

## Appendix C | UTILIZATION ANALYSIS WORKSHEETS

Table C1	Ameritech
Table C2	Bell Atlantic
Table C3	BellSouth
Table C4	NYNEX
Table C5	Pacific Telesis
Table C6	SBC Communications
Table C7	US West

**APPENDIX C WILL BE PROVIDED UPON REQUEST**

## Appendix B | UPDATED EMPIRICAL RESULTS OF THE MAY 30, 1996 "GAP" STUDY

- Table B1 "Gap" Study Table 1 - Revised  
The majority of current ILEC net plant in service is relatively new.
- Table B2 "Gap" Study Table 2 - Revised  
Over the next few years, the ILECs will have replaced most of their embedded base consisting of older vintage plant.
- Table B3 "Gap" Study Table 5 - Revised  
Demand growth for basic service explains a relatively small fraction of recent ILEC central office and outside plant investment.
- Table B4 "Gap" Study Table 6 - Revised  
A substantial amount of net investment cannot be explained by basic service demand growth.
- "Gap" Study Table 6A - Details  
Outside Plant (O/P) Summary
- "Gap" Study Table 6B - Details  
Digital Switching (SW) Summary
- Table B5 "Gap" Study Table 6 - Revised - Projected 1996  
A substantial amount of net investment cannot be explained by basic service demand growth.
- "Gap" Study Table 6A - Details - Projected 1996  
Outside Plant (O/P) Summary
- "Gap" Study Table 6B - Details - Projected 1996  
Digital Switching (SW) Summary

WORKSHEETS WILL BE PROVIDED UPON REQUEST

**TABLE B1**

**"Gap" Study Table 1 - Revised\***

**The majority of current ILEC net plant in service is relatively new.**

Investment and Percentage of Net TPIS Attributed to Pre- and Post-January 1, 1990 Periods, as of the end of 1996\*

	Projected Net TPIS Year End 1996 (\$000)	Net TPIS Attributed to Pre 1-1-90 Vintages		Net TPIS Attributed to Post 1-1-90 Vintages	
		(\$000)	Percent	(\$000)	Percent
<b>RBOCs</b>					
Ameritech	\$14,636,125	\$5,766,633	39.4%	\$8,869,492	60.6%
Bell Atlantic	\$18,232,039	\$6,508,838	35.7%	\$11,723,201	64.3%
BellSouth	\$23,026,512	\$7,161,245	31.1%	\$15,865,267	68.9%
Nynex	\$16,915,514	\$5,396,049	31.9%	\$11,519,465	68.1%
Pacific Telesis	\$14,509,056	\$5,339,333	37.0%	\$9,169,723	63.5%
SBC Communications	\$15,027,699	\$5,920,913	39.4%	\$9,106,786	60.6%
US West	\$17,359,694	\$5,364,145	30.9%	\$11,995,549	69.1%
<b>TOTAL RBOC</b>	<b>\$119,706,639</b>	<b>\$41,457,156</b>	<b>34.6%</b>	<b>\$78,249,483</b>	<b>65.4%</b>
SNET	\$2,055,409	\$719,393	35.0%	\$1,336,016	65.0%

Sources: F.C.C. Armis Report 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 1, Appendix A; May 30, 1996.

Notes: \* This table replicates the analysis shown in Table 1 of ETI's May 30, 1996 Study, but revised to reflect minor data corrections. Net TPIS year end 1996 was projected by applying the 1994 to 1995 growth rate for additions, retirements and accruals to the actual year end results for 1995.

**"Gap" Study Table 2 - Revised'**

**Over the next few years, the ILECs will have replaced most of their embedded base consisting of older vintage plant.**

**Yearly Change in Percentage of TPIS Attributed to Pre- and Post-January 1, 1990**

	<b>Ameritech</b>	<b>Bell Atlantic</b>	<b>BellSouth</b>	<b>NYNEX</b>	<b>Pacific</b>	<b>SBC</b>	<b>US West</b>	<b>SNET</b>
<b>Year End</b>	<u>Pre/Post</u>	<u>Pre/Post</u>	<u>Pre/Post</u>	<u>Pre/Post</u>	<u>Pre/Post</u>	<u>Pre/Post</u>	<u>Pre/Post</u>	<u>Pre/Post</u>
<b>1989</b>	100%/0%	100%/0%	100%/0%	100%/0%	100%/0%	100%/0%	100%/0%	100%/0%
<b>1990</b>	88.6%/11.4%	86.7%/13.3%	86.8%/13.2%	87.1%/12.9%	88.9%/11.1%	90.8%/9.2%	88.3%/11.7%	84.5%/15.5%
<b>1991</b>	77.8%/22.2%	75.6%/24.4%	75.0%/25.0%	76.5%/23.5%	78.4%/21.6%	81.1%/18.9%	76.2%/23.8%	73.5%/26.5%
<b>1992</b>	68.6%/31.4%	66.6%/33.4%	65.3%/34.7%	65.9%/34.1%	69.0%/31.0%	70.6%/29.4%	64.5%/35.5%	63.7%/36.3%
<b>1993</b>	59.9%/40.1%	58.0%/42.0%	55.2%/44.8%	56.1%/43.9%	60.0%/40.5%	61.5%/38.5%	54.8%/45.2%	55.7%/44.3%
<b>1994</b>	52.5%/47.5%	49.9%/50.1%	45.7%/54.3%	46.4%/53.6%	51.5%/49.0%	53.0%/47.0%	45.5%/54.5%	48.2%/51.8%
<b>1995</b>	45.0%/55.0%	41.4%/58.6%	36.7%/63.3%	37.5%/62.5%	42.6%/57.9%	45.0%/55.0%	36.5%/63.5%	40.7%/59.3%
<b>1996 est.**</b>	39.4%/60.6%	35.7%/64.3%	31.1%/68.9%	31.9%/68.1%	36.8%/63.2%	39.4%/60.6%	30.9%/69.1%	35.0%/65.0%
<b>1997 est.**</b>	34.5%/65.5%	30.9%/69.1%	26.3%/73.7%	27.1%/72.9%	32.0%/68.0%	34.5%/65.5%	26.1%/73.9%	30.2%/69.8%

Sources: F.C.C. Armis Report 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 2, Appendix A; May 30, 1996.

Notes: \* This table replicates the analysis shown in Table 2 of ETI's May 30, 1996 Study, but revised to reflect minor data corrections. Net TPIS year end 1996 was projected by applying the 1994 to 1995 growth rate for additions, retirements and accruals to the actual year end results for 1995.  
 \*\* 1996 and 1997 estimates reflect the average growth rate over the period 1990-1995.

**"Gap" Study Table 5 - Revised**

**Demand growth for basic service explains a relatively small fraction of recent ILEC central office and outside plant investment.**

Percentage of Digital CO and Loop Capacity Additions Explained by Basic Service Demand Growth, 1990-1995

	<u>Digital CO</u>	<u>Loop</u>
Ameritech	19.1%	-5.9%
Bell Atlantic	19.4%	11.2%
BellSouth	37.9%	72.9%
NYNEX	17.2%	42.4%
Pacific Telesis	22.8%	-10.7%
Southwestern Bell	39.3%	89.1%
US West	38.0%	92.1%
<b>TOTAL RBOC</b>	<b>26.4%</b>	<b>35.4%</b>

Sources: F.C.C. ARMIS Reports 43-07 and 43-08, 1990-1995; ETI Utilization Analysis, Appendix B.

Notes: This table has been revised to include 1995 ARMIS data. Change in Pacific Telesis loop utilization percentage reflects an ARMIS-reported 7.6-million decline in working channels from end of year 1994 to end of year 1995.

**"Gap" Study Table 6 - Revised**

**A substantial amount of net investment cannot be explained by basic service demand growth.\***

(\$000 as of the end of 1995)

<b>RBOCs</b>	<b>Actual Net TPIS Year End 1995**</b>	<b>ETI Revised Net TPIS Year End 1995***</b>	<b>Excess Net TPIS</b>	<b>Carrying Charge Factor****</b>	<b>Estimated Annual Costs</b>	<b>% Outside Plant</b>	<b>% Digital Switching</b>
<b>Ameritech</b>	\$14,874,907	\$10,606,712	\$4,268,195	.3275	\$1,397,834	58%	42%
<b>Bell Atlantic</b>	\$18,126,694	\$13,636,259	\$4,490,435	.3081	\$1,383,503	65%	35%
<b>BellSouth</b>	\$22,990,452	\$19,716,163	\$3,274,289	.2728	\$893,226	41%	59%*****
<b>Nynex</b>	\$16,800,636	\$11,075,210	\$5,725,426	.3687	\$2,110,965	59%	41%
<b>Pacific Telesis</b>	\$14,629,943	\$11,398,895	\$3,231,048	.2746	\$887,246	49%	51%
<b>Southwestern Bell</b>	\$15,116,818	\$13,686,113	\$1,430,705	.2684	\$384,001	31%	69%
<b>US West</b>	\$16,935,629	\$14,000,484	\$2,935,145	.2595	\$761,670	46%	54%
<b>Total RBOC</b>	\$119,475,079	\$94,119,836	\$25,355,243		\$7,818,445		

Sources: F.C.C. ARMIS Reports 43-01; 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 6, Appendix C; May 30, 1996.

Notes: \* This table replicates the analysis shown in Table 6 of ETI's May 30, 1996 Study, but revised to provide further details underlying Table 6 as shown in Tables 6A, 6B dated January 23, 1997, and to reflect minor data corrections to ETI's Revised Net TPIS Year End 1995 figures based on actual 1995 ARMIS data.

\*\* See Table 1, Appendix A.

\*\*\* Underlying worksheets will be provided upon request.

\*\*\*\* The carrying charge factors shown are the ratio of operating expenses plus taxes to TPIS, as reported in ARMIS 43-01 Quarterly Reports (4Q95). BellSouth is reported as Total Company in ARMIS 43-01. For other RBOCs, a representative state was chosen as follows: Ameritech-IL, Bell Atlantic-PA, NYNEX-NY, Pacific Bell-CA, Southwestern Bell-TX, and US West-CO.

\*\*\*\*\* Percents rounded down slightly to 100%.

"Gap" Study Table 6A - Details

Outside Plant (O/P) Summary\*

(\$000 as of the end of 1995)

<u>RBOCs</u>	<u>Actual Net TPIS Year End 1995</u>	<u>ETI Revised Net TPIS Year End 1995 (Reflects Loop Plant Adjustments only)</u>	<u>Excess Net TPIS - O/P</u>	<u>Carrying Charge Factor**</u>	<u>Estimated Annual Costs - O/P</u>
Ameritech	\$14,874,907	\$12,423,508	\$2,451,399	.3275	\$802,833
Bell Atlantic	\$18,126,694	\$15,243,260	\$2,883,434	.3081	\$888,386
BellSouth	\$22,990,452	\$21,600,005	\$1,390,447	.2728	\$379,314
Nynex	\$16,800,636	\$13,359,037	\$3,441,599	.3687	\$1,268,918
Pacific Telesis	\$14,629,943	\$13,061,719	\$1,568,224	.2746	\$430,634
Southwestern Bell	\$15,116,818	\$14,663,527	\$453,291	.2684	\$121,663
US West	\$16,935,629	\$15,541,347	\$1,394,282	.2595	\$361,816
<b>Total RBOC</b>	<b>\$119,475,079</b>	<b>\$105,892,403</b>	<b>\$13,582,676</b>		<b>\$4,253,564</b>

Sources: F.C.C. ARMIS Reports 43-01, 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 6, Appendix C, May 30, 1996.

Notes: \* This table provides further details underlying Table 6 of ETI's May 30, 1996 Study. The table replicates the analysis shown in Table 6, but revised to exclude only loop plant investment not explained by growth in basic service demand. It has been updated to include actual 1995 ARMIS data.

\*\* The carrying charge factors shown are the ratio of operating expenses plus taxes to TPIS, as reported in ARMIS 43-01 Quarterly Reports (4Q95). BellSouth is reported as Total Company in ARMIS 43-01. For other RBOCs, a representative state was chosen as follows: Ameritech-IL, Bell Atlantic-PA, NYNEX-NY, Pacific Bell-CA, Southwestern Bell-TX, and US West-CO.

"Gap" Study Table 6B - Details

Digital Switching (SW) Summary\*

(\$000 as of the end of 1995)

<u>RBOCs</u>	<u>Actual Net TPIS Year End 1995</u>	<u>ETI Revised Net TPIS Year End 1995 (Reflects Digital Switching Plant Adjustments only)</u>	<u>Excess Net TPIS - SW</u>	<u>Carrying Charge Factor**</u>	<u>Estimated Annual Costs - SW</u>
Ameritech	\$14,874,907	\$13,057,920	\$1,816,987	.3275	\$595,063
Bell Atlantic	\$18,126,694	\$16,527,661	\$1,599,033	.3081	\$492,662
BellSouth	\$22,990,452	\$20,899,461	\$2,090,991	.2728	\$570,422
Nynex	\$16,800,636	\$14,412,821	\$2,387,815	.3687	\$880,387
Pacific Telesis	\$14,629,943	\$12,963,915	\$1,666,028	.2746	\$457,491
Southwestern Bell	\$15,116,818	\$14,141,588	\$975,230	.2684	\$261,752
US West	\$16,935,629	\$15,397,392	\$1,538,237	.2595	\$399,173
<b>Total RBOC</b>	<b>\$119,475,079</b>	<b>\$107,400,758</b>	<b>\$12,074,321</b>		<b>\$3,656,951</b>

Sources: F.C.C. ARMIS Reports 43-01, 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 6, Appendix C, May 30, 1996.

Notes: \* This table provides further details underlying Table 6 of ETI's May 30, 1996 Study. The table replicates the analysis shown in Table 6, but revised to exclude only digital switching investment not explained by growth in basic service demand. It has been updated to include actual 1995 ARMIS data.

\*\* The carrying charge factors shown are the ratio of operating expenses plus taxes to TPIS, as reported in ARMIS 43-01 Quarterly Reports (4Q95). BellSouth is reported as Total Company in ARMIS 43-01. For other RBOCs, a representative state was chosen as follows: Ameritech-IL, Bell Atlantic-PA, NYNEX-NY, Pacific Bell-CA, Southwestern Bell-TX, and US West-CO.

**"Gap" Study Table 6 - Revised - Projected 1996**

**A substantial amount of net investment cannot be explained by basic service demand growth.\***

(Projected \$000 as of the end of 1996)

<u>RBOCs</u>	<u>Projected Actual Net TPIS Year End 1996**</u>	<u>Projected ETI Revised Net TPIS Year End 1996***</u>	<u>Projected Excess Net TPIS</u>	<u>Carrying Charge Factor****</u>	<u>Projected Estimated Annual Costs</u>
Ameritech	\$14,636,125	\$9,606,905	\$5,029,220	.3275	\$1,647,070
Bell Atlantic	\$18,232,039	\$12,880,557	\$5,351,482	.3081	\$1,648,792
BellSouth	\$23,026,512	\$19,221,559	\$3,804,953	.2728	\$1,037,991
Nynex	\$16,915,514	\$10,231,333	\$6,684,181	.3687	\$2,464,458
Pacific Telesis	\$14,509,056	\$10,776,478	\$3,732,578	.2746	\$1,024,966
Southwestern Bell	\$15,027,699	\$13,340,117	\$1,687,582	.2684	\$452,947
US West	\$17,359,694	\$13,832,658	\$3,527,036	.2595	\$915,266
<b>Total RBOC</b>	<b>\$119,706,639</b>	<b>\$89,889,607</b>	<b>\$29,817,032</b>		<b>\$9,191,489</b>

Sources: F.C.C. ARMIS Reports 43-01; 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 6, Appendix C; May 30, 1996.

Notes: \* This table replicates the analysis shown in Table 6 of ETI's May 30, 1996 Study, revised to provide a projection of 1996 Year End results. This table incorporates minor data corrections to ETI's Revised Net TPIS Year End 1995 figures and is projected based on growth rates derived from reported ARMIS data for the 1994-1995 period.

\*\* See Table B1, Appendix B

\*\*\* Underlying worksheets will be provided upon request

\*\*\*\* The carrying charge factors shown are the ratio of operating expenses plus taxes to TPIS, as reported in ARMIS 43-01 Quarterly Reports (4Q95). BellSouth is reported as Total Company in ARMIS 43-01. For other RBOCs, a representative state was chosen as follows: Ameritech-IL, Bell Atlantic-PA, NYNEX-NY, Pacific Bell-CA, Southwestern Bell-TX, and US West-CO.

**"Gap" Study Table 6A - Details - Projected 1996**

**Outside Plant (O/P) Summary\***

(Projected \$000 as of the end of 1996)

<u>RBOCs</u>	<u>Projected Actual Net TPIS Year End 1996</u>	<u>Projected ETI Revised Net TPIS Year End 1996 (Reflects Loop Plant Adjustments only)</u>	<u>Projected Excess Net TPIS - O/P</u>	<u>Carrying Charge Factor**</u>	<u>Projected Estimated Annual Costs - O/P</u>
Ameritech	\$14,636,125	\$11,727,414	\$2,908,711	.3275	\$952,603
Bell Atlantic	\$18,232,039	\$14,872,913	\$3,359,126	.3081	\$1,034,947
BellSouth	\$23,026,512	\$21,311,366	\$1,715,146	.2728	\$467,892
Nynex	\$16,915,514	\$12,795,165	\$4,120,349	.3687	\$1,519,173
Pacific Telesis	\$14,509,056	\$12,690,282	\$1,818,774	.2746	\$499,435
Southwestern Bell	\$15,027,699	\$14,481,121	\$546,578	.2684	\$146,702
US West	\$17,359,694	\$15,582,705	\$1,776,989	.2595	\$461,129
<b>Total RBOC</b>	<b>\$119,706,639</b>	<b>\$103,460,966</b>	<b>\$16,245,673</b>		<b>\$5,081,880</b>

Sources: F.C.C. ARMIS Reports 43-01, 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 6, Appendix C, May 30, 1996.

Notes: \* This table provides further details underlying Table 6 of ETI's May 30, 1996 Study, but instead projected for Year End 1996. The table replicates the analysis shown in revised Table 6 (projected for Year End 1996), but revised to exclude only loop plant investment not explained by growth in basic service demand.

\*\* The carrying charge factors shown are the ratio of operating expenses plus taxes to TPIS, as reported in ARMIS 43-01 Quarterly Reports (4Q95). BellSouth is reported as Total Company in ARMIS 43-01. For other RBOCs, a representative state was chosen as follows: Ameritech-IL, Bell Atlantic-PA, NYNEX-NY, Pacific Bell-CA, Southwestern Bell-TX, and US West-CO.

**"Gap" Study Table 6B - Details - Projected 1996**

**Digital Switching (SW) Summary\***

(Projected \$000 as of the end of 1996)

<u>RBOCs</u>	<u>Projected Actual Net TPIS Year End 1996</u>	<u>Projected ETI Revised Net TPIS Year End 1996 (Reflects Digital Switching Plant Adjustments only)</u>	<u>Projected Excess Net TPIS - SW</u>	<u>Carrying Charge Factor**</u>	<u>Projected Estimated Annual Costs - SW</u>
Ameritech	\$14,636,125	\$12,515,424	\$2,120,701	.3275	\$694,530
Bell Atlantic	\$18,232,039	\$16,247,652	\$1,984,387	.3081	\$611,390
BellSouth	\$23,026,512	\$20,712,231	\$2,314,281	.2728	\$631,336
Nynex	\$16,915,514	\$14,247,694	\$2,667,820	.3687	\$983,625
Pacific Telesis	\$14,509,056	\$12,591,997	\$1,917,059	.2746	\$526,424
Southwestern Bell	\$15,027,699	\$13,888,878	\$1,138,821	.2684	\$305,660
US West	\$17,359,694	\$15,612,274	\$1,747,420	.2595	\$453,455
<b>Total RBOC</b>	<b>\$119,706,639</b>	<b>\$105,816,150</b>	<b>\$13,890,489</b>		<b>\$4,206,420</b>

Sources: F.C.C. ARMIS Reports 43-01, 43-02; ETI Study, *Analysis of Incumbent LEC Embedded Investment: An Empirical Perspective on the "Gap" Between Historic Costs and Forward-Looking TSLRIC*; submitted in FCC CC Docket 96-98 (Attachment C to AT&T Reply Comments), Table 6, Appendix C, May 30, 1996.

Notes: \* This table provides further details underlying Table 6 of ETI's May 30, 1996 Study, but instead projected for Year End 1996. The table replicates the analysis shown in revised Table 6 (projected for Year End 1996), but revised to exclude only digital switching investment not explained by growth in basic service demand.

\*\* The carrying charge factors shown are the ratio of operating expenses plus taxes to TPIS, as reported in ARMIS 43-01 Quarterly Reports (4Q95). BellSouth is reported as Total Company in ARMIS 43-01. For other RBOCs, a representative state was chosen as follows: Ameritech-IL, Bell Atlantic-PA, NYNEX-NY, Pacific Bell-CA, Southwestern Bell-TX, and US West-CO.

## **Appendix C** | **RESULTS OF ILEC REVENUE OPPORTUNITIES AND MARKET ASSESSMENT ANALYSIS**

- Table C1 Market-to-Book Value Ratios
- Table C2 Market-to-Book Value Ratios  
RBHC's Ratios Adjusted for SFAS 71 Write-offs
- Table C3 Market-to-Book Value Ratios  
Gas and Electric Utilities
- Table C4 Proposed Premiums Paid by SBC for Pacific Telesis and by Bell Atlantic for NYNEX
- Table C5 Estimate of RBHC's Over-earnings
- Table C6 Recurring Revenues Derived from Additional Residential Access Lines in Excess of a 1990 Baseline
- Table C7 Video/Broadband Service Revenues Projected by ILECs in Video Dialtone Applications
- Table C8 Imputed Yellow Pages Revenues

WORKSHEETS WILL BE PROVIDED UPON REQUEST

### Market-to-Book Value Ratios

Year	Ameritech	Bell Atlantic	Bell South	NYNEX	Pacific Telesis	SBC	US West	RBHC's Avg. Ratio	Cincinnati Bell	Rochester Telephone	SNET	Ind. Avg. Ratio
1984	0.97	0.96	0.98	0.84	0.93	0.88	0.90	0.92	0.87	1.17	1.06	1.04
1985	1.17	1.13	1.18	1.02	1.08	1.05	1.06	1.10	1.02	1.36	1.29	1.22
1986	1.58	1.56	1.58	1.42	1.41	1.29	1.37	1.46	1.51	1.58	1.57	1.55
1987	1.61	1.58	1.61	1.52	1.48	1.39	1.32	1.50	1.70	1.55	1.50	1.58
1988	1.56	1.50	1.56	1.37	1.51	1.35	1.28	1.45	1.77	1.61	1.39	1.59
1989	2.02	2.05	1.78	1.61	2.06	1.83	1.56	1.84	2.82	2.28	1.97	2.36
1990	2.11	2.16	2.01	1.70	2.39	1.90	1.55	1.97	2.23	2.05	1.88	2.05
1991	2.05	2.41	1.85	1.65	2.16	1.86	1.56	1.93	2.27	1.69	1.72	1.89
1992	2.50	2.55	1.78	1.69	2.07	2.07	1.85	2.07	1.90	1.78	1.64	1.77
1993	2.74	3.06	2.07	2.15	2.74	3.15	3.36	2.75	2.66	2.18	2.67	2.50
1994	3.66	3.82	1.98	1.86	2.45	3.00	2.53	2.76	2.11	2.04	2.21	2.12
1995	3.77	3.76	2.79	3.09	5.79	4.65	2.79	3.80	3.53	4.30	6.38	4.74
1996 <sup>1</sup>	4.04	3.77	2.95	3.16	5.42	4.28	N/A	3.37	5.53	4.57	5.94	5.35

Notes: <sup>1</sup> 1996 are estimates. Market-to-book value ratios are calculated by dividing the average annual share price by book value per share.

Source: Value Line Investors Survey, April 14, 1995, January 10, 1997.

**Market-to-Book Value Ratios**  
(RBHC's ratios adjusted for SFAS 71 write-offs)

<u>Year</u>	<u>Ameritech</u>	<u>Bell Atlantic</u>	<u>Bell South</u>	<u>NYNEX</u>	<u>Pacific Telesis</u>	<u>SBC</u>	<u>US West</u>	<u>RBHC's Avg. Ratio</u>	<u>Cincinnati Bell</u>	<u>Rochester Telephone</u>	<u>SNET</u>	<u>Ind. Co. Avg. Ratio</u>
1984	0.97	0.96	0.98	0.84	0.93	0.88	0.90	0.92	0.87	1.17	1.06	1.04
1985	1.17	1.13	1.18	1.02	1.08	1.05	1.06	1.10	1.02	1.36	1.29	1.22
1986	1.58	1.56	1.58	1.42	1.41	1.29	1.37	1.46	1.51	1.58	1.57	1.55
1987	1.61	1.58	1.61	1.52	1.48	1.39	1.32	1.50	1.70	1.55	1.50	1.58
1988	1.56	1.50	1.56	1.37	1.51	1.35	1.28	1.45	1.77	1.61	1.39	1.59
1989	2.02	2.05	1.78	1.61	2.06	1.83	1.56	1.84	2.82	2.28	1.97	2.36
1990	2.11	2.16	2.01	1.70	2.39	1.90	1.55	1.97	2.23	2.05	1.88	2.05
1991	2.05	2.41	1.85	1.65	2.16	1.86	1.56	1.93	2.27	1.69	1.72	1.89
1992	2.50	2.55	1.78	1.69	2.07	2.07	1.85	2.07	1.90	1.78	1.64	1.77
1993	2.74	3.06	2.07	2.15	2.74	3.15	2.33	2.60	2.66	2.18	2.67	2.50
1994	2.67	2.81	1.98	1.86	2.45	3.00	1.81	2.37	2.11	2.04	2.21	2.12
1995	2.84	2.80	2.26	2.13	2.26	3.18	1.89	2.48	3.53	4.30	6.38	4.74
1996 <sup>1</sup>	3.36	3.05	2.70	2.33	2.51	3.40	N/A	2.48	5.53	4.57	5.94	5.35

Notes: <sup>1</sup> 1996 are estimates. Market-to-book value ratios are calculated by dividing the average annual share price by book value per share. RBHC's ratios adjusted for SFAS 71 write-offs reflect the following changes in book value of equity: Ameritech, \$2.2-billion in 1994; Bell Atlantic, \$2.1-billion in 1994; BellSouth, \$2.7-billion in 1995; Nynex, \$2.9-billion in 1995; Pacific Telesis, \$3.3-billion in 1995; SBC, \$2.8-billion in 1995; and US West, \$3.1-billion in 1993.

Source: Value Line Investors Survey, April 14, 1995, January 10, 1997.

**Market-to-Book Value Ratios  
Gas and Electric Utilities**

Year	AGL Resources	Bay State Gas	Brooklyn Union Gas	UGI Corp.	Nicor	Pacific Enterprises	Washington Energy	Oneok	Washington Gas	Peoples Energy	Gas Avg. Ratio
1984	0.77	0.86	0.96	0.73	1.27	1.00	0.88	1.00	0.95	0.84	0.92
1985	1.06	1.10	1.09	1.17	2.23	1.21	1.14	1.01	1.14	1.24	1.24
1986	1.29	1.35	1.39	1.32	1.54	1.88	1.39	1.22	1.45	1.46	1.43
1987	1.49	1.65	1.44	1.35	1.47	2.00	1.44	1.56	1.33	1.51	1.52
1988	1.44	1.31	1.22	1.26	1.45	1.59	1.18	0.85	1.21	1.19	1.27
1989	1.47	1.41	1.27	1.53	1.66	1.62	1.28	0.91	1.31	1.17	1.36
1990	1.60	1.49	1.41	1.55	1.77	1.76	1.44	1.16	1.45	1.40	1.50
1991	1.69	1.48	1.32	1.50	1.74	1.59	1.44	1.10	1.52	1.43	1.48
1992	1.81	1.54	1.40	1.56	1.75	2.08	1.58	1.18	1.62	1.52	1.60
1993	1.95	1.74	1.59	0.00	2.13	1.98	1.61	1.50	1.85	1.76	1.61
1994	1.73	1.63	1.56	1.67	1.95	1.44	0.35	1.35	1.73	1.54	1.49
1995	1.66	1.46	1.42	1.76	1.88	1.58	1.80	1.31	1.54	1.42	1.58
1996 <sup>1</sup>	1.79	1.63	1.52	1.91	2.05	1.58	2.34	1.59	1.67	1.63	1.77

  

Year	Baltimore G&E	Boston Edison	Con. Edison	Edison Int'l	Entergy Corp.	FPL Group	Ohio Edison	Pacific G&E	Southern Co.	Texas Utilities	Electric Avg. Ratio
1984	0.93	0.85	0.84	1.00	N/A	0.98	0.75	0.84	0.87	0.87	0.88
1985	1.12	1.11	1.04	1.17	N/A	1.13	0.92	1.01	1.03	0.96	1.06
1986	1.52	1.30	1.31	1.44	0.60	1.39	1.14	1.23	1.15	1.05	1.21
1987	1.42	1.16	1.26	1.40	0.51	1.30	1.20	1.12	1.16	0.96	1.15
1988	1.33	0.82	1.21	1.40	0.50	1.22	1.13	0.98	1.05	0.83	1.05
1989	1.27	1.06	1.30	1.46	0.93	1.23	1.27	1.13	1.18	0.91	1.17
1990	1.12	1.08	1.22	1.50	0.92	1.55	1.15	1.26	1.20	1.03	1.20
1991	1.14	1.16	1.24	1.59	1.06	1.62	1.21	1.47	1.29	1.26	1.31
1992	1.24	1.33	1.40	1.66	1.20	1.68	1.33	1.63	1.52	1.34	1.43
1993	1.37	1.54	1.61	1.75	1.29	1.77	1.65	1.74	1.77	1.56	1.61
1994	1.21	1.28	1.23	1.10	0.99	1.46	1.25	1.31	1.57	1.19	1.26
1995	1.28	1.24	1.22	1.16	0.86	1.63	1.30	1.34	1.67	1.36	1.31
1996 <sup>1</sup>	N/A	1.70	N/A	N/A	0.96	N/A	1.34	N/A	N/A	1.53	1.38

Notes: <sup>1</sup> 1996 are estimates. Market-to-book value ratios are calculated by dividing the average annual share price by book value per share.

Source: Value Line Investors Survey, December 27, 1996, September 13, 1996, January 10, 1997.

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**Market-to-Book Value Ratios  
Gas and Electric Utilities**

<u>Year</u>	<u>Gas Avg. Ratio</u>	<u>Electric Avg. Ratio</u>	<u>Avg. Gas/ Electric</u>
1984	0.92	0.88	0.90
1985	1.24	1.06	1.15
1986	1.43	1.21	1.32
1987	1.52	1.15	1.34
1988	1.27	1.05	1.16
1989	1.36	1.17	1.27
1990	1.50	1.20	1.35
1991	1.48	1.31	1.39
1992	1.60	1.43	1.52
1993	1.61	1.61	1.61
1994	1.49	1.26	1.38
1995	1.58	1.31	1.45
1996	1.77	1.38	1.58

Source: Value Line Investors Survey, December 27, 1996, September 13, 1996, January 10, 1997.

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TABLE C4

Proposed Premiums Paid by SBC for Pacific Telesis and by Bell Atlantic for NYNEX (\$-Bil.)		
Post-Merger Announcement Implied Market Value of the Acquired entity	SBC/ Pacific Telesis	Bell Atlantic/ NYNEX
Line		
(1) Closing stock price on the day of the merger announcement for the acquiring entity (SBC and Bell Atlantic) <sup>(1)</sup>	\$49.88	\$67.25
(2) Proposed exchange ratio <sup>(2)</sup>	<u>0.733</u>	<u>0.768</u>
(3) Implied stock price for acquired entity (PTG and NYNEX). Line (1) * (2)	\$36.56	\$51.65
(4) Outstanding shares in millions of acquired entity (PTG and NYNEX) <sup>(3)</sup>	428.4	454.0
(5) Implied market value of equity for acquired entity. Line (3) * (4)	\$15,663	\$23,448
(6) Book value of Long-term Debt for acquired entity <sup>(4)</sup>	\$4,737	\$9,336
(7) Book value of Notes Payable for acquired entity <sup>(5)</sup>	<u>N/A</u>	<u>\$506</u>
(8) Book value of total debt. Line (6) + (7)	\$4,737	\$9,842
(9) Implied market value of assets for acquired entity. Line (5) + (8)	\$20,400	\$33,290
Book Value of Assets for the acquired entity		
(10) Long-term Debt	\$4,737	\$9,336
(11) Notes Payable	<u>N/A</u>	<u>\$506</u>
(12) Common Equity <sup>(6)</sup>	<u>\$5,550</u>	<u>\$9,998</u>
(13) Book value of assets. Line (10) + (11) + (12)	\$10,287	\$19,840
Implied Premiums paid by SBC for PTG and by Bell Atlantic for NYNEX. Line (9) - (13)	<u>\$10,113</u>	<u>\$13,450</u>
Notes:		
1) SBC/PTG merger announced on April 1, 1996. SBC closed at \$49.88 (down \$2.75). Bell Atlantic/NYNEX merger announced on April 22, 1996. Bell Atlantic closed at \$67.25 (up \$2.25). Per Dow Jones News Retrieval.		
2) SBC/PTG proposed exchange ratio of 0.733 from SBC/Pacific Telesis Joint Proxy Statement/Prospectus, June 3, 1996. Bell Atlantic/NYNEX proposed exchange ratio of 0.768 from Joint Proxy Statement/Prospectus, September 9, 1996.		
3) Total PTG shares outstanding of 428.4-million from SBC/Pacific Telesis Joint Proxy Statement/Prospectus, p. 2, June 3, 1996. Total NYNEX shares outstanding of 454.0-million from Bell Atlantic/NYNEX Joint Proxy Statement/Prospectus, p. 65, September 9, 1996.		
4) Book value of long term debt and notes payable from Form 10-K of PTG and NYNEX.		
5) Book value of notes payable for PTG listed as "N/A" in the PTG Form 10-K.		
6) Common equity for PTG includes shareholder equity of \$2.190-billion adjusted upward by \$3.360-billion to reflect the write-off for SFAS 71 during 1995. Common equity for NYNEX includes shareholder equity of \$6.079-billion adjusted upward by \$2.919-billion to reflect the write-off for SFAS 71 during 1995.		
Sources:		
1) Pacific Telesis (PTG) and NYNEX Form 10-K.		
2) Joint Proxy Statement/Prospectus SBC/Pacific Telesis, June 3, 1996.		
3) Joint Proxy Statement/Prospectus Bell Atlantic/NYNEX, September 9, 1996.		

TABLE C5

**Estimate of RBHC's Over-earnings  
(1990-1995)**

<u>Year</u>	<u>RBHC's ROE</u> (a)	<u>RBHC's Total Net Income</u> (b)	<u>RBHC's Total Equity</u> (c)	<u>S&amp;P 500 ROE</u> (d)	<u>Estimated RBHC's Over- earnings</u> (b-(c*d))
1990	13.07%	8,395,500	64,777,200	12.09%	563,937
1991	11.65%	7,432,600	64,758,000	8.76%	1,759,799
1992	14.81%	9,248,500	64,154,000	10.66%	2,409,684
1993	10.18%	5,858,200	59,194,300	12.17%	(1,345,746)
1994	18.14%	9,735,400	56,191,700	15.69%	918,922
1995	25.74%	10,769,200	48,792,100	15.15%	3,377,197
<b>Total</b>					7,683,792

Note: Since Return on Equity (a) is equal to Net Income (b) divided by Total Equity (c), then Net Income (b) can be approximated by multiplying Return on Equity (a) times Total Equity (c). Using this relationship, we estimate RBHC over-earnings by taking the difference between Net Income actually earned by RBHCs (b) and the income RBHCs would have earned at ROE levels equal to S&P 500.

Sources: 10K Annual Reports and S&P 500 data.

**Recurring Revenues Derived from Additional Residential Access Lines in Excess of a 1990 Baseline**

<u>A: Year</u>	<u>B: Households with Telephone Service</u>	<u>C: Additional Residential Lines</u>	<u>D: % of Hhlds. with Addt'l Lines</u>	<u>E: Baseline % of Hhlds. w/ Addt'l Lines</u>	<u>F: % Addt'l Lines in Excess of 4.38%</u>
1990	88,350,000	3,870,325	4.38%	4.38%	0.00%
1991	89,379,000	6,537,450	7.31%	4.38%	2.93%
1992	90,997,000	8,335,973	9.16%	4.38%	4.78%
1993	93,036,000	8,845,773	9.51%	4.38%	5.13%
1994	93,694,000	11,499,550	12.27%	4.38%	7.89%
1995	94,233,000	13,890,593	14.74%	4.38%	10.36%

<u>Year</u>	<u>G: Addt'l Lines in Excess of Baseline<sup>1</sup></u>	<u>H: Average National Residential Rates (Includes SLC)</u>	<u>I: Monthly Revenues From Addt'l Lines</u>	<u>J: Annual Revenues</u>
1990	0	15.94	\$0	\$0
1991	2,622,048	16.66	\$43,683,318	\$524,199,810
1992	4,349,692	16.67	\$72,509,359	\$870,112,302
1993	4,770,170	16.77	\$79,995,745	\$959,948,939
1994	7,395,122	16.83	\$124,459,900	\$1,493,518,801
1995	9,762,553	17.20	\$167,915,911	\$2,014,990,935
			<b>Total:</b>	<b>\$5,862,770,787</b>

**Sources:** Columns A, B, C and D: FCC Industry Analysis Division, "Percentage Additional Residential Lines for Households with Telephone Service (End of Year Data)," (chart), December 12, 1996.

Column H (Average National Residential Rates): FCC, Statistics of Communications Common Carriers, 1995/1996, at Table 8.4

**Notes:** This analysis accounts for only recurring revenues for additional lines in excess of the baseline percentage of households with additional lines (4.38%, the 1990 level). It does not take into account additional revenues derived from installation charges, or other charges (for instance, for vertical services) that might apply to those additional lines or any promotional programs relating to additional lines.

<sup>1</sup>Column G is derived by multiplying the Percent of Additional Lines in Excess of 4.38% (Column F) and the Total Number of Households with Telephone Service (Column B).

TABLE C7

## Video/Broadband Service Revenues Projected by ILECs in Video Dialtone Applications

Section 214 VDT Application	Docket	Premises Passed	Study Period (yrs)	Projected Penetration at End of Study Period	Revenues in Tenth Year of Study Period	Notes	
<b>Ameritech<sup>1</sup></b>							
1	Michigan	WPC-6926	233,000	10	39%	\$37,470,251	
2	Ohio	WPC-6927	263,000	10	39%	\$41,582,260	
3	Indiana	WPC-6928	115,000	10	39%	\$21,202,003	
4	Illinois	WPC-6929	501,000	10	39%	\$74,336,705	
5	Wisconsin	WPC-6930	147,000	10	39%	\$25,614,762	
<b>Bell Atlantic<sup>2,3</sup></b>							
6	NJB-Dover Trial	WPC-6840	38,000	10	35%	\$6,369,000	Year 3 Revenues
7	NJB-Florham Park Trial	WPC-6838	12,000	10	35%	\$742,000	Year 3 Revenues
8	Washington, DC	WPC-6912	1,246,925	10	39%	\$486,729,000	
9	Baltimore, MD	WPC-6966	303,648	10	39%	\$94,052,000	
10	Northern New Jersey	WPC-6966	512,286	10	39%	\$131,637,000	
11	Phil/Delaware Valley	WPC-6966	708,378	10	39%	\$201,670,000	
12	Pittsburgh, PA	WPC-6966	271,942	10	39%	\$86,316,000	
13	Tidewater/Hampton, VA	WPC-6966	169,303	10	39%	\$50,277,330	
<b>GTE<sup>4</sup></b>							
14	Virginia	WPC-6955	147,610	15	31%	\$15,503,000	
15	California	WPC-6957	145,663	15	37%	\$18,295,000	
16	Florida	WPC-6956	554,374	15	34%	\$61,443,000	
17	Hawaii	WPC-6958	522,124	15	30%	\$44,534,000	
<b>NYNEX<sup>5</sup></b>							
18	Rhode Island	WPC-6982	63,000	15	35%	\$7,997,800	
19	Massachusetts	WPC-6983	334,000	15	44%	\$30,285,100	
<b>Pacific<sup>6</sup></b>							
20	Orange County	WPC-6913	210,000	20	50.0%	\$17,038,000	
21	San Francisco	WPC-6914	490,000	20	50.0%	\$39,097,000	
22	Los Angeles	WPC-6915	360,000	20	50.0%	\$28,891,000	
23	San Diego	WPC-6916	250,000	20	50.0%	\$20,001,000	
<b>SNET<sup>7</sup></b>							
24	Expanded Trial	WPC-6858	151,600	10	50.0%	\$3,953,122	
<b>US West<sup>8</sup></b>							
25	Denver, CO	WPC-6919	420,000	10	28.3%	\$30,353,000	
26	Portland, OR	WPC-6921	162,000	10	28.3%	\$11,895,000	
27	Minneapolis/St. Paul, MN	WPC-6922	357,000	10	28.3%	\$26,663,000	
28	Boise, ID	WPC-6944	90,000	10	28.3%	\$6,410,000	
29	Salt Lake City, UT	WPC-6945	160,000	10	28.3%	\$11,750,000	
<b>Total Revenues</b>						<b>\$1,632,107,333</b>	

## Sources:

- (1) Ameritech Ex Parte Response, May 9, 1994, WPC-6927, WPC-6930, WPC-6926, WPC-6928, WPC-6929.
- (2) For NJB Dover and Florham Park Trials: Bell Atlantic NJ Amendment, September 2, 1993, WPC-6840; Bell Atlantic NJ Response to FCC Inquiries, December 23, 1994, WPC-6838; Letter to Geraldine Matise, Chief, Tariff Division, from counsel for Joint Parties, June 7, 1995, Exhibit D-11.
- (3) Bell Atlantic Response, December 16, 1994, WPC-6912 and 6966.
- (4) GTE Response, December 16, 1994, WPC-6955 to 6958.
- (5) NYNEX Response, December 16, 1994, WPC-6982 and 6983.
- (6) Pacific Bell Applications, December 20, 1993, WPC-6913 to 6916.
- (7) SNET Request for Extension and Amendment to Authorization, December 15, 1993, WPC-6858; SNET Transmittal No. 641, Video Dialtone Service, March 9, 1995, Description and Justification and Exhibit 6.
- (8) US West Ex Parte, January 17, 1995, WPC-6919, WPC-6921, WPC-6922, WPC-6944, WPC-6945.

**Imputed Yellow Pages Revenues**

RBHC	State	Dollar Value of Yellow Pages Imputation	Number of Residential Access Lines (1)	Yellow Pages Imputation Per Access Line	
				Annual	Per Month
Ameritech	Illinois	\$126,000,000	4,155,900	\$30.32	\$2.53
	Indiana	\$36,000,000	1,348,200	\$26.70	\$2.23
	Ohio	\$116,400,000	2,510,200	\$46.37	\$3.86
	Wisconsin	\$41,900,000	1,376,900	\$30.43	\$2.54
Bell Atlantic	District of Columbia	\$12,264,000	599,200	\$20.47	\$1.71
Bell South	Florida	\$220,000,000	3,737,300	\$58.87	\$4.91
	Kentucky	\$4,500,000	737,100	\$6.11	\$0.51
	Louisiana	\$4,600,000	1,414,700	\$3.25	\$0.27
	North Carolina	\$28,500,000	1,388,100	\$20.53	\$1.71
	South Carolina	\$6,000,000	870,800	\$6.89	\$0.57
	Tennessee	\$140,000,000	1,620,500	\$86.39	\$7.20
	New York	\$129,400,000	7,333,900	\$17.64	\$1.47
	Vermont	\$7,200,000	209,300	\$34.40	\$2.87
PacTel	California	\$365,400,000	10,575,600	\$34.55	\$2.88
	Nevada	\$10,200,000	193,200	\$52.80	\$4.40
SBC	Missouri	\$40,000,000	1,573,600	\$25.42	\$2.12
	Texas	\$111,466,000	5,534,900	\$20.14	\$1.68
US West	Arizona	\$43,000,000	1,511,300	\$28.45	\$2.37
	Minnesota	\$23,000,000	1,369,900	\$16.79	\$1.40
	Montana	\$3,500,000	220,500	\$15.87	\$1.32
	New Mexico	\$7,700,000	487,900	\$15.78	\$1.32
	Oregon	\$29,000,000	826,000	\$35.11	\$2.93
	Utah	\$26,000,000	615,300	\$42.26	\$3.52
	Washington	\$51,000,000	1,518,300	\$33.59	\$2.80
<b>Total Imputation (for the 25 states listed)</b>		<b>\$1,583,030,000</b>	<b>51,728,600</b>		<b>\$2.46</b>
<b>Average Subsidy (for the 25 states listed)</b>					
<b>Total RBHC Residential Access Lines Nationwide Estimate of National Yellow Pages Net Revenues, Based Upon Imputation (2)</b>			<b>78,296,601</b>		

Notes: (1) Residential Access Lines estimated at 70% of Total RBOC Access Lines, based on ARMIS data for 1994.

(2) National Yellow Pages Net Revenues derived by multiplying national residential access lines by \$2.46, and annualizing the result.

Sources: State Access Lines: FCC ARMIS 43-07 Report, 1994, Table II, Row 120; Total Res. Lines: Preliminary Statistics of Communications Common Carriers, 1995, Table 2.10.

SIMBA Information, Inc., Telecom Deregulation & Yellow Pages, 1996, at pages 32-48.

Washington UTC, Commission Decision and Order Rejecting Tariff Revisions, Fifteenth Supplemental Order, Docket No. UT-950200, April 11, 1996, at page 33.

California PUC, In the Matter of Alternative Regulatory Frameworks for Local Exchange Carriers, Decision No. 89-10-031, October 12, 1989, at pp. 325-326.

Texas PUC, Petition of Southwestern Bell Telephone Company for Authority to Change Rates, Docket No. 6200, Order dated June 26, 1996;

On Rehearing Sept. 24, 1986.

Comments of the People's Counsel on Bell Atlantic - Washington D.C., Inc.'s Response to Requested Information from Hearings on September 19, 1996 in re Formal Case No. 814, Phase IV, October 3, 1996, at p. 2.

Oregon PUC, Order Reducing Rates for Local Exchange Telecommunications Service, UT 85, Order No. 89-1807, December 29, 1989, 110 PUR4th at p. 151.

## Appendix B | **UPDATED EMPIRICAL RESULTS OF THE MAY 30, 1996 "GAP" STUDY**

- Table B1 "Gap" Study Table 1 - Revised  
The majority of current ILEC net plant in service is relatively new.
- Table B2 "Gap" Study Table 2 - Revised  
Over the next few years, the ILECs will have replaced most of their embedded base consisting of older vintage plant.
- Table B3 "Gap" Study Table 5 - Revised  
Demand growth for basic service explains a relatively small fraction of recent ILEC central office and outside plant investment.
- Table B4 "Gap" Study Table 6 - Revised  
A substantial amount of net investment cannot be explained by basic service demand growth.
- "Gap" Study Table 6A - Details  
Outside Plant (O/P) Summary.
- "Gap" Study Table 6B - Details  
Digital Switching (SW) Summary.
- Table B5 "Gap" Study Table 6 - Revised - Projected 1996  
A substantial amount of net investment cannot be explained by basic service demand growth.
- "Gap" Study Table 6A - Details - Projected 1996  
Outside Plant (O/P) Summary.
- "Gap" Study Table 6B - Details - Projected 1996  
Digital Switching (SW) Summary

WORKSHEETS WILL BE PROVIDED UPON REQUEST

## Appendix C

# RESULTS OF ILEC REVENUE OPPORTUNITIES AND MARKET ASSESSMENT ANALYSIS

Table C1 Market-to-Book Value Ratios

Table C2 Market-to-Book Value Ratios  
RBHC's Ratios Adjusted for SFAS 71 Write-offs

Table C3 Market-to-Book Value Ratios  
Gas and Electric Utilities

Table C4 Proposed Premiums Paid by SBC for Pacific Telesis and by Bell  
Atlantic for NYNEX

Table C5 Estimate of RBHC's Over-earnings

Table C6 Recurring Revenues Derived from Additional Residential Access Lines  
in Excess of a 1990 Baseline

Table C7 Video/Broadband Service Revenues Projected by ILECs in Video  
Dialtone Applications

Table C8 Imputed Yellow Pages Revenues

WORKSHEETS WILL BE PROVIDED UPON REQUEST

C

