this worksheet? [Put an "X" in the appropriate box.]

Question 2. How long is the first period, in months, for which rates are being set with this worksheet?

Question 3. How long is the second period, in months, for which rates are being set with this worksheet?

Line	Line Description	a Basic	b 2003	c Tier 3	d Tier 4	e Tier 5
<b>Period 1</b>						
<b>External Costs Eligible for Markup</b>						
01	Cost of Programming For Channels Added Prior to 5/15/94 or After 5/15/94 Using Markup Method For Period	\$7,849.12	\$7,617.96			
02	Retransmission Consent Fees For Period					
03	Copyright Fees For Period	\$429.75	\$345.43			
04	External Costs Eligible For 7.5% Markup	\$8,278.87	\$7,963.39			
05	Marked Up External Costs	\$8,899.7853	\$8,560.6443			
<b>External Costs Not Eligible for Markup</b>						
06	Cable Specific Taxes For Period					
07	Franchise Related Costs For Period					
08	Commission Regulatory Fees For Period					
09	Total External Costs For Period	\$8,899.7853	\$8,560.6443			
10	Monthly, Per-Subscriber External Costs For Period 1	\$1.8089	\$1.9761			

J-COG

Worksheet 8 Rates

For instructions, see Appendix A of Instructions For FCC Form 1240

Question 1. How long is the True-Up Period 1, in months?

12

Question 2. How long is the True-Up Period 2, in months?

Line	Line Description	a Basic	b Tier 2	c Tier 3	d Tier 4	e Tier 5
301	Month 1	\$8.9400				
302	Month 2	\$8.9400				
303	Month 3	\$8.9400				
304	Month 4	\$9.7900				
305	Month 5	\$9.7900				
306	Month 6	\$9.7900				
307	Month 7	\$9.7900				
308	Month 8	\$9.7900				
309	Month 9	\$9.7900				
310	Month 10	\$9.7900				
311	Month 11	\$9.7900				
312	Month 12	\$9.7900				
313	Period 1 Average Rate	\$9.5775				

314	Month 13					
315	Month 14					
316	Month 15					
317	Month 16					
318	Month 17					
319	Month 18					
320	Month 19					
321	Month 20					
322	Month 21					
323	Month 22					
324	Month 23					
325	Month 24					
326	Period 2 Average Rate					