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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
)  
1997 Annual Access ) CC Docket No. 97-149  
Tariff Filings )  
)

DIRECT CASE OF AMERITECH

Ameritech<sup>1</sup> submits this direct case in response to the Common Carrier Bureau's ("Bureau's") designation order in this proceeding.<sup>2</sup> Attached are exhibits that supply information requested by the Bureau. Specifically:

- Exhibit 1 shows actual BFP revenue requirement by tariff year.
- Exhibit 2 shows actual BFP revenue requirement by calendar year.
- Exhibit 3 shows forecasted BFP revenue requirement by tariff year.
- Exhibit 4 shows BFP revenue requirement adjusted for GSF, SPF, DEM, and OB&C.
- Exhibit 5 contains a description of the methodology used to forecast BFP revenue requirement.
- Exhibit 6 provides a comparison of actual and forecasted BFP revenue requirements.

<sup>1</sup> Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.

<sup>2</sup> *In the Matter of 1997 Annual Access Tariff Filings*, CC Docket No. 97-149, Order Designating Issues For Investigation, Memorandum Opinion and Order on Reconsideration, DA 97-1609 (released July 28, 1997) ("Designation Order").

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- Exhibit 7 contains a comparison of actual and forecasted access lines.
- Exhibit 8 contains a comparison of the Bureau's two forecasting methods with Ameritech's forecast for access lines for the 1997-1998 tariff year.
- Exhibit 9 is a graph of the analysis shown in Exhibit 8.
- Exhibit 10 provides documentation of the equal access cost recovery exogenous change amount.
- Exhibit 11 shows the local switching revenue from the initial price cap filing.

In the Designation Order, the Bureau asked carriers to "explain fully any significant differences" between their projections of BFP revenue requirement and lines and actual results.<sup>3</sup> However, the Bureau's definition of "significant" is such that statistically insignificant differences between forecasts and actual results would require special explanation. For example, if a LEC forecasted a BFP revenue requirement increase of 1.0% but actual results showed that the requirement actually increased by 1.11% -- only eleven one-hundredths of 1% of the total revenue requirement -- the LEC would be required to explain the difference.

The fact that such differences are probably not significant is demonstrated by the fact that the Bureau's own two benchmarks for line forecasts -- trend analyses using the actual number of lines and the natural logarithm of the

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<sup>3</sup> *Id.* at ¶¶17, 31.

number of lines, as reported in ARMIS<sup>4</sup> -- produce growth results that differ by 20% -- twice what the Bureau considers to be "significant."

In determining what is a significant difference, the Bureau should focus not on the difference between the forecasted and actual change but rather on the percentage difference between the forecasted and actual amounts -- e.g., the difference between the forecasted and actual lines or revenue requirement. Thus, assuming base period demand of 20 million access lines, a forecast of 21 million access lines would not differ significantly from an actual next-year result of 20.9 million access lines -- a difference of less than 0.5% of the base -- even though the difference between projected and actual percent change would be 10% -- 5.0% versus 4.5%.

\* \* \*

#### FORECASTING OF BFP REVENUE REQUIREMENT

In the Designation Order, the Bureau sought comments on the method that should be used to calculate BFP revenue requirement.<sup>5</sup> The Bureau offered as possibilities (1) pooling industry data to determine an average industry trend or (2) using individual LEC data on average percentage change or median

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<sup>4</sup> *Id.* at ¶33.

<sup>5</sup> *Id.* at ¶25.

percentage change.<sup>6</sup> However, neither of these methods avoids the need to normalize the data when forecasting, thus raising potential issues of when and how to normalize the data series. Moreover, pooling raises concerns about the need to accommodate company-specific situations and the administrative burden of obtaining industry-wide information in a timely manner.

In the alternative, Ameritech suggests that many problems could be avoided if forecasting were eliminated altogether. In the Access Reform Order, the Commission has determined to implement a mechanism in the future that no longer involves forecasting. Specifically, the Commission has decided that, at the time the multi-line primary interexchange carrier charge ("PICC") no longer recovers common line revenue, the subscriber line charge ("SLC") will be set at the average per line common line revenue permitted by the price cap rules.<sup>7</sup> Line counts would be based on the historical figures. This method could be used today (with modification to account for revenues that are recovered via PICCs). It is clear and simple and would eliminate all controversy associated with forecasting.<sup>8</sup>

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<sup>6</sup> *Id.*

<sup>7</sup> *In the Matter of Access Charge Reform*, CC Docket No. 96-262, First Report and Order, FCC 97-158 (released May 16, 1997) ("Access Reform Order") at ¶102.

<sup>8</sup> In any event, if the Commission decides to retain a forecasting requirement, it should be based on total lines unseparated by class of service.

## EQUAL ACCESS COST RECOVERY EXOGENOUS ADJUSTMENT

In the Access Reform Order, the Commission required an exogenous cost adjustment to account for the termination of the amortization of the non-capitalized portion of equal access costs.<sup>9</sup> Ameritech and other price cap LECs made the adjustment by determining the expenses subject to the special amortization that were included in pre-price cap rates. Ameritech and most other price cap LECs then calculated the expense amount to be removed from the traffic sensitive basket by reducing the amount of equal access expenses by the amount of price cap index ("PCI") change in the traffic sensitive basket between the initiation of price cap regulation and the present time.

AT&T, on the other hand, argued that price cap LECs should be required to adjust their base line equal access costs upward for revenue growth that has occurred since January 1, 1991.<sup>10</sup>

The Bureau has tentatively concluded that a revenue adjustment, as opposed to a PCI adjustment, is a reasonable method for fully removing the amortized equal access costs from current rates.<sup>11</sup>

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<sup>9</sup> Access Reform Order at ¶314.

<sup>10</sup> This, of course, is exactly the opposite of the PCI method advocated by AT&T in its comments in the access reform proceeding. See Comments of AT&T Corp. in CC Docket No. 96-262, filed January 29, 1997, at Appendix F.

<sup>11</sup> Designation Order at ¶41.

In response, Ameritech must reiterate its position that the PCI adjustment method is appropriate.<sup>12</sup> In making an exogenous cost adjustment of this type -- i.e., to remove costs from price cap rates/indexes -- recognition must be given, where appropriate, to the fact that PCIs have already operated to, in effect, remove a substantial portion of the costs that were included in pre-price cap rates. The essence of price cap regulation is to substitute the PCI for an annual examination of a carrier's costs and to assume, via the X-factor, that a certain fraction of a carrier's cost will, or should be, eliminated through a carrier's own efficiency enhancing efforts. In effect, the PCI operates to effectively "squeeze" costs out of a carrier's rates. In other words, a substantial portion of the costs in question that were included in pre-price cap rates have already been eliminated through the operation of the PCI.

It has been argued that the revenue or "R" adjustment involved in an exogenous adjustment of a sharing obligation is an indication of what should be involved in any exogenous cost adjustment. That is not the case. Sharing is different. Sharing clearly involves a specific dollar amount of revenue that must be shared with access customers. When sharing is reversed, care must be taken to ensure that the same amount of revenue is added back to the indexes. Costs, however, are not directly related to revenues -- especially in the price cap regime -- so no "R" adjustment is necessary. However, when costs are to be removed from

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<sup>12</sup> Access Reform Order at ¶302.

PCIs, it would be clearly erroneous not to recognize prior changes in PCI levels that would have naturally affected the costs inherent in the PCI.

Moreover, there is a question as to whether the Bureau could require the use of an "R" adjustment in calculating an exogenous cost change without a formal rule change to that effect.<sup>13</sup> Nonetheless, if the Bureau insists that an "R" adjustment is necessary, none should be required for any revenue growth occurring prior to December 31, 1993, the date of the completion of the amortization. In no other adjustment related to the removal of exogenous costs has the Commission required an "R" adjustment. Since the cost change in this case should not have been made prior to the end of 1993, there would be no basis for requiring any "R" adjustment prior to that time.<sup>14</sup>

\* \* \*

#### THE NON-CAPITALIZED PORTION OF EQUAL ACCESS COSTS

AT&T has claimed that Ameritech failed to compute properly the non-capitalized portion of equal access revenue requirement because Ameritech did not use data contained in the 1990 COS-5 Report. The Commission has asked

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<sup>13</sup> See, *In the Matter of Responsible Accounting Officer Letter 20*, CC Docket No. 96-22, AAD 92-65, Memorandum Opinion and Order, FCC 96-63 (released March 7, 1996) at ¶25.

<sup>14</sup> Moreover, prior to that time -- prior to the elimination of the equal access cost recovery charge, any revenue changes that might be attributable to the inclusion of the amounts in question in rates would occur on a per line basis since that is the basis on which the equal access recovery charge was assessed.

Ameritech to explain and document fully how it used its separations information system data to determine the portion of equal access costs that was amortized.<sup>15</sup>

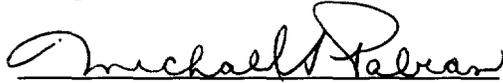
The total equal access cost recovery amount included in Ameritech's pre-price cap rate was based on the total equal access revenue requirement filed as part of Ameritech's 1990 annual access filing and appearing in the COS-5 Report. That report, however, did not have the detail to determine the non-capitalized portion of those costs. Ameritech obtained actual data from its separation system. Exhibit 10 provides detailed documentation of this information and shows that the actual non-capitalized portion was 36% of total equal access costs. While

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<sup>15</sup> Designation Order at ¶45.

AT&T has suggested that Ameritech should derive the percentage by applying assumptions, Ameritech believes that it would ludicrous to speculate when actual data is available.

Respectfully submitted,



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[MSP0059.doc]

## **List of Exhibits**

|                   |                                                                            |
|-------------------|----------------------------------------------------------------------------|
| <b>Exhibit 1</b>  | <b>Actual BFP Revenue Requirement by Tariff Year</b>                       |
| <b>Exhibit 2</b>  | <b>Actual BFP Revenue Requirement by Calendar Year</b>                     |
| <b>Exhibit 3</b>  | <b>Forecasted BFP Revenue Requirement by Tariff Year</b>                   |
| <b>Exhibit 4</b>  | <b>BFP Revenue Requirement Adjusted for GSF, SPF, DEM and OB&amp;C</b>     |
| <b>Exhibit 5</b>  | <b>Description of Methodology Used to Forecast BFP Revenue Requirement</b> |
| <b>Exhibit 6</b>  | <b>Comparison of Actual and Forecasted BFP Revenue Requirements</b>        |
| <b>Exhibit 7</b>  | <b>Comparison of Actual and Forecasted Access Lines</b>                    |
| <b>Exhibit 8</b>  | <b>Regression Analysis of Access Lines</b>                                 |
| <b>Exhibit 9</b>  | <b>Graph of Regression Analysis Results</b>                                |
| <b>Exhibit 10</b> | <b>Documentation of Equal Access Cost Recovery Exogenous Development</b>   |
| <b>Exhibit 11</b> | <b>Local Switching Revenue in Initial Price Cap Filing</b>                 |

**Ameritech**  
**BFP Revenue Requirements**  
**Tariff Year Basis**  
**(\$000)**

| ARMIS 43-01 |                                                                   | 1991/92   | 1992/93   | 1993/94   | 1994/95   | 1995/96   | 1996/97   |
|-------------|-------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Row         |                                                                   |           |           |           |           |           |           |
| 1020        | BFP Revenue Requirement L 1190+1490+1590+1915+1060-1040-1290+1390 | 787,187   | 820,991   | 952,858   | 1,037,718 | 1,022,699 | 1,033,471 |
| 1040        | Miscellaneous Rev Note 1                                          | 4,661     | 6,671     | 7,331     | 1,866     | 3,418     | 3,765     |
| 1060        | Uncollectible Rev Note 1                                          | 8,256     | 7,014     | 9,266     | 11,160    | 11,252    | 8,756     |
| 1090        | Net Revenues L 1020+1040-1060                                     | 783,591   | 820,648   | 950,923   | 1,028,424 | 1,014,865 | 1,028,479 |
| 1190        | Total Operating Expenses                                          | 537,586   | 564,763   | 657,817   | 734,435   | 729,000   | 736,955   |
| 1290        | Other Operating Expenses                                          | (457)     | (153)     | 265       | (74)      | (578)     | (364)     |
| 1390        | Total Non-Operating Items                                         | 1,261     | 1,293     | 1,951     | 1,646     | 157       | 221       |
| 1490        | Total Other Taxes Note 1                                          | 50,754    | 51,093    | 58,118    | 61,753    | 53,579    | 57,249    |
| 1510        | Fixed Charges                                                     | 36,888    | 39,076    | 40,790    | 46,431    | 48,679    | 49,422    |
| 1520        | IRS Income Adjustment                                             | (4,699)   | (2,919)   | 366       | (8)       | (1,305)   | (394)     |
| 1530        | FCC Taxable Income Adjs                                           | 385       | 342       | 391       | 918       | 1,646     | 1,207     |
| 1540        | ITC Amortization                                                  | 6,502     | 6,833     | 8,163     | 5,175     | 3,775     | 4,739     |
| 1550        | FCC ITC Adjustment                                                | -         | -         | -         | -         | -         | -         |
| 1590        | Net FIT L ((1915-1510+1520+1530-1540-1550)*.35/.65)-1540-1550     | 46,814    | 49,759    | 59,481    | 59,573    | 60,349    | 60,040    |
| 1690        | Total Plant in Service                                            | 2,488,447 | 2,680,241 | 3,130,441 | 3,246,920 | 3,439,460 | 3,657,522 |
| 1790        | Total Other Investment                                            | 12,114    | 33,378    | 39,949    | 58,337    | 96,506    | 101,232   |
| 1890        | Total Reserves                                                    | 1,196,388 | 1,348,409 | 1,625,317 | 1,785,768 | 2,014,177 | 2,215,190 |
| 1910        | Average Net Investment L 1690+1790-1890                           | 1,304,173 | 1,365,210 | 1,545,073 | 1,519,489 | 1,521,789 | 1,543,565 |
| 1915        | Net Return L 1910 * 11.25%                                        | 146,719   | 153,586   | 173,821   | 170,942   | 171,201   | 173,651   |

Note 1: Allocated using Total Operating Expense (BFP) divided by Total Operating Expense (Total Common Line)

**Ameritech**  
**BFP Revenue Requirements**  
**Calendar Year Basis**  
**(\$000)**

| ARMIS 43-01 |                                                                   | 1991      | 1992      | 1993      | 1994      | 1995      | 1996      |
|-------------|-------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Row         |                                                                   |           |           |           |           |           |           |
| 1020        | BFP Revenue Requirement L 1190+1490+1590+1915+1060-1040-1290+1390 | 757,920   | 809,863   | 880,691   | 1,045,371 | 975,226   | 1,032,269 |
| 1040        | Miscellaneous Rev Note 1                                          | 4,793     | 5,619     | 7,650     | 2,590     | 3,825     | 3,838     |
| 1060        | Uncollectible Rev Note 1                                          | 8,072     | 6,404     | 8,961     | 12,331    | 7,735     | 14,314    |
| 1090        | Net Revenues L 1020+1040-1060                                     | 754,641   | 809,079   | 879,380   | 1,035,630 | 971,316   | 1,021,793 |
| 1190        | Total Operating Expenses                                          | 519,061   | 556,924   | 604,424   | 738,709   | 683,705   | 732,451   |
| 1290        | Other Oper Income/Loss                                            | (126)     | (513)     | 227       | 24        | (497)     | (390)     |
| 1390        | Total Non-Operating Items                                         | 1,253     | 1,192     | 1,900     | 1,547     | 1,076     | (303)     |
| 1490        | Total Other Taxes Note 1                                          | 48,861    | 49,837    | 56,790    | 59,725    | 57,125    | 56,519    |
| 1510        | Fixed Charges                                                     | 36,723    | 36,846    | 41,599    | 41,314    | 49,104    | 49,092    |
| 1520        | IRS Income Adjustments                                            | (5,325)   | (3,742)   | (300)     | (553)     | (789)     | (1,749)   |
| 1530        | FCC Taxable Income Adjs                                           | 453       | 307       | 393       | 452       | 1,637     | 1,194     |
| 1540        | ITC Amortization                                                  | 6,826     | 6,335     | 8,575     | 6,270     | 4,052     | 4,739     |
| 1550        | FCC ITC Adjustment                                                | -         | -         | -         | -         | -         | -         |
| 1590        | Net FIT L ((1915-1510+1520+1530-1540-1550)*.35/.65)-1540-1550     | 43,485    | 49,781    | 52,670    | 61,720    | 59,178    | 59,342    |
| 1690        | Total Plant in Service                                            | 2,392,772 | 2,584,338 | 2,903,905 | 3,207,406 | 3,317,022 | 3,568,838 |
| 1790        | Total Other Investment                                            | 5,955     | 22,792    | 39,409    | 43,052    | 83,927    | 95,740    |
| 1890        | Total Reserves                                                    | 1,137,792 | 1,266,403 | 1,487,114 | 1,704,212 | 1,892,189 | 2,123,299 |
| 1910        | Average Net Investment L 1690+1790-1890                           | 1,260,935 | 1,340,727 | 1,456,200 | 1,546,246 | 1,508,760 | 1,541,279 |
| 1915        | Net Return L 1910 * 11.25%                                        | 141,855   | 150,832   | 163,823   | 173,953   | 169,736   | 173,394   |

Note 1: Allocated using Total Operating Expense (BFP) divided by Total Operating Expense (Total Common Line)

**Ameritech**  
**Forecasted BFP Revenue Requirement**  
**Tariff Years 1991 - 1997**

| Tariff Year  | 1991/92            | 1992/93            | 1993/94            | 1994/95              | 1995/96              | 1996/97              |
|--------------|--------------------|--------------------|--------------------|----------------------|----------------------|----------------------|
| Illinois     | 218,814,558        | 210,555,548        | 226,108,700        | 278,613,745          | 280,084,785          | 300,795,068          |
| Indiana      | 90,588,059         | 96,175,737         | 97,086,456         | 118,030,702          | 123,657,889          | 136,036,415          |
| Michigan     | 190,827,976        | 199,561,112        | 242,028,952        | 285,991,826          | 289,157,070          | 311,087,920          |
| Ohio         | 155,011,344        | 165,077,528        | 173,773,855        | 210,242,768          | 219,192,603          | 239,861,579          |
| Wisconsin    | 80,503,902         | 86,536,481         | 94,825,035         | 113,333,774          | 115,933,520          | 118,929,777          |
| <b>Total</b> | <b>735,745,839</b> | <b>757,906,406</b> | <b>833,822,998</b> | <b>1,006,212,815</b> | <b>1,028,025,867</b> | <b>1,106,710,759</b> |

## Sources:

Tariff Year 1991/92, Transmittal 525, Exhibit 5  
Tariff Year 1992/93, Transmittal 617, Exhibit 9  
Tariff Year 1993/94, Transmittal 702, Exhibit 12  
Tariff Year 1994/95, Transmittal 787, Exhibit 10  
Tariff Year 1995/96, Transmittal 882, Exhibit 9  
Tariff Year 1996/97, Transmittal 961, Exhibit 7

## **Adjusted BFP Revenue Requirement**

Exhibit 4 displays actual and adjusted (adjusted for SPF, DEM, OB&C and GSF) BFP revenue requirement for calendar years 1991-1996 and its year-over-year change.

1994 has the greatest increase in BFP revenue requirement due to the Ameritech Pension Plan Enhancement Program (APPEP). The program added three years to age and net credited service for purposes of pension calculation for non-management employees. These additional restructuring costs were recognized in 1994. Approximately 11,500 employees left under the provisions of this plan. Additionally, a curtailment loss is incurred because the regulatory (MR) adoption of SFAS 106 (Other post-retirement benefits) required the amortization of the obligation over 18 years whereas for external reporting (FR) the obligation was immediately expensed. In the case of a plan curtailment such as APPEP, SFAS 106 requires the accelerated recognition of any remaining unrecognized transition obligation (TBO) associated with future service no longer expected to be rendered.

1995 has the greatest decrease in BFP revenue requirement, which reflects the lower expenses for Ameritech as a result of the significant number of employees who retired under the provisions of the 1994 retirement program. Additionally, Ameritech continued to recognize pension settlement gains arising from lump sum cash payments made to plan participants.

**Ameritech**  
**Adjusted BFP Revenue Requirements**

**Series 1**

|                            | 1991      | 1992      | 1993      | 1994        | 1995       | 1996        |
|----------------------------|-----------|-----------|-----------|-------------|------------|-------------|
| <b>REVENUE REQUIREMENT</b> | \$757,920 | \$809,863 | \$880,691 | \$1,045,371 | \$975,226  | \$1,032,269 |
| <b>DIFFERENCE BY YEAR</b>  |           | \$51,943  | \$70,828  | \$164,680   | (\$70,145) | \$57,043    |
| <b>% CHANGE BY YEAR</b>    |           | 6.85%     | 8.75%     | 18.70%      | (6.71%)    | 5.85%       |
| <b>SPF</b>                 | \$13,289  | \$6,597   | \$0       | \$0         | \$0        | \$0         |
| <b>DEM</b>                 | \$905     | \$276     | \$0       | \$0         | \$0        | \$0         |
| <b>O B &amp; C *</b>       | \$0       | \$0       | \$0       | \$0         | \$0        | \$0         |
| <b>GSF</b>                 | \$120,699 | \$120,699 | \$60,350  | \$0         | \$0        | \$0         |
| <b>ADJ. REV REQ</b>        | \$892,813 | \$937,435 | \$941,041 | \$1,045,371 | \$975,226  | \$1,032,269 |
| <b>DIFFERENCE BY YEAR</b>  |           | \$44,622  | \$3,606   | \$104,330   | (\$70,145) | \$57,043    |
| <b>% CHANGE BY YEAR</b>    |           | 5.00%     | 0.38%     | 11.09%      | (6.71%)    | 5.85%       |

\* Ameritech has used the 5 % allocation for the revenue accounting of Other Billing and Collection for this entire period therefore no adjustment is required.

**Notes:**

SPF and DEM data is from the 1992 Annual Filing , Transmittal 617 (effective 7/1/92) Exhibit EXG 1 and the 1993 Annual Filing, Transmittal 702 (effective 7/2/93) Exhibit EXG 1.

GSF data from Transmittal 717, Exhibit 19 (effective 7/2/93) which was adjusted for BFP portion. Adjustment made using state specific ARMIS 43-01 data 1994-1996, Line 1620, from which a composite allocator of 96.2% was developed.

Series 2 as described in the Order is not required because Ameritech never included Account 4310 in its rate base. There were no other adjustments in this period related to rule changes.

### Ameritech's Line Forecasting Methods for Computation of EUCL

Ameritech based the forecasts of lines for EUCL on historical growth. Separate growth rates were computed for residence lines, single business lines, and multiline business lines for each state. The growth rate was calculated by dividing the current year's average monthly lines with the base year's monthly average lines. This ratio was taken to the root of the number of year's between the current year and the base year. The forecast was made by raising this ratio to the 1.5 power to reflect the difference in years between the base period and the forecast period.

The following formula was used to estimate the growth rate:

$$gr = \sqrt[n]{\frac{Lines_{i-n}}{Lines_i}} - 1$$

where  $gr$  = growth rate by state by class of lines

$i$  = the year of latest data

$n$  = number of years between the base period and the latest data and

$Lines_i$  = the number of lines for latest year  $i$  for the state and class of lines.

The number of lines is forecast by the following formula:

$$F \text{ lines} = (gr)^{1.5} \times Lines_i$$

where  $F \text{ lines}$  is the forecasted lines for the class and state

$gr$  is associated growth rate estimated above and

$Lines_i$  = is number of lines for the latest year  $i$  for the state and class of lines.

In the forecast of the 1997/1998 tariff year the base period was 1991. Two adjustment were made to the historical estimation. First, since ISDN prime lines were being counted at one per service to five, the number of ISDN lines times five was added to the total. Also, payphone lines were being charged a EUCL and the number of payphone lines were added.

The computations for the tariff years 1995-1996 and 1996-97 were identical using the same 1991 base period.

### Ameritech's BFP Forecasting Method for Computation of EUCL

Ameritech based the forecast of BFP revenue requirement on the growth of BFP expense using the same method as lines by state. The growth rate was determined from the current year divided by the base year BFP taken the root of the number of years in between. This growth rate was applied to the calendar year 1996 BFP to the 1.5 power to estimate the 1997/1998 tariff year. The computation for the 1996/1997 tariff year was identical including the base period of 1991 except that the BFP was grown by one year. This revision was made to better reflect the growing of the calendar year 1996 BFP to tariff year 1997/1998, which occurs a year and one-half after. The forecast of the 1995/1996 tariff year was the same as the 1996/1997 including the base period of 1991.

The following formula was used to estimate the growth rate:

$$gr = \sqrt[n]{\frac{BFP_{i-n}}{BFP_i}} - 1$$

where  $gr$  = growth rate by state

$i$  = the year of latest data

$n$  = number of years between the base period and the latest data and

$BFP_i$  = the BFP expense for latest year  $i$  for the state.

The BFP revenue requirement is forecast by the following formula:

$$FBFP = (gr)^{1.5} \times BFP_i$$

where  $FBFP$  is the forecasted BFP revenue requirement by state

$gr$  is associated growth rate estimated above and

$BFP_i$  = is BFP revenue requirement for the latest year  $i$  for the state.

The 1997/1998 tariff year BFP revenue requirement was adjusted for payphone revenue requirement.

**Ameritech**  
**Worksheet for Computation of 1997-1998 EUCL**

| <u>Line No.</u>                     |                  |                                     | <u>Residence<br/>Single Lines</u> | <u>Business<br/>Single Lines</u> | <u>Multiline<br/>Business</u> | <u>Total<br/>Lines</u> |
|-------------------------------------|------------------|-------------------------------------|-----------------------------------|----------------------------------|-------------------------------|------------------------|
| <b>Illinois</b>                     |                  |                                     |                                   |                                  |                               |                        |
| 1                                   | Monthly Ave 1991 | Company Data                        | 3,413,987                         | 181,306                          | 1,539,138                     | 5,134,431              |
| 2                                   | Monthly Ave 1996 | Company Data                        | 3,819,197                         | 257,965                          | 2,086,173                     | 6,163,335              |
| 3                                   | Payphone         | Exhibit 5, page 4                   |                                   |                                  | 56,817                        |                        |
| 4                                   | ISDN Prime       | Company Data                        |                                   |                                  | 10,923                        |                        |
| 5                                   | 96/91 Growth     | $\sqrt[5]{L1/L2} - 1.0$             | 2.27                              | 7.31                             | 6.27                          |                        |
| 6                                   | Forecast         | $(1+L5)^{1.5} * L2 + L3 + L4 * 4/5$ | 3,949,891                         | 286,751                          | 2,351,008                     | 6,587,650              |
| <b>Indiana</b>                      |                  |                                     |                                   |                                  |                               |                        |
| 1                                   | Monthly Ave 1991 | Company Data                        | 1,168,683                         | 41,396                           | 405,884                       | 1,615,963              |
| 2                                   | Monthly Ave 1996 | Company Data                        | 1,330,423                         | 43,600                           | 614,340                       | 1,988,363              |
| 3                                   | Payphone         | Exhibit 5, page 4                   |                                   |                                  | 20,863                        |                        |
| 4                                   | ISDN Prime       | Company Data                        |                                   |                                  | 1,946                         |                        |
| 5                                   | 96/91 Growth     | $\sqrt[5]{L1/L2} - 1.0$             | 2.63                              | 1.04                             | 8.64                          |                        |
| 6                                   | Forecast         | $(1+L5)^{1.5} * L2 + L3 + L4 * 4/5$ | 1,383,177                         | 44,284                           | 718,102                       | 2,145,562              |
| <b>Michigan</b>                     |                  |                                     |                                   |                                  |                               |                        |
| 1                                   | Monthly Ave 1991 | Company Data                        | 2,923,647                         | 211,421                          | 999,732                       | 4,134,800              |
| 2                                   | Monthly Ave 1996 | Company Data                        | 3,234,656                         | 211,748                          | 1,422,429                     | 4,868,833              |
| 3                                   | Payphone         | Exhibit 5, page 4                   |                                   |                                  | 52,707                        |                        |
| 4                                   | ISDN Prime       | Company Data                        |                                   |                                  | 3,285                         |                        |
| 5                                   | 96/91 Growth     | $\sqrt[5]{L1/L2} - 1.0$             | 2.04                              | 0.03                             | 7.31                          |                        |
| 6                                   | Forecast         | $(1+L5)^{1.5} * L2 + L3 + L4 * 4/5$ | 3,334,256                         | 211,847                          | 1,636,490                     | 5,182,593              |
| <b>Ohio</b>                         |                  |                                     |                                   |                                  |                               |                        |
| 1                                   | Monthly Ave 1991 | Company Data                        | 2,341,327                         | 162,749                          | 673,525                       | 3,177,601              |
| 2                                   | Monthly Ave 1996 | Company Data                        | 2,555,792                         | 155,911                          | 997,709                       | 3,709,412              |
| 3                                   | Payphone         | Exhibit 5, page 4                   |                                   |                                  | 33,474                        |                        |
| 4                                   | ISDN Prime       | Company Data                        |                                   |                                  | 5,185                         |                        |
| 5                                   | 96/91 Growth     | $\sqrt[5]{L1/L2} - 1.0$             | 1.77                              | (0.85)                           | 8.18                          |                        |
| 6                                   | Forecast         | $(1+L5)^{1.5} * L2 + L3 + L4 * 4/5$ | 2,623,883                         | 153,916                          | 1,160,155                     | 3,937,954              |
| <b>Wisconsin</b>                    |                  |                                     |                                   |                                  |                               |                        |
| 1                                   | Monthly Ave 1991 | Company Data                        | 1,220,457                         | 44,490                           | 421,278                       | 1,686,225              |
| 2                                   | Monthly Ave 1996 | Company Data                        | 1,361,022                         | 46,312                           | 612,844                       | 2,020,178              |
| 3                                   | Payphone         | Exhibit 5, page 4                   |                                   |                                  | 16,952                        |                        |
| 4                                   | ISDN Prime       | Company Data                        |                                   |                                  | 2,182                         |                        |
| 5                                   | 96/91 Growth     | $\sqrt[5]{L1/L2} - 1.0$             | 2.20                              | 0.81                             | 7.78                          |                        |
| 6                                   | Forecast         | $(1+L5)^{1.5} * L2 + L3 + L4 * 4/5$ | 1,406,268                         | 46,873                           | 704,476                       | 2,157,618              |
| Total without Payphone & ISDN Prime |                  |                                     |                                   |                                  |                               | 19,807,042             |

**Ameritech**  
**Worksheet for Computation of 1997-1998 EUCL**

**Ameritech Payphone Lines**

|           | 1995 Total | 1996 Total | % change Yr/Yr | Forecasted 199<br>Monthly |
|-----------|------------|------------|----------------|---------------------------|
|           | (a)        | (b)        | (c)            | (d)                       |
|           |            |            | (b)/(a)        | (b)*(c)^1.5/12            |
| Illinois  | 763,551    | 729,739    | 0.9557         | 56,817                    |
| Indiana   | 259,156    | 255,598    | 0.9863         | 20,863                    |
| Michigan  | 692,759    | 667,987    | 0.9642         | 52,707                    |
| Ohio      | 438,648    | 423,475    | 0.9654         | 33,474                    |
| Wisconsin | 241,973    | 225,744    | 0.9329         | 16,952                    |
| Total     | 2,396,087  | 2,302,543  |                | 180,813                   |

Semi public and COCOTS have been excluded since they are already assessed a multiline SLC.

Source:

Cols (a) & (b), Ameritech ANSIRS System

**Ameritech**  
**Worksheet for Computation of 1997-1998 EUCL**

**Computation of BFP Revenue Requirement**

| <u>Line No.</u> |                       |                         | <u>Illinois</u> | <u>Indiana</u> | <u>Michigan</u> | <u>Ohio</u> | <u>Wisconsin</u> | <u>Ameritech</u><br><u>Total</u> |
|-----------------|-----------------------|-------------------------|-----------------|----------------|-----------------|-------------|------------------|----------------------------------|
| 1               | <b>91 Expense</b>     | ARMIS 43-01 (k)         | 148,430,000     | 66,046,000     | 132,162,000     | 113,017,000 | 59,406,000       | 519,061,000                      |
| 2               | <b>96 Expense</b>     | ARMIS 43-01 (k)         | 240,396,000     | 82,636,000     | 184,340,000     | 150,548,000 | 74,531,000       | 732,451,000                      |
| 3               | <b>Growth</b>         | $\sqrt[5]{L1/L2} - 1.0$ | 10.12           | 4.58           | 6.88            | 5.90        | 4.64             |                                  |
| 4               | <b>96 BFP Rev Req</b> | Ameritech SIS-PC        | 321,497,000     | 113,321,000    | 256,353,000     | 203,073,000 | 103,675,000      | 997,919,000                      |
| 5               | <b>Forecast</b>       | $(1+L4)^{1.5} \cdot L4$ | 371,534,023     | 121,201,286    | 283,264,597     | 221,315,356 | 110,975,225      | 1,108,290,487                    |

**Ameritech**  
**Worksheet for Computation of 1997-1998 EUCL**

**Payphone Revenue Requirement**

|              | 1995 Calendar Year |                   |                  | 1996 Calendar Year |                   |                  | Growth in                    | 1997/1998        |
|--------------|--------------------|-------------------|------------------|--------------------|-------------------|------------------|------------------------------|------------------|
|              | <u>Total Pay</u>   | <u>Pay Set</u>    | <u>Loop</u>      | <u>Total Pay</u>   | <u>Pay Set</u>    | <u>Loop</u>      | <u>Loop Rev Req</u>          | <u>Forecast</u>  |
|              | (a)                | (b)               | (c)              | (d)                | (e)               | (f)              | (g)=(f)/(c) <sup>18/12</sup> | (f)*(g)          |
| Illinois     | 10,557,000         | 7,936,000         | 2,621,000        | 7,982,000          | 5,305,000         | 2,677,000        | 1.0322                       | 2,763,251        |
| Indiana      | 3,493,000          | 2,402,000         | 1,091,000        | 2,916,000          | 1,886,000         | 1,030,000        | 0.9173                       | 944,835          |
| Michigan     | 9,715,000          | 6,818,000         | 2,897,000        | 9,482,000          | 6,356,000         | 3,126,000        | 1.1209                       | 3,503,884        |
| Ohio         | 7,876,000          | 5,979,000         | 1,897,000        | 7,056,000          | 5,136,000         | 1,920,000        | 1.0182                       | 1,955,024        |
| Wisconsin    | 4,109,000          | 3,179,000         | 930,000          | 3,291,000          | 2,428,000         | 863,000          | 0.8939                       | 771,441          |
| <b>Total</b> | <b>35,750,000</b>  | <b>26,314,000</b> | <b>9,436,000</b> | <b>30,727,000</b>  | <b>21,111,000</b> | <b>9,616,000</b> | <b>1.0287</b>                | <b>9,892,459</b> |

## **Comparison of Forecasted to Actual BFP Revenue Requirements**

Exhibit 6 displays the comparison of forecasted BFP revenue requirement to actual BFP revenue requirement in dollars and in percentage growth.

For tariff years 1991/1992 and 1992/1993, the BFP revenue requirement forecast was lower than actual tariff year due to changes in the FCC rules regarding the Subscriber Plant Factor (SPF) and Dial Equipment Minutes (DEM). The rule changes modified the factor calculations and assigned more to the interstate jurisdiction.

The tariff year 1993/1994 forecast was lower than the actual tariff year revenue requirement due to changes in the FCC rules regarding General Support Facilities (GSF) allocation. This was a mid-year change which caused a greater allocation to the interstate jurisdiction.

The tariff year 1994/1995 forecast had additional expenses in the last half of 1994 which was partly offset by lower expenses in 1995 related to the Ameritech Pension Plan Enhancement Program (APPEP) discussed in Exhibit 4.

The 1995/1996 actuals had lower expenses than the normal growth as a residual of the 1994 APPEP.

The 1996/1997 tariff year actual BFP revenue requirement was lower than the forecast due to the removal of the payphone from the regulated phone business.

**Ameritech**  
**Comparison of Forecasted and Actual BFP Revenue Requirement**

|                | Base period<br>Actual<br>(a) | Tariff Year<br>Forecast<br>(b) | Tariff Year<br>Actual<br>(c) | Forecast -<br>Actual<br>(d)<br>(b) - (c) | Forecast<br>Growth<br>(e)<br>(b)/(a)-1 | Actual<br>Growth<br>(f)<br>(c)/(a)-1 | FCC<br>Accuracy<br>(g)<br>((e)-(f))/(f) | %<br>Difference<br>(h)<br>(d)/(c) |
|----------------|------------------------------|--------------------------------|------------------------------|------------------------------------------|----------------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------|
| <b>1991-92</b> |                              |                                |                              |                                          |                                        |                                      |                                         |                                   |
| BFP            | #N/A                         | \$735,746                      | \$787,187                    | (\$51,441)                               | #N/A                                   | #N/A                                 | #N/A                                    | (6.53%)                           |
| BFP/Line       | #N/A                         | \$3.83                         | \$4.13                       | (\$0.30)                                 | #N/A                                   | #N/A                                 | #N/A                                    | (7.15%)                           |
| <b>1992-93</b> |                              |                                |                              |                                          |                                        |                                      |                                         |                                   |
| BFP            | \$757,920                    | \$757,906                      | \$820,991                    | (\$63,085)                               | (0.00%)                                | 8.32%                                | (100%)                                  | (7.68%)                           |
| BFP/Line       | \$4.02                       | \$3.88                         | \$4.20                       | (\$0.32)                                 | (3.51%)                                | 4.48%                                | #N/A                                    | (7.65%)                           |
| <b>1993-94</b> |                              |                                |                              |                                          |                                        |                                      |                                         |                                   |
| BFP            | \$809,863                    | \$833,823                      | \$952,858                    | (\$119,035)                              | 2.96%                                  | 17.66%                               | (83%)                                   | (12.49%)                          |
| BFP/Line       | \$4.20                       | \$4.16                         | \$4.67                       | (\$0.51)                                 | (0.94%)                                | 11.10%                               | #N/A                                    | (10.84%)                          |
| <b>1994-95</b> |                              |                                |                              |                                          |                                        |                                      |                                         |                                   |
| BFP            | \$880,691                    | \$1,006,213                    | \$1,037,718                  | (\$31,505)                               | 14.25%                                 | 17.83%                               | (20%)                                   | (3.04%)                           |
| BFP/Line       | \$4.41                       | \$4.84                         | \$4.90                       | (\$0.06)                                 | 9.70%                                  | 11.15%                               | #N/A                                    | (1.30%)                           |
| <b>1995-96</b> |                              |                                |                              |                                          |                                        |                                      |                                         |                                   |
| BFP            | \$1,045,371                  | \$1,028,026                    | \$1,022,699                  | \$5,327                                  | (1.66%)                                | (2.17%)                              | (23%)                                   | 0.52%                             |
| BFP/Line       | \$5.02                       | \$4.85                         | \$4.64                       | \$0.21                                   | (3.50%)                                | (7.62%)                              | #N/A                                    | 4.46%                             |
| <b>1996-97</b> |                              |                                |                              |                                          |                                        |                                      |                                         |                                   |
| BFP            | \$975,226                    | \$1,106,711                    | \$1,033,471                  | \$73,240                                 | 13.48%                                 | 5.97%                                | 126%                                    | 7.09%                             |
| BFP/Line       | \$4.52                       | \$4.86                         | \$4.53                       | \$0.33                                   | 7.47%                                  | 0.18%                                | #N/A                                    | 7.28%                             |

BFP dollars in thousands

Sources:

Col (a), See Exhibit 2

Col (b), See Exhibit 3

Col (c), See Exhibit 1

Note: The BFP revenue requirement forecast would be increased by \$1,985,000 to reflect the OB&C filing (Letter to FCC dated May 1, 1997) in which an exogenous change of \$2,066,000 was made to the Common Line basket. 96.1% of the exogenous change reflects the BFP portion.

## **Comparison of Ameritech's Forecast of Lines with Actuals**

Exhibit 7 displays the comparison of Ameritech's line forecast with the actual line count on a tariff year basis.

Ameritech's 1991/1992 tariff year forecasts were low in each category of lines since lines grew less than the historical average. However, the difference between forecast and actual for total company lines is only .66%.

Ameritech's 1992/1993 tariff year forecasts were consistent with the actual values, differing by only 0.04% in total. Single line business remained below trend, residence lines were slightly above forecast, and multiline business lines were slightly below forecast.

The 1993/1994 tariff year began a period of higher growth and the actual lines outpaced the forecast in all categories. In the beginning of 1993, Ameritech formed business units to market to various segments of the local market. This restructure was a factor in stimulating line growth. This increased growth continued into the 1994-95 tariff year and the growth continued to outpace the forecasts in every category. Some of the increased growth is due to an increase in fax machines, computer modems, home office usage and internet usage.

In the 1995/1996 tariff year, single business line growth started to drop and actual line count was below the forecast. The residence lines forecast was under-estimated primarily in Ohio. This also impacted the total company line forecast which was too low. The multiline business category continued its high growth and actuals exceeded the forecast.

Actual total company lines for 1995/1996 tariff year were above the forecast driven by the fact that the forecasts for residence and multiline categories, were too low. This was partially offset by the single business lines being over estimated.

The 1996/1997 forecasts were highly accurate within 0.18% on a total basis. Residence and multiline lines were above forecast and business single lines were below forecast.

**Ameritech**  
**Comparison of Forecasted and Actual Access Lines**

Exhibit 7  
Page 2 of 3

|                | Base period<br>Actual<br>(a) | Tariff Year<br>Forecast<br>(b) | Tariff Year<br>Actual<br>(c) | Forecast -<br>Actual<br>(d)<br>(b)-(c) | Forecast<br>Growth<br>(e)<br>(b)/(a)-1 | Actual<br>Growth<br>(f)<br>(c)/(a)-1 | FCC<br>Accuracy<br>(g)<br>((e)-(f))/(f) | %<br>Difference<br>(h)<br>(d)/(c) |
|----------------|------------------------------|--------------------------------|------------------------------|----------------------------------------|----------------------------------------|--------------------------------------|-----------------------------------------|-----------------------------------|
| <b>1991-92</b> |                              |                                |                              |                                        |                                        |                                      |                                         |                                   |
| Bus Single     | 643,996                      | 656,071                        | 641,764                      | 14,307                                 | 1.88%                                  | (0.35%)                              | (641%)                                  | 2.23%                             |
| Residence      | 11,028,583                   | 11,161,758                     | 11,134,804                   | 26,954                                 | 1.21%                                  | 0.96%                                | 25%                                     | 0.24%                             |
| Multiline      | 3,784,044                    | 4,180,439                      | 4,116,110                    | 64,329                                 | 10.48%                                 | 8.78%                                | 19%                                     | 1.56%                             |
| Total          | 15,605,221                   | 15,998,268                     | 15,892,679                   | 105,589                                | 2.52%                                  | 1.84%                                | 37%                                     | 0.66%                             |
| <b>1992-93</b> |                              |                                |                              |                                        |                                        |                                      |                                         |                                   |
| Bus Single     | 639,607                      | 645,295                        | 641,945                      | 3,350                                  | 0.89%                                  | 0.37%                                | 143%                                    | 0.52%                             |
| Residence      | 11,119,618                   | 11,274,617                     | 11,307,537                   | (32,920)                               | 1.39%                                  | 1.69%                                | (18%)                                   | (0.29%)                           |
| Multiline      | 4,127,887                    | 4,369,999                      | 4,346,273                    | 23,726                                 | 5.87%                                  | 5.29%                                | 11%                                     | 0.55%                             |
| Total          | 15,890,733                   | 16,289,911                     | 16,295,755                   | (5,844)                                | 2.51%                                  | 2.55%                                | (1%)                                    | (0.04%)                           |
| <b>1993-94</b> |                              |                                |                              |                                        |                                        |                                      |                                         |                                   |
| Bus Single     | 643,743                      | 646,678                        | 653,427                      | (6,749)                                | 0.46%                                  | 1.50%                                | (70%)                                   | (1.03%)                           |
| Residence      | 11,321,249                   | 11,452,615                     | 11,598,150                   | (145,535)                              | 1.16%                                  | 2.45%                                | (53%)                                   | (1.25%)                           |
| Multiline      | 4,357,544                    | 4,599,477                      | 4,762,073                    | (162,596)                              | 5.55%                                  | 9.28%                                | (40%)                                   | (3.41%)                           |
| Total          | 16,325,620                   | 16,698,770                     | 17,013,650                   | (314,880)                              | 2.29%                                  | 4.21%                                | (46%)                                   | (1.85%)                           |
| <b>1994-95</b> |                              |                                |                              |                                        |                                        |                                      |                                         |                                   |
| Bus Single     | 641,308                      | 643,080                        | 751,552                      | (108,472)                              | 0.28%                                  | 17.19%                               | (98%)                                   | (14.43%)                          |
| Residence      | 11,617,065                   | 11,712,902                     | 11,820,083                   | (107,181)                              | 0.82%                                  | 1.75%                                | (53%)                                   | (0.91%)                           |
| Multiline      | 4,726,972                    | 4,972,888                      | 5,066,603                    | (93,715)                               | 5.20%                                  | 7.18%                                | (28%)                                   | (1.85%)                           |
| Total          | 16,988,044                   | 17,328,870                     | 17,638,239                   | (309,369)                              | 2.01%                                  | 3.83%                                | (48%)                                   | (1.75%)                           |
| <b>1995-96</b> |                              |                                |                              |                                        |                                        |                                      |                                         |                                   |
| Bus Single     | 854,106                      | 833,482                        | 727,824                      | 105,658                                | (2.41%)                                | (14.79%)                             | (84%)                                   | 14.52%                            |
| Residence      | 11,786,918                   | 11,705,088                     | 12,146,628                   | (441,540)                              | (0.69%)                                | 3.05%                                | (123%)                                  | (3.64%)                           |
| Multiline      | 4,952,240                    | 5,139,397                      | 5,495,511                    | (356,114)                              | 3.78%                                  | 10.97%                               | (66%)                                   | (6.48%)                           |
| Total          | 17,596,222                   | 17,677,967                     | 18,369,963                   | (691,996)                              | 0.46%                                  | 4.40%                                | (89%)                                   | (3.77%)                           |