

COST OF NETWORK ELEMENTS

Virginia *CHESAPEAKE & POTOMAC TEL CO OF VA - VA*

Loop elements	0 - 5 hh/mi2	5 - 200 hh/mi2	200 - 650 hh/mi2	650 - 850 hh/mi2	850 - 2550 hh/mi2	> 2550 hh/mi2	Totals
<i>Loop Distribution</i>							
Annual Cost	\$975,825	\$89,379,807	\$46,996,743	\$20,793,912	\$132,302,767	\$66,160,022	\$356,609,076
Unit Cost/month	\$32.21	\$14.54	\$8.93	\$8.35	\$8.13	\$7.62	\$9.17
<i>Loop Concentration</i>							
Annual Cost	\$278,322	\$25,977,744	\$16,406,443	\$6,452,727	\$29,597,825	\$6,802,278	\$85,515,337
Unit Cost/month	\$9.19	\$4.23	\$3.12	\$2.59	\$1.82	\$0.78	\$2.20
<i>Loop Feeder</i>							
Annual Cost	\$54,848	\$2,532,973	\$1,767,040	\$966,137	\$11,273,535	\$7,783,309	\$24,377,843
Unit Cost/month	\$1.81	\$0.41	\$0.34	\$0.39	\$0.69	\$0.90	\$0.63
<i>Total Loop</i>							
Annual Cost	\$1,308,995	\$117,890,524	\$65,170,226	\$28,212,775	\$173,174,127	\$80,745,608	\$466,502,256
Unit Cost/month	\$43.21	\$19.17	\$12.38	\$11.33	\$10.64	\$9.30	\$12.00
<i>Total lines</i>	2,524	512,374	438,702	207,592	1,355,956	723,555	3,240,704
<i>Lines served by Digital Loop Carrier</i>	2,518	496,833	307,828	121,691	553,781	124,450	1,607,101

	Annual Cost	Units	Unit Cost
End office switching	\$152,437,656		
1. Port	\$45,731,297	3,035,383 Switched lines	\$1.26 per line/month
2. Usage	\$106,706,359	55,333,650,086 Minutes	\$0.0019 per minute
Signaling network elements	\$18,286,910		
1. Links	\$193,531	470 Links	\$34.31 per link/month
2. STP	\$15,925,057	35,851,692,031 TCAP+ISUP messages	\$0.0004 per message
3. SCP	\$2,168,322	2,438,177,600 TCAP messages	\$0.0009 per message
Transport network elements			
1. Dedicated	\$88,013,390	445,582 Trunks	\$16.46 per DS-0 equivalent/month
Switched	\$47,457,448	240,261 Trunks	\$0.0016 per minute
Special	\$40,555,942	205,321 Trunks	
2. Common	\$4,218,385	3,692,982,777 Minutes	\$0.0012 per minute per leg (orig or term)
3. Tandem switch	\$6,668,272	3,317,025,167 Minutes	\$0.0020 per minute
Operator systems	\$5,163,902		
Total	\$712,590,500		
Total cost of switched network elements	\$18.43 per line/month		

COST OF NETWORK ELEMENTS **Washington PACIFIC NORTHWEST BELL - WA**

Loop elements	0 - 5 hh/mi2	5 - 200 hh/mi2	200 - 650 hh/mi2	650 - 850 hh/mi2	850 - 2550 hh/mi2	> 2550 hh/mi2	Totals
<i>Loop Distribution</i>							
Annual Cost	\$11,186,871	\$29,838,470	\$22,424,633	\$9,100,420	\$65,736,056	\$43,835,182	\$182,121,632
Unit Cost/month	\$38.92	\$10.83	\$6.62	\$5.73	\$5.31	\$4.77	\$6.16
<i>Loop Concentration</i>							
Annual Cost	\$2,613,901	\$11,672,922	\$11,183,002	\$4,461,220	\$26,861,307	\$9,460,629	\$66,252,981
Unit Cost/month	\$9.09	\$4.24	\$3.30	\$2.81	\$2.17	\$1.03	\$2.24
<i>Loop Feeder</i>							
Annual Cost	\$653,603	\$1,535,821	\$1,471,816	\$735,022	\$8,969,813	\$7,605,140	\$20,971,215
Unit Cost/month	\$2.27	\$0.56	\$0.43	\$0.46	\$0.73	\$0.83	\$0.71
<i>Total Loop</i>							
Annual Cost	\$14,454,375	\$43,047,214	\$35,079,451	\$14,296,662	\$101,567,176	\$60,900,952	\$269,345,829
Unit Cost/month	\$50.29	\$15.63	\$10.36	\$9.00	\$8.21	\$6.63	\$9.11
<i>Total lines</i>	23,953	229,542	282,288	132,383	1,030,841	765,595	2,464,603
<i>Lines served by Digital Loop Carrier</i>	23,944	218,565	204,023	81,348	485,252	166,228	1,179,360
	Annual Cost	Units			Unit Cost		
End office switching	\$102,703,881						
1. Port	\$30,811,164	2,172,570	Switched lines		\$1.18	per line/month	
2. Usage	\$71,892,716	35,864,848,388	Minutes		\$0.0020	per minute	
Signaling network elements	\$8,209,576						
1. Links	\$85,374	302	Links		\$23.56	per link/month	
2. STP	\$6,639,776	23,357,962,393	TCAP+ISUP messages		\$0.0003	per message	
3. SCP	\$1,484,427	1,716,272,200	TCAP messages		\$0.0009	per message	
Transport network elements							
1. Dedicated	\$72,871,943	447,773	Trunks		\$13.56	per DS-0 equivalent/month	
Switched	\$25,345,539	155,740	Trunks		\$0.0014	per minute	
Special	\$47,526,405	292,033	Trunks				
2. Common	\$8,006,016	2,767,197,942	Minutes		\$0.0030	per minute per leg (orig or term)	
3. Tandem switch	\$3,156,920	2,338,741,384	Minutes		\$0.0013	per minute	
Operator systems	\$4,758,056						
Total	\$453,764,971						
Total cost of switched network elements	\$14.94		per line/month				

COST OF NETWORK ELEMENTS West Virginia *CHESAPEAKE & POTOMAC TEL CO OF WV - WV*

Loop elements	0 - 5 hh/mi2	5 - 200 hh/mi2	200 - 650 hh/mi2	650 - 850 hh/mi2	850 - 2550 hh/mi2	> 2550 hh/mi2	Totals
<i>Loop Distribution</i>							
Annual Cost	\$2,124,691	\$62,033,209	\$10,934,923	\$2,932,168	\$15,545,444	\$6,228,194	\$99,798,629
Unit Cost/month	\$27.46	\$14.15	\$8.52	\$7.59	\$7.13	\$6.47	\$10.76
<i>Loop Concentration</i>							
Annual Cost	\$704,330	\$18,724,348	\$3,228,772	\$375,881	\$2,181,167	\$499,728	\$25,714,227
Unit Cost/month	\$9.10	\$4.27	\$2.52	\$0.97	\$1.00	\$0.52	\$2.77
<i>Loop Feeder</i>							
Annual Cost	\$161,936	\$2,494,236	\$796,448	\$272,919	\$1,969,176	\$895,161	\$6,589,876
Unit Cost/month	\$2.09	\$0.57	\$0.62	\$0.71	\$0.90	\$0.93	\$0.71
<i>Total Loop</i>							
Annual Cost	\$2,990,957	\$83,251,793	\$14,960,143	\$3,580,969	\$19,695,787	\$7,623,083	\$132,102,732
Unit Cost/month	\$38.66	\$18.99	\$11.66	\$9.26	\$9.04	\$7.92	\$14.25
<i>Total lines</i>	6,447	365,293	106,928	32,211	181,600	80,233	772,712
<i>Lines served by Digital Loop Carrier</i>	6,447	355,359	58,262	6,408	37,517	8,059	472,051

	Annual Cost	Units	Unit Cost
End office switching	\$48,450,186		
1. Port	\$14,535,056	745,346 Switched lines	\$1.63 per line/month
2. Usage	\$33,915,130	14,313,493,857 Minutes	\$0.0024 per minute
Signaling network elements	\$9,675,466		
1. Links	\$65,307	292 Links	\$18.64 per link/month
2. STP	\$9,175,024	9,142,635,460 TCAP+ISUP messages	\$0.0010 per message
3. SCP	\$435,135	586,120,000 TCAP messages	\$0.0007 per message
Transport network elements			
1. Dedicated	\$23,074,698	85,825 Trunks	\$22.40 per DS-0 equivalent/month
Switched	\$15,717,157	58,459 Trunks	\$0.0022 per minute
Special	\$7,357,541	27,366 Trunks	
2. Common	\$1,852,531	809,035,335 Minutes	\$0.0023 per minute per leg (orig or term)
3. Tandem switch	\$3,845,600	695,352,134 Minutes	\$0.0055 per minute
Operator systems	\$2,524,596		
Total	\$210,895,754		
Total cost of switched network elements	\$23.42	per line/month	

COST OF NETWORK ELEMENTS

Wisconsin *WISCONSIN BELL INC - WI*

Loop elements	0 - 5 hh/mi2	5 - 200 hh/mi2	200 - 650 hh/mi2	650 - 850 hh/mi2	850 - 2550 hh/mi2	> 2550 hh/mi2	Totals
<i>Loop Distribution</i>							
Annual Cost	\$800,025	\$48,644,766	\$35,115,945	\$10,393,153	\$82,776,099	\$72,373,582	\$250,103,569
Unit Cost/month	\$34.04	\$13.74	\$9.51	\$8.47	\$7.94	\$7.30	\$8.68
<i>Loop Concentration</i>							
Annual Cost	\$212,251	\$14,037,398	\$10,669,943	\$3,088,148	\$17,558,568	\$7,293,648	\$52,859,955
Unit Cost/month	\$9.03	\$3.96	\$2.89	\$2.52	\$1.68	\$0.74	\$1.83
<i>Loop Feeder</i>							
Annual Cost	\$43,821	\$1,378,513	\$1,370,842	\$479,600	\$7,912,409	\$10,432,743	\$21,617,929
Unit Cost/month	\$1.86	\$0.39	\$0.37	\$0.39	\$0.76	\$1.05	\$0.75
<i>Total Loop</i>							
Annual Cost	\$1,056,096	\$64,060,677	\$47,156,730	\$13,960,901	\$108,247,076	\$90,099,972	\$324,581,453
Unit Cost/month	\$44.93	\$18.09	\$12.78	\$11.37	\$10.38	\$9.09	\$11.26
<i>Total lines</i>	1,959	295,108	307,565	102,314	868,783	825,998	2,401,727
<i>Lines served by Digital Loop Carrier</i>	1,959	278,587	212,514	61,713	347,322	138,174	1,040,269

	Annual Cost	Units	Unit Cost
End office switching	\$91,796,392		
1. Port	\$27,538,918	2,021,386 Switched lines	\$1.14 per line/month
2. Usage	\$64,257,474	29,135,436,661 Minutes	\$0.0022 per minute
Signaling network elements	\$13,875,660		
1. Links	\$53,214	276 Links	\$16.07 per link/month
2. STP	\$12,487,297	19,170,807,673 TCAP+ISUP messages	\$0.0007 per message
3. SCP	\$1,335,149	1,380,117,800 TCAP messages	\$0.0010 per message
Transport network elements			
1. Dedicated	\$69,167,263	506,669 Trunks	\$11.38 per DS-0 equivalent/month
Switched	\$17,245,494	126,328 Trunks	\$0.0011 per minute
Special	\$51,921,769	380,341 Trunks	
2. Common	\$2,696,627	2,220,912,082 Minutes	\$0.0012 per minute per leg (orig or term)
3. Tandem switch	\$3,142,455	1,881,677,060 Minutes	\$0.0017 per minute
Operator systems	\$2,582,096		
Total	\$497,426,212		
Total cost of switched network elements	\$16.68	per line/month	

COST OF NETWORK ELEMENTS

Wyoming MOUNTAIN BELL - WY

Loop elements	0 - 5 hh/mi2	5 - 200 hh/mi2	200 - 650 hh/mi2	650 - 850 hh/mi2	850 - 2550 hh/mi2	> 2550 hh/mi2	Totals
<i>Loop Distribution</i>							
Annual Cost	\$15,555,802	\$6,829,686	\$2,893,492	\$407,261	\$5,924,345	\$1,263,843	\$32,874,429
Unit Cost/month	\$71.89	\$10.90	\$6.00	\$5.20	\$4.81	\$4.40	\$11.25
<i>Loop Concentration</i>							
Annual Cost	\$1,906,810	\$2,587,701	\$1,231,153	\$121,543	\$2,261,192	\$79,313	\$8,187,713
Unit Cost/month	\$8.81	\$4.13	\$2.55	\$1.55	\$1.84	\$0.28	\$2.80
<i>Loop Feeder</i>							
Annual Cost	\$1,624,840	\$319,308	\$284,495	\$45,516	\$785,124	\$298,498	\$3,357,781
Unit Cost/month	\$7.51	\$0.51	\$0.59	\$0.58	\$0.64	\$1.04	\$1.15
<i>Total Loop</i>							
Annual Cost	\$19,087,452	\$9,736,695	\$4,409,140	\$574,321	\$8,970,661	\$1,641,654	\$44,419,923
Unit Cost/month	\$88.22	\$15.54	\$9.14	\$7.34	\$7.29	\$5.71	\$15.20
<i>Total lines</i>	18,031	52,205	40,209	6,522	102,600	23,940	243,507
<i>Lines served by Digital Loop Carrier</i>	18,031	48,430	21,825	2,075	39,477	1,129	130,967

	Annual Cost	Units	Unit Cost
End office switching	\$11,375,071		
1. Port	\$3,412,521	220,497 Switched lines	\$1.29 per line/month
2. Usage	\$7,962,550	3,066,520,050 Minutes	\$0.0026 per minute
Signaling network elements	\$3,379,550		
1. Links	\$16,714	54 Links	\$25.79 per link/month
2. STP	\$3,215,376	1,743,997,585 TCAP+ISUP messages	\$0.0018 per message
3. SCP	\$147,460	139,545,800 TCAP messages	\$0.0011 per message
Transport network elements			
1. Dedicated	\$5,476,120	37,420 Trunks	\$12.20 per DS-0 equivalent/month
Switched	\$2,108,727	14,409 Trunks	\$0.0012 per minute
Special	\$3,367,392	23,010 Trunks	
2. Common	\$1,778,410	290,291,893 Minutes	\$0.0063 per minute per leg (orig or term)
3. Tandem switch	\$831,202	253,462,216 Minutes	\$0.0033 per minute
Operator systems	\$1,579,787		
Total	\$67,755,577		
Total cost of switched network elements	\$23.16	per line/month	

APPENDIX E

AVOIDED COST MODEL

The Avoided Cost Model ("Model") is a "top-down" approach used to determine the wholesale discount that a new entrant should receive to provide local service via resale. The Model is designed to develop avoided cost discounts in compliance with the requirements of Section 252(d)(3) of the Telecommunications Act of 1996 that the wholesale rate to be paid to incumbent local exchange carriers ("ILECs") by resellers be based on the retail rate charged to end-users, "excluding the portion thereof attributable to marketing, billing, collection, and other costs that will be avoided" by the ILEC. The model is continually being revised to improve its accuracy. The Model has been used to develop an avoided cost percentage discount by ILEC for local service¹ in each state, except Alaska.² These avoided cost percentage discounts are displayed in Exhibit 1.³

A. OVERVIEW

The Avoided Cost Model is an ILEC and state-specific model that identifies the particular functions that are not applicable to an ILEC's provision of wholesale services and determines an appropriate avoided cost discount by individual ILEC for local services. The avoided cost discount is calculated by identifying and removing those costs that an ILEC avoids when it provides wholesale service. The Model uses publicly available accounting and statistical Automated Report Management Information System ("ARMIS") data, specifically the ARMIS 43-03, 43-04 and 43-08 financial reports for each ILEC, to assign ILEC revenue and expense data to five ILEC lines of business or business units: Miscellaneous; Private Line; Local; Access; and Toll.

For the Local line of business, the direct retail avoidable expenses are identified and removed. Avoided expenses are defined as those not incurred by the ILEC to provide wholesale service. These costs are identified and removed by determining the appropriate amount that relates exclusively to retail operations for specific USOA Accounts. Those direct expenses include

¹ Local service includes basic area message services such as flat rate local services, measured local services, vertical features, and expanded area calling plans. The Model can also develop avoided cost discounts for private line, toll and access services (where access services are offered to non-carrier subscribers).

² No avoided cost percentage discount has been developed for Alaska because local service provider data is not available.

³ Exhibit 1 also displays the monthly Local revenue per line and the avoided cost as a monthly dollar figure per line.

- 1) Account 5300 - Uncollectibles
- 2) Account 6610 - Marketing Expense
- 3) Account 6620 - Customer Services
- 4) Account 6220 - Operator Systems Expense
- 5) Account 6533 - Operations Testing
- 6) Account 6534 - Operations Plant Administration

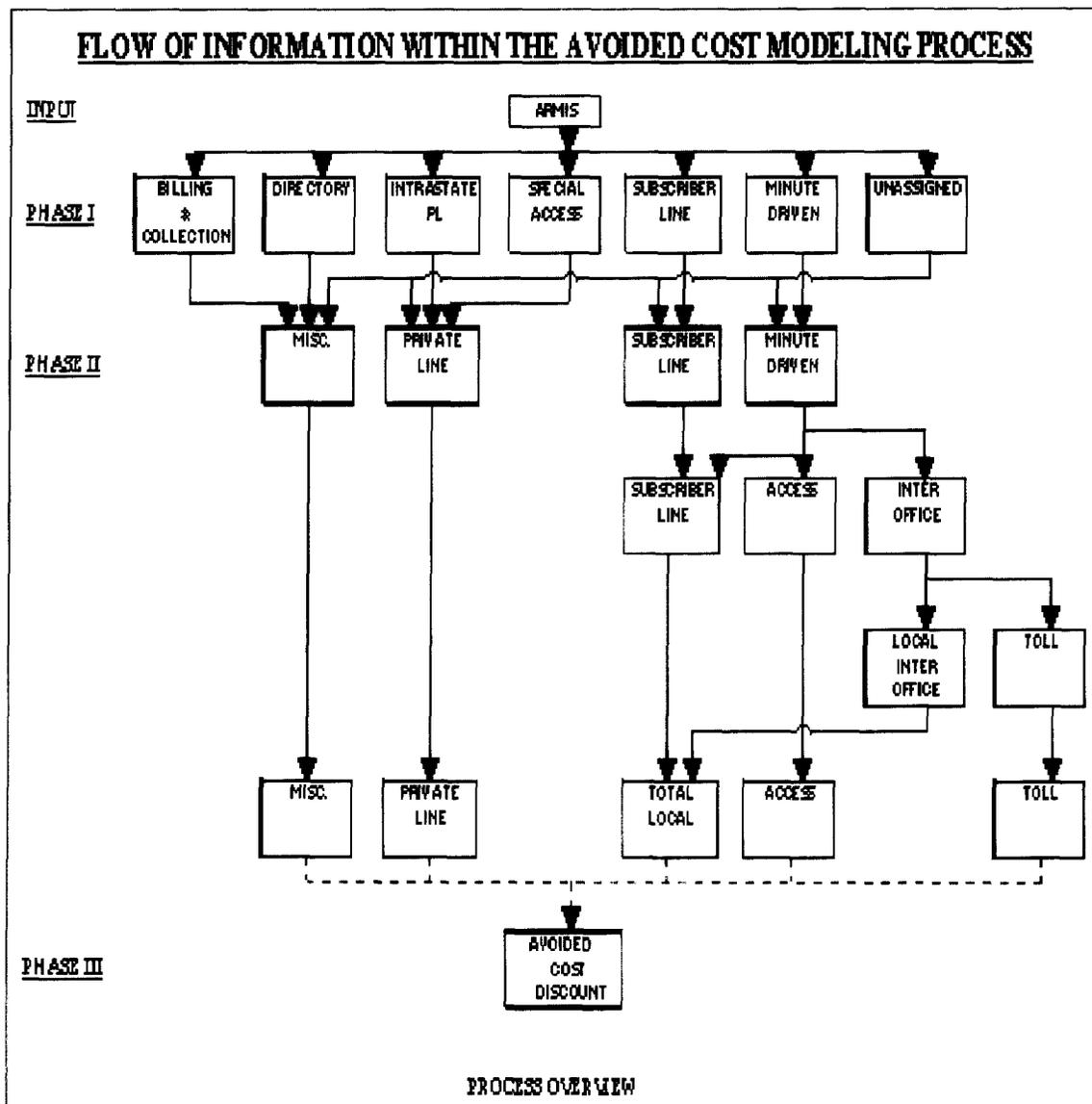
Next, a portion of the indirect retail avoidable expenses is identified and removed. These indirect expenses generally support all services and, while not attributable to any particular service, they do in fact change as the overall level of services changes. A portion of the indirect retail avoidable costs from each of the following USOA Accounts is removed:

- 1) Account 6110 - Network Support Expense. The portion of network support expense associated with customer facing retail functions that should be excluded from wholesale rate calculations to reflect a reseller's intention of assuming responsibility for the provision of these services.
- 2) Accounts 6120 through 6124 - General Support Expense (including Land, Building, Furniture, Artwork, Office Equipment and General Purpose Computer). The portion associated with the provision of retail functions to be assumed by the reseller.
- 3) Account 6560 - Depreciation Expense. The portion associated with assets used in the provision of retail functions.
- 4) Accounts 6710 through 6720 - Executive & Planning as well as General & Administrative Expense. The portion of these expenses attributable to previously excluded avoided costs.
- 5) Account 7240 - Other Taxes. The portion of other taxes that should be assigned to the avoided cost category because they are generated through retail activities to be assumed by the reseller.
- 6) Account 7540 - Other Interest Deductions. The portion of these expenses associated with interest on customer deposits should be excluded.
- 7) Total Return. A portion of Total Return also is excluded. This Total Return component should be assigned to the avoided cost category to reflect the use of support capital in providing retail functions

The Model is designed to attribute indirect costs to retail services and then remove the proportional indirect costs attributable to the avoidable functions and costs. This design is consistent with analyses that demonstrate that there is a statistically significant and proportionate relationship between growth in direct costs and growth in indirect costs. Therefore, to the extent some proportion of direct costs will be avoided when the ILEC

no longer performs a number of retailing functions, a like proportion of indirect retail expenses will also be avoided. Ultimately, the total of the avoided (both direct and indirect) retail costs is divided by the local service related revenues to derive the avoided retail cost percentage discount. This discount effectively removes the costs of retailing functions from retail local service rates.

The Avoided Cost Model uses a three phase methodology to analyze ILEC revenue and expense data and allocate this data on a product line basis so that avoided costs can be identified and quantified. Phase I reformats revenue and expense data into seven separate functional categories. Phase II reorganizes these primary categories into five distinctive line of business categories. Phase III analyzes revenue and expense by Business Unit, identifies avoided costs, and calculates the wholesale discount percentage for local service (Local), toll service (Toll), and private line service (Private Line). The modeling process can be displayed graphically as follows:



B. INPUT DATA

The primary inputs to the model are ILEC and state-specific financial and operational data from ARMIS which is filed annually with the FCC. This data represents the financial performance of each Tier 1 Local Exchange Company in a consistent format using comparable Part 32 accounting classifications, methodologies and operational data. The model uses three primary raw data sources from ARMIS:

ARMIS 43-03 (Joint Cost Report): This report provides the regulated annual operating results of the ILEC for every account in the Commission's Part 32 Uniform System of Accounts ("USOA"). These data are used to supplement the data from ARMIS 43-04.

ARMIS 43-04 (Access Report): This report provides regulated financial and operating data that are separated between state and interstate jurisdictions in accordance with Part 36 and with the interstate data further allocated to tariff access elements pursuant to Part 69 of the Commission's Rules.

ARMIS 43-08 (Operating Data Report): This report is used as a source of operating data. Table III of the report is used to identify access lines associated with switched services. Information on Toll Calls and Billed Access minutes is derived from Table IV.

In addition to public ARMIS data, various factors are used to identify and assign costs to the proper accounts and/or product lines. These factors are described in Exhibit 2.

C. PHASE I - FUNCTIONAL CATEGORIZATION

Phase I of the Model assigns each line of the LEC Total State Income Statement from ARMIS 43-04 in whole or in part among seven separate functional categories: Billing and Collection; Directory; Intrastate Private Line; Special Access; Subscriber Line; Minute Drive; and Unassigned.⁴ Wherever possible the revenue and expenses are directly assigned to each category. Where such direct assignment cannot be done, the revenue and expenses are assigned based on the characteristics of the revenue earned or the expense incurred and operational data, separations methodologies or comparable AT&T network call routing statistic using the factors set forth in Exhibit 2. The Phase I functional categorization is more fully described in Exhibit 3

D. PHASE II - LINE OF BUSINESS ASSIGNMENT

Phase II of the Model takes the revenues and expenses assigned to the seven functional categories in Phase I and groups the revenues and expenses in five lines of business: Miscellaneous; Private Line; Total Local; Access; and Toll. Phase II has four steps. Step 1 groups the seven functional categories into four consolidated operational categories: Miscellaneous (Billing & Collection, Directory and Public Telephone); Private Line (Intrastate EU Local, Intrastate IX & EU LD); Subscriber Line; and Minute Driven. Step 2 assigns Minute Driven expenses to Subscriber Line, Access Service and Interoffice. Step 3 assigns Interoffice expenses to Toll Service and Local Interoffice. In Step 4, Local Interoffice and Subscriber Line are consolidated to generate Total Local. Directory Assistance, Call Completion and Published Directory are realigned from Customer Operations to Network, and Order Processing IXC, Order Processing EU and Other Customer Operations are realigned from Customer Operations to Marketing, Sales and Advertising. The Phase II assignment of revenues and expenses to lines of business is detailed in Exhibit 3.

⁴ ARMIS 43-03 Product Management, Sales and Product Advertising are aggregated in ARMIS 43-04 LN 7000 as Marketing. ARMIS 43-03 Executive & Planning, Accounting & Finance, External Relations/Regulatory, Human Resources, Information Management, Legal, Procurement, Research & Development, Other General & Administrative are aggregated in ARMIS 43-04 LN 7334 as Corporate Operations. ARMIS 43-03 Power, Network Administration, Testing, Plant operations, Administration and Engineering are aggregated in ARMIS 43-04 LN 6010 as Network Operations. ARMIS 43-03 Operator Systems, Switching, Circuit line items are aggregated in ARMIS 43-04 LN 5026 as Total Central Office expense. In order to re-establish these aggregated line items in the Model, the relative percentages of these ARMIS 43-03 accounts are applied against the ARMIS 43-04 aggregated lines.

In the Model, "LN ####" refers to ARMIS 43-04 data unless otherwise stated. The term "line item" refers to the Income Statement line. The term "gross up method" refers to the application of the ratio of LN 4031 B&C Revenue Subject to Separations column to LN 4031 B&C Revenue Total Interstate column which thereby extrapolates the total expense from interstate expense.

D. PHASE III - DETERMINATION OF AVOIDED COSTS

Phase III of the Model uses income statements for the Private Line, Local, Access (where appropriate) and Toll lines of business and identifies the avoided costs associated with each revenue and expense item for the applicable line of business. The Phase II Income Statements detail revenues as well as Interconnection, Depreciation, Network, Marketing/Sales/Advertising, Billing and G&A expenses. Data relative to Investment statistics, Return, Federal Income Tax ("FIT") Gross Up, State and Local Taxes and Net Other Interest are also identified.

The portion of these costs that should reasonably be avoided in the provision of wholesale services are identified. The determination of the avoided costs is made through application of specific expense ratios developed to comply with Section 252(d)(3) of the Telecommunications Act of 1996. The customized methodologies used to identify the wholesale portion of each of these cost categories are set forth below. The avoided costs identified through the Model represent a reasonable estimation of the cost of performing functions that will not be incurred by the ILEC to provide wholesale services to resellers. The identified avoided costs are then divided by the applicable Business Unit revenues that will be discounted to determine the Business Unit's avoided cost percentage discount.

Uncollectibles

Collection costs are specifically listed as an avoided cost in the Act. Moreover, the uncollectible amount in each functional category is 100% avoided because the risk for collection of open accounts receivable moves from the incumbent LEC to the reseller (i.e., if the end user does not pay the reseller accepts the financial responsibility). Further, the risk of non-payment by resellers is negligible when compared to overall uncollectibles.

Depreciation

The avoided segment of General Support costs are determined based on a formula of $\text{Avoided Direct costs over Total costs minus Total Indirect costs}$.

Operator Systems costs are totally avoided because resellers will either provide their own operators or contract separately with the ILEC or a third party provider for such services.

Network

The avoided segment of Support costs are determined by using the same methodology previously identified in Depreciation General Support.

Central Office Operator Systems costs are avoided because resellers will either provide their own operators or contract separately with the ILEC or a third party provider for such services.

Operations Testing and Operations Plant Administration avoided costs are determined based on studies of the history of AT&T customer inquiries. Those studies and the need of resellers to have mechanized interfaces with the ILEC will result in a minimum 20% avoided cost for these accounts.

Call Completion and Directory Assistance Costs are totally avoided in that these services will be provided by the reseller's Operators.

Marketing, Sales, and Advertising

These costs are specifically listed as avoided costs under the Act. Moreover, these costs are not incurred to provide wholesale service and therefore are 100% avoided.

Billing

These costs are specifically listed as avoided costs under the Act. Moreover, these costs are not incurred to provide wholesale service and therefore are 100% avoided.

General Administrative

Avoided costs in this category are calculated utilizing the results of the formula of Avoided Direct costs *over* Total costs *minus* Total Indirect costs.

Return/FIT/Taxes

A portion of dollars associated with Return on Investment, as well as expenses in connection with FIT Gross Up and State and Local Taxes are avoided. The avoided costs are determined by *multiplying* the percentage obtained by *dividing* the General Support Facilities Investment by the Total Telephone Plant-in-Service investment *times* the results of the formula of Avoided Direct costs *over* Total costs *minus* Total Indirect costs.

Net Other Interest

Avoided costs associated with Net Other Interest are determined through analysis of interest paid to customers for deposits made prior to the provisioning of service. 100% of the interest on customer deposits is avoided.

Total Avoided Cost Discount Percentages

using 1995 data

<u>Company Name</u>	<u>State</u>	<u>Total Local \$per Ln/12</u>	<u>Local Avoided Retail Cost Factor</u>	<u>Local Avoided Retail \$per Ln/12</u>
Illinois Bell	IL	\$25.26	32.24%	\$8.14
Michigan Bell	MI	\$19.88	40.13%	\$7.98
Indiana Bell	IN	\$22.76	30.65%	\$6.98
Ohio Bell	OH	\$26.31	29.63%	\$7.80
Wisconsin Bell	WI	\$21.33	37.00%	\$7.89
Bell of C & P Washington DC	DC	\$24.87	43.02%	\$10.70
C & P of Maryland	MD	\$26.18	30.86%	\$8.08
C & P of Virginia	VA	\$24.71	30.60%	\$7.56
C&P of W Virginia	WV	\$31.65	27.43%	\$8.68
Diamond State	DE	\$19.40	27.72%	\$5.38
New Jersey Bell	NJ	\$16.71	43.27%	\$7.23
Bell of Pennsylvania	PA	\$20.49	36.93%	\$7.57
Southern Bell - FL	FL	\$22.84	41.75%	\$9.54
Southern Bell - GA	GA	\$30.60	27.61%	\$8.45
Southern Bell - NC	NC	\$26.08	25.28%	\$6.59
Southern Bell - SC	SC	\$31.96	24.97%	\$7.98
South Central Bell - AL	AL	\$30.75	23.05%	\$7.09
South Central Bell - KY	KY	\$28.61	26.32%	\$7.53
South Central Bell - LA	LA	\$29.93	25.07%	\$7.50
South Central Bell - MS	MS	\$33.61	24.14%	\$8.11
South Central Bell - TN	TN	\$26.86	30.66%	\$8.24
New England Telephone - MA	MA	\$26.45	34.95%	\$9.24
New England Telephone - ME	ME	\$18.28	55.52%	\$10.15
New England Telephone - NH	NH	\$22.33	36.29%	\$8.10
New England Telephone - RI	RI	\$23.62	41.56%	\$9.82
New England Telephone - VT	VT	\$19.33	50.13%	\$9.69
New York Telephone	NY	\$35.01	34.78%	\$12.18
Pacific Bell	CA	\$19.16	45.46%	\$8.71
Nevada Bell	NV	\$19.81	35.46%	\$7.03
Southwestern Bell Tel. Co. - AR	AR	\$26.23	29.11%	\$7.64
Southwestern Bell Tel. Co. - KS	KS	\$22.39	32.80%	\$7.34
Southwestern Bell Tel. Co. - MO	MO	\$26.42	28.61%	\$7.56
Southwestern Bell Tel. Co. - OK	OK	\$24.39	32.14%	\$7.84
Southwestern Bell Tel. Co. - TX	TX	\$23.98	34.40%	\$8.25
U.S. West Comm - AZ	AZ	\$25.07	37.63%	\$9.43
U.S. West Comm - CO	CO	\$28.12	37.21%	\$10.46
U.S. West Comm - ID	ID	\$20.01	41.06%	\$8.21
U.S. West Comm - MT	MT	\$23.73	39.19%	\$9.30
U.S. West Comm - NM	NM	\$28.47	33.04%	\$9.41
U.S. West Comm - UT	UT	\$21.92	42.22%	\$9.26
U.S. West Comm - WY	WY	\$23.82	27.49%	\$6.55
U.S. West Comm - IA	IA	\$20.84	40.10%	\$8.36
U.S. West Comm - MN	MN	\$25.85	31.62%	\$8.17
U.S. West Comm - ND	ND	\$21.22	34.32%	\$7.28
U.S. West Comm - NE	NE	\$27.80	42.64%	\$11.85
U.S. West Comm - SD	SD	\$22.68	33.34%	\$7.56
U.S. West Comm - OR	OR	\$22.71	37.49%	\$8.51
U.S. West Comm - WA	WA	\$21.28	48.50%	\$10.32
Southern New England Telephone	CT	\$23.02	48.20%	\$11.10
Gte Hawaiian Tel.	HI	\$26.28	33.22%	\$8.73

Discount for Alaska is not available because no Local service provider data

IDENTIFICATION AND ASSIGNMENT FACTORS

Big Three Factor: This factor is used to distribute depreciation and network expenses proportionally based on the accounts which they support. Those accounts are included in the three major expense categories: plant specific (excluding support accounts); plant non-specific and customer operations. Expenses are distributed based on the level of these "Big Three" expenses. This methodology is a commonly used apportionment method and is described in the FCC's Part 36 Separations procedures.

Customer Interest Factor: Is the interest rate multiplied against the Customer Deposits to determine the Interest Expense that will be avoided

Hybrid Switching/Trunking Factor: The distribution of Network Operations - Power, Network Administration, Testing, Plant Administration, Engineering and Support between the Access and Interoffice functions uses the weighted sum of the Switching Minute Driven Factor for access and the Trunking Minute Driven Factor for access to determine the distribution to the Access function and the remainder is assigned to the Interoffice function. The weighting is driven by the use of Switching and Trunking Access by the portion of Network CO - Operator Systems, Network CO - Switching, Network CO - Circuit and Cable and Wire that are associated with Switching and Trunking. This hybrid weighting of minutes for both Switching and Trunking provides a reasonable means for distributing the minute driven costs of the administrative activities.

Local Conversation Minutes: A component in many of the Switching factors used throughout the model to assign costs to various Product Lines. Equal to the Local DEM divided by 2.12. This 2.12 factor accounts for the originating and terminating points and allows for breakage (ring no answer, etc.).

Local Dial Equipment Minutes (DEM): Used as an element for the development of Local Conversation Minutes and Local Interoffice Minutes. The Local DEM is created by taking the Intrastate DEM from the 43-04 multiplied by the Local State DEM Factor, defined as Local DEM divided by the Total Intrastate DEM as reported in the NECA Operating Statistics Report. This result is multiplied by a factor for Local Switched Minutes of Use from the 1989 FCC Study.

Local Interoffice Minutes: A component in the Switching and Trunking factors used throughout the model to assign costs to various functional categories. Equal to the Intrastate DEM from ARMIS 43-04 multiplied by the Local State DEM factor minus Local DEM minutes and the result is converted to conversation minutes by dividing by 2.12.

Subscriber Switching Factor: Is 19.9% which is an AT&T estimate of how much switching capacity is dedicated to the subscriber line versus costs associated with the minute driven business.

Switched Access Factor: Used to assign Intrastate Network Access revenues to Switched Access and Private Line revenues. The factor is developed by multiplying the AT&T Intrastate Access rate by the RBOC Intrastate minutes which yields an estimated Total Switched Access Revenues which is then divided by the Total State Access Revenues.

Switching Interoffice Factor: The factor developed when Local Interoffice and Toll Minutes are multiplied by weighting factors of 2.07 for Local Interoffice and 2.4 for Toll. The percentage of weighted results are appropriate for distribution Switching Interoffice expenses (i.e. Depreciation - Switching and Network CO - Switching) between the Local Interoffice and Toll functions. The weighting factors are developed by taking the number of switches used on the various type of calls weighted by the percentage of calls of that type made. Minutes are a reasonable means for distributing the costs of the switching activity.

Switching Minute Driven Factor: The factor developed when Local, Access, Local Interoffice and Toll Minutes are multiplied by weighting factors of 1 for Local, 1.4 for Access, 2.07 for Local Interoffice and 2.4 for Toll. The percentage of weighted results are appropriate for distributing Switching Minute Driven expenses (i.e. Depreciation - Switching and Network CO - Switching) between the Subscriber Line, Access and Interoffice functions. The weighting factors are developed by taking the number of switches used on the various type of calls weighted by the percentage of calls of that type made. Minutes are a reasonable means for distributing the costs of the switching activity.

Toll Minutes: Toll minutes are calculated using two methodologies. The method that yields the most reasonable answer is chosen. Reasonableness is characterized as being within a range of acceptable revenues per toll minute. Method I calculates Toll Minutes by subtracting Intrastate InterLATA minutes from Non-local Intrastate minutes. Method II calculates an average Minute per Call for Intrastate IntraLATA traffic and multiplies this average against Total IntraLATA Intrastate Calls to arrive at Toll Minutes.

Trunking Interoffice Factor: The factor developed when Local Interoffice and Toll Minutes are multiplied by weighting factors of 1.07 for Local Interoffice and 1.4 for Toll. The percentage of weighted results are appropriate for distributing Trunking Interoffice expenses (i.e. Depreciation - General Support, Depreciation - Cable & Wire, Network CO - Circuit, Network Cable & Wire, Operations - Power, Operations - Network Administration, Operations - Testing, Operations - Plant Administration, Operations - Engineering and Network Support) between the Local Interoffice and Toll functions. The weighting factors are developed by taking the number of trunks used on the various types of calls weighted by the percentage of calls of that type made. Trunking minutes are a reasonable means for distributing minute driven costs of the trunking activity.

Trunking Minute Driven Factor: The factor developed when Access, Local Interoffice and Toll Minutes are multiplied by weighting factors of 1.4 for Access, 1.07 for Local Interoffice and 1.4 for Toll. The percentage of weighted results are appropriate for distributing Trunking Minute Driven expenses (i.e. Depreciation General Support, Depreciation - Cable & Wire, Network CO - Circuit, and Network Cable & Wire) between the Access and Interoffice functions. The weighting factors are developed by taking the number of trunks used on the various types of calls weighted by the percentage of calls of that type made. Trunking minutes are a reasonable means for distributing minute driven costs of the trunking activity.

Uncollectible Factor: Represents the rate of uncollectibles as a percent of revenue AT&T experiences in the long distance marketplace.

TREATMENT OF ARMIS DATA

Revenue

ARMIS data are provided in sufficiently detailed sub account classifications to allow for direct assignment of revenues to each business unit except for Network Access Interstate which is distributed to Interstate IX & EU LD and Minute Driven based on a Switched Access Factor (see Exhibit 2). The assigned revenues for each business unit will be used as the denominator in the wholesale discount percentage rate calculation; therefore the proper assignment is key to the reasonableness of the discount rate. Further, the revenues used in the denominator are (must be) the same set of services that the discount rate will be applied to.

<u>ARMIS Revenue Category</u>	<u>Business Unit Assignment</u>
Private Line: Local Service	Private Line
Public Telephone: Local Service	Miscellaneous
All Other Local Service Revenues	Local
End User Access Charges (Subscriber Line Charges)	Access
Interstate Special Access	Private Line
Interstate Switch Access	Access
Intrastate Access	Access/PL
Toll Revenues (Long Distance)	Toll
Billing & Collection Revenue	Miscellaneous
Directory Revenue	Miscellaneous

Intrastate Access revenue is disaggregated to the Access and Private Line Business Units using the Switched Access Factor (see Exhibit 2).

Interconnection/Access

Any expense incurred by the incumbent LEC to interconnect with another LEC for the completion of intraLATA traffic that is recorded to the interconnection/access expense line is processed through the Model and assigned to Toll.

Uncollectibles

Uncollectible revenues for all products are recorded and reflected on a single line in the ARMIS reports, therefore assignment to each functional category is required. The ARMIS data for private line services are used to directly assign uncollectibles to the Private Line business unit. The Model simulates an uncollectible amount for toll service by multiplying toll revenues by an uncollectible rate developed by AT&T based upon experience. The Model assumes no uncollectibles for the Access line of business. The

remaining balance in the Uncollectible Revenue account is assigned to the Local business unit.

Depreciation

Phase I - Functional Categorization

In Phase I, the distribution of Depreciation line items is generally determined by the underlying investment. Depreciation is distributed to the various functional categories in proportion to the underlying investments functional category assignment. Equal Access and Operator Systems Depreciation are directly assigned to Minute Driven. Support Depreciation is distributed in accordance with the Big Three Factor which represents the relative functional category expenses of network operations, sales and service. Other Depreciation is distributed based upon the relative functional category subtotals of Depreciation before Other and less Equal Access. Lastly, Interstate Special is directly assigned for all Depreciation line items based on the 43-04 Special Access column.

Phase II - Line of Business Assignment

In Phase II Step 1, Unassigned is distributed based upon the relative percentages of the previously distributed depreciation expenses to Miscellaneous, Private Line, Subscriber Line and Minute Driven for all Depreciation line items except Switching and Information Originating/Terminating. Switching is distributed to Subscriber Line and Minute Driven based on a Subscriber Switching Factor (see Exhibit 2). Information Originating/Terminating Unassigned is assigned to Miscellaneous. In Step 2, Equal Access is assigned to Access, Operator Systems is assigned to Interoffice, Switching is distributed to Subscriber Line, Access and Interoffice based on the Switching Minute Driven Factor (see Exhibit 2) and all other line items are distributed to Access and Interoffice based on the Trunking Minute Driven Factor (see Exhibit 2). In Step 3, Switching Interoffice is distributed to Local Interoffice and Toll based on the Switching Interoffice Factor (see Exhibit 2) and all the other line items' Interoffice except Equal Access are distributed by the Trunking Interoffice Factor (see Exhibit 2) to Local Interoffice and Toll. Equal Access is directly assigned to Access.

Network

Phase I - Functional Categorization

Network Central Office Operator Systems, Switching, Circuit, Information Originating/Terminating and Cable & Wire Facilities line items are distributed to the various functional categories in proportion to the underlying investments functional category assignment. Network Support is distributed in accordance with the Big Three Factor which represents the relative functional category expenses of network operations, sales and service. Network Operations and Network Other Property, Plant & Equipment is distributed based upon the relative functional category subtotals of Composite

Investment which includes Cable & Wire Feeder, Information Originating/Terminating, Circuit, Switch and Operator Systems. Interstate Special is directly assigned for all Network line items based on the 43-04 Special Access column. Lastly, Call Completion,⁵ Directory Assistance⁶ and Published Directory are assigned respectively to Minute Driven, Subscriber Line and Directory categories.

Phase II - Line of Business Assignment

Network expenses, identified in Phase I, are distributed to the various Business Units through the use of six factors in a three step process. In Step 1, all Network expenses with the exception of Network Switching and unassigned are distributed to the Miscellaneous, Private Line, Subscriber Line, and Minute Driven categories. Unassigned expenses are distributed to functional categories based on the ratio of functional category's total Network expense to total company Network assigned expense from Phase I. Network CO Switching is assigned to Private Line and distributed between Subscriber Line and Minute Driven categories through the use of the Subscriber Switching Factor (see Exhibit 2)

In Step 2, Network Circuit, Cable & Wire Facilities, Equal Access, Other Plant Property and Equipment are distributed from Minute Driven to the Access and Interoffice categories through the use of the Trunking Minute Driven Factor (see Exhibit 2). Operations- Power, Network Administration, Testing, Plant Administration, Engineering and Support are distributed from Minute Driven to the Access and Interoffice categories using a Hybrid Switching Trunking Methodology (see Exhibit 2). Additionally, Network CO Switching is allocated to Subscriber Line, Access and Interoffice categories from Subscriber Line and Minute Driven by using a Switching Minute Driven Factor (see Exhibit 2). In Step 3, Network Circuit, Cable & Wire Facilities, Equal Access, Other Property and Plant, Power, Network Administration, Testing, Plant Administration, Engineering and Support expense categories are distributed from Interoffice to Local Interoffice and Toll categories using the Trunking Interoffice Factor (see Exhibit 2). In one other calculation CO Switching is similarly distributed from Interoffice to Local Interoffice and Toll using the Switching Interoffice Factor (see Exhibit 2).

⁵ Line item Call Completion is equal to Other LN 7040 minus the Directory Assistance line item.

⁶ Line item Directory Assistance is zero if there isn't any investment in Total Auxiliary Service Boards - LN 1154. If there is an investment and call completion LN 7010 is zero, then line item Directory Assistance is the percent of Total Auxiliary Service Board Equipment to Total Operator Systems Equipment LN 1170 times Total Telephone Operator expense LN 7060. If there is an investment and call completion is not zero, Directory Assistance is equal to Intercept LN 7020, Directory Assistance LN 7030 and Other LN 7040 added together.

Marketing, Sales & Advertising

Phase I - Functional Categorization

Product Management, Sales and Advertising

Product Management, Sales and Advertising line items received their proportional share of Marketing 43-04 Special Access column LN 7000 for their Interstate Special functional category assignment. The remainder of each of these line items is assigned to the Unassigned category

Service Order Provisioning

Customer Operations Service Order Provisioning is distributed as delineated below: Interexchange Carrier Service Order Processing Expenses are distributed as follows: PL & Special LN 7147 Interstate column is assigned to the Interstate Special category; Interstate IX & EU LD is zero if the associated investment in Total Special Non-WideBand equipment LN 1243 is zero, otherwise it is Total IXC Service Order Expense LN 7150 Subject to Separations column minus the Interstate Special assignment above times the ratio of State PL Weighed Average Contacts LN 7141 divided by Total Weighted Average Contacts LN 7140; Total IXC Service Order Expense LN 7150 Subject to Separations column less the two prior assignments is assigned to the Minute Driven category. Order Processing - End User is directly assigned from LN 7092, PL & Special Service Order Processing, Total Intrastate Column; Interstate Special Access is LN 7092 Total Interstate; Subscriber Line functional category is lines 7089 and 7090, Local Service Order Processing and Presub Service Order Processing, respectively; Minute Driven functional category is LN 7096, Total Service Order Processing, less the expenses identified above

Other Customer Operation

The LN 7300 Other Cust Srv Special Access column is assigned to Interstate Special category, the Billing and Collection column is grossed up by the ratio of LN 4031 B&C Revenue Subject to Separations column to the Total Interstate column and assigned to the Billing and Collection category and LN 7300 Other Cust Srv Subject to Separations column minus the two prior assignments is assigned to the Unassigned category.

Phase II - Line of Business Assignment

Marketing expenses from Phase I are distributed or directly assigned to the functional categories in three steps. In Step 1, Sales, Product Management, Advertising, IXC and EU Order processing and Other Customer Service/Operations identified in the Phase 1 functional categories with the exception of unassigned functional category are assigned to the Miscellaneous, Private Line, Subscriber Line and Minute Driven categories. The Unassigned category is distributed to the four categories based upon the relative

percentages of the previously distributed Marketing, Sales & Advertising; Order Processing and Other Customer Operation expenses. In Step 2, Order Processing IXC and Other Customer Operations are directly reassigned from Minute Driven to the Access BU. In the same step, Order Processing-EU is directly reassigned from Minute Driven to the Interoffice category. Sales, Product Management and Advertising is distributed from Minute Driven to Access and Interoffice based on percentage of Order Processing and Other Customer Operations in each category. In the final step, Sales, Product Management, Advertising, and Order Processing-EU are reassigned from Interoffice directly to the Toll BU.

Billing

Interexchange Carrier Bureaus and LEC Billing

Phase I - Functional Categorization

In Phase I, the Interexchange Billing related to Message Processing, Insertion/Postage, Inquiry and Collection is distributed between the IX and LEC.

Phase II - Line of Business Assignment

IX Message Processing is all assigned to the Billing and Collection category and is the Total Interstate column LN 7236, Total Message Processing grossed up by the ratio of Total B&C Revenue to Interstate B&C Revenue. Total Message Processing Subject to Separations column LN 7236 less the IX Message Processing Total is assigned to LEC Message Processing Minute Driven.

IX Insertion Processing is all assigned to the Billing and Collection category and is the Billing & Collection column LN 7283, All Other Cat 2 less Interstate column LN 7236, Total Message Processing grossed up by the ratio of Total B&C Revenue to Interstate B&C Revenue. IX Insertion Processing is subtracted from Expense Subject to Separations column LN 7259, Total Other Billing and Collection to arrive at LEC Insertion Processing. LEC Insertion Processing is distributed to Subscriber Line and Minute Driven based on the ratio of EX & Semi Users LN 7244 and MSG Toll Users LN 7241 respectively to Total Current Users LN 7240. The remainder is distributed to Intrastate EU Local and Intrastate IX & EU LD based on the relative composite investment in both of these categories.

IX Inquiry is all assigned to the Billing and Collection category and is Total Bill Inq LN 7132 Interstate column plus Total IC Bill Inq Subject to Separations column LN 7190 divided by (Total Bill Inq LN 7132 Interstate column plus Total IC Bill Inq Subject to Separations column LN 7190 plus Total EU Pay & Col Interstate column LN 7112 plus Total IC Pay & Col Subject to Separations column LN 7170) grossed up by the ratio of Total B&C Revenue to Interstate B&C Revenue. This amount is subtracted from the sum of Total Billing Inquiry Subject to Separations column LN 7132 and Total IC Bill Inquiry

Subject to Separations column LN 7190 to arrive at LEC Inquiry Processing. Part of LEC Inquiry Processing is allocated to Subscriber Line based on the ratio of # Other WAC (Weighted Average Contacts) LN 7126 to #Total WAC LN 7120. Another part to Intrastate EU Local and Intrastate IX & EU LD based the ratio of #State PL WAC LN 7121 to #Total WAC LN 7120 and then their relative percentage of composite investment for Intrastate EU Local and Intrastate IX & EU LD. Interstate Special is assigned a part equal to Total Cat 1 Special Access column minus PL & Special Total Interstate column from lines 7092, 7147 and 7167. Minute Driven is assigned the remaining part.

IX Collecting is all assigned to the Billing and Collection category and is the Total Cat 1 Billing and Collection column LN 7220 minus (IX Inquiry determined above before the gross up) grossed up by the ratio of Total B&C Revenue to Interstate B&C Revenue. This amount is subtracted from the sum of Total EU Pay & Col Subject to Separations column LN 7112 and Total IC Pay & Col Subject to Separations column LN 7170 to arrive at LEC Collecting. LEC Collecting is distributed as follows: PL & Special Total Interstate column 7167 is assigned to Interstate Special. Subscriber Line is assigned LEC Collecting Total times the ratio of #Local Bill Rev LN 7105 to #Total Bill Rev LN 7100. Intrastate EU Local and Intrastate IX & EU LD are distributed from LEC Collecting Total based the ratio of #State PL Billed Rev LN 7101 to #Total Bill Rev LN 7100 and then their relative percentage of composite investment for Intrastate EU Local and Intrastate IX & EU LD. The remaining LEC Collecting Total is assigned to Minute Driven.

Carrier Access Billing System

Phase I - Functional Categorization

In Phase I, the Carrier Access LN 7281 Special Access Column is assigned to the Interstate Special category. Carrier Access LN 7270 Subject to Separations column minus the Interstate Special assignment is distributed to the Intrastate IX & EU LD and Minute Driven categories based on the relative percentages of composite investment in the Intrastate IX & EU LD.

Phase II - Line of Business Assignment

In Phase II, Unassigned is distributed based upon the relative percentages of the previously distributed billing expenses to Miscellaneous, Private Line, Subscriber Line and Minute Driven. Minute Driven is assigned to the Toll BU.

Coin Collection/Administration

Phase I - Functional Categorization

In Phase I, the Coin Collection/Administration is assigned to Unassigned.

Phase II - Line of Business Assignment

For all Billing Line Items, in Phase II, Step 1, Coin Collection/Administration Unassigned is assigned to Miscellaneous. In Step 2, Minute Driven for CABS is assigned to Access and all LEC Billing Items are assigned to Interoffice. In Step 3, all LEC Interoffice is assigned to the Toll BU

G & A

Corporate Operations

Phase I - Functional Categorization

In Phase I, the Corporate Operations Special Access column LN 7334 and the Billing and Collection Column LN 7334 grossed up by the ratio of B&C Revenue Subject to Separations column to the B&C Revenue Total Interstate column are assigned to Corporate Operations line items based on their relative proportions of Corporate Operations subtotal. All the other functional categories except Unassigned receive a distribution based on the Big Three Factor. Unassigned receives the remaining undistributed portion of the line items. Corporate Operations items were distributed by Big Three in Phase I in total as well as for the Information Management line specifically. Lastly, Phase I is adjusted by moving all line item totals except Information Management to Unassigned.

Phase II - Line of Business Assignment

In Phase II, the Network, Billing and MS&A subtotals are used to determine percentages for distributing Unassigned to Miscellaneous, Private Line, Subscriber Line and Minute Driven; the Minute Driven column to Access and Interoffice categories; and the Interoffice column to Local Interoffice and Toll categories.

Operating Taxes

Phase I - Functional Categorization

In Phase I, the Total Other State & Local LN 8005 Special Access column is assigned to the Interstate Special category. Direct Other State & Local LN 8002 Subject to Separations column and All Other State & Local LN 8003 Subject to Separations column minus the Interstate Special category assignment is assigned to the Unassigned category.

Phase II - Line of Business Assignment

In Phase II, the Network, Billing and MS&A subtotals are used to determine percentages for distributing Unassigned to Miscellaneous, Private Line, Subscriber Line and Minute

Driven; the Minute Driven column to Access and Interoffice categories; and the Interoffice to Local Interoffice and Toll categories.

Investment

Phase I - Functional Categorization

Net Investment serves as a basis for identifying the Phase III Rate-of-Return and FIT Gross-Up statistics. In Phase I, account specific Gross Investment data are obtained from the ARMIS 43-04 report and allocated to the Billing and Collection, Directory, Interstate Private Line (Intrastate EU Local and Intrastate IX & EU LD), Special Access, Subscriber Line, Minute Driven or Unassigned functional categories.

The various classes of investment are either assigned or distributed based on the use of the underlying investment or of related investment from a cost causative perspective or failing that are based upon a general distribution approach such as the Big Three where General Support Facilities are involved for example or such other prior distributions as are appropriate as a basis for the current distribution.

Information Originating/Terminating

The underlying investment for Information Originating/Terminating is assigned as follows:

- Subscriber Line receives LN 1440 Tot IOT Equipment less Special Access and an assignment to Intrastate EU Local PL.

Central Office Equal Access

The underlying investment for Central Office Equal Access is assigned as follows:

- Minute Driven less Special Access receives LN 30.

Central Office Operator Systems

The underlying investment for Central Office Operator Systems is assigned as follows:

- Minute Driven less Special Access receives LN 1170.

Central Office Switching

The underlying investment for Central Office Switch is assigned as follows:

- Minute driven receives Direct Message 36, LN 1201 and 1211; and Joint 36, LN 1202 and 1212; and Direct PL 36 LN 1200 and 1210 less Special Access.