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June 20, 1991

Martin J. Thompson
Risrdan & McKinzie
California Plaza
300 South Grand Avenue
29th Floor
Los Wngeles, California 90871

Dear Mr, Thompson:

This letter responds to your revest for a staff advisaq opinion concerning a proposal by a physician BPW network that

sponsors a preferred provider organization (PPO) to negotiate prices with individual hospitals whose sewices will be marketed

to payers as part of the PPQ package. For the reasons discussed below, it does not appear the proposed conduct would violate the Federal Trade Comission Act.

According to your letter of April 11, 1991, you represent a physician %PA network that

model will not be
acceptable forle the

EPA proposes to bargain on an individual
basis with hbspieals that it wants to include in the package of services it offers to third-party payers. It will solicit from each of the desired hospitals its best price offer, and then negotiate, as necessary, with any hospital whose prices must be reduced iP the PPO is to be successfuPly marketed to third-party payers. Each hospital" bid price will be kept confidential, and the hospitals will not participate in the management sf the IPA.

D Mr, Martin J. Thompson
Your letter states that the 9PW will take certain
precautions to avoid facilitating collusion among the hospitals, In telephone conversations supplementing your letter, you have explaiA3edthat the negotiations will be conducted by an individual or a small group of persons within the IQA; that those persons will not have any affiliation with any hospital; that the bid or other price infomation of a hospital will not be disclosed to other hospitals; that discussions will not be carried out in a way that would enable a hospital to ascertain the bids of other hospitals; and that hospitals-bids would not be widely disclosed within the board sf directors or general membership sf the IPA.

I understand from your letter that the PPO operates in a
large metropolitan area within which many managed case programs
compete, Hospitals typically participate in a nuder of managed
care plans, and your client will contract with hospitals on a
won-exclusive basis,

You further state that the IPA network represents less than
10% of the physicians practicing in the region seu0 0 13 291.4f3 Tm�(will se4hic

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services or insurers, HEm proposed to act as an intemediaq between health care providers and third-pasty payers, negotiating
on behalf of individual providers or integrated groups of
providers binding agreements on tha prices that each provider

would accept as papent for senices provided to patients covered ' by- third-party payers that contracted with the PPO.
Your client proposes to perfom a function similar to tkat
performed by Hem, in that nt will be an intermediaq between
individual inda/hp(each)Tj�-0.0n3�-0.0485 �(provider)Tj�-0.0101c 13 0 00398

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hospital, Therefore, the proposed arrangement would not appear
to be a price-fixing mechanism for hospitals, or create any other horizontal agreement that is inherently suspect under the
antitrust laws,

Moreover, there does not appear to be any significant danger appear