deferred taxes and the amortization of investment tax credit from year to year. In this filing the exogenous cost reflects the difference between the 1992/1993 and the 1993/1994 flow through of EDT and amortization of ITC. Exhibit 2 summarizes these exogenous change calculations.

2.4 Reserve Deficiency Amortization (RDA)

Michigan is Ameritech's only study area where RDA was not completed prior to the 1992/1993 tariff year.

Michigan's RDA expired on December 31, 1992. Exhibit 2 displays the allocation of this exogenous change among baskets.

2.5 Inside Wire (IW)

Michigan is Ameritech's only study area where Inside Wire Amortization was not completed prior to 1992. On December 31, 1992, IW Amortization was completed in Michigan.

Exhibit 2 displays the allocation of this exogenous change among baskets.

2.6 Changes In Support Payments

The exogenous change for Support payments is the difference between the sum of Long Term and Transitional Support payments for the tariff year of July 1992-June 1993 and the projected payments for the period of July 1993-June 1994. This difference is adjusted for the Long Term Support change effective February 1, 1993. The AOCs' Carrier Common Line rates were reduced on February 1, 1993, for a 12-month impact of the reduction in Long Term Support payments. Only five months of this reduction is reflected in the July 1992-June 1993 period. Therefore, the remaining seven months of the reduction must be reversed prior to calculating the difference in Support payments between the two tariff years. The results of the changes in Support payments are displayed in the EXG-1 form of the TRP. The impact of the change is a reduction of $64.1 million in expenses.

2.7 SFAS 106

In this filing the AOCs make appropriate adjustments to the Price Cap Index (PCI) of each interstate service basket to reflect the incremental retiree TBO expenses associated with the adoption of SFAS 106. This tariff filing proposes that the increase in retiree costs due to implementation of SFAS 106 receive exogenous treatment pursuant to the Price Cap Order[13]and Sections 61.45 through 61.49 of the Commission's Rules.

The following discussion addresses: 1) whether the AOCs have control of these OPEB costs; 2) whether these costs would be double counted if exogenous treatment is granted; and 3) whether exogenous treatment of these costs is contrary to the incentive of price caps.

2.7.1 Control

The following addresses control of OPEB costs. In the Commission's Memorandum Opinion and Order in CC Docket No. 92-101, the Commission considered to what extent it should grant exogenous cost treatment for the costs of implementing SFAS 106.

While the Commission concluded that ongoing OPEB costs are within the control of the LECs, and thus not eligible for exogenous treatment, they recognized that LECs may well have less control over some of the costs included in the TBO. While the AOCs disagree with the Commission's findings that all incremental costs associated with the adoption of SFAS 106 do not qualify for exogenous treatment, in the instant filing the AOCs request exogenous treatment for only the incremental costs associated with the implementation of SFAS 106 for existing retired employees.

Although the AOCs have made great strides in controlling their health care costs rates and anticipate continued management of them in the future, the

[13] Policy and Rules Concerning Rates for Dominant Carriers, CC Docket 87-313, Report and Order, FCC 90-314, released October 4, 1990, Price Cap Order.

Commission over simplifies the companies' ability to adjust their benefit plans for existing retirees. There is legal precedent restricting the companies' ability to reduce benefits for many retirees. In addition, the AOCs would experience negative public relations impacts, as well as downstream impacts on current employees. Should the AOCs drastically change the retiree benefit package, current employees will decrease the value of any deferred compensation when evaluating total compensation packages and will require higher immediate rewards.

The AOCs are asking for the opportunity to recover in their rates the incremental costs associated with the retiree component of SFAS 106 which is related to services rendered to customers in prior years. When hiring labor, a company offers a total compensation package, consisting of a mixture of wages and benefits. Potential employees measure the value of the total package. When attracting labor in the competitive market place in prior years, the AOCs agree with the Commission that they were in a position neither more favorable nor less favorable than other firms, either regulated or nonregulated. Given that position, it is unlikely that the AOCs' total compensation package in the past differed greatly from other firms seeking employees with similar skills. Had the AOCs' package shifted the mix of compensation and offered a lower benefit package, the AOCs' wages would have had to be higher so that total compensation remained about the same. These higher wages would then have been present in tariff rates when price caps were initially established and, thus, would be embedded in current PCIs. The AOCs are only asking for exogenous cost treatment to compensate for tariff rates that were lower in the past than they would have been had the deferred benefits offered been paid out as cash wages.

2.7.2 Areas of Potential Double Counting

The following discussion addresses areas of potential double counting, including (A) GNPPI, (B) Rate of Return and (C) VEBA Funding.

(A) Operation of the GNPPI

In its Order, the Commission stated it is not convinced that the LECs have fully demonstrated that changes related to SFAS 106 are not reflected in the GNPPI. The Commission admits, however, that "the present case illustrates the difficulty of evaluating whether a change in one of these influences, (myriad of influences affecting the GNPPI) can even be identified and reasonably quantified".[14]

The Commission has stated concerns that the Godwins study and the NERA study submitted by certain LECs in their Direct Cases in CC Docket 92-101, rely on assumptions that affect the results of their studies, and that the assumptions used by the studies differ. The Commission further noted that the Godwins study and its supplemental report, submitted with the AOCs' Reply to Oppositions to their Direct Case in Docket 92-101, have shown the proportion of incremental SFAS 106 costs which would not be reflected in the GNPPI for several, although not all 648, combinations of parameter values used in their model.

In order to allay the Commission's additional concerns regarding the recovery of the incremental SFAS 106 costs through the operation of the GNPPI, the AOCs, in conjunction with the United States Telephone Association (USTA), have requested that Godwins perform additional sensitivity analyses on their study.

Attachment 1 to this filing includes a report prepared by Godwins that covers several significant areas of concern. Within the report Godwins: 1) demonstrates the conservative nature of their study approach relative to the NERA study, 2) provides an explanation of the range of values used in their model to perform the sensitivity analyses of all 648 combinations of

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[14] *Memorandum Opinion and Order, In the Matter of Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions"*, CC Docket No. 92-101, released January 22, 1993.

parameter values, and 3) provides a summary and examination of the results of their enhanced sensitivity analysis.

Godwins' baseline study submitted with the AOCs' Direct Case shows that 0.7 percent of the total incremental costs of SFAS 106 would be reflected in the GNPPI, assuming all other firms offering OPEBs raise their prices. Therefore, 99.3 percent of the incremental OPEB costs due to SFAS 106 will not be reflected in the GNPPI. If all other firms do not flow through the incremental OPEB costs to prices, the GNPPI will reflect an even smaller change. Godwins further estimates that an additional 14.2 percent of the incremental costs may be recovered in the future when labor rates fall in the national economy in response to the impact of SFAS 106.

The Godwins study was fundamentally conservative. Their results were derived by use of a macroeconomic model that takes as input six basic parameters. In choosing the values for those six parameters, Godwins utilized the best information available. When a great deal of information was available, they used their professional expertise to choose as accurate a value as possible for the given parameter. When an ample amount of information was lacking, Godwins was conservative and chose a value which would, if anything, overstate the impact of the incremental SFAS 106 on the GNPPI.

The conservative nature of the Godwins study is further supported by additional analyses performed by them related to assumptions underlying the NERA study and the development of a "best estimate" value for each of the six parameters used in their model. The results of these analyses are included in Attachment 1. Using the underlying assumption of the NERA study (SFAS 106 has a direct effect only on the prices of regulated firms offering OPEBs), Godwins provides two sets of illustrative calculations in Section 1 of the Attachment which clearly demonstrates that the Godwins approach is, in fact, more conservative than NERA's. Had the NERA approach been used by Godwins, a significantly higher percentage of the LECs' incremental SFAS 106 costs would have been

found to be unrecovered by GNPPI increases and other macroeconomic effects.

In addition, Godwins also reviewed the parameter values used in their baseline study. Since their original results were conservative in nature and, if anything, overstated the impact SFAS 106 would have on the GNPPI, in their current review they established values for each parameter that represent a "best estimate" or "most reasonable" approach. The results of the "best estimate" approach show that only 0.3 percent of LECs' incremental SFAS 106 costs will be recovered through the GNPPI, while an additional 12.3 percent might be recovered through additional macroeconomics effects.

These two additional analyses reaffirm the conservative nature of the original Godwins results and support the AOCs' decision to use the original study results in calculating the exogenous treatment requested in this filing.

In this proposal for exogenous treatment of the incremental retiree costs associated with the implementation of SFAS 106, the AOCs recognize the 0.7 percent recovery of total SFAS 106 incremental costs that will be realized through the operation of the GNPPI. This amount is subtracted from the AOCs' request for the incremental amount of retiree related costs. The AOCs have not made any additional adjustment for the 14.2 percent of costs that may be offset by lower future wages. This additional adjustment is inappropriate when applied to the retiree portion of SFAS 106 costs. In the event that lower future wage costs are realized by the AOCs, they will not effect costs related to retirees, but rather will offset incremental OPEB costs provided to currently active employees.

Godwins has performed additional sensitivity analyses on all 648 combinations of parameter values used in its model. The results reflect a wide range of possibilities for the recovery of incremental SFAS 106 costs that may occur through the operation of the GNPPI and other macroeconomic effects. The 648 possible combinations of parameter

values are the result of multiple variables being used for each of six input parameters to the Godwins model. The results are included as Exhibit 2 of Attachment 1.

A technical issue arose, however, in performing these extensive sensitivity analyses. Three of the parameters: 1) labor share in total cost, sector 1; 2) labor share in total cost, sector 2, and 3) fraction of labor employed in sector 2, each have multiple variables that may be applicable. However, there is historical evidence that the share of labor costs in total costs for the economy as a whole is 0.64 (see Attachment 1, page 11, footnote 2). Given this, the values of the above three parameters must work in concert in order to maintain the appropriate relationship of labor costs to total costs for the general economy. In order to provide all 648 possible parameter combinations, the values for these inputs were adjusted independently. The above three parameters can not be adjusted independently and still provide an accurate answer.

Godwins corrected for this problem by performing additional sensitivity analyses where the share of labor costs in sector 2 and the fraction of labor employed in sector 2 were varied independently, but the value for the share of labor costs in sector 1 was chosen so that the sum of labor costs in sector 1 and sector 2 would produce a share of labor costs in the total economy of 0.64. This reduced the number of appropriate parameter combinations from 648 to 216. A report showing the results of the 216 parameter combinations is included as Exhibit 3 in Attachment 1. This report supersedes the report of all 648 parameter combinations.

This additional report provides the spectrum of recovery that would be received through the operation of the GNPPI and other macroeconomic factors for the 216 parameter combinations. However, when a range of values are used for each parameter the outside edge of those values represent extreme and unlikely occurrences, not what is likely to be experienced by the LECs. These extremes will be discussed in more detail within the Godwins summary in Attachment 1.

Clearly, the results from Godwins original report provide a fair and conservative reflection of the impacts the incremental costs of SFAS 106 will have on the GNPPI.

(B) Rate of Return

In its Order, the Commission also considers whether double counting might be present in the rate of return used to establish reasonable initial rates to begin price caps. If investors assumed there would be no rate recovery when SFAS 106 was implemented, they may have required a higher rate of return when the initial rate of return for LECs was established under price caps. However, the Commission admits in its order that it was "initially inclined to treat accounting changes as categorically exogenous",[15] and "that LECs [might have] relied on the initial price cap orders, which indicated that all mandatory GAAP changes would be considered exogenous....".[16] Although, the Commission modified this approach on reconsideration, the Commission's Reconsideration Orders for both AT&T and the LECs were not issued until the first half of 1991. Consequently, it seems reasonable that investors during the period before the release of the Represcription Order in September, 1990, in which the Commission prescribed the new Rate of Return, would have believed that rate recovery would be afforded once a GAAP change was mandated. Therefore, it does not seem reasonable that investors would have assumed there was any greater risk to the firm. Thus, investors would not have required a higher rate of return.

(C) VEBA Impact on Productivity Factor

In its Order, the Commission also raised a question about whether the funding of VEBA trusts, prior to price cap regulation, distorted the level of productivity experienced by the LECs because VEBA costs were included in the analysis of productivity. VEBA trusts formed prior to price caps were established to recognize deferred compensation for active employees, not

[15] Id., para 51.
[16] Id., footnote 106.

retirees. Because the AOCs in this filing request exogenous treatment only for the incremental OPEB costs for existing retirees, this concern is not applicable.

2.7.3 Exogenous Cost Treatment Does Not Undermine Price Caps Incentive

The AOCs do not believe that granting exogenous treatment for the incremental retiree costs associated with the implementation of SFAS 106 will undermine the efficiency incentives embedded in price cap regulation. The AOCs have consistently sought methods to control rising health care costs. Implementation of programs such as Preferred Provider Option (PPO) and Health Network are evidence of the AOCs' on-going effort to stem health care increases. The AOCs will continually seek efficiency improvements in their various benefit plans to keep the cost of health care under control. The assumption that the AOCs will be successful in that effort is already built into the price out of the retiree TBO under SFAS 106.

In determining the AOCs' potential liability for future health care, the TBO is priced using assumptions on what future health care costs will be. These costs are then discounted to today's dollars. The AOCs used very moderate assumptions on health care cost trends when pricing out their TBO under SFAS 106. The growth rate in health care costs was assumed to be 10 percent in 1991, then decline 0.4 percent per year through the year 2006 where it levels off at 4 percent per year. This is considerably less than what current trend data would indicate. Foster Higgins, in their annual survey of Health care trends states that health care costs on a per employee basis have doubled in the 5 years from 1987 - 1992. The most current data shows that health care costs for traditional (fee for service) plans increased 14.2 percent from 1991 to 1992; while costs for PPO and health network plans increased 10.5 percent.

Comparing the AOCs' forward looking assumptions on health care cost trends compared to historical trends demonstrates the AOCs' aggressive objective of achieving substantial additional efficiencies in the operation of their health care plans in order to keep their costs within levels forecasted in their TBO. In addition, the future costs included in the AOCs' retiree TBO have been

discounted at a rate of 7.5 percent. The inflation impact of the health care cost trend rate included in the TBO is removed by virtue of this discounting factor.

The AOCs' objective of controlling future health care costs is in total support of the underlying tenets of Price Cap regulation.

Despite the AOCs' optimistic assumptions on the declining growth of health care costs, it must be understood that the AOCs have and will continue to experience incremental costs related to the implementation of SFAS 106. Thus, fair treatment would dictate that the AOCs are entitled to increase their PCIs in accordance with the exogenous treatment requested in this filing, which represents only a portion of the total incremental costs the AOCs will realize due to the implementation of SFAS 106.

2.7.4 Calculation of the SFAS 106 Exogenous Amount

The AOCs' total company retiree TBO expense related to SFAS 106 for 1993 is calculated to be $212,845,000. This amount is the sum of the 1993 total company retiree TBO amortization expense and the 1993 interest expense associated with the retiree TBO.

The total company incremental retiree TBO expenses were then calculated by subtracting the 1993 retiree pay-as-you-go costs from the total company retiree TBO expense. Subject to separations and interstate incremental retiree TBO expense amounts were calculated by applying ARMIS 43-01 ratios to the total company incremental retiree TBO expense. The interstate incremental retiree TBO expense was calculated to be $5,606,000. Exhibit 2 shows the calculations which were used to arrive at the interstate incremental retiree TBO expense.

The interstate incremental retiree TBO expense was then allocated to the price cap baskets based on each of the baskets' share of interstate expense as reported on the ARMIS 43-01 report. Next, a revenue requirement for the incremental retiree TBO expense by basket was calculated. The calculated revenue requirement was then reduced by 0.7 percent of the total interstate

incremental SFAS 106 revenue requirement to reflect that portion that would be recovered through the operation of the GNPPI in the PCI calculations. The total exogenous amount after these adjustments is $4,899,000. Exhibit 2 shows the revenue requirement calculation.

2.8 Sharing

Exhibits 3 through 8 display the exogenous cost change for sharing for calendar year 1992 earnings, as well as a true-up of sharing for calendar year 1991 earnings. The sharing amounts were allocated to each price cap basket based on each basket's share of total revenue as reported on the ARMIS 43-01 report. The sharing amount based on 1992 earnings is $14.3 million, which includes 12 months of interest. The incremental sharing amount for 1991 earnings is $1.3 million, which includes 24 months of interest.

2.9 Imputed Access Charges

The "delta Y" exogenous cost change for the Interexchange basket measures the change in imputed access charges due to the change in the AOCs' interstate access service rate levels. Exhibit 9 displays the development of the Interexchange basket imputed access charges, based on the changes to access rates in the Traffic Sensitive and Common Line baskets. Imputed access demand quantities for 1992 were used to develop the exogenous cost change. The change in rate level for each unique rate element was multiplied times the corresponding demand to determine the annual change to the imputed cost for the basket. The impact of this change on the Interexchange basket is a reduction of $1.8 million.

3. Computation of Price Cap Indices

In accordance with Sections 61.45 through 61.48 of the Commission's Rules, the AOCs have complied with the methodologies specified to calculate adjustments to the PCIs and APIs for the four baskets established by the Commission, to calculate the SBIs for the individual service bands affected by this filing, and to calculate upper and lower limits of the SBIs for individual service categories.

The AOCs applied the formula described in Section 61.45(b) of the Commission's Rules to compute the PCI for the following baskets: Traffic Sensitive, Special Access and Interexchange Services. For the Common Line basket, the AOCs calculated an adjustment to the PCI pursuant to the formula set forth in Section 61.45(c).

The input values for the PCI calculations are displayed on form PCI-1 of the TRP. The exogenous changes reflected in the PCI calculations are described in Section 2.

The AOCs also computed the API values for each affected basket pursuant to the methodology described in Section 61.46 of the Commission's Rules. Applying the formula prescribed by the Commission in Section 61.47, the AOCs computed the SBIs for each service band. Two separate sub-indices, one for DS1 services and the other for DS3 services, were also calculated pursuant to Section 61.47(h).

The indices were determined using historical 1992 base period demand (see Section 4) appropriately adjusted to reflect tariff structure changes. The APIs and SBIs were determined based on the change in rates from those effective June 30, 1993 to those proposed to be effective July 1, 1993.

The results of the AOCs' computations of all indices are summarized on form IND-1 of the TRP. As shown, the resulting API value for each basket is less than or equal to the applicable PCI and each of the SBIs falls within the banding constraints.

4. Demand

4.1 Determination of Base Period Demand

The AOCs' demand data for the base period of January 1992 through December 1992 was extracted from company billing records. The demand data represent billed quantities for each billable rate element. Imputed access minutes of use for interstate intraLATA traffic were derived by applying factors for nonconversation time per message to the base period conversation demand. Exhibit 10 displays the base period demand for each rate element, representing the sum of the monthly quantities.

4.2 Recasting of Base Period Demand

Base period demand was recast for four reasons. There were three restructure filings in 1992: OPTINET DS1 LDCs (Transmittal No. 681, effective January 28, 1993); OPTINET DS3 LDCs, (Transmittal No. 629, effective August 4, 1992); and 800 Database (Transmittal No. 698, proposed to be effective May 1, 1993.) Base period demand was also recast due to the scheduled elimination of Feature Groups in the Part 69/ONA order. The 1992 Feature Group demand was recast to represent demand under the unbundled ONA structure. This recast ONA demand and the actual unbundled demand in 1992 are incorporated in the Traffic Sensitive basket PCI, API and the Local Switching Band SBI.

4.3 Prospective End User Demand

Forecasts for end user access lines (customer premises terminations) were used to develop the proposed End User Common Line (EUCL) rates. The access line forecasts for the tariff year of July 1993 through June 1994 were developed by applying the compound average annual growth rates from 1990 to 1992 to the 1992 actual quantities. The forecasted end user demand quantities are displayed in Exhibit 12.

4.4 Growth In CCL MOU Per Line ("G")

Exhibit 13 displays the Carrier Common Line minutes of use, the end user access lines for 1991 and 1992, and the calculation of the growth in CCL minutes of use per line. This calculation provides the value of "G", which is used in the Common Line basket index.

4.5 ONA BSEs Used by Affiliated ESPs

Exhibit 17 displays the percentages of the 1992 demand for ONA Basic Service Elements (BSEs) used by Ameritech affiliated Enhanced Service Providers for the BSEs used by the affiliates.

5. Development of Rates

5.1 Common Line

5.1.1 End User Common Line

Adjustments to the End User Common Line (EUCL) charges are due to changes in the revenue requirement for the Common Line - Base Factor Portion and the number of access lines. Individual prospective Base Factor Portion (BFP) revenue requirements were developed on a study area basis in accordance with Price Cap filing rules.[17] The proposed End User rates differ from all other proposed access rate elements in that the 1993/1994 tariff period rates are based on prospective data, as opposed to historical data.

The prospective BFP revenue requirements were developed by first restating the 1992 actual BFP to reflect expected changes in the 1993/1994 tariff year for BAF, DEM and inside wire. Then the compound annual average growth rates from 1990 to 1992 were applied to the following items: miscellaneous revenue, uncollectible revenue, total operating expenses, fixed charges, IRS income adjustments, ITC amortizations, total plant in service, total other investment and total reserves. The BFP revenue requirements were calculated with these items projected into the 1993/1994 period based on historical growth patterns. Finally, the BFP revenue requirement was adjusted for exogenous cost changes for RDA, EDT and ITC. The resulting BFP revenue requirements are displayed on Exhibit 11. Pursuant to Section 69.104 of the Commission's Rules, end user charges are computed as follows:

- Multi-Line Business: the lower of $6 per line per month or the multi-line business rate. As shown in Exhibit 12, the multi-line business rate was calculated for each state by dividing the 1993 test year Base Factor Portion interstate revenue requirement by the 1993 test year average number of

[17] Second Report and Order, Appendix E, Page 3.

access lines. The resulting amount was divided by twelve to obtain the monthly rate.

- Residence and Single-Line Business: the lower of $3.50 per line per month or the calculated multi-line business rate.

The proposed End User Common Line Charges are:

	Multi-Line Business	Residence Single-Line Business
Illinois	$3.47	$3.47
Indiana	4.64	3.50
Michigan	4.63	3.50
Ohio	4.35	3.50
Wisconsin	4.31	3.50

The proposed End User Common Line rates represent an increase of $21.2 million or 3.08 percent compared to current rates.

5.1.2 Carrier Common Line

In accordance with the Commission's Rules, a regional average Carrier Common Line (CCL) rate was calculated using the formula described in Section 61.46(d). This formula produces a CCL Minute of Use (CCL_{mou}) charge of $0.005970, which represents the maximum allowable weighted average of proposed originating and terminating, premium and non-premium CCL rates, using base period demand. As shown in Exhibit 14, the CCL_{mou} was disaggregated into the four CCL rate elements, resulting in a regional premium rate (originating and terminating) of $0.005974. The proposed Carrier Common Line rate represents a reduction of 27.57 percent or $84.6 million compared to current rates.

5.2 Traffic Sensitive

The adjustments to Traffic Sensitive rates proposed in this filing result in an API of 93.13 percent, which is less than the proposed Traffic Sensitive PCI of 94.98 percent.

The PCI calculation is described in Section 3. The calculation of the API reflects changes to the Design and Central Office nonrecurring charge in response to customer expectations, and an increase in the LS1 rate in accordance with Part 69.205(d) of the Commission's Rules.

5.2.1 Local Transport

The only change proposed for the Local Transport rates in this filing is the reduction of the Design and Central Office nonrecurring charge. The resulting revenue impact on the Local Transport service band is a reduction in revenues of $7.2 million or 1.39 percent. New Local Transport upper and lower bounds of 95.59 and 86.48, respectively, result from changes to the Traffic Sensitive PCI. The proposed rate changes cause a new Local Transport SBI of 90.26, which is between the new upper and lower Local Transport bounds.

5.2.2 Local Switching

The only revision to the Local Switching rates is the LS1 rate transition which set the LS1 rate equal to the LS2 rate. The resulting revenue impact on the Local Switching service band is an increase in revenues of $0.3 million or 0.08 percent. New Local Switching upper and lower bounds of 100.51 and 90.94, respectively, result from changes to the Traffic Sensitive PCI. The new Local Switching SBI resulting from the LS1 transition is 96.31. It is within the new upper and lower Local Switching SBI bounds.

5.2.3 Information

No changes are proposed for the Information service band in this filing. The change in the Traffic Sensitive PCI causes new Information SBI upper and lower bounds of 95.51 and 86.41, respectively. The Information SBI is within these bounds, remaining at 91.45.

5.2.4 800 Services

No changes are proposed for the 800 Services band in this filing. The change in the Traffic Sensitive PCI causes new 800 Services SBI upper and lower bounds of 104.44 and 94.49, respectively. The new 800 Services SBI is within these bounds, remaining at 100.00.

5.2.5 Message Unit Credit

In addition to the above changes, Section 69.106, paragraphs (c), (d) and (e) of the Commission's Rules provide for a Message Unit Credit (MUC) associated with the Local Switching rate element for originating Feature Group A (FGA) customers. As allowed by the Commission's waiver,[18] the MUC is calculated on a study area basis, rather than an exchange-by-exchange basis.

The AOCs have calculated the MUC on a study area basis using the same formula that has been used in prior years, consistent with the Commission's Order.

$$\text{MUC} = \frac{\text{Revenue (msg charges)}}{\text{minutes (msg service)}} \times \frac{\text{minutes (msg service)}}{\text{minutes (total orig exchg)}}$$

$$= \frac{\text{revenue (msg charges)}}{\text{minutes (total orig exchg)}}$$

Annual minutes of use were obtained from a Separations Information System (SIS) Report. This number was divided by two to derive originating minutes of use. Annual message revenue was obtained for business and residence from accounts 5001.12 and 5001.22, respectively. For both minutes of use and revenue, "representative month" data were calculated by dividing the annual total by twelve. The calculation of the MUC is shown in Exhibit 15. Since the

[18] Memorandum Opinion and Order, In the Matter of Annual 1989 Access Tariff Filings, Petition for Waiver and Petition for Reconsideration, DA 88-1872 (released December 2, 1988) at para 5.

MUC is associated with the Local Switching rates for FGA, the MUC rate has been capped at the proposed LS1 rate.

5.2.6 Credit Allowance for Directory Assistance

The Credit Allowance for Directory Assistance is calculated by summing all Switched Access rates that apply per originating minute of use. This total is then converted to a per message rate by multiplying it by the average holding time per DA message. The development of the Credit Allowance for Directory Assistance in the originating LATA is shown in Exhibit 16.

5.3 Special Access

The current Special Access basket's API (93.58) falls below the new PCI (98.79) and, thus, meets the basic requirement that the API be below or equal to the PCI. No Special Access rates are being changed with this filing. All SBIs for the bands and subbands of Special Access are between the upper and lower limits for the associated band. The new band and subband boundaries and service band indices are:

	Lower Bound	SBI(t)	Upper Bound
Analog	97.85	102.96	108.15
Audio/Video	91.95	96.75	101.63
High Capacity	82.46	86.77	91.14
DS1 Subband	80.66	84.86	89.15
DS3 Subband	82.13	86.42	90.78

5.4 Interexchange

No changes are proposed for the Interexchange basket in this filing. The Interexchange API remains 82.51, well below the proposed PCI of 96.29.

Exhibit 1

NEW SERVICES – INTRODUCED IN 1992
TRAFFIC SENSITIVE BASKET

TRANSMITTAL NO.	DESCRIPTION	SERVICE CATEGORY	EFFECTIVE DATE
574	Signal Transfered Point Access (STP)	Local Transport	1/01/92
575	Line Information Database (LIDB)	Local Transport	1/01/92
578	Ameritech Directory Search (ADS)	Information	02/13/92
611	0 + 900 Option	Local Switching	04/23/92

NEW SERVICES – INTRODUCED IN 1992
SPECIAL ACCESS BASKET

TRANSMITTAL NO.	DESCRIPTION	SERVICE CATEGORY	EFFECTIVE DATE
609	Alarm DNAL	Analog	03/08/92
646	OPTINET 384 Kbps	High Capacity/DDS	09/14/92
653	DS3 LDC Package 24 with an Electrical Interface	High Capacity/DDS	10/08/92
667	Shared Network Arrangement	High Capacity/DDS	12/12/92

Exhibit 2

EXCESS DEFERRED TAX

	COMPANY: AMERITECH	TOTAL COMPANY 1992 (A)	TOTAL COMPANY 1992/1993 (B)	TOTAL COMPANY 1993/1994 (C)	TOTAL COMPANY DELTA (D)=(C)-(B)	INTERSTATE 1992 (E)	INTERSTATE 1992/1993 (F)	INTERSTATE 1993/1994 (G)
100	Excess Deferred Tax (Note 1)	50,700,000	45,000,000	44,600,000	(400,000)	11,505,525	10,155,247	10,109,442
110	Excess Deferred Reserve Change ((LN 100 COL B * .5) + (LN 100 COL C * .5))*-1				(44,800,000)			

		INTERSTATE DELTA (H)=(G)-(F)	PRICE CAP BASKET DELTAS 1993/1994 - 1992/1993 CL (I)	TS (J)	SP (K)	IX (L)
100	Excess Deferred Tax (Note 1)	(45,805)	12,987	(40,458)	(18,515)	181
110	Excess Deferred Reserve Change (Note 1)	(10,132,353)	(3,481,274)	(5,102,375)	(1,539,470)	(9,234)
120	Net Rate Base (-LN110)		3,481,274	5,102,375	1,539,470	9,234
130	Return (LN 120 * .1125)		391,643	574,017	173,190	1,039
140	Federal Income Tax (LN130-LN100)*(FIT RATE/1- FIT RATE)-LN100		182,078	357,004	117,272	260
150	State Income Tax (LN130 + LN140)*(SIT RATE/1 - SIT RATE)		19,661	38,177	12,238	38
160	Gross Receipts Tax (LN130 + LN140 + LN150)*(GRT RATE/1 - GRT RATE)		(728)	(1,487)	(448)	(1)
170	Revenue Effects (LN130 + LN140 + LN150 + LN160)		592,654	967,711	302,252	1,336

Note 1 (Rows 100 and 110 sources):

1992 Total company amounts are actuals.
1992 Interstate amounts were calculated by study area, by applying ARMIS 43-01, row 1840 regulated and interstate ratios to actual total company amounts. (Column A)
1992/1993 Total company amounts were filed in the 1992 Price Cap Filing.
1992/1993 Interstate amounts were calculated by study area, by applying ARMIS 43-01, row 1840 regulated and interstate ratios to total company amounts. (Column B)
1993/1994 Total company amounts are based on estimates prepared by corporate tax experts.
1993/1994 Interstate amounts were calculated by study area, by applying ARMIS 43-01, row 1840 regulated and interstate ratios to total company amounts. (Column C.)
1993/1994 Price cap basket change values were calculated by study area, by applying ARMIS 43-01, row 1840 basket to interstate developed ratios to interstate delta amounts. (Column H)

INVESTMENT TAX CREDIT AMORTIZATION

	COMPANY: AMERITECH	TOTAL COMPANY 1992 (A)	TOTAL COMPANY 1992/1993 (B)	TOTAL COMPANY 1993/1994 (C)	TOTAL COMPANY DELTA (D)=(C)-(B)	INTERSTATE 1992 (E)	INTERSTATE 1992/1993 (F)	INTERSTATE 1993/1994 (G)
100	Investment Tax Credit (Note 1)	65,045,000	62,500,000	61,400,000	(1,100,000)	15,193,118	14,606,071	14,371,145

		INTERSTATE DELTA (H)=(G)-(F)	PRICE CAP BASKET DELTAS 1993/1994 -1992/1993 CL (I)	TS (J)	SP (K)	IX (L)
100	Investment Tax Credit (Note 1)	(234,926)	(92,488)	(103,804)	(38,743)	107
110	Federal Income Tax (-LN100)*(FIT RATE/1- FIT RATE)-(LN 100)		140,135	157,276	58,702	(164)
120	State Income Tax (LN110)*(SIT RATE/1 - SIT RATE)		12,038	13,865	5,198	(1)
130	Gross Receipts Tax (LN110 + LN120)*(GRT RATE/1 - GRT RATE)		(3,276)	(3,151)	(1,058)	(6)
140	Revenue Effects (LN110 + LN120 + LN130)		148,897	167,990	62,842	(171)

Note 1 (Row 100 Source):

1992 Total company amounts are actuals.

1992 Interstate amounts were calculated by study area, by applying ARMIS 43-01, row 1540 regulated and interstate ratios to actual total company amounts. (Column A)

1992/1993 Total company amounts were filed in the 1992 Price Cap Filing.

1992/1993 Interstate amounts were calculated by study area, by applying ARMIS 43-01, row 1540 regulated and interstate ratios to total company amounts. (Column B)

1993/1994 Total company amounts are based on estimates prepared by corporate tax experts.

1993/1994 Interstate amounts were calculated by study area, by applying ARMIS 43-01, row 1540 regulated and interstate ratios to total company amounts. (Column C)

1993/1994 Price cap basket change values were calculated by study area, by applying ARMIS 43-01, row 1540 basket to interstate developed ratios to interstate delta amounts. (Column H)

EXOGENOUS COST CHANGE CALCULATION
RESERVE DEFICIENCY AMORTIZATION DATA WORKPAPER

COMPANY: AMERITECH STUDY AREA: MICHIGAN	7-1-92 T 6-30-93 EXPENSE (A)	7-1-93 T 6-30-94 EXPENSE (B)	DELTA (C) = B - A	ALLOCATION FACTOR (D)	ALLOCATED AMOUNT (E)
100 Total Company	26,270,054	0	(26,270,054)	NA	NA
110 Interstate	NA	NA	NA	0.220044	(5,780,571)
120 Common Line	NA	NA	NA	0.422261	(2,440,908)
130 Switched T.S.	NA	NA	NA	0.446815	(2,582,848)
140 Special Access	NA	NA	NA	0.130562	(754,724)
150 Interexchange	NA	NA	NA	0.000362	(2,091)

Describe below the source or the development of the factors on rows 110 through 150 for Column D.

The values in Columns A,B, & C represent total company (regulated & nonregulated) expense dollars. The interstate and basket allocation factors are based on Michigan Bell's depreciation and amortization expense distributions as reported in its 43-01 submission (Row 1180). Column E amounts are calculated by first adjusting Column C values to obtain the RDA regulated expense. The regulated ratio is the ratio of Michigan Bell's depreciation and amortization subject to separations to total company amounts (Form 43-01, Row 1180). The interstate value is calculated using the interstate allocator and the regulated expense amount. Basket amounts are calculated by applying the interstate value with each basket's allocation factor.