

TABLE OF CONTENTS

BACKGROUND.....	1
Issue 1: Are the GTOC and GSTC exogenous cost adjustments related to the sale of telephone exchanges adequately supported?	3
Issue 2: Have GTOC and GSTC used a reasonable methodology to determine the downward exogenous adjustment to their PCIs attributable to the sale of exchanges?.....	4
A. U S WEST METHODOLOGY	5
B. COST CAUSATION METHODOLOGY	6
C. COMPARISON OF METHODS.....	7
Exhibits:	
Exhibit 1 Sale of Exchange, "R", and Basket Factor Calculations	
Exhibit 2 TRP Other (4) and Total Revenue Effects	
Exhibit 3 1995 GTE PCI Calculations	
Exhibit 4 U S West Method Calculations	
Exhibit 5 U S West Method PCIs	
Exhibit 6 Cost Causation Method Calculations	
Exhibit 7 Cost Causation Method PCIs	
Exhibit 8 Comparison of PCIs	

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
1995 Annual Access Tariffs)	CC Docket No. 96-5
)	
GTE Telephone Operating Companies)	Transmittal No. 963
GTE System Telephone Companies)	Transmittal No. 146

DIRECT CASE OF GTE

GTE Service Corporation, on behalf of the GTE Telephone Operating Companies ("GTOCs") and the GTE System Telephone Companies ("GSTCs") (collectively "GTE"), respectfully submit this Direct Case in response to the Order Designating Issues for Investigation, DA 96-54, released, Jan. 23, 1996 ("Designation Order"). The Bureau is investigating exogenous cost adjustments to Price Cap Indexes ("PCIs") proposed by the GTOCs and GSTCs with regard to the sale of telephone exchanges. GTE responds herein to the specific issues raised in the Designation Order.

BACKGROUND

GTE proposed in GTOC Transmittal Nos. 963 and 983 and GSTC Transmittal Nos. 146 and 157 exogenous cost adjustments to its PCIs for the

sale and trade of certain exchanges.¹ At the time these exogenous adjustments were taken, it was assumed that the sale and trade of these exchanges would have occurred prior to the end of the tariff period, June 30, 1996. Accordingly, costs and revenues for these sales were removed from the calculation of the proposed PCIs to reflect the impact of these sales through an exogenous cost adjustment and the 1994 base period units were adjusted by the units associated with the affected sale properties. Although GTE believed the exogenous adjustments were correct when taken, GTE now agrees that it would have been more appropriate to take into account the price cap impact for the sale and trade of properties in the Annual Price Cap Filing following the calendar year in which the sale occurred. This approach is similar to that taken by other LECs, including U S West.

Because only the exchanges in California, Iowa and Oklahoma were actually involved in a sale prior to January 1995, GTE reversed out the impact of exchange sales for the other study areas, GTOC Missouri, GTOC Oregon, GTOC Texas, GTOC Washington, GSTC Missouri, and GSTC Texas, in GTOC Transmittal No. 1017 and GSTC Letter of Transmittal dated February 2, 1996. Since exogenous treatment for exchanges in these states has already been reversed, GTE will address in this Direct Case only data associated with GTOC California, GTOC Iowa and GTOC Oklahoma.

¹ As originally filed, the GTOC sale exchanges were located in California, Iowa, Missouri, Oklahoma, Oregon, Texas and Washington, and the GSTC exchanges were located in Missouri and Texas.

DISCUSSION

Issue 1: Are the GTOC and GSTC exogenous cost adjustments related to the sale of telephone exchanges adequately supported?

In the 1995 Annual Filing, the Sale of Exchange Revenue Effects (Other (4) - Line 560 of the EXG-1 Tariff Review Plan ("TRP")) was developed by calculating Carrier Common Line ("CCL"), Traffic Sensitive ("TS"), and Trunking ("TK") factors and applying these factors to the appropriate exogenous cost categories. Exhibit 1 demonstrates the method used for calculating the Sale of Exchange Revenue, "R" With and Without Repositioning, CCL, TS, and TK factors. Exhibit 2 shows the method GTE used in applying the factors developed in Exhibit 1 that results in the Other (4) and Total Revenue Effects found in the TRP. Exhibit 3 displays the actual PCI calculations used in the 1995 Annual Filing.

In response to the directive in the Designation Order (at ¶8), GTE submits the following information regarding the sold properties:

Study Area	COSA	Exchange Name(s)	Date Sold	Exogenous Cost Adjustment		
				CCL	TS	TK
California	GTCA	Clarksburg Courtland Isleton Meadowview Walnut Grove	12/31/94	37,844	19,046	17,192
GTOC Iowa	GTIA	Buffalo Center	11/30/94	3,671	2,156	729
GTOC Oklahoma	GTOK	Chattanooga Comanche Davidson Frederick Gould Grandfield Hastings Hollis Loco Manitou Temple Tipton	11/30/94	(14,531)	(10,242)	(8,252)

Although GTE believed its method, which identified costs through associated revenue losses, was correct when used, GTE now agrees that it would be more appropriate to identify the exogenous costs attributable to the sale of exchanges using the method proposed by U S West.

Issue 2: Have GTOC and GSTC used a reasonable methodology to determine the downward exogenous adjustment to their PCIs attributable to the sale of exchanges?

A. U S WEST METHODOLOGY

The Designation Order (at ¶12) directs GTE to calculate the downward exogenous adjustment to its PCIs using the U S West methodology. The methodology used to arrive at the cost change amounts (exogenous impact) is described below and displayed in Exhibit 4.

1. The interstate revenues for the sold exchanges are the 1994 revenues.
2. The rate base for the exchanges sold (repositioned properties) is the Total Plant In Service ("TPIS") and other rate base items less depreciation reserve and deferred Federal Income Tax ("FIT"). TPIS, other rate base items, depreciation reserve, and deferred FIT are allocated to price cap basket by the ratio of net-plant-by-basket to total-net-plant.
3. Depreciation expense is determined by applying the ratio of exchange TPIS to total study area TPIS to the total study area depreciation expense. The resulting depreciation expense is allocated to price cap basket by the ratio of depreciation expense by basket to total depreciation expense.
4. Operating expense less depreciation expense includes the following expense accounts:
 - Plant Specific: Network Support; General Support; Central Office Switching; Operator Systems; Central Office Trunking; Information Originating /Terminating; and Cable and Wire.
 - Plant Non Specific: Provisioning and Network Operations.
 - Customer Operations: Marketing and Services expense
 - Corporate Operations: General and Administrative expenses.
 - Operating Taxes: Other operating taxes.

Operating expense is determined by applying the ratio of exchange TPIS to total study area TPIS to total study area operating expenses. The resulting operating expense is allocated to basket by the relative levels of operating expense by basket to total operating expense.

5. The return is determined by applying the authorized rate of return (11.25 percent) to the unseparated rate base for each basket.
6. FIT is determined by multiplying the return times the specific FIT gross-up rate.
7. State Income Taxes are determined by multiplying the return times the specific state income tax gross-up rate.
8. The unseparated revenue requirement by basket is the sum of expenses plus return and taxes.
9. The unseparated revenue requirement (Item 8 above) is separated to interstate by using the applicable interstate allocators for the sold exchanges:
 - Common Line - Basic Allocation Factor (BAF)
 - Traffic Sensitive - Dial Equipment Minutes of Use (DEM)
 - Trunking - Conversation Minutes (CM)
10. The cost change (exogenous impact) is revenues from the exchanges (Item 1) less the revenue requirement of the sold exchanges (Item 9).

Exhibit 5 displays the recalculated GTE PCIs using the U S West method.

B. COST CAUSATION METHODOLOGY

The Designation Order (at ¶13) directs GTE to calculate the downward exogenous adjustment to its PCIs using an alternative methodology termed "cost causation." GTE reduced the PCIs to reflect the decrease of expense and revenue resulting from the sale of exchanges. The method used to derive the cost changes (exogenous amount) was performed as described in the Designation Order (at ¶¶13-16) and is detailed in Exhibit 6. Allocations to price cap baskets were based upon the same method employed in the U S West

methodology described *supra*. Exhibit 7 displays the recalculated GTE PCIs using the cost causation method.

C. COMPARISON OF METHODS

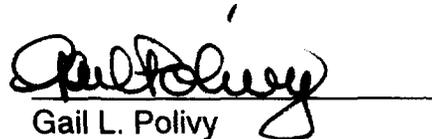
Displayed in Exhibit 8 is a summary comparison of the PCIs calculated using each of the three methods for determining exogenous costs. GTE's original method used a factor of revenue loss from the sale of telephone exchanges, while the U S West and cost causation methods take into consideration the cost of providing service to a particular exchange when calculating the exogenous adjustment. The U S West method is more accurate in determining the actual exogenous adjustment.

The U S West method uses specific costs associated with the exchanges sold and involves the use of allocators to derive expenses specifically related to exchanges sold. While the cost causation method uses specific costs associated with the exchanges sold to develop allocators as does the U S West method, the cost causation method applies its allocators to all study area expenses when portions of some expenses, such as Plant Specific Expense, Customer Operations Expense and Other Corporate Operations Expenses, do not relate to the day to day operation of the exchanges sold and would not properly reflect the costs of providing service to those exchanges. Because it is so broad in nature, the cost causation method cannot properly calculate the exogenous impacts.

Although the various methods do not reflect substantially different results, except for trunking in Oklahoma, as shown in Exhibit 8, GTE believes that the method proposed by U S West, which takes into consideration the cost of providing service to an exchange and more accurately determines the exogenous costs is the preferable approach. If the Commission determines that the method GTE originally used to determine the exogenous impact of the sale of its exchanges is not appropriate, GTE submits that the U S West method is preferable to the cost causation method.

Respectfully submitted,

GTE Service Corporation and its
affiliated domestic telephone
operating companies

A handwritten signature in black ink, appearing to read "Gail Polivy", written over a horizontal line.

Gail L. Polivy
1850 M Street, N.W.
Suite 1200
Washington, DC 20036
(202) 463-5214

February 20, 1996

ITS ATTORNEY

SALE OF EXCHANGE, "R", AND CCL FACTOR CALCULATIONS
GTCC CALIFORNIA
CARRIER COMMON LINE BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND 1994 B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A*B
1 Multiline Business EUCL	MRC	\$6.00	14,832	\$88,992
2 Residence EUCL	MRC	\$3.50	38,364	\$134,274
3 Single line Business EUCL	MRC	\$3.50	1,908	\$6,678
4 Lifeline	MRC	\$3.50	9,012	\$31,542
5 Total Excluding SAS			64,116	\$261,486
6				
7 Special Access Surcharge	MRC	\$25.00	0	\$0
8 Total End User Common Line				\$261,486
9				
10 Originating CCL Prem.	PER MOU	\$0.01000000	6,898,780	\$68,988
11 Originating CCL Non-Prem.	PER MOU	\$0.00450000	0	\$0
12 Terminating CCL Prem.	PER MOU	\$0.01572500	7,370,242	\$115,897
13 Terminating CCL Non-Prem.	PER MOU	\$0.00707630	0	\$0
14 Total Carrier Common Line			14,269,022	\$184,885
15				
16 SALE OF EXCHANGE CCL BASKET REVENUE				\$446,371
17				
18 "R" WITH REPOSITIONING USED IN JULY 27,1995 FILING				\$274,996,692
19				
20 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$275,443,063
21				
22 CCL FACTOR (LINE 18 / LINE 20)				99.84%

SALE OF EXCHANGE, "R", AND TS FACTOR CALCULATIONS
GTOC CALIFORNIA
TRAFFIC SENSITIVE BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A * B
1 PREMIUM END OFFICE SWITCHING 1	PER MOU	\$0.01221340	389,262	\$4,754
2 PREMIUM END OFFICE SWITCHING 2	PER MOU	\$0.01221340	13,879,510	\$169,516
3 PREMIUM INFORMATION SURCHARGE	PER MOU	\$0.00000000	14,268,772	\$0
4 SALE OF EXCHANGE REVENUE				\$174,270
5 "R" WITH REPOSITIONING USED IN MAY 9, 1995 FILING				\$114,399,521
6 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$114,573,791
7 TS FACTOR (LINE 5 / LINE 6)				99.85%

SALE OF EXCHANGE, "R", AND TK FACTOR CALCULATIONS
GTOC CALIFORNIA
TRUNKING BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A * B
1 PREMIUM INTERCONNECTION RATE	PER MOU	\$0.00137210	14,268,772	\$19,578
2 TANDEM SWITCHED TRANSPORT FACILITY	MIN*MILE	\$0.00003800	191,874,466	\$7,291
3 TANDEM SWITCHED TRANSPORT TERMINATION	MIN*TERM	\$0.00020470	30,345,052	\$6,212
4 TANDEM SWITCHING	PER MOU	\$0.00036210	8,122,906	\$2,941
5 AUTOMATIC SCHEDULE TESTING (BASIC)	NRC	\$0.45	69	\$31
6 VOICE GRADE SPECIAL TRANSPORT - STANDARD & WATS	MRC	\$4.50	236	\$1,062
7 4-WIRE SAL (INCLUDING AC) AND WATS	MRC	\$48.70	132	\$6,428
8 V.G. CONDITIONING TYPE DA	MRC	\$2.00	44	\$88
9 CIRCUIT DESIGN CHANGE	NRC	\$27.00	2	\$54
10 2-WIRE/4-WIRE SAL	NRC	\$200.00	2	\$400
11 DS-1 FIRST SYSTEM	MRC	\$260.00	102	\$26,520
12 DS-1 ADDITIONAL SYSTEM	MRC	\$130.00	3	\$390
13 DS-1 TRANSPORT FACILITY PER ALM	MRC	\$15.00	4	\$60
14 DS-1 TRANSPORT TERMINATIONS	MRC	\$30.00	359	\$10,770
15 DIRECT-TRUNKED TRANSPORT TERMINATIONS DS-1	MRC	\$39.14	16	\$626
16 DS-1 5 YEAR TPP	MRC	\$140.00	404	\$56,560
17 CLEAR CHANNEL CAPABILITY	MRC	\$24.00	234	\$5,616
18 DS-1 FIRST SYSTEM	NRC	\$900.00	57	\$51,300
19 CLEAR CHANNEL CAPABILITY	NRC	\$90.00	33	\$2,970
20 DS-3 TRANSPORT FACILITY PER ALM	MRC	\$60.00	24	\$1,440
21 DS-3 TRANSPORT TERMINATIONS	MRC	\$300.00	25	\$7,500
22 2.4, 4.8, 9.6 AND 19.2 DDS SAL (INCLUDING AC)	MRC	\$69.00	40	\$2,760
23 2.4, 4.8, 9.6 AND 19.2 DDS SAL 5 YR RSP	MRC	\$60.80	8	\$486
24 56 AND 64 DDS SAL (INCLUDING AC)	MRC	\$90.00	91	\$8,190
25 56 AND 64 DDS SAL 5 YR RSP	MRC	\$79.80	22	\$1,756
26 DDS TRANSPORT ALL SPEEDS PER ALM	MRC	\$4.50	194	\$873
27 ALL SPPEDS DDS TRANSPORT - 5 YR RSP	MRC	\$4.28	40	\$171
28 SALE OF EXCHANGE REVENUE				\$222,074
29 "R" WITH REPOSITIONING USED IN MAY 9, 1995 FILING				\$55,977,279
30 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$56,199,354
31 TK FACTOR (LINE 29 / LINE 30)				99.60%

SALE OF EXCHANGE, "R", AND CCL FACTOR CALCULATIONS
GTOC IOWA
CARRIER COMMON LINE BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND 1994 B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A*B
1 Multiline Business EUCL	MRC	\$6.00	1,164	\$6,984
2 Residence EUCL	MRC	\$3.50	5,352	\$18,732
3 Single line Business EUCL	MRC	\$3.50	540	\$1,890
4 Lifeline	MRC	\$3.50	0	\$0
5 Total Excluding SAS			7,056	\$27,606
6				
7 Special Access Surcharge	MRC	\$25.00	0	\$0
8 Total End User Common Line				\$27,606
9				
10 Originating CCL Prem.	PER MOU	\$0.01000000	348,106	\$3,481
11 Originating CCL Non-Prem.	PER MOU	\$0.00450000	43,314	\$195
12 Terminating CCL Prem.	PER MOU	\$0.01724300	294,210	\$5,073
13 Terminating CCL Non-Prem.	PER MOU	\$0.00775940	276,830	\$2,148
14 Total Carrier Common Line			962,460	\$10,897
15				
16 SALE OF EXCHANGE CCL BASKET REVENUE				\$38,503
17				
18 "R" WITH REPOSITIONING USED IN JULY 27,1995 FILING				\$8,543,253
19				
20 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$8,581,756
21				
22 CCL FACTOR (LINE 18 / LINE 20)				99.55%

SALE OF EXCHANGE, "R", AND TS FACTOR CALCULATIONS
GTOC IOWA
TRAFFIC SENSITIVE BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A * B
1 PREMIUM END OFFICE SWITCHING 2	PER MOU	\$0.02705870	700,694	\$18,960
2 NONPREMIUM END OFFICE SWITCHING	PER MOU	\$0.01217640	349,150	\$4,251
3 PREMIUM INFORMATION SURCHARGE	PER MOU	\$0.00044220	700,694	\$310
4 NONPREMIUM INFORMATION SURCHARGE	PER MOU	\$0.00019900	349,150	\$69
5 SALE OF EXCHANGE REVENUE				\$23,591
6 "R" WITH REPOSITIONING USED IN MAY 9, 1995 FILING				\$6,806,886
7 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$6,830,477
8 TS FACTOR (LINE 6 / LINE 7)				99.65%

SALE OF EXCHANGE, "R", AND TK FACTOR CALCULATIONS
GTOC IOWA
TRUNKING BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND B	BASE PERIOD
				RATES X BASE PERIOD DEMAND C = A * B
1 PREMIUM INTERCONNECTION RATE	PER MOU	\$0.00697440	700,694	\$4,887
2 NONPREMIUM INTERCONNECTION RATE	PER MOU	\$0.00313850	349,150	\$1,096
2 TANDEM SWITCHED TRANSPORT FACILITY	MIN*MILE	\$0.00003810	67,447,471	\$2,570
3 TANDEM SWITCHED TRANSPORT TERMINATION	MIN*TERM	\$0.00042460	2,095,402	\$890
4 TANDEM SWITCHING	PER MOU	\$0.00012560	1,045,550	\$131
5 SALE OF EXCHANGE REVENUE				\$9,574
6 "R" WITH REPOSITIONING USED IN MAY 9, 1995 FILING				\$3,180,051
7 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$3,189,624
8 TK FACTOR (LINE 6 / LINE 7)				99.70%

SALE OF EXCHANGE, "R", AND CCL FACTOR CALCULATIONS
GTOC OKLAHOMA
CARRIER COMMON LINE BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	07/27/95 BASE PERIOD DEMAND 1994 B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A*B
1 Multiline Business EUCL	MRC	\$6.00	72,780	\$436,680
2 Residence EUCL	MRC	\$3.50	311,364	\$1,089,774
3 Single line Business EUCL	MRC	\$3.50	22,020	\$77,070
4 Lifeline	MRC	\$3.50	0	\$0
5 Total Excluding SAS			406,164	\$1,603,524
6				
7 Special Access Surcharge	MRC	\$25.00	0	\$0
8 Total End User Common Line				\$1,603,524
9				
10 Originating CCL Prem.	PER MOU	\$0.01000000	10,960,377	\$109,604
11 Originating CCL Non-Prem.	PER MOU	\$0.00450000	1,645,354	\$7,404
12 Terminating CCL Prem.	PER MOU	\$0.02156100	11,370,524	\$245,160
13 Terminating CCL Non-Prem.	PER MOU	\$0.00970250	3,974,405	\$38,562
14 Total Carrier Common Line			27,950,660	\$400,729
15				
16 SALE OF EXCHANGE CCL BASKET REVENUE				\$2,004,253
17				
18 "R" WITH REPOSITIONING USED IN JULY 27,1995 FILING				\$8,518,108
19				
20 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$10,522,361
21				
22 CCL FACTOR (LINE 18 / LINE 20)				80.95%

SALE OF EXCHANGE, "R", AND TS FACTOR CALCULATIONS
GTOC OKLAHOMA
TRAFFIC SENSITIVE BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND B	BASE PERIOD RATES X BASE PERIOD DEMAND C = A * B
1 PREMIUM END OFFICE SWITCHING 1	PER MOU	\$0.01424100	47,842	\$681
2 PREMIUM END OFFICE SWITCHING 2	PER MOU	\$0.01424100	13,162,543	\$187,448
3 NONPREMIUM END OFFICE SWITCHING	PER MOU	\$0.00640850	5,226,852	\$33,496
4 PREMIUM INFORMATION SURCHARGE	PER MOU	\$0.00051530	13,210,385	\$6,807
5 NONPREMIUM INFORMATION SURCHARGE	PER MOU	\$0.00023190	5,226,852	\$1,212
6 SALE OF EXCHANGE REVENUE				\$229,645
7 "R" WITH REPOSITIONING USED IN MAY 9, 1995 FILING				\$3,932,371
8 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$4,162,016
9 TS FACTOR (LINE 7 / LINE 8)				94.48%

SALE OF EXCHANGE, "R", AND TK FACTOR CALCULATIONS
GTOC OKLAHOMA
TRUNKING BASKET

ELEMENT DESCRIPTION	CHARGING PERIOD	BASE PERIOD RATES FOR "R" CALCULATION A	BASE PERIOD DEMAND B	BASE PERIOD
				RATES X BASE PERIOD DEMAND C = A * B
1 PREMIUM INTERCONNECTION RATE	PER MOU	\$0.00428770	13,210,385	\$56,642
2 NONPREMIUM INTERCONNECTION RATE	PER MOU	\$0.00192950	5,226,852	\$10,085
2 TANDEM SWITCHED TRANSPORT FACILITY	MIN*MILE	\$0.00002540	987,660,096	\$25,087
3 TANDEM SWITCHED TRANSPORT TERMINATION	MIN*TERM	\$0.00017990	36,825,350	\$6,625
4 TANDEM SWITCHING	PER MOU	\$0.00167780	18,412,145	\$30,892
5 ORDERING CHARGE	NRC	\$217.04	2	\$434
6 VOICE GRADE SPECIAL TRANSPORT - STANDARD & WATS	MRC	\$4.50	6,683	\$30,074
7 DIRECT-TRUNKED TRANSPORT FACILITY VOICE	MRC	\$6.13	412	\$2,526
7 2-WIRE SAL (INCLUDING AC) AND WATS	MRC	\$30.00	99	\$2,970
7 4-WIRE SAL (INCLUDING AC) AND WATS	MRC	\$48.00	537	\$25,776
7 ENTRANCE FACILITY 4-WIRE VOICE	MRC	\$50.32	81	\$4,076
8 V.G. DATA BRIDGING	MRC	\$8.00	63	\$504
8 V.G. CONFERENCE BRIDGING	MRC	\$8.00	20	\$160
8 V.G. CONDITIONING TYPE DA	MRC	\$2.00	142	\$284
9 V.G. IMPROVED TERMINATION	MRC	\$10.00	20	\$200
10 2-WIRE/4-WIRE SAL	NRC	\$200.00	13	\$2,600
11 DS-1 FIRST SYSTEM	MRC	\$254.00	8	\$2,032
ENTRANCE FACILITY DS-1 FIRST SYSTEM	MRC	\$250.93	4	\$1,004
DS-1 FIRST SYSTEM 5 YEAR OPP	MRC	\$175.00	4	\$700
ENTRANCE FACILITY DS-1 ADDITIONAL SYSTEM	MRC	\$127.00	36	\$4,572
13 DS-1 TRANSPORT FACILITY PER ALM	MRC	\$15.00	24	\$360
14 DS-1 TRANSPORT TERMINATIONS	MRC	\$30.00	19	\$570
16 DS-1 5 YEAR TPP	MRC	\$140.00	33	\$4,620
17 DS-1 TO V.G.MX SPECIAL ACCESS	MRC	\$190.00	20	\$3,800
22 2.4, 4.8, 9.6 AND 19.2 DDS SAL (INCLUDING AC)	MRC	\$65.65	31	\$2,035
23 2.4, 4.8, 9.6 AND 19.2 DDS SAL 5 YR RSP	MRC	\$60.80	3	\$182
24 56 AND 64 DDS SAL (INCLUDING AC)	MRC	\$84.00	38	\$3,192
26 DDS TRANSPORT ALL SPEEDS PER ALM	MRC	\$4.50	1,600	\$7,200
27 ALL SPPEDS DDS TRANSPORT - 5 YR RSP	MRC	\$4.05	30	\$122
28 SALE OF EXCHANGE REVENUE				\$229,323
29 "R" WITH REPOSITIONING USED IN MAY 9, 1995 FILING				\$2,335,678
30 "R" WITHOUT REPOSITIONING USED IN DEVELOPING REPOSITIONING EXPENSE FACTOR				\$2,565,001
31 TK FACTOR (LINE 29 / LINE 30)				91.06%

EXG-1

Filing Date: 7/27/95

Filing Entity: GTCA

Transmittal Number: 983

1995 Annual Filing (Filename:GTCAAN95.WK3)

Page 1 of 2

**Price Cap Tariff Review Plan
Exogenous Cost Changes**

**EXHIBIT 2
Page 1 of 12**

	LTS	REGULA- TORY FEES	EXCESS DEFERRED TAXES	ITC AMORTIZ.	REMOVAL OF SHARING / LOW END ADJUSTMENT	TRUEUP PRIOR SHARING / LOW END ADJUSTMENT	CURRENT SHARING / LOW END ADJUSTMENT	TELECOMM. RELAY SERVICES
	(C)	(D)	(F)	(G)	(H)	(I)	(J)	(K)
COMMON LINE Revenue Effect								
100 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
110 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
120 Taxes less F.I.T.	N/A	N/A	16072	26290	N/A	N/A	N/A	N/A
130 Net Return	N/A	N/A	30299	0	N/A	N/A	N/A	N/A
140 F.I.T.	N/A	N/A	125887	256409	N/A	N/A	N/A	N/A
150 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
160 Revenue Effects	470605	139945	172258	282699	-33589989	-4395016	14336732	-90423
TRAFFIC SENSITIVE Revenue Effect								
300 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
310 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
320 Taxes less F.I.T.	N/A	N/A	4142	4787	N/A	N/A	N/A	N/A
330 Net Return	N/A	N/A	13211	0	N/A	N/A	N/A	N/A
340 F.I.T.	N/A	N/A	27064	46681	N/A	N/A	N/A	N/A
350 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
360 Revenue Effects	N/A	51460	44417	51468	-15593666	-1610433	4687133	-112554
TRUNKING Revenue Effect								
500 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
510 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
520 Taxes less F.I.T.	N/A	N/A	4220	6758	N/A	N/A	N/A	N/A
530 Net Return	N/A	N/A	8354	0	N/A	N/A	N/A	N/A
540 F.I.T.	N/A	N/A	32662	65895	N/A	N/A	N/A	N/A
550 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
560 Revenue Effects	N/A	23502	45236	72653	-6237861	-696313	2486611	-55527
INTEREXCHANGE Revenue Effect								
700 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
710 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
720 Taxes less F.I.T.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
730 Net Return	N/A	N/A	0	0	N/A	N/A	N/A	N/A
740 F.I.T.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
750 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
760 Revenue Effects	N/A	0	0	0	0	0	0	0

NOTE: (1) Total may not equal sum of changes due to interactive effects.
 (2) Display whole numbers.
 (3) Most column labelling letters match 1994 labels. 1994's Columns A, B, D, and E have been eliminated.

EXG-1

Filing Date: 7/27/95

Filing Entity: GTCA

Transmittal Number: 983

1995 Annual Filing (Filename:GTCAAN95.WK3)

Page 2 of 2

**Price Cap Tariff Review Plan
Exogenous Cost Changes**

**EXHIBIT 2
Page 2 of 12**

	OTHER (1)	OTHER (2)	OTHER (3)	OTHER (4)	OTHER (5)	TOTAL
	(L)	(M)	(N)	(O)	(P)	(Q)
COMMON LINE Revenue Effect						
100 Depreciation Expense	0	-5580	0	0	0	N/A
110 Expense less Depreciation	0	-3202409	0	0	0	N/A
120 Taxes less F.I.T.	0	-22633	0	0	0	N/A
130 Net Return	0	-131007	0	0	0	N/A
140 F.I.T.	0	-61086	0	0	0	N/A
150 Uncollectible Rev. & Other Adj.	0	-60	0	0	0	N/A
160 Revenue Effects	0	-3422775	0	37844	0	-26058142
TRAFFIC SENSITIVE Revenue Effect						
300 Depreciation Expense	0	7828	0	0	0	N/A
310 Expense less Depreciation	0	-1066550	0	0	0	N/A
320 Taxes less F.I.T.	0	937	0	0	0	N/A
330 Net Return	0	-3798	0	0	0	N/A
340 F.I.T.	0	-6285	0	0	0	N/A
350 Uncollectible Rev. & Other Adj.	0	-149	0	0	0	N/A
360 Revenue Effects	0	-1068017	0	19046	0	-13531150
TRUNKING Revenue Effect						
500 Depreciation Expense	0	13806	0	0	0	N/A
510 Expense less Depreciation	0	-712100	0	0	0	N/A
520 Taxes less F.I.T.	0	-68	0	0	0	N/A
530 Net Return	0	-11170	0	0	0	N/A
540 F.I.T.	0	-9589	0	0	0	N/A
550 Uncollectible Rev. & Other Adj.	0	-160	0	0	0	N/A
560 Revenue Effects	0	-719281	0	17192	0	-5063797
INTEREXCHANGE Revenue Effect						
700 Depreciation Expense	0	0	0	0	0	N/A
710 Expense less Depreciation	0	0	0	0	0	N/A
720 Taxes less F.I.T.	0	0	0	0	0	N/A
730 Net Return	0	0	0	0	0	N/A
740 F.I.T.	0	0	0	0	0	N/A
750 Uncollectible Rev. & Other Adj.	0	0	0	0	0	N/A
760 Revenue Effects	0	0	0	0	0	0

NOTE: (1) Total may not equal sum of changes due to interactive effects.
 (2) Display whole numbers.
 (3) Most column labelling letters match 1994 labels.
 1994's Columns A, B, D, and E have been eliminated.

(4) Descriptions of "Other" Exogenous Costs
 Other 1:
 Other 2: OPEB/FAS 106
 Other 3:
 Other 4: Sale of Exchanges
 Other 5:

EXCHANGE SALE EXOGENOUS CALCULATION
 7-27-95 Price Cap Compliance Filing

	Regulatory Fees	Telecomm Relay Services	LTS/TRS	Excess Deferred Taxes	ITC Amort.
	----- (A)	----- (B)	----- (C)	----- (D)	----- (E)
160 REVENUE EFFECTS:					
COMMON LINE					
Pre-sale	139945	-90423	470605	172258	282699
"R" Factor (Exhibit 1)	0.9984	0.9984	1	0.9984	0.9984
Post-sale exogenous	139721	-90278	470605	171982	282247
Exogenous Impact	-224	145	0	-276	-452
TRAFFIC SENSITIVE					
Pre-sale	51460	-112554	0	44417	51468
"R" Factor (Exhibit 1)	0.9985	0.9985	1	0.9985	0.9985
Post-sale exogenous	51383	-112385	0	44350	51391
Exogenous Impact	-77	169	0	-67	-77
TRUNKING (TRSPT + SP ACC)					
Pre-sale	23502	-55527	0	45236	72653
"R" Factor (Exhibit 1)	0.996	0.996	1	0.996	0.996
Post-sale exogenous	23408	-55305	0	45055	72362
Exogenous Impact	-94	222	0	-181	-291
INTEREXCHANGE	0	0	0	0	0
TOTAL INTERSTATE ACCESS					
Pre-sale	214907	-258504	470605	261911	406820
Post-sale exogenous	214512	-257968	470605	261387	406000
Exogenous Impact	-395	536	0	-524	-820

NOTE: (1) TOTAL column may not equal sum of changes due to interactive effects.
 (2) Data displayed in whole numbers.
 (3) OPEBS Reversal

TARIFF ENTITY: GTE - CALIFORNIA
 TELCO: GTE CALIFORNIA, INC.
 STUDY AREA: CALIFORNIA (C111)
 COSA: GTCA
 Page 2 of 2

EXCHANGE SALE EXOGENOUS CALCULATION
7-27-95 Price Cap Compliance Filing

	Removal of (Sharing)/ Low End Adjustment	Trueup Prior (Sharing)/ Low End Adjustment	Current (Sharing)/ Low End Adjustment	OTHER (Note 3)	TOTAL (Note 1)
	----- (F)	----- (G)	----- (H)	----- (I)	----- (J)
160 REVENUE EFFECTS:					
COMMON LINE	-33589989	-4395016	14336732	-3422775	-26095986
Pre-sale	0.998376	0.9984	0.9984	1	NA
"R" Factor (Exhibit 1)	-33535431	-4387984	14313793	-3422775	-26058142
Post-sale exogenous Exogenous Impact	54558	7032	-22939	0	37844
TRAFFIC SENSITIVE	-15593666	-1610433	4687133	-1068017	-13550196
Pre-sale	0.998479	0.9985	0.9985	1	NA
"R" Factor (Exhibit 1)	-15569953	-1608017	4680102	-1068017	-13531150
Post-sale exogenous Exogenous Impact	23713	2416	-7031	0	19046
TRUNKING (TRSPT + SP ACC)	-6237861	-696313	2486611	-719281	-5080989
Pre-sale	0.996041	0.996	0.996	1	NA
"R" Factor (Exhibit 1)	-6213164	-693528	2476665	-719281	-5063797
Post-sale exogenous Exogenous Impact	24697	2785	-9946	0	17192
	0	0	0	0	0
INTEREXCHANGE	-----	-----	-----	-----	-----
TOTAL INTERSTATE ACCESS	-55421516	-6701762	21510476	-5210073	-44727171
Pre-sale	-55318548	-6689529	21470560	-5210073	-44653089
Post-sale exogenous Exogenous Impact	102968	12233	-39916	0	74082

EXG-1
 Filing Date: 7/27/95
 Filing Entity: GTIA
 Transmittal Number: 983
 1995 Annual Filing (Filename:GTIAAN95.WK3)
 Page 1 of 2

Price Cap Tariff Review Plan
 Exogenous Cost Changes

EXHIBIT 2
 Page 5 of 12

	LTS	REGULA- TORY FEES	EXCESS DEFERRED TAXES	ITC AMORTIZ.	REMOVAL OF SHARING / LOW END ADJUSTMENT	TRUEUP PRIOR SHARING / LOW END ADJUSTMENT	CURRENT SHARING / LOW END ADJUSTMENT	TELECOMM. RELAY SERVICES
	(C)	(D)	(F)	(G)	(H)	(I)	(J)	(K)
COMMON LINE Revenue Effect								
100 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
110 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
120 Taxes less F.I.T.	N/A	N/A	899	7954	N/A	N/A	N/A	N/A
130 Net Return	N/A	N/A	1708	0	N/A	N/A	N/A	N/A
140 F.I.T.	N/A	N/A	5732	66273	N/A	N/A	N/A	N/A
150 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
160 Revenue Effects	-3141	3384	8339	74227	-259326	-137390	-501686	-4142
TRAFFIC SENSITIVE Revenue Effect								
300 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
310 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
320 Taxes less F.I.T.	N/A	N/A	368	2380	N/A	N/A	N/A	N/A
330 Net Return	N/A	N/A	1045	0	N/A	N/A	N/A	N/A
340 F.I.T.	N/A	N/A	2005	19826	N/A	N/A	N/A	N/A
350 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
360 Revenue Effects	N/A	2675	3418	22206	-222074	-109143	-314310	-1716
TRUNKING Revenue Effect								
500 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
510 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
520 Taxes less F.I.T.	N/A	N/A	310	2579	N/A	N/A	N/A	N/A
530 Net Return	N/A	N/A	647	0	N/A	N/A	N/A	N/A
540 F.I.T.	N/A	N/A	1910	21485	N/A	N/A	N/A	N/A
550 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
560 Revenue Effects	N/A	729	2867	24064	-76308	-32491	-160426	-1536
INTEREXCHANGE Revenue Effect								
700 Depreciation Expense	N/A	N/A	0	0	N/A	N/A	N/A	N/A
710 Expense less Depreciation	N/A	N/A	0	0	N/A	N/A	N/A	N/A
720 Taxes less F.I.T.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
730 Net Return	N/A	N/A	0	0	N/A	N/A	N/A	N/A
740 F.I.T.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
750 Uncollectible Rev. & Other Adj.	N/A	N/A	0	0	N/A	N/A	N/A	N/A
760 Revenue Effects	N/A	0	0	0	0	0	0	0

NOTE: (1) Total may not equal sum of changes due to interactive effects.
 (2) Display whole numbers.
 (3) Most column labelling letters match 1994 labels. 1994's Columns A, B, D, and E have been eliminated.

**Price Cap Tariff Review Plan
 Exogenous Cost Changes**

	OTHER (1)	OTHER (2)	OTHER (3)	OTHER (4)	OTHER (5)	TOTAL
	(L)	(M)	(N)	(O)	(P)	(Q)
COMMON LINE Revenue Effect						
100 Depreciation Expense	0	-550	0	0	0	N/A
110 Expense less Depreciation	0	-145931	0	0	0	N/A
120 Taxes less F.I.T.	0	-1210	0	0	0	N/A
130 Net Return	0	-5260	0	0	0	N/A
140 F.I.T.	0	-2181	0	0	0	N/A
150 Uncollectible Rev. & Other Adj.	0	109	0	0	0	N/A
160 Revenue Effects	0	-155023	0	3671	0	-971097
TRAFFIC SENSITIVE Revenue Effect						
300 Depreciation Expense	0	-370	0	0	0	N/A
310 Expense less Depreciation	0	-39229	0	0	0	N/A
320 Taxes less F.I.T.	0	-298	0	0	0	N/A
330 Net Return	0	-1225	0	0	0	N/A
340 F.I.T.	0	-593	0	0	0	N/A
350 Uncollectible Rev. & Other Adj.	0	-28	0	0	0	N/A
360 Revenue Effects	0	-41743	0	2156	0	-658534
TRUNKING Revenue Effect						
500 Depreciation Expense	0	-161	0	0	0	N/A
510 Expense less Depreciation	0	-54600	0	0	0	N/A
520 Taxes less F.I.T.	0	-361	0	0	0	N/A
530 Net Return	0	-1499	0	0	0	N/A
540 F.I.T.	0	-673	0	0	0	N/A
550 Uncollectible Rev. & Other Adj.	0	7	0	0	0	N/A
560 Revenue Effects	0	-57287	0	729	0	-299662
INTEREXCHANGE Revenue Effect						
700 Depreciation Expense	0	0	0	0	0	N/A
710 Expense less Depreciation	0	0	0	0	0	N/A
720 Taxes less F.I.T.	0	0	0	0	0	N/A
730 Net Return	0	0	0	0	0	N/A
740 F.I.T.	0	0	0	0	0	N/A
750 Uncollectible Rev. & Other Adj.	0	0	0	0	0	N/A
760 Revenue Effects	0	0	0	0	0	0

NOTE: (1) Total may not equal sum of changes due to interactive effects.
 (2) Display whole numbers.
 (3) Most column labelling letters match 1994 labels. 1994's Columns A, B, D, and E have been eliminated.

(4) Descriptions of "Other" Exogenous Costs
 Other 1:
 Other 2: OPEB/FAS 106
 Other 3:
 Other 4: Sale of Exchanges
 Other 5: