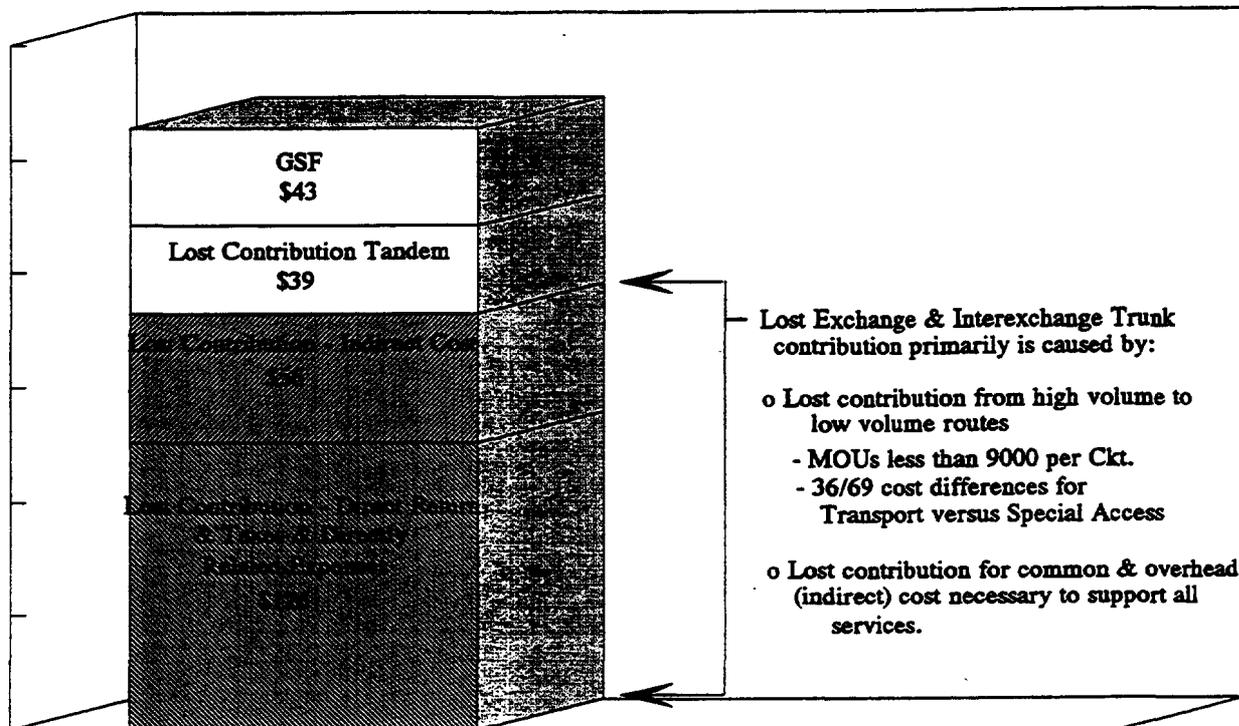


# Components of the Interconnection Charge

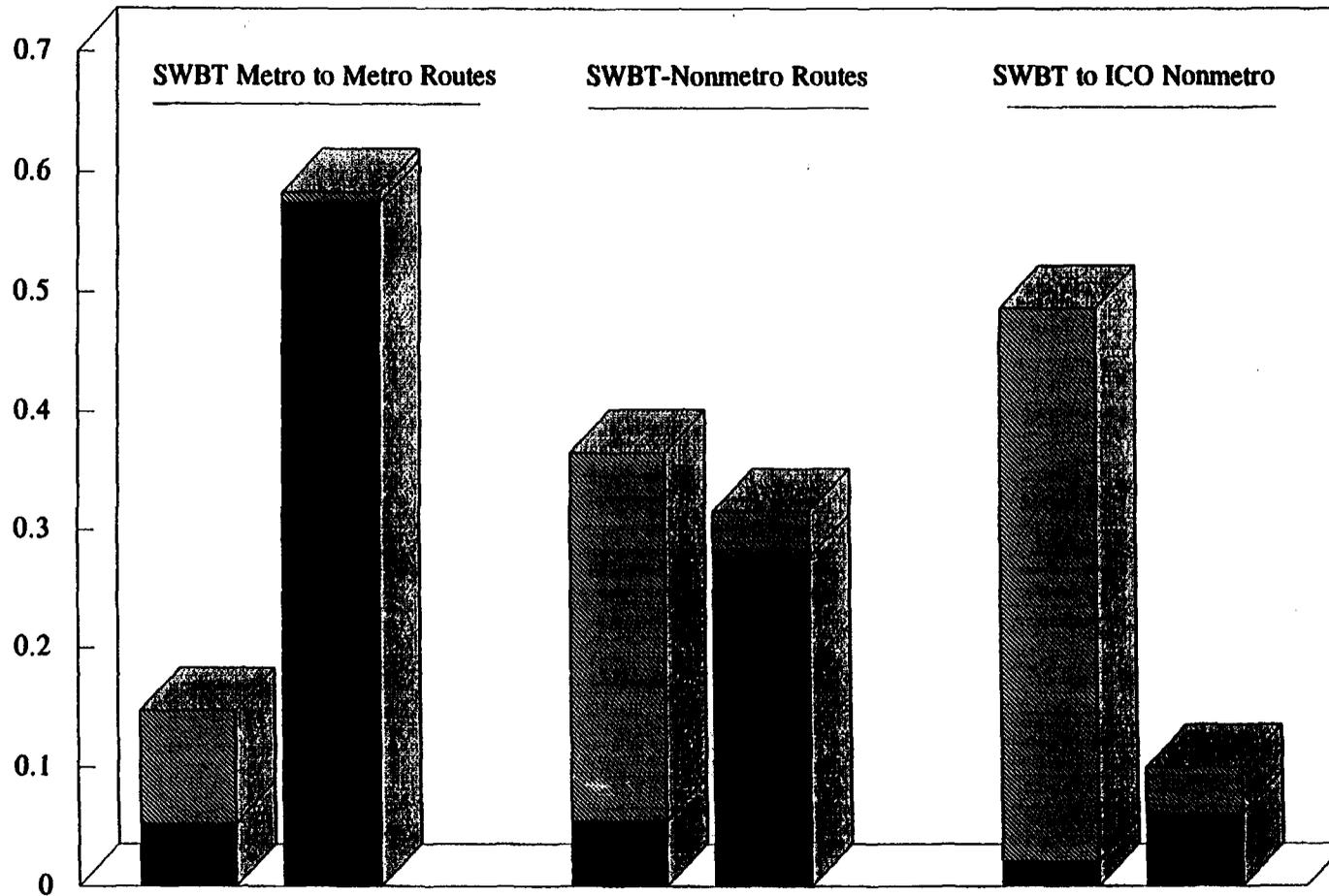
Southwestern Bell Telephone Company



| TRANSPORT REVENUE REQUIREMENT / COST (\$ MILLIONS) |            |            |           |              |
|--|------------|------------|-----------|--------------|
| CATEGORY   | TOTAL      | TNDM (80%) | GSF       | CONTRIBUTION |
| (NUMBERS MAY NOT ADD DUE TO ROUNDING)              |            |            |           |              |
| <b>DIRECT ALLOCATIONS</b>                          |            |            |           |              |
| COE AND C&WF PLANT IN SERVICE                      | 740        | 107        | 0         | 633          |
| COE & C&WF RESERVES (DEP AND DEF TAX)              | 396        | 62         | 0         | 335          |
| DIRECT NET INVESTMENT                              | 343        | 45         | 0         | 298          |
| RETURN & INCOME TAXES - DIRECT                     | 50         | 7          | 0         | 44           |
| <b>DIRECTLY RELATED ALLOCATIONS</b>                |            |            |           |              |
| COE & CABLE & WIRE-MAINTENANCE                     | 38         | 6          | 0         | 32           |
| COE & CABLE & WIRE-DEPR                            | 55         | 9          | 0         | 46           |
| PROPERTY TAXES                                     | 4          | 0          | 0         | 4            |
| DIRECT EXPENSE                                     | 97         | 15         | 0         | 82           |
| <b>INDIRECT ALLOCATIONS</b>                        |            |            |           |              |
| GENERAL SUPPORT FAC & OTHER INV                    | 272        | 40         | 160       | 72           |
| GENERAL SUPPORT FAC & OTHER RESV                   | 114        | 17         | 71        | 27           |
| GSF AND OTHER NET INVEST                           | 158        | 23         | 90        | 45           |
| RETURN & INCOME TAXES - INDIRECT                   | 23         | 3          | 13        | 7            |
| CUSTOMER OPERATIONS EXPENSES                       | 11         | 2          | 2         | 8            |
| NETWORK AND GENERAL SUPPORT                        | 20         | 3          | 14        | 4            |
| NETWORK OPERATIONS                                 | 17         | 2          | 0         | 14           |
| GENERAL SUPPORT FACILITIES-DEPR                    | 13         | 2          | 8         | 3            |
| OTHER-DEPR/AMORT                                   | 1          | 0          | 0         | 0            |
| CORPORATE OPERATIONS                               | 24         | 3          | 4         | 16           |
| OTHER  | 9          | 2          | 2         | 5            |
| COMMON/INDIRECT EXPENSE                            | 94         | 14         | 30        | 50           |
| <b>TOTAL INDIRECT COSTS</b>                        | <b>117</b> | <b>17</b>  | <b>43</b> | <b>57</b>    |
| <b>NET REVENUE REQUIREMENT</b>                     | <b>264</b> | <b>39</b>  | <b>43</b> | <b>182</b>   |

# Geographic Nature of SWBT Transport Routes

Southwestern Bell Telephone Company



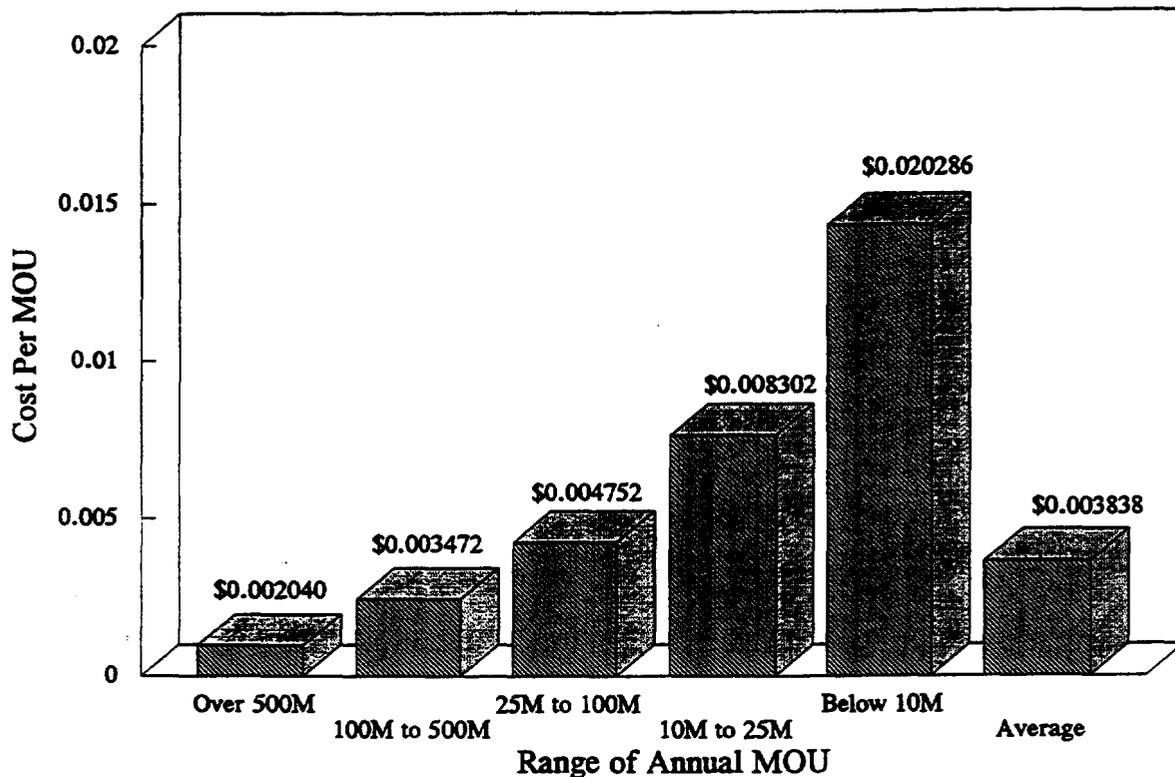
| Route MOU | Routes | Volume | Routes | Volume | Routes | Volume |
|-----------|--------|--------|--------|--------|--------|--------|
| Above Avg | 5.26%  | 57.45% | 5.51%  | 27.75% | 2.09%  | 6.08%  |
| Below Avg | 9.48%  | 0.89%  | 31.09% | 3.90%  | 46.58% | 3.93%  |

Note: Average MOU equals approximately 279 thousand route minutes per month.

Metro areas within SWBT are: Austin, Dallas, Houston, San Antonio, Ft Worth, Little Rock, Springfield, St Louis, Kansas City, Wichita, Topeka, Oklahoma City and Tulsa.

## Transport Circuit & CWF Costs Associated With Switching

*Southwestern Bell Telephone Company*



| Annual Minutes                 | (A) Switching Offices |           | (C) Avg. Access Lines |           | (E) Circuits | (F) MOU (Millions) | (G=F/E) MOU Per Circuit/Mo. | (H) Rev Req* (\$ Millions) | (I) Revenue Rmmt/MOU |
|--------------------------------|-----------------------|-----------|-----------------------|-----------|--------------|--------------------|-----------------------------|----------------------------|----------------------|
|                                | Metro                 | Non-Metro | Metro                 | Non-Metro |              |                    |                             |                            |                      |
| <b>INTERSTATE TRANSPORT</b>    |                       |           |                       |           |              |                    |                             |                            |                      |
| <b>END OFFICE LOCATIONS</b>    |                       |           |                       |           |              |                    |                             |                            |                      |
| Over 500M                      | 10                    | 0         | 57,759                | 0         | 26,525       | 10,376             | 32,597                      | 10                         | 0.000990             |
| 100M to 500M                   | 54                    | 16        | 49,732                | 36,367    | 115,842      | 10,930             | 7,863                       | 27                         | 0.002454             |
| 25M to 100M                    | 125                   | 78        | 25,871                | 16,190    | 145,610      | 10,508             | 8,014                       | 45                         | 0.004257             |
| 10M to 25M                     | 57                    | 132       | 10,341                | 7,799     | 54,673       | 3,154              | 4,808                       | 24                         | 0.007829             |
| Below 10M                      | 79                    | 673       | 2,401                 | 1,751     | 43,606       | 2,004              | 3,829                       | 29                         | 0.014288             |
| Total/Average                  | 325                   | 899       | 22,388                | 4,508     | 386,256      | 36,972             | 7,977                       | 135                        | 0.003639             |
| <b>TANDEM OFFICE LOCATIONS</b> |                       |           |                       |           |              |                    |                             |                            |                      |
| Over 500M                      | 10                    | 3         | 47,272                | 34,318    | 171,038      | 17,966             | 8,754                       | 48                         | 0.002647             |
| 100M to 500M                   | 1                     | 23        | 60,055                | 27,540    | 73,582       | 5,989              | 8,783                       | 32                         | 0.005329             |
| 25M to 100M                    | 1                     | 7         | 17,836                | 11,388    | 9,431        | 504                | 4,452                       | 8                          | 0.015068             |
| 10M to 25M                     | 0                     | 1         | 0                     | 6,148     | 1,425        | 13                 | 772                         | 2                          | 0.169243             |
| Below 10M                      | 3                     | 0         | 0                     | 0         | 33,251       | 0                  | 0                           | 12                         | **                   |
| Total/Average                  | 15                    | 34        | 36,707                | 24,183    | 288,725      | 24,472             | 7,063                       | 101                        | 0.004140             |
| <b>TOTAL</b>                   |                       |           |                       |           |              |                    |                             |                            |                      |
| Over 500M                      | 20                    | 3         | 52,515                | 34,318    | 197,561      | 28,342             | 11,955                      | 58                         | 0.002040             |
| 100M to 500M                   | 55                    | 39        | 49,920                | 31,161    | 189,424      | 16,920             | 7,443                       | 59                         | 0.003472             |
| 25M to 100M                    | 126                   | 85        | 25,807                | 15,794    | 155,041      | 11,012             | 5,919                       | 52                         | 0.004752             |
| 10M to 25M                     | 57                    | 133       | 10,341                | 7,787     | 56,098       | 3,167              | 4,705                       | 26                         | 0.008302             |
| Below 10M                      | 82                    | 673       | 2,313                 | 1,751     | 76,857       | 2,004              | 2,172                       | 41                         | 0.020286             |
| Total/Average                  | 340                   | 933       | 23,020                | 5,225     | 674,981      | 61,444             | 7,586                       | 236                        | 0.003838             |

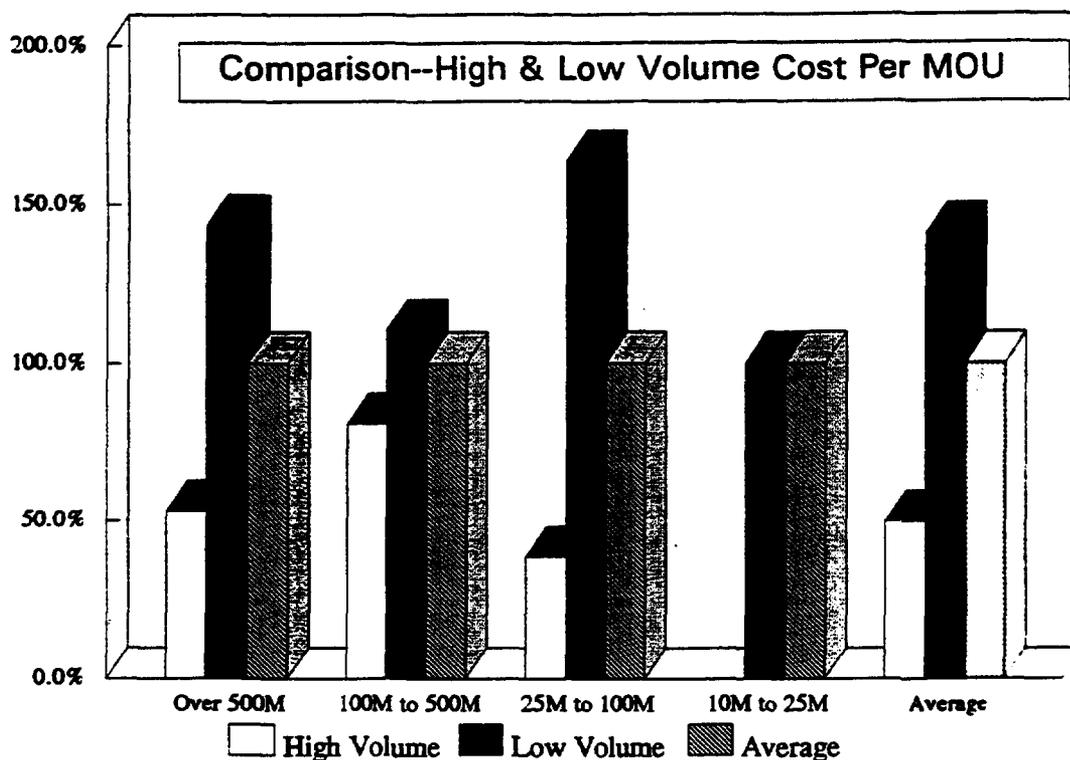
Sources: Columns A through F--Southwestern Bell Special Study of Transport Cost. (See Appendix 1)

\* Excludes revenue shortfall, tandem switching and GSF cost shift.

\*\* Interstate transport usage is not available for these offices from CABS since they are stand alone tandem offices not collocated with access serving wire centers or end offices.

## Transport Circuit and Cable and Wire Facilities Costs Tandem Switching Office Locations

*Southwestern Bell Telephone Company*



| Annual Minutes                      | <b>INTERSTATE TRANSPORT</b> |                          |  |                                  |                                   |
|-------------------------------------|-----------------------------|--------------------------|--|----------------------------------|-----------------------------------|
|                                     | (A)<br>Circuits             | (B)<br>MOU<br>(Millions) | (C = B/A/12)<br>MOU Per<br>Circuit/Mo. | (D)<br>Rev Req*<br>(\$ Millions) | (E = C/B)<br>Revenue<br>Rqmnt/MOU |
| <b>HIGH VOLUME TANDEM LOCATIONS</b> |                             |                          |  |                                  |                                   |
| Over 500M                           | 36,569                      | 8,618                    | 19,638                                 | 12                               | 0.001405                          |
| 100M to 500M                        | 10,546                      | 2,092                    | 16,531                                 | 9                                | 0.004304                          |
| 25M to 100M                         | 3,343                       | 256                      | 6,388                                  | 1                                | 0.005820                          |
| 10M to 25M                          | 0                           | 0                        | 0                                      | 0                                | N/A                               |
| Below 10M                           | 0                           | 0                        | 0                                      | 0                                | 0.000000                          |
| <b>Total/Average</b>                | <b>50458</b>                | <b>10,966</b>            | <b>18,110</b>                          | <b>23</b>                        | <b>0.002061</b>                   |
| <b>LOW VOLUME TANDEM LOCATIONS</b>  |                             |                          |  |                                  |                                   |
| Over 500M                           | 134,468                     | 9,348                    | 5,793                                  | 35                               | 0.003792                          |
| 100M to 500M                        | 63,036                      | 3,897                    | 5,152                                  | 23                               | 0.005879                          |
| 25M to 100M                         | 6,088                       | 248                      | 3,388                                  | 6                                | 0.024774                          |
| 10M to 25M                          | 1,425                       | 13                       | 772                                    | 2                                | 0.169243                          |
| Below 10M                           | 33,250                      | 0                        | 0                                      | 12                               | **                                |
| <b>Total/Average</b>                | <b>238267</b>               | <b>13,507</b>            | <b>4,724</b>                           | <b>79</b>                        | <b>0.005830</b>                   |
| <b>TOTAL</b>                        |                             |                          |  |                                  |                                   |
| Over 500M                           | 171,037                     | 17,966                   | 8,753                                  | 48                               | 0.002847                          |
| 100M to 500M                        | 73,582                      | 5,989                    | 6,783                                  | 32                               | 0.005329                          |
| 25M to 100M                         | 9,431                       | 504                      | 4,452                                  | 8                                | 0.015133                          |
| 10M to 25M                          | 1,425                       | 13                       | 772                                    | 2                                | 0.169243                          |
| Below 10M                           | 33,250                      | 0                        | 0                                      | 12                               | 0.000000                          |
| <b>Total/Average</b>                | <b>288,725</b>              | <b>24,472</b>            | <b>7,063</b>                           | <b>101</b>                       | <b>0.004141</b>                   |

Sources: Columns A, B and D--SWBT Special Study of Transport Costs. (See Appendix 1)

\* Excludes revenue shortfall, tandem switching and GSF cost shift.

\*\* Interstate transport usage is not available for these offices from CABS since they are stand alone tandem offices not collocated with access serving wire centers or end offices.

**Revenues and Lost Contribution - Transport Circuit & CWF Costs Associated With Switching Offices**

**Southwestern Bell Telephone Company**

(All amounts are rounded to thousands, except rates)

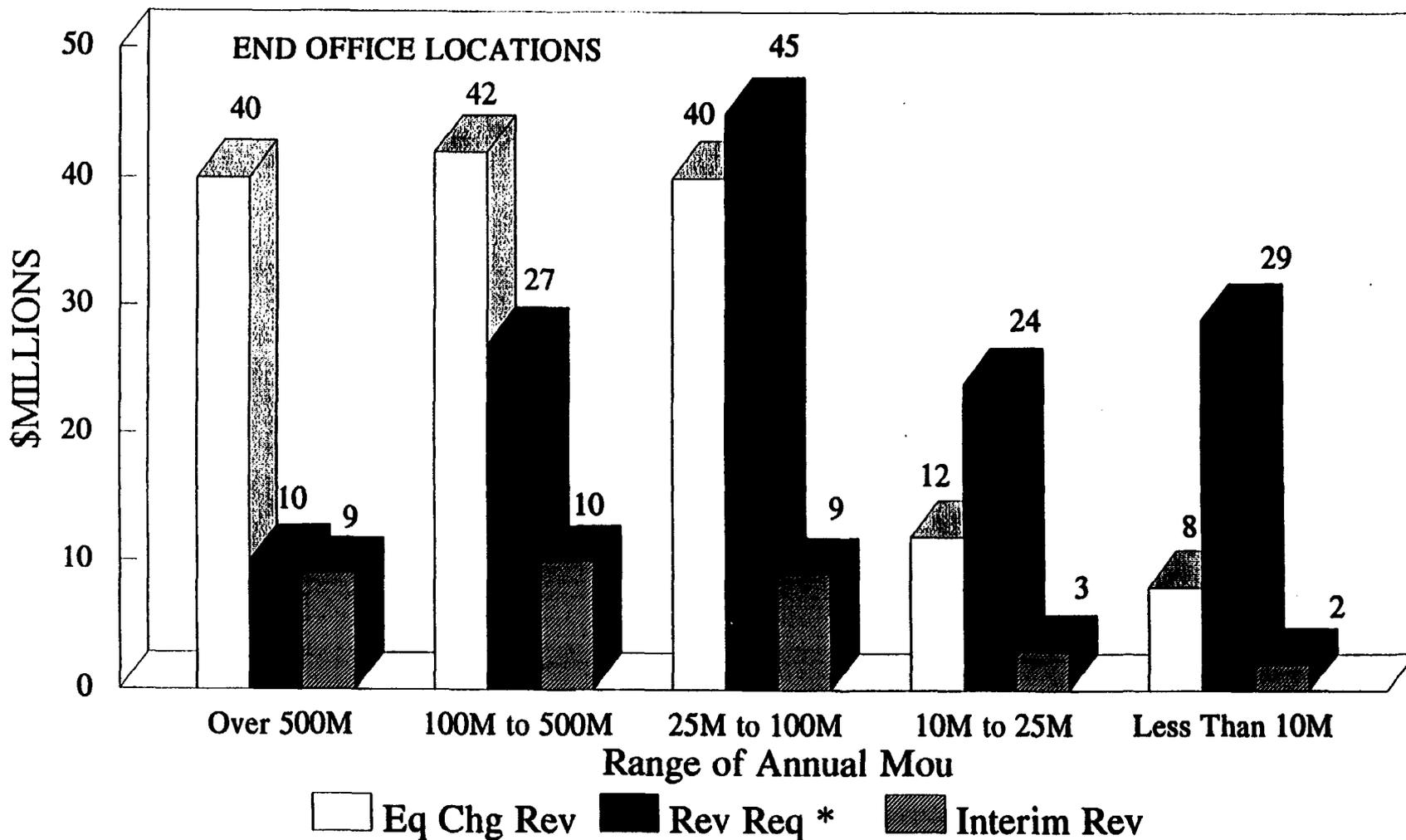
|                                |                               | <b>INTERSTATE TRANSPORT</b> |                       |                     |                           |                     |                        |   |         |
|--------------------------------|-------------------------------|-----------------------------|-----------------------|---------------------|---------------------------|---------------------|------------------------|---|---------|
| <b>Annual Minutes</b>          | <b>Average Equal Chg Rate</b> | <b>MOU</b>                  | <b>Equal Chg Rev.</b> | <b>Revenue Req.</b> | <b>Equal Chg Contrib.</b> | <b>Interim Rate</b> | <b>Interim Revenue</b> | <b>Lost Contrib. From Interim Rates</b> |         |
|                                | (A)                           | (B)                         | (C = A*B)             | (D)                 | (E = C-D)                 | (F)                 | (G = B*F)              | (H = C-G)                               |         |
| <b>END OFFICE LOCATIONS</b>    |                               |                             |                       |                     |                           |                     |                        |   |         |
| 1.                             | More Than 500M                | 0.003838                    | 10,375,607            | 39,824              | 10,277                    | 29,547              | 0.000883               | 9,159                                   | 30,685  |
| 2.                             | 100M to 500M                  | 0.003838                    | 10,930,208            | 41,953              | 26,826                    | 15,127              | 0.000883               | 9,649                                   | 32,304  |
| 3.                             | 25M to 100M                   | 0.003838                    | 10,508,445            | 40,334              | 44,739                    | (4,405)             | 0.000883               | 9,276                                   | 31,058  |
| 4.                             | 10M to 25M                    | 0.003838                    | 3,154,224             | 12,107              | 24,062                    | (11,955)            | 0.000883               | 2,784                                   | 9,322   |
| 5.                             | Less Than 10M                 | 0.003838                    | 2,003,623             | 7,690               | 28,628                    | (20,937)            | 0.000883               | 1,769                                   | 5,922   |
| 6.                             | Total/Average                 | 0.003838                    | 36,972,107            | 141,908             | 134,531                   | 7,377               | 0.000883               | 32,637                                  | 109,271 |
| <b>TANDEM OFFICE LOCATIONS</b> |                               |                             |                       |                     |                           |                     |                        |   |         |
| 7.                             | More Than 500M                | 0.003838                    | 17,965,965            | 68,958              | 47,549                    | 21,409              | 0.000883               | 15,859                                  | 53,098  |
| 8.                             | 100M to 500M                  | 0.003838                    | 5,989,412             | 22,989              | 31,917                    | (8,928)             | 0.000883               | 5,287                                   | 17,702  |
| 9.                             | 25M to 100M                   | 0.003838                    | 503,792               | 1,934               | 7,591                     | (5,657)             | 0.000883               | 445                                     | 1,489   |
| 10.                            | 10M to 25M                    | 0.003838                    | 13,193                | 51                  | 2,233                     | (2,182)             | 0.000883               | 12                                      | 39      |
| 11.                            | Less Than 10M                 | 0.003838                    | 0                     | 0                   | 12,018                    | (12,018)            | 0.000883               | 0                                       | 0       |
| 12.                            | Total/Average                 | 0.003838                    | 24,472,362            | 93,931              | 101,309                   | (7,378)             | 0.000883               | 21,603                                  | 72,328  |
| <b>TOTAL</b>                   |                               |                             |                       |                     |                           |                     |                        |   |         |
| 14.                            | More Than 500M                | 0.003838                    | 28,341,572            | 108,782             | 57,826                    | 50,956              | 0.000883               | 25,018                                  | 83,783  |
| 15.                            | 100M to 500M                  | 0.003838                    | 16,919,620            | 64,942              | 58,743                    | 6,199               | 0.000883               | 14,936                                  | 50,006  |
| 16.                            | 25M to 100M                   | 0.003838                    | 11,012,238            | 42,268              | 52,330                    | (10,062)            | 0.000883               | 9,721                                   | 32,547  |
| 17.                            | 10M to 25M                    | 0.003838                    | 3,167,417             | 12,157              | 26,295                    | (14,138)            | 0.000883               | 2,796                                   | 9,361   |
| 18.                            | Less Than 10M                 | 0.003838                    | 2,003,623             | 7,690               | 40,646                    | (32,956)            | 0.000883               | 1,769                                   | 5,922   |
| 19.                            | Total/Average                 | 0.003838                    | 61,444,469            | 235,839             | 235,839                   | (0)                 | 0.000883               | 54,240                                  | 181,599 |

**Sources:**

- (A) Forecasted revenues for July 1, 1992 through June 1, 1993 tariff period (328M), excluding GSF cost shift (43M) and tandem (48) revenue requirements; divided by total MOU (Ln. 19B).
- (B) December 1992 Interstate Transport Minutes (from CABS), annualized.
- (D) Southwestern Bell Special Study of Interstate Transport Costs, see Appendix 1.
- (F) Estimate of interim rate structure revenues (FCC Run 9.3) less 20 % of tandem (9.8M), divided by total MOU (Ln. 19B).

# Revenue/Revenue Requirements Interstate Transport & Cable Wire Facilities

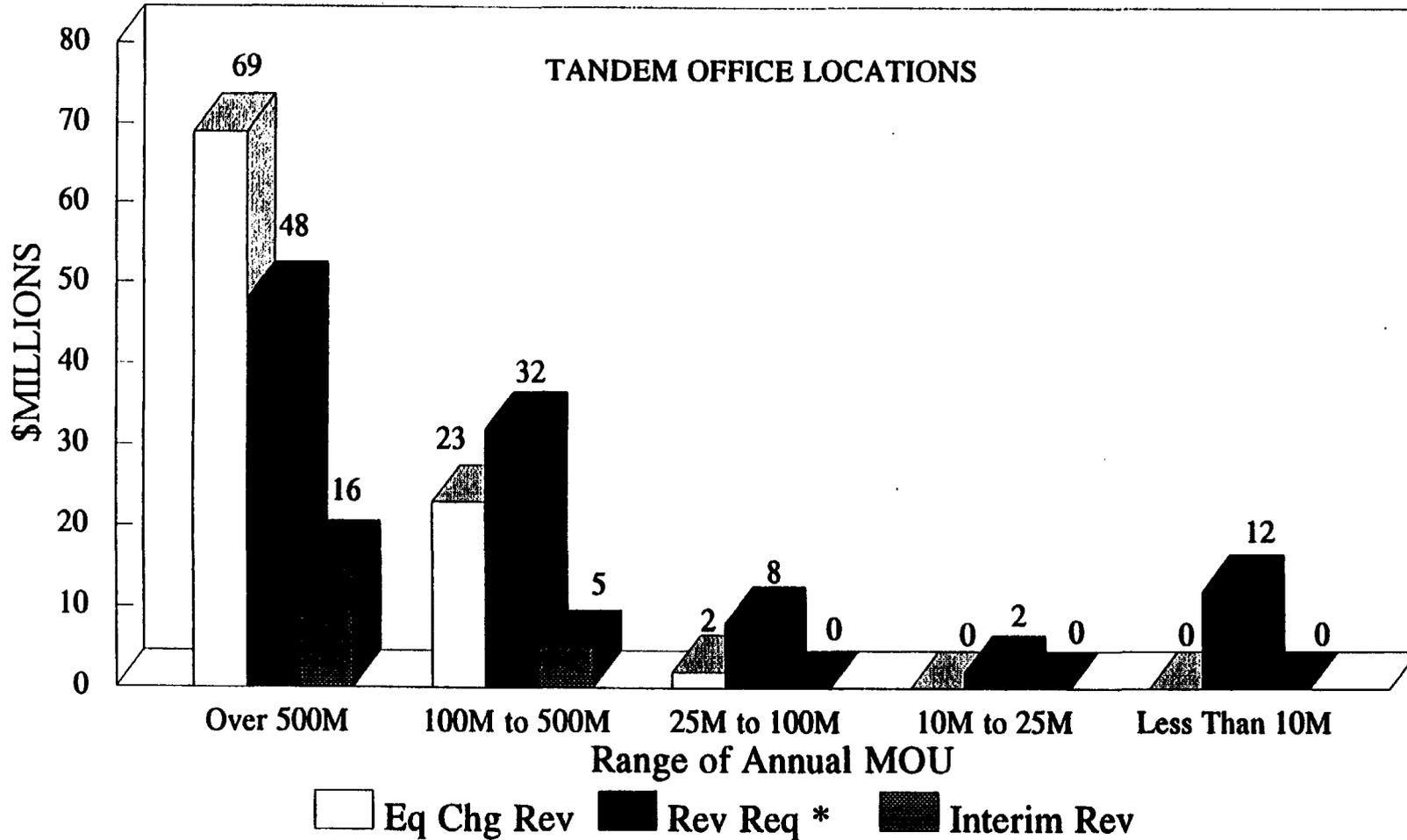
*Southwestern Bell Telephone Company*



SOURCE: Attachment 8, Columns C, D, & G  
(Excludes tandem switching & GSF cost shift amounts)

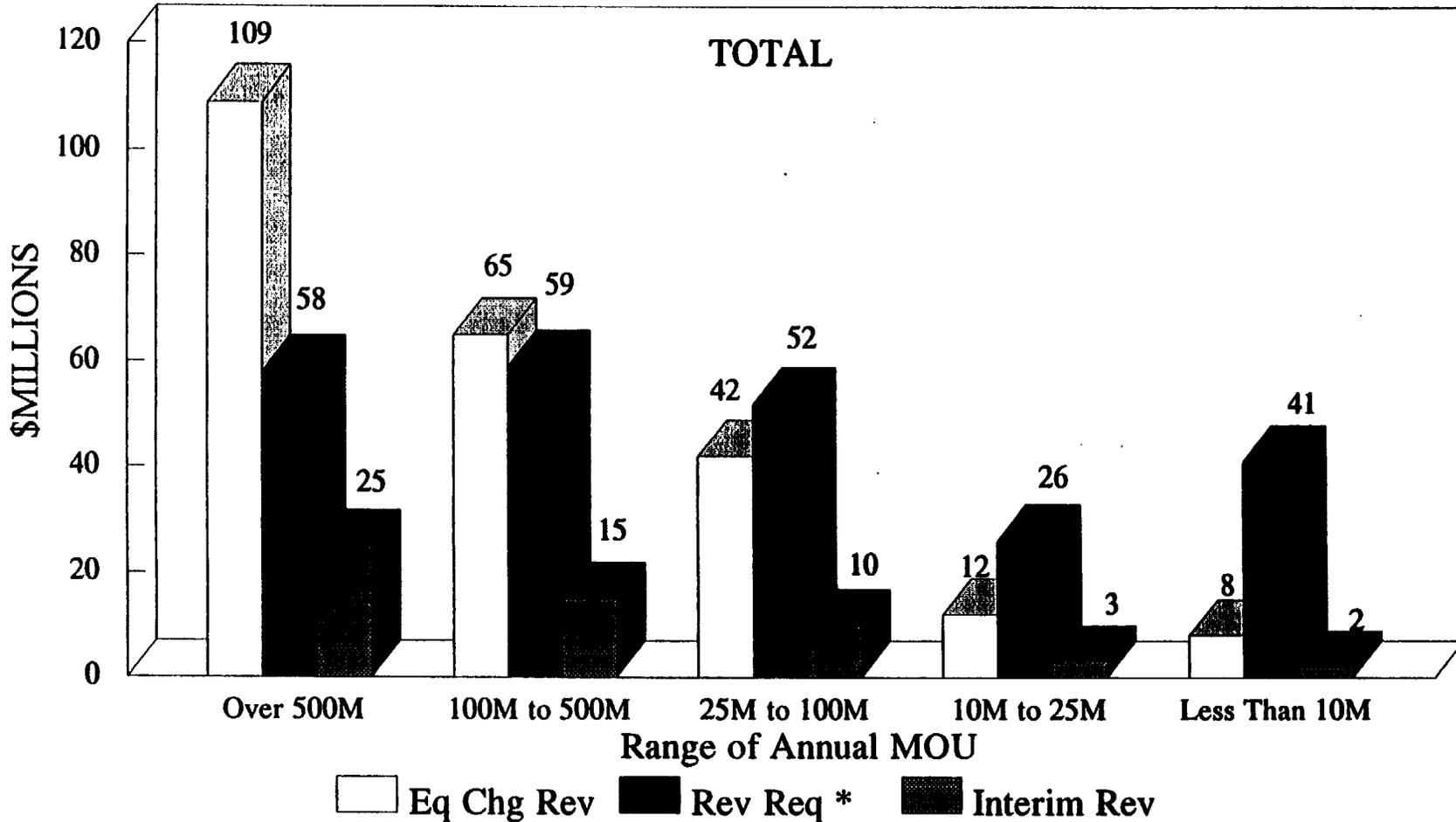
# Revenue/Revenue Requirements Interstate Transport & Cable Wire Facilities

*Southwestern Bell Telephone Company*



SOURCE: Attachment 8, Columns C, D, & G.  
(Excludes tandem switching & GSF cost shift amounts)

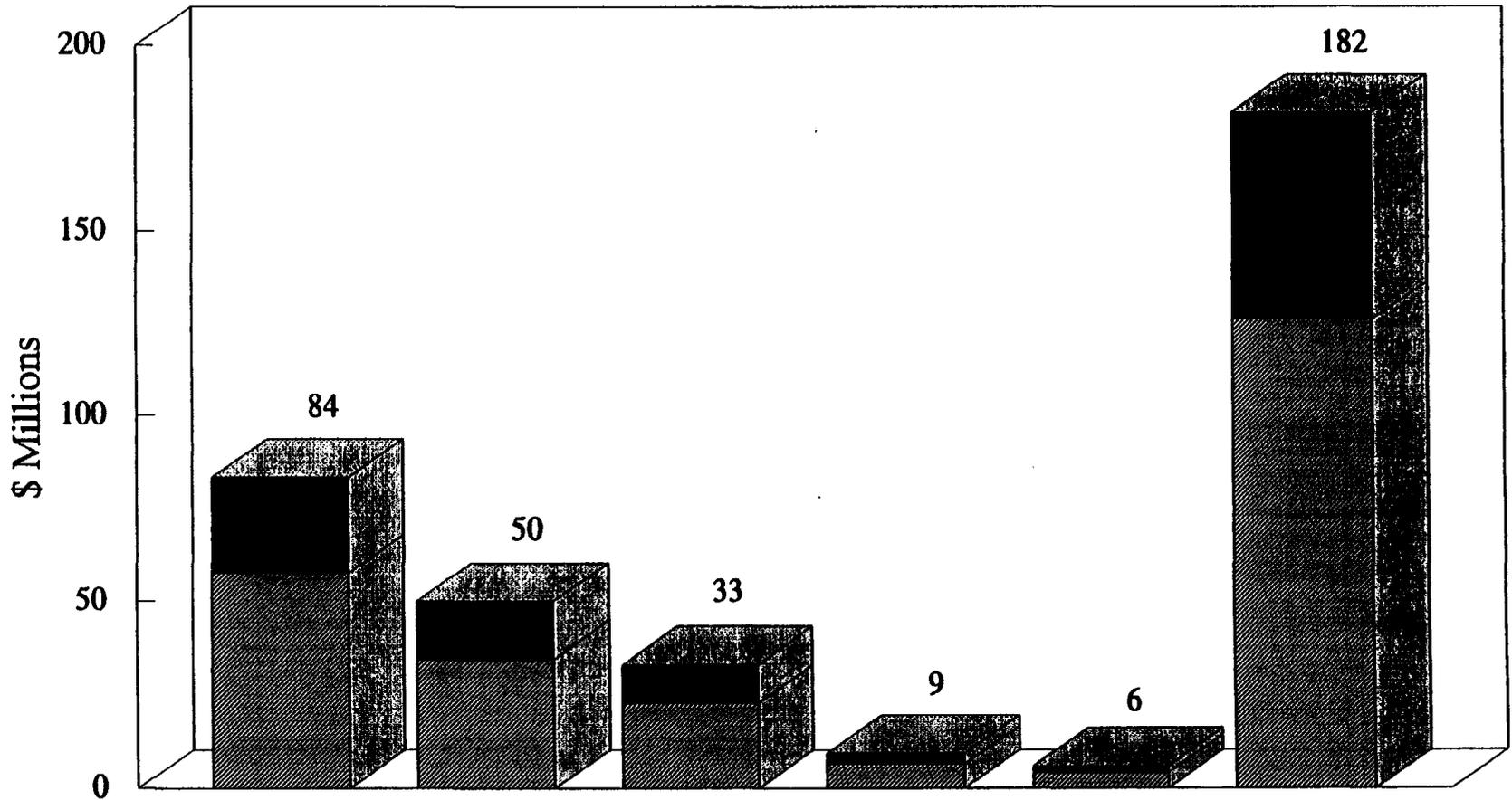
**Revenue/Revenue Requirements  
Interstate Transport & Cable Wire Facilities**  
*Southwestern Bell Telephone Company*



SOURCE: Attachment 8, Columns C, D, & G.  
(Excludes tandem switching & GSF cost shift amounts)

# Lost Contribution - Transport Circuit & CWF Costs Associated With Switching Offices

*Southwestern Bell Telephone Company*

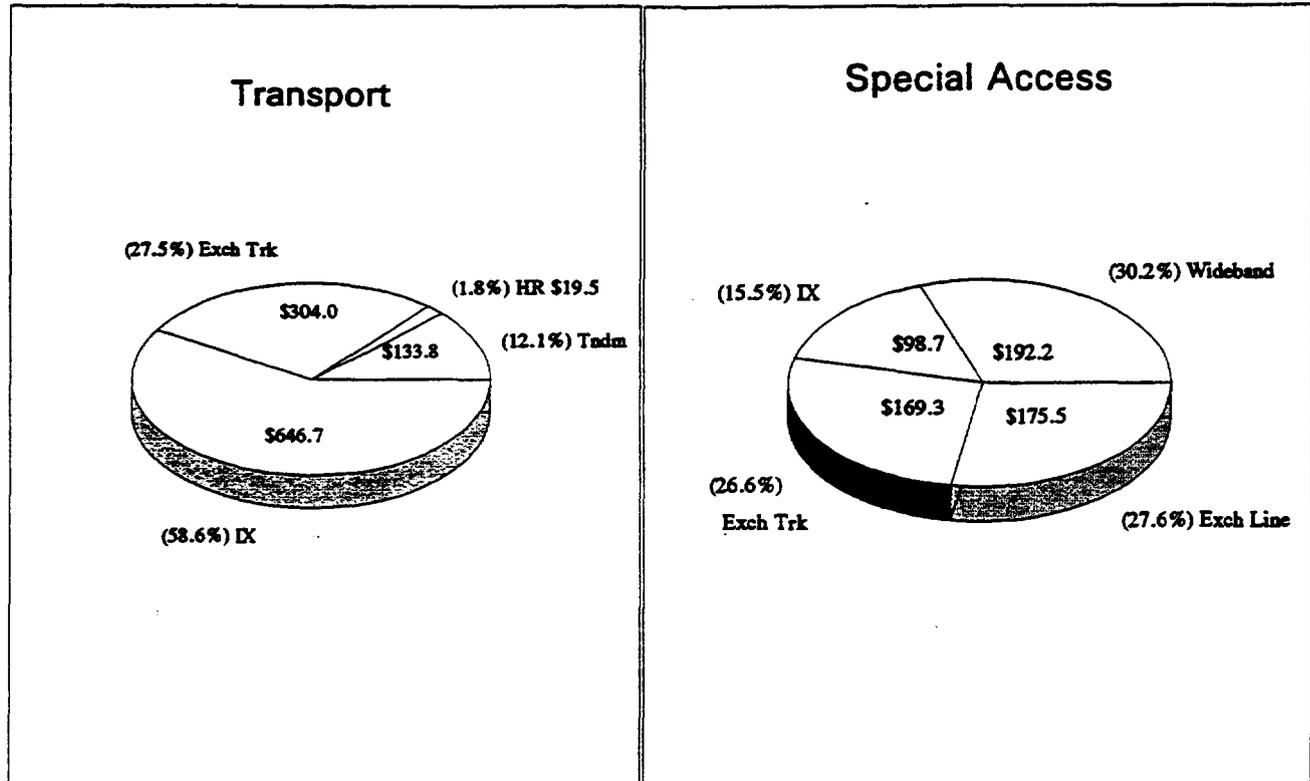


| Annual MOU    | Over 500M | 100M to 500M | 25M to 100M | 10M to 25M | Below 10M | Total |
|---------------|-----------|--------------|-------------|------------|-----------|-------|
| Direct Cost * | 58        | 35           | 23          | 6          | 4         | 126   |
| Indirect Cost | 26        | 15           | 10          | 3          | 2         | 56    |

Source: See Attachment 8, Column H. Direct and Indirect split is based on actual revenue requirements shown on Attachment 4.

\* Includes direct return and taxes and directly related expenses. (See Attachment 4)

**Comparison of Transport and Special Access Facilities Costs  
January Through August, 1992 Average Plant In Service  
Southwestern Bell Telephone Company**



|                                | Transport |         | Special Access |         |
|--------------------------------|-----------|---------|----------------|---------|
|                                | \$        | %       | \$             | %       |
| Cat. 2 Tandem Switching (Tadm) | 133.8     | 12.12%  | N/A            | N/A     |
| Cat. 4 Wideband                | N/A       | N/A     | 101.7          | 16.00%  |
| Cat. 4.12 Exch Trunk           | 235.0     | 21.29%  | 137.4          | 21.61%  |
| Cat. 4.13 Exchange Line        | N/A       | N/A     | 25.1           | 3.95%   |
| Cat. 4.23 Interexchange (IX)   | 380.8     | 34.49%  | 51.1           | 8.04%   |
| Cat. 4.3 Host Remote (HR)      | 12.1      | 1.10%   | 0              | 0.00%   |
| Total COE                      | 761.7     | 68.99%  | 315.3          | 49.59%  |
| IOT                            | N/A       | N/A     | 0.1            | 0.02%   |
| Cat. 1 Exchange Line           | N/A       | N/A     | 150.4          | 23.66%  |
| Cat. 2 Exchange Trunk - Non WB | 69.0      | 6.25%   | 31.9           | 5.02%   |
| Cat. 2 Exchange Trunk - WB     | N/A       | N/A     | 90.5           | 14.23%  |
| Cat. 3 Interexchange (IX)      | 265.9     | 24.09%  | 47.6           | 7.49%   |
| Cat. 4 Host Remote (HR)        | 7.4       | 0.67%   | 0              | 0.00%   |
| Total C&WF                     | 342.3     | 31.01%  | 320.4          | 50.39%  |
| Total COE, IOT and C&WF        | 1,104.0   | 100.00% | 635.8          | 100.00% |

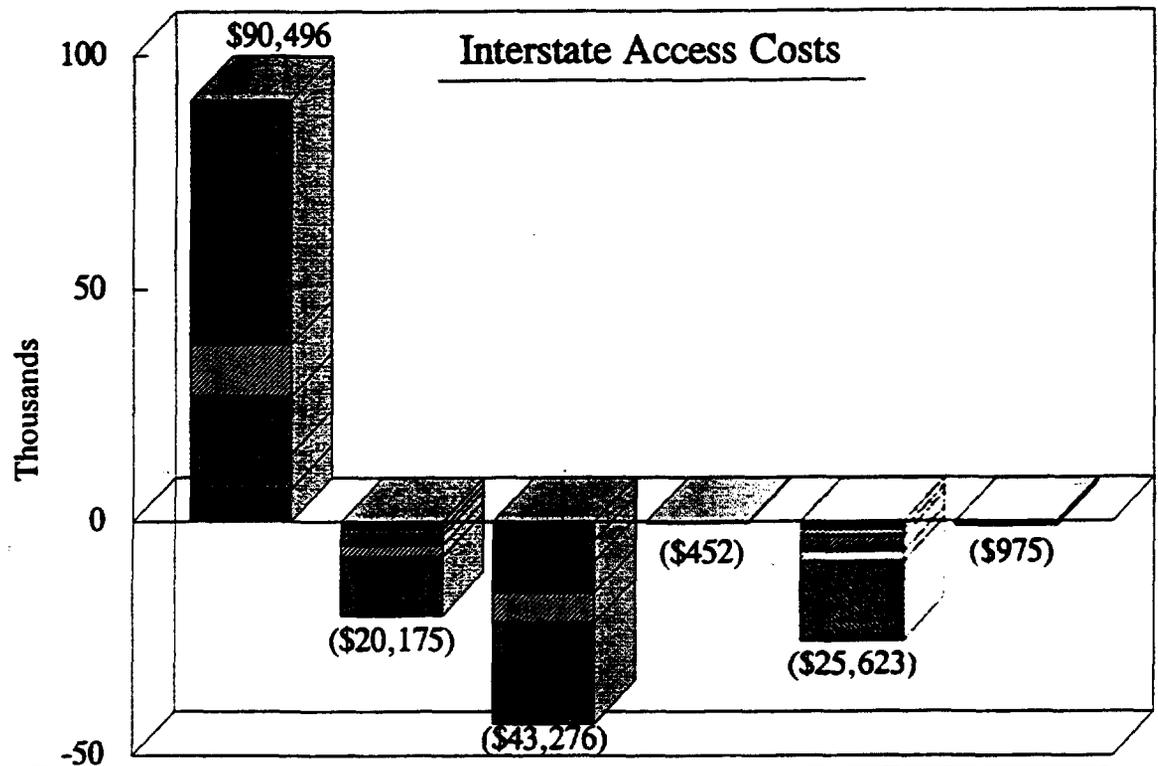
**Transport Costs Differ from Special Access Costs:**

- o Transport includes Tandem Switching.
- o The majority of interexchange (predominantly joint use common transport) are assigned to transport.
- o Special Access includes significant amounts of high volume facilities which provide services predominantly in metro areas. All wideband (high capacity) costs are assigned to special access.

# Impact of Modified Part 69 GSF Cost Allocation

(C&WF, Category 1.3 Included In GSF Allocation)

*Southwestern Bell Telephone Company*



|     | Com Ln   | Loc Swtg   | Tran       | Info    | Spcl Acc   | IX      |
|-----|----------|------------|------------|---------|------------|---------|
| Ark | \$7,028  | (\$1,499)  | (\$3,864)  | (\$26)  | (\$1,580)  | (\$56)  |
| Ks  | \$7,530  | (\$1,358)  | (\$4,646)  | (\$9)   | (\$1,497)  | (\$20)  |
| Mo  | \$12,449 | (\$2,222)  | (\$6,717)  | (\$68)  | (\$3,354)  | (\$89)  |
| Ok  | \$11,171 | (\$2,418)  | (\$6,423)  | (\$53)  | (\$2,243)  | (\$36)  |
| Tx  | \$52,320 | (\$12,680) | (\$21,627) | (\$297) | (\$16,950) | (\$776) |

## SUMMARY OF PROPOSED SOLUTIONS TO REPLACE THE IC

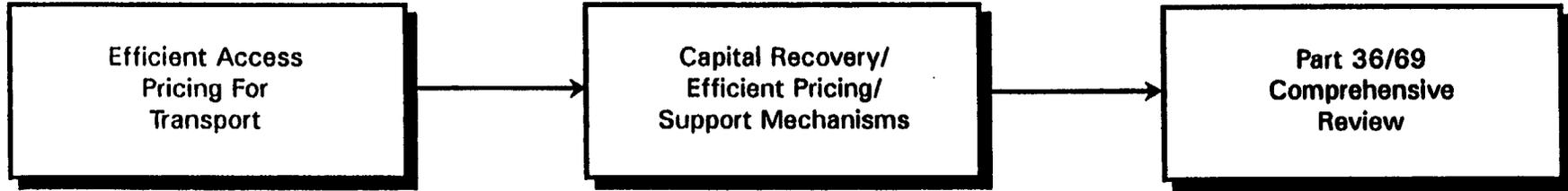
| RECOVERY OPTIONS  | RECOVERY OPTION # 1 |                        |            |      | RECOVERY OPTION # 2 |                        |            |      | RECOVERY OPTION # 3 |                        |            |      | RECOVERY OPTION # 4 |                        |            |      | RECOVERY OPTION # 5 |                        |            |      | RECOVERY OPTION # 6 |                        |            |      |   |
|---|---------------------|------------------------|------------|------|---------------------|------------------------|------------|------|---------------------|------------------------|------------|------|---------------------|------------------------|------------|------|---------------------|------------------------|------------|------|---------------------|------------------------|------------|------|---|
|   | GSF                 | HIGH COST/<br>LOW VOL. | FIXED COST | TNDM | GSF                 | HIGH COST/<br>LOW VOL. | FIXED COST | TNDM | GSF                 | HIGH COST/<br>LOW VOL. | FIXED COST | TNDM | GSF                 | HIGH COST/<br>LOW VOL. | FIXED COST | TNDM | GSF                 | HIGH COST/<br>LOW VOL. | FIXED COST | TNDM | GSF                 | HIGH COST/<br>LOW VOL. | FIXED COST | TNDM |   |
| • Flat Non-MOU charge from end users or IXC's   | X                   |                        |            |      | X                   |                        |            |      | X                   |                        |            |      | X                   |                        |            |      | X                   |                        |            |      | X                   |                        |            |      |   |
| • Appropriate and efficient upward pricing in high cost/low volume areas to recover:<br>- all lost contribution<br>- indirect cost allocations<br>- directly related cost allocations |                     | X                      | X          | X    |                     |                        |            |      |                     |                        |            |      |                     |                        |            |      |                     |                        |            |      |                     |                        |            |      |   |
| • Accelerated interstate depreciation for devalued net investment recovered on an exogenous basis   |                     |                        |            |      |                     | X                      |            | X    |                     | X                      |            | X    |                     |                        | X          |      |                     |                        |            |      |                     |                        |            |      |   |
| • Public policy support mechanism to recover the:<br>- indirect cost allocations<br>- directly related cost allocations<br>- net investment   |                     |                        |            |      |                     |                        |            |      |                     |                        | X          |      |                     | X                      |            | X    |                     |                        | X          |      |                     | X                      |            | X    |   |
| • Part 36 and 69 comprehensive review to more appropriately allocate costs to interstate transport in light of interim rates  |                     |                        |            |      |                     |                        |            |      |                     |                        |            |      |                     |                        |            |      |                     |                        |            |      |                     |                        | X          | X    | X |

\* SWBT supports moving tandem costs to a new switching basket and recovering the costs in that basket. In the alternative, tandem costs could be recovered as shown in these options.

## OPTIONS TO PHASE OUT AND ELIMINATE THE INTERCONNECTION CHARGE\*

Most Efficient, Timely and Least Costly  
with Least Effect On End Users

Least Efficient, Least Timely, Most Costly  
With Largest Effect On End Users



Pricing flexibility to allow lost contribution to be recovered in appropriate zones.

Nationwide average toll schedule must be maintained:

- Little or no effect on end users (local or toll).
- Minimal effect on IXCs.
  - Pay for some level of costs.
  - Maintain competitive freedoms.
- Resolves IC and can be implemented quickly.
- Same process could be utilized for intrastate and/or further access review changes.

Combination of Options:

- Capital Recovery of devalued plant plus efficient pricing or support mechanism for expenses, common costs.
- Support mechanisms for all.
- IC remains in place in the interim.

Capital Recovery will be complicated:

- Interstate only - complicated Depreciation tracking, Separations concerns.
- Total - length of time to accomplish, rate effects.

Ability to obtain and sustain support:

- Substantial increases in size of support.
- Effect on end users. - SLC increase

Lengthy evaluation in comprehensive review.

Process may be repeated again with further access review changes.

Requires similar Intrastate changes.

Evaluate spectrum of cost changes to deload transport. IC maintained in the interim.

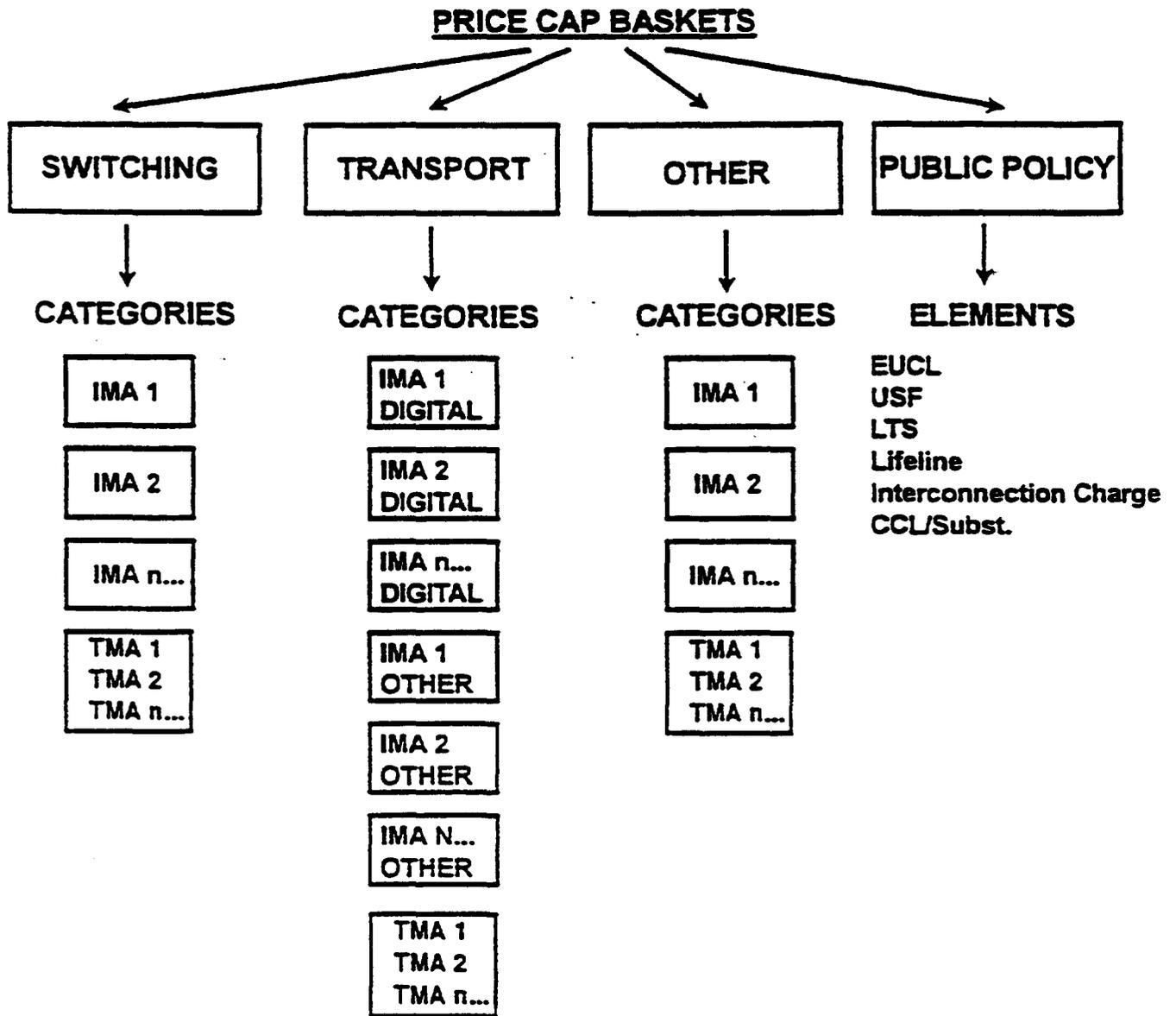
- Lengthy process.
- Effect on local end users.
  - Large shifts to intrastate.
  - Further large shifts to local when access restructure is implemented in intrastate.
- Likely result is additional complication and costs to administer Parts 36/69.
- Unpredictable economic/market effects and further access restructure would necessitate further cost changes.

\*Remaining costs after GSF and Tandem Switching have been reassigned





**PROPOSED PRICE CAP BASKET DESIGN**



**PRICE CAP BASKET:**

API cannot exceed the PCI for the Switching, Transport, or Other baskets. Elements within the Public Policy basket are individually managed.

**PRICE CAP CATEGORY:**

IMA - Price changes limited to +5/-10%.  
TMA - Price changes limited to +5/-15%.

**PUBLIC POLICY ELEMENT:**

Rules established by Commission to manage each element.

# Appendix 1

## Special Study of Interstate Transport Costs

*Southwestern Bell Telephone Company*

SWBT performed a special study of its interstate transport costs to determine cost differences for high and low volume areas. This Appendix briefly describes the methodology used to determine these transport costs.

The objective of the study was to determine the embedded costs associated with each of SWBTs' end offices and tandem offices used to provide transport service. The cost for each office represents the total embedded cost associated with central office circuit equipment and trunk cable and wire facilities used for the provision of transport service. Tandem Switching, Separations Category 2, costs are excluded from the study. The costs developed accounted for both the end office and serving wire center (if applicable to a particular office) portions. SWBT used January through August 1992 Part 36, jurisdictional separations and Part 69 access cost data as the basis for the study. The following describes the steps and data sources used to perform the study.

1. SWBT determined from its Circuit Equipment Study (CES), a mechanized system, Central Office Circuit Equipment investment amounts by location code and separations category. The investments were assigned to the appropriate offices for which the facilities are utilized or serve.
2. SWBT obtained counts of total message trunks/circuit terminations and circuit miles from TIRKS (Trunk Integrated Record Keeping System) for each office. The circuit counts and miles were summarized by office location and separations category. An average cable and wire facility cost per circuit mile was applied to each location's respective circuit miles by separations category to determine cable and wire facilities investments for each location. Since total circuit miles were counted at offices on both ends of the circuit, effectively half of the cable and wire facility costs were allocated to each office.
3. Separations factors were developed for each separations category: Circuit Equipment: Category 4.12 - Non Wideband Exchange Trunk, Category 4.23 - Interexchange Circuit Equipment, Category 4.3 - Host Remote; Cable and Wire Facilities: Category 2 - Non Wideband Exchange Trunk, Category 3 - Interexchange; and Category 4 - Host Remote.

4. Separations factors were applied to each locations' investments on a category specific basis to determine interstate amounts. Additionally, interstate separations factors were applied to circuits and circuit miles to determine equivalent interstate circuits and mileage amounts.
5. Revenue requirement factors (assuming an 11.25% rate of return) were developed for Central Office Equipment and Cable and Wire Facilities, based on the related Part 69 transport cost allocations. These factors were applied to each location's investments to determine fully distributed costs. The total central office circuit equipment and cable and wire costs were summed to determine the total location revenue requirement.
6. Interstate transport minutes of use (MOU) were obtained from SWBT's Carrier Access Billing System (CABS) for December 1992. The December interstate transport end office and serving wire center minutes were summed by location. If the office was both a serving wire center and end office, minutes were counted for each function since this represented the total transport usage in that office. The number of access lines served by each office was also determined.
7. Each office was identified with respect to the type of area served; i.e. metropolitan (metro) or non-metropolitan (non-metro). All offices within the metropolitan area were classified as metro. The metropolitan areas within SWBT's serving area are: Arkansas: Little Rock; Kansas: Kansas City, Topeka, and Wichita; Missouri: Kansas City, Springfield, and St. Louis; Oklahoma: Oklahoma City and Tulsa; and Texas: Austin, Dallas, Houston, Fort Worth, San Antonio; All other offices were classified as non-metro.
8. The data was sorted between end office and tandem locations. Some locations have both end office switches and tandem switches. In these instances both the end office and tandem were treated as a tandem location. The data was next sorted by annual access volumes (using annualized December 1992 MOU). The data was summarized based on ranges of annual access volumes to segregate the higher volume offices from the lower volume offices. Key data was summarized by range of volumes. Attachment A, Columns A through F display the summarized data.
9. The total revenue requirement displayed in Attachment A, Column G, represents the total interstate transport revenue requirement, excluding tandem switching. This amount was adjusted to exclude amounts associated with costs that are not being recovered from transport services, but from other rate elements, and the impact associated with the transport cost reduction associated with the Commission's proposed general support facility allocation procedures. The adjustment factor to exclude these amounts is shown in Column H of Attachment A. This factor was calculated by dividing the revenue

requirement excluding the above items by the total revenue requirement. This factor was applied to the revenue requirement for each classification to determine the amount that is associated with the current equal charge interstate transport rates shown in Column I.

10. Attachment A displays data for four items: end offices, high volume portion of tandem, low volume portion of tandem and total tandem. The end office data represents the summarized results for all end offices falling within the minutes of use classifications shown on Attachment A. The high and low volume tandem amounts are a distribution of total tandem amounts. The high and low volume portions were determined based on percentages developed from data pertaining to the end offices served by the tandems. Only SWBT end office data was used. The related independent company data is not available to SWBT. Consequently, the high/low volume assignments are very conservative, since the majority of independent company offices the tandems serve are not high volume offices. Total end office costs served by that tandem were calculated in two groups. The end offices were classified as high volume if their average interstate transport minutes of use per circuit was equal to or exceeded 9,000 per month. Low volume office classifications represented offices with interstate transport minutes of use per circuit less than 9000 minutes per month. Percentages were determined for circuits, minutes of use, and revenue requirement for the high and low volume classifications. These percentages were applied to the associated tandem items to determine the high and low volume portions.

## Special Study of Transport Costs Circuit and Cable and Wire Facilities

*Southwestern Bell Telephone Company*

| Annual Minutes                       | (A) Switching Offices |               | (C) Avg. Access Lines |               | INTERSTATE TRANSPORT |                    |                      |                       |                       |
|--------------------------------------|-----------------------|---------------|-----------------------|---------------|----------------------|--------------------|----------------------|-----------------------|-----------------------|
|                                      | (B) Metro             | (B) Non-Metro | (C) Metro             | (C) Non-Metro | (E) Circuits         | (F) MOU (Millions) | (G) Rev Req (\$ 000) | (H) Adj. Factor* Fact | (I = H*G) Adj Rev Req |
| <b>END OFFICE LOCATIONS</b>          |                       |               |                       |               |                      |                    |                      |                       |                       |
| Over 500M                            | 10                    | 0             | 57,759                | 0             | 26,525               | 10,376             | 15,073               | 0.681783              | 10,277                |
| 100M to 500M                         | 54                    | 16            | 49,732                | 36,367        | 115,842              | 10,930             | 39,346               | 0.681783              | 26,826                |
| 25M to 100M                          | 125                   | 78            | 25,871                | 16,190        | 145,610              | 10,508             | 65,620               | 0.681783              | 44,739                |
| 10M to 25M                           | 57                    | 132           | 10,341                | 7,799         | 54,673               | 3,154              | 35,293               | 0.681783              | 24,062                |
| Below 10M                            | 79                    | 673           | 2,401                 | 1,751         | 43,606               | 2,004              | 41,989               | 0.681783              | 28,628                |
| Total/Average                        | 325                   | 899           | 22,388                | 4,508         | 386,256              | 36,972             | 197,322              | 0.681783              | 134,531               |
| <b>HIGH VOLUME PROTION OF TANDEM</b> |                       |               |                       |               |                      |                    |                      |                       |                       |
| Over 500M                            | N/A                   | N/A           | N/A                   | N/A           | 36,569               | 8,618              | 17,753               | 0.681783              | 12,104                |
| 100M to 500M                         | N/A                   | N/A           | N/A                   | N/A           | 10,546               | 2,092              | 13,206               | 0.681783              | 9,003                 |
| 25M to 100M                          | N/A                   | N/A           | N/A                   | N/A           | 3,343                | 256                | 2,140                | 0.681783              | 1,459                 |
| 10M to 25M                           | N/A                   | N/A           | N/A                   | N/A           | 0                    | 0                  | 0                    | 0.681783              | 0                     |
| Below 10M                            | N/A                   | N/A           | N/A                   | N/A           | 0                    | 0                  | 0                    | 0.681783              | 0                     |
| Total/Average                        | N/A                   | N/A           | N/A                   | N/A           | 50,458               | 10,966             | 33,098               | 0.681783              | 22,566                |
| <b>LOW VOLUME PROTION OF TANDEM</b>  |                       |               |                       |               |                      |                    |                      |                       |                       |
| Over 500M                            | N/A                   | N/A           | N/A                   | N/A           | 134,468              | 9,348              | 51,989               | 0.681783              | 35,446                |
| 100M to 500M                         | N/A                   | N/A           | N/A                   | N/A           | 63,036               | 3,897              | 33,608               | 0.681783              | 22,914                |
| 25M to 100M                          | N/A                   | N/A           | N/A                   | N/A           | 6,088                | 248                | 8,995                | 0.681783              | 6,132                 |
| 10M to 25M                           | N/A                   | N/A           | N/A                   | N/A           | 1,425                | 13                 | 3,275                | 0.681783              | 2,233                 |
| Below 10M                            | N/A                   | N/A           | N/A                   | N/A           | 33,250               | 0                  | 17,628               | 0.681783              | 12,018                |
| Total/Average                        | N/A                   | N/A           | N/A                   | N/A           | 238,267              | 13,506             | 115,495              | 0.681783              | 78,743                |
| <b>TANDEM OFFICE LOCATIONS</b>       |                       |               |                       |               |                      |                    |                      |                       |                       |
| Over 500M                            | 10                    | 3             | 47,272                | 34,318        | 171,036              | 17,966             | 69,742               | 0.681783              | 47,549                |
| 100M to 500M                         | 1                     | 23            | 60,055                | 27,540        | 73,582               | 5,989              | 46,814               | 0.681783              | 31,917                |
| 25M to 100M                          | 1                     | 7             | 17,836                | 11,388        | 9,431                | 504                | 11,134               | 0.681783              | 7,591                 |
| 10M to 25M                           | 0                     | 1             | 0                     | 6,148         | 1,425                | 13                 | 3,275                | 0.681783              | 2,233                 |
| Below 10M                            | 3                     | 0             | 0                     | 0             | 33,251               | *                  | 17,628               | 0.681783              | 12,018                |
| Total/Average                        | 15                    | 34            | 36,707                | 24,183        | 288,725              | 24,472             | 148,594              | 0.681783              | 101,309               |
| <b>TOTAL</b>                         |                       |               |                       |               |                      |                    |                      |                       |                       |
| Over 500M                            | 20                    | 3             | 52,515                | 34,318        | 197,561              | 28,342             | 84,816               | 0.681783              | 57,826                |
| 100M to 500M                         | 55                    | 39            | 49,920                | 31,161        | 189,424              | 16,920             | 86,160               | 0.681783              | 58,743                |
| 25M to 100M                          | 126                   | 85            | 25,807                | 15,794        | 155,041              | 11,012             | 76,754               | 0.681783              | 52,330                |
| 10M to 25M                           | 57                    | 133           | 10,341                | 7,787         | 56,098               | 3,167              | 38,568               | 0.681783              | 26,295                |
| Below 10M                            | 82                    | 673           | 2,313                 | 1,751         | 76,857               | 2,004              | 59,617               | 0.681783              | 40,646                |
| Total/Average                        | 340                   | 933           | 23,020                | 5,225         | 674,981              | 61,444             | 345,915              | 0.681783              | 235,839               |

\* Interstate transport usage is not available for these offices from CABS since they are stand alone tandem offices not colocated with access serving wire centers or end offices.

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