

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

RECEIVED

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

FCC STAFF
REQUEST OF:

Verizon Virginia (Transcript p. 3375)

DATED:

October 23, 2001

REQUEST:

Do the actual, physical ages of any of Verizon VA's in-service record request assets, on average, exceed their financial book lives? If so, which of these assets, on average, have longer physical lives? If so, by what length of time do the physical lives of these assets, on average, exceed the financial book lives?

RESPONSE:

Please see the attached comparison.



"FCC Request-Avg.
Age.xls"

VZ VA Record Request #4

Verizon Virginia Response to FCC Record Request

Issued 10/23/01, CC Docket Nos. 00-218, 00-249, 00-251

Request 1 - Comparison of Average Age to VA GAAP Life
Request 2 - Comparison of Average Age to 1994 FCC Life

	Average Age note 1	VZ VA GAAP Life note 2	1994 FCC Life note 3
Digital Switching	6.87	10	17.5
Circuit Equipment	6.28	9	11.5
Copper Cable			
Aerial	14.25	17	23
Underground	17.18	17	25
Buried	12.06	17	21
* Total Copper	13.29		
Fiber Cable			
Aerial	6.69	20	25
Underground	8.15	20	25
Buried	6.67	20	25
* Total Fiber	7.40		

Note

- 1 Average age of assets
- 2 Verizon Virginia GAAP Life
- 3 1994 FCC Prescribed Life
- * The Total Copper & Total Fiber lines represent the investment weighted total average age of aerial, underground, and buried cable

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF: Verizon Virginia (Transcript p. 3376)

DATED: October 23, 2001

REQUEST: Do the actual, physical ages of any of Verizon VA's in-service record request assets, on average, exceed their FCC-prescribed lives? If so, which of these assets, on average, have longer physical lives? If so, by what length of time do the physical lives of these assets, on average, exceed the FCC-prescribed lives?

RESPONSE: This comparison is included in the file attached to Verizon's prior record request (VZ VA Record Request #4).

VZ VA Record Request #5

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF:

Verizon Virginia (Transcript p. 3628)

DATED:

October 24, 2001

REQUEST:

Please provide separately the annual amount of regulated and non-regulated revenues for consolidated Verizon, Inc., (that is, based on the consolidated income statement for Verizon, Inc., at the highest level of aggregation, including the parent company and all of its subsidiaries). Please provide these annual revenues for the most recent calendar year for which these data are available.

RESPONSE:

Based on data from Verizon Communications' 2000 annual report, about **\$37.3 billion** of the company's consolidated revenues are attributable to operating telephone company regulated services and approximately **\$27.4 billion** is associated with non-regulated activities. The regulated revenue identified above is somewhat overstated because it includes revenues from services that some state regulatory commissions classify as non-regulated or non-price regulated in their alternative regulation plans. The revenue for services deregulated by each individual state jurisdiction is not readily available.

VZ VA Record Request #6

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF:

Verizon Virginia (Transcript p. 3676)

DATED:

October 24, 2001

REQUEST:

Verizon tested the one-stage discounted cash flow cost of equity results and the three-stage discounted cash flow cost of equity results based on regression analyses of the cost of equity and risk. Please place into the record, for each regression analysis testing these models, the number of observations in the sample on which each analysis was based.

RESPONSE:

The number of observations in the regression analyses reported in Tables 2 – 7 are shown in the attached file “No. Observations Tables 2- 7.doc.” There are 13 fewer observations for the analyses in Tables 2 and 5 because of the lack of a beta for 13 companies.



"No. Observations
Tables 2 - 7.doc"

VZ VA Record Request #7

Attachment to In Hearing Record Request Verizon Virginia (Transcript p. 3676)
CC Docket Nos. 00-281, 00-249, and 00-251
VZ VA Record Request #7
Number of Observations in Regression Analyses Reported in Tables 2 - 7

Table No.	Number of Observations
2	367
3	380
4	380
5	367
6	380
7	380

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF:

Verizon Virginia (Transcript p. 3675)

DATED:

October 24, 2001

REQUEST:

For each discounted cash flow model cost of equity capital result set forth on Table 1 of Dr. Vander Weide's rebuttal testimony (at p. 72), please identify the number of electric companies, natural gas distribution companies, and local exchange carriers reflected in the estimates for these groups of companies.

RESPONSE:

The summary DCF results reported on Table 1 are based on individual DCF results for all companies in the S&P 500 that pay dividends and have an I/B/E/S estimate of long-term growth (it is not possible to perform a DCF analysis on a company that does not pay dividends). The S&P 500 average result included 380 companies with sufficient data. Of these 380 companies, 271 were industrial companies, 28 were electric companies, 4 were local exchange companies, and 3 were natural gas distribution companies.

VZ VA Record Request #8

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF:

Verizon Virginia (Transcript p. 3735)

DATED:

October 25, 2001

REQUEST:

Please compare the cost study that Verizon submitted to the Virginia Commission in the proceeding leading to the current resale discount to the cost study Verizon has submitted here, in order to identify the costs that Verizon treated as “reasonably avoidable” in that previous study that are not treated as “will be avoided in the future” in the study that Verizon submitted in this proceeding. Please also provide the cost study or cost methodology that the Virginia Commission actually adopted in the previous proceeding, and compare the costs that the Virginia Commission treated as “reasonably avoidable” to those costs that Verizon treats as not avoided in its current cost study.

RESPONSE:

Please see attached comparison.



"ORR - Resale
Comparisons.xls"

VZ VA Record Request #9

Comparison of RESALE DISCOUNT STUDIES - Verizon VA Current Filing vs Bell Atlantic VA 1996 Filing vs VA SCC Ordered

Line A	Account B	Account Description C	USING VERIZON'S OPERATORS			NOT USING VERIZON'S OPERATORS			
			% Avoided Current Filing	% Avoided 1996 Filing	% Avoided VA SCC Order	% Avoided Current Filing	% Avoided 1996 Filing	% Avoided VA SCC Order	
DIRECT EXPENSES									
1	6611	Product Management	53.48%	18.2%	65.37%	53.48%	18.2%	65.37%	
2	6612	Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
3	6613	Product Advertising	0.00%	0.00%	50.00%	0.00%	0.00%	50.00%	
4	6621,6622	Call Completion/Number Svcs.	0.00%	0.00%	0.00%	<i>Not Applicable</i>	34.15%	34.15%	
5	6220	Operator Systems	0.00%	0.00%	0.00%	<i>Not Applicable</i>	0.00%	27.42%	
6	6623	Customer Services	84.12%	78.25%	79.80%	84.12%	78.25%	79.80%	
7	6533	Testing	57.19%	0.00%	20.00%	57.19%	0.00%	20.00%	
8	6110	Network Support	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
9	6210	Central Office Switch	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
10	6230	Central Office Transmission	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
11	6310	Other Terminal Equipment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
12	6410	Cable & Wire	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
13	6510	Other PP&E	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
14	6531	Power	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
15	6532	Network Admin.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
16	6534	Plant Oper. Admin	0.00%	0.00%	20.00%	0.00%	0.00%	20.00%	
17	6535	Engineering	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
18	6540	Access	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
INDIRECT EXPENSES									
19	6121	LAND & BUILDINGS	0.00%	9.40%	14.76%	0.00%	10.88%	16.88%	
20	6122	FURNITURE & ARTWORK	0.00%	9.40%	14.76%	0.00%	10.88%	16.88%	
21	6123	OFFICE EQUIPMENT	0.00%	9.40%	14.76%	0.00%	10.88%	16.88%	
22	6124	GENERAL PURPOSE COMPUT	45.38%	9.40%	14.76%	45.38%	10.88%	16.88%	
23	6711	EXECUTIVE	7.91%	9.40%	14.89%	8.38%	10.88%	17.04%	
24	6712	PLANNING	0.00%	9.40%	14.89%	0.00%	10.88%	17.04%	
25	6721	ACCOUNTING & FINANCE	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
26	6722	EXTERNAL RELATIONS	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
27	6723	HUMAN RESOURCES	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
28	6724	INFORMATION MANAGEMENT	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
29	6725	LEGAL	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
30	6726	PROCUREMENT	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
31	6727	RESEARCH & DEVELOPMENT	0.00%	9.40%	14.09%	0.00%	10.88%	16.11%	
32	6728	GENERAL & ADMINISTRATIVE	38.27%	9.40%	14.09%	40.32%	10.88%	16.11%	
33	5301	UNCOLLECTIBLE REVENUE	86.86%	9.40%	90.00%	86.86%	10.88%	90.00%	
34	Discount before New Costs added in Previous Filing				14.24%	19.06%		16.65%	21.77%
35	Final Discount Calculated			13.06%	13.22%	18.54%	14.68%	15.61%	21.25%

Note: Some values shown are approximations, as actual percentages were not ordered.

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF:

AT&T/WorldCom and Verizon Virginia (Transcript p. 3764)

DATED:

October 25, 2001

REQUEST:

Please place into the record, on a computer disk, the UNE cost-of-equity capital study that is reflected in AT&T/WorldCom's proposed UNE cost of capital for Verizon-VA. As part of this request, please include all models, formulas, equations, work papers, data, calculations, and a list of assumptions and a list of cites to sources of all data reflected in this study (the list of assumptions and the list of cites to the data sources may be provided on hard copy). Please submit this information in the software format used to develop the study. For example, submit this information in Excel if Excel was used to make calculations, not in PDF format. The software should retain any formulas rather than just values developed as part of that study. It should permit the staff to revise the study by editing the submitted study instead of replicating it entirely and then making changes to the replicated study.

RESPONSE:

File "VZ VA FCC SP Ap 01.xls" below contains the data supporting the DCF results shown on Attachments A and B to Dr. Vander Weide's direct testimony. These are the DCF results that Dr. Vander Weide used in arriving at his recommended 12.95 percent weighted average cost of capital. The data supporting Dr. Vander Weide's recommended 75 percent equity/25 percent debt capital structure are also contained in this file.



"VZ VA FCC SP Ap
01.xls"

VZ VA Record Request #10

Values at March 31, 2001

Source of Capital	Percent	Cost Rate	Weighted Cost
Debt	25.00%	7.55%	1.89%
Equity	75.00%	14.75%	11.06%
WACC			12.95%

Average March 2001 yield on Moody's A-rated industrial bonds
DCF cost of equity for 2nd and 3rd quartiles of S&P Industrials
Exclude results below A-rated bond yield
Exclude results above 20%

	S&P Industrials			Telecom Companies		
	Market Value	Total Debt	Percent Equity	Market Value	Total Debt	Percent Equity
1996	1,700,587	285,381	85.6%	107,320	28,004	79.3%
1997	2,289,166	323,858	87.6%	204,385	50,221	80.3%
1998	2,863,543	353,205	89.0%	308,876	53,124	85.3%
1999	3,052,212	405,374	88.3%	381,874	68,495	84.8%
2000	3,041,722	469,285	86.6%	398,381	111,479	78.1%
Total	12,947,231	1,837,104	87.6%	1,400,837	311,324	81.8%

INDEX	VALUE	UNIT
10	0.600	
11	0.600	
12	0.600	
13	0.600	
14	0.600	
15	0.600	
16	0.600	
17	0.600	
18	0.600	
19	0.600	
20	0.600	
21	0.600	
22	0.600	
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100	0.600	

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100	1,400

Verizon Virginia Inc.

In Hearing Record Request

CC Docket Nos. 00-218, 00-249 and 00-251

FCC STAFF
REQUEST OF:

Verizon Virginia (Transcript p. 3765)

DATED:

October 25, 2001

REQUEST:

Please submit, for the groups of firms set out on Table 1, page 72 of Dr. Vander Weide's rebuttal testimony (S&P 500 firms, S&P industrial firms, local exchange carriers, natural gas distribution companies, and electric companies), the same information identified above (Request No. 2, 10-25-01) for the cost of equity capital reflected in the proposed UNE cost of capital for Verizon-VA.

RESPONSE:

The file "VZ VA FCC 3 Stage Study.xls" contains the three-stage DCF analysis for the five groups of companies shown on Table 1, p. 72, in Dr. Vander Weide's rebuttal testimony. These data demonstrate that Mr. Hirshleifer's three-stage DCF model produces cost of equity estimates that fail the common sense standard that the cost of equity should increase with the risk of an investment. Financial analysts generally recognize that telecommunications companies and other industrial companies are more risky than natural gas and electric companies. Yet, Mr. Hirshleifer's methodology produces higher DCF results for natural gas and electric companies than for telecommunications and other industrial companies.



"VZ VA FCC 3 Stage
Study.xls"

VZ VA Record Request #11

Hirshleifer Three Stage Model for S&P 500 Companies at June 30, 2000

Data at June 30, 2000 from Value Line for Windows July 7, 2000; I/B/E/S

Estimate of long-term $g = 6.29\%$ per Mr. Hirshleifer

[Determined after studies completed that Hirshleifer study used 6.285% estimate of long-term growth for telecommunications companies]

Like earlier Hirshleifer S&P500 analysis, this study includes IBES growth for five years;

Whereas Hirshleifer telecom study includes Value Line indicated annual dividend for first period, 4 years of I/B/E/S growth

Rebuttal Testimony

Table 1

Company Group	Three-Stage DCF Result
Industrials in the S&P 500	8.71%
S&P 500	9.00%
Local Exchange Carriers	10.02%
Natural Gas Distribution Companies	11.56%
Electric Companies	12.21%