

DOCKET FILE COPY ORIGINAL
SIDLEY AUSTIN BROWN & WOOD

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

CHICAGO
DALLAS
LOS ANGELES
NEW YORK
SAN FRANCISCO
SEATTLE

1501 K STREET, N.W.
WASHINGTON, D.C. 20005
TELEPHONE 202 736 8000
FACSIMILE 202 736 8711
www.sidley.com

FOUNDED 1866

BEIJING
HONG KONG
LONDON
SHANGHAI
SINGAPORE
TOKYO

WRITER'S DIRECT NUMBER
(202) 736-8214

WRITER'S E-MAIL ADDRESS
dlevy@sidley.com

December 14, 2001

By Hand Delivery

Magalie R. Salas, Esq.
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

RECEIVED

DEC 14 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket Nos. 00-218 & 00-251/
In the Matter of Petition of AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. for Arbitration of an Interconnection Agreement With Verizon Virginia, Inc. Pursuant to Section 252(e)(5) of the Telecommunications Act of 1996

In the Matter of Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the CC Docket No. 00-218 Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration

Dear Ms. Salas:

Enclosed please find an original and three (3) copies of the corrected response of AT&T and WorldCom to the record request by Commission staff for the workpapers underlying the DCF cost of capital analysis of AT&T/WorldCom witness John Hirshleifer. The request is:

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

List ABCDE

D+4

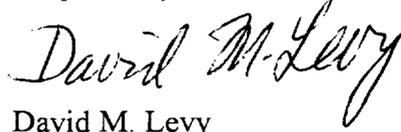
Magalie R. Salas, Esq.
December 14, 2001
Page 2

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.

Tr. 3764 (Oct. 25, 2001) (request no. 2). This request supersedes the response to this question filed electronically and in hard copy on December 12 and 13, respectively. Three Excel worksheets were inadvertently omitted from the earlier response.

Thank you for your consideration in this matter.

Respectfully submitted,



David M. Levy

cc: Dorothy Attwood
Jeffrey Dygert
Catherine Carpino
Aaron Goldschmidt
Katherine Farroba
Counsel of Record
Catherine Ronis

Enclosures

Before the
Federal Communications Commission
Washington, D.C. 20554

RECEIVED

DEC 14 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of Petition of AT&T)
Communications of Virginia, Inc.,)
Pursuant to Section 252(e)(5) of the)
Communications Act, for Preemption of)
the Jurisdiction of the Virginia State)
Corporation Commission Regarding)
Interconnection Disputes with Verizon-)
Virginia, Inc.)

CC Docket No. 00-251

In the Matter of Petition of WorldCom,)
Inc. Pursuant to Section 252(e)(5) of the)
Communications Act for Expedited)
Preemption of the Jurisdiction of the)
Virginia State Corporation Commission)
Regarding Interconnection Disputes)
with Verizon Virginia Inc., and for)
Expedited Arbitration)

CC Docket No. 00-218

CERTIFICATE OF SERVICE

I hereby certify that on this 14th day of December, 2001, copies of the three attached response to a Staff record request were sent via hand delivery, and/or electronic mail to:

Karen Zacharia, Esq.
Verizon, Inc.
1320 North Court House Road
Eighth Floor
Arlington, Virginia 22201
**By electronic mail*

Richard D. Gary, Esq.
Kelly L. Faglioni
Hunton & Williams
Riverfront Plaza, East Tower
951 East Byrd Street
Richmond, VA 23219-4074
** By electronic mail*

Catherine Kane Ronis, Esq.
Wilmer, Cutler & Pickering, LLP
2445 M Street, NW
Washington, DC 20037-1420
**Hand delivery with cd roms & electronic mail*

Lydia Pulley, Esq.
Verizon – Virginia, Inc.
600 East Main Street, 11th Fl.
Richmond, VA 23219
** By electronic mail*

David M. Levy

**Response of AT&T and WorldCom to Staff Record Request
for documentation of AT&T/WorldCom study
of Verizon-VA equity cost of capital**

(corrected Dec. 14, 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. See Tr. 3764 (Oct. 25, 2001) (request no. 2).

RESPONSE: The attached Excel file contains the requested information.

(This corrected version includes three worksheets inadvertently omitted from the file produced on December 12, 2001.)



"01-12-14 Hirshleifer
DCF Workpapers--co

RECEIVED

DEC 14 2001

FEDERAL REGULATORY COMMISSION
OFFICE OF THE SECRETARY

Model Estimates of Cost of Capital

Company	S&P Stock Guide	(07/07/00 Value Line)	Forward-looking Dividend Yield	Jun-00 IBES 5-yr growth	WEFA 6/00, Ibbotson COCC 6/00 Long-Term Economy Growth Rate	S&P Stock Guide C/S Outst (millions)	Market Value Equity	Market Weight	S&P Bond Guide (as of 6/30/00) COST OF DEBT	DCF		(as of 6-00)		CA		
	Price as of 6/30/00	2001 Dividend per Value Line								Co's	1/4-3/4 Weighted	BARRA Beta	Debt/Equity	Unlevered Beta	Re-levered Beta	1-month Treasury Bills
Verizon (7/3/00)	\$55,000	\$1.54	3.13%	11.65%	6.285%	2,760,000	\$151,800	37.70%	7.86%	11.07%	10.24%	0.682	0.351	0.56	0.77	10.71%
BellSouth	\$42.625	\$0.80	1.88%	11.07%	6.285%	1,881,533	\$80,200	19.92%		9.13%	10.30%	0.645	0.212	0.57	0.71	10.26%
SBC Communications	\$43.250	\$1.02	2.36%	12.87%	6.285%	3,401,720	\$147,124	36.54%		10.34%	10.39%	0.825	0.175	0.74	0.70	10.18%
ALLTEL	\$61.938	\$1.34	2.16%	14.41%	6.285%	315,280	\$19,528	4.85%		10.49%	10.40%	0.742	0.231	0.65	0.72	10.33%
CenturyTel	\$28.750	\$0.22	0.77%	14.79%	6.285%	140,235	\$4,032	1.00%	8.54%	7.96%		0.841	0.503	0.64	0.83	11.16%

2.53% 12.15% \$402,684 100.00% 10.38% 10.33% 0.73 0.63 0.73 =4.93%+beta*0.075

DEBT EQUITY
 AVG BOOK 49.0% 51.0%
 AVG MARKET 20.0% 80.0%

ibbotson	4.10%	long-term inflation
	3.50%	real GDP for 1929-1999
	7.60%	
WEFA	4.97%	long-term nominal GNP growth rate (2000-2025)
AVERAGE	6.285%	

TAX RATE: 37.5%

4.93%

Company	M Cost of Equity		COST OF EQUITY (AVERAGE of DCF and CAPM Average)	BOOK		MARKET		WEIGHTED AVERAGE COST OF CAPITAL			2000 2Q 10-Q (\$million)			
	20-yr Treasury Bonds	Average		DEBT	EQUITY	DEBT	EQUITY	MIN	MIDPOINT	MAX	Short-Term Debt	Long-Term Debt	Book Debt	Book Equity
	Verizon (7/3/00)	10.50%		10.60%	10.42%	49%	51%	26%	74%	9.17%	9.54%	9.91%	20,060	33,286
BellSouth	10.17%	10.21%	10.26%	51%	49%	17%	83%				6,108	10,869	16,977	16,502
SBC Communications	10.11%	10.15%	10.27%	48%	52%	15%	85%				9,812	15,927	25,739	28,375
ALLTEL	10.22%	10.28%	10.34%	46%	54%	19%	81%				64	4,441	4,505	5,255
CenturyTel	10.83%	10.99%	10.99%	51%	49%	33%	67%				75	1,954	2,029	1,948
	$=6.26\% + \text{beta} * 0.055$	10.34%	10.34%	49.0%	51.0%	20.0%	80.0%				\$36,119	\$66,477	\$102,596	\$108,295

AVG BOOK
AVG MARKET

Debt Implied: 34.5%
Equity Implied: 65.5%

3-stage DCF Model - BellSouth

Stock Price	42.625
Expected Dividend	0.80
I/B/E/S 5-Year Growth Rate	11.07%
Long-Term Growth Rate	6.285%
Cost of Equity	9.13%

Period	Growth Rate	Dividend Amount	PV of Dividend
			42.62
0			
1		0.80	0.73
2	11.07%	0.89	0.75
3	11.07%	0.99	0.76
4	11.07%	1.10	0.77
5	11.07%	1.22	0.79
6	10.75%	1.35	0.80
7	10.43%	1.49	0.81
8	10.11%	1.64	0.81
9	9.79%	1.80	0.82
10	9.48%	1.97	0.82
11	9.16%	2.15	0.82
12	8.84%	2.34	0.82
13	8.52%	2.54	0.82
14	8.20%	2.75	0.81
15	7.88%	2.97	0.80
16	7.56%	3.19	0.79
17	7.24%	3.42	0.77
18	6.92%	3.66	0.76
19	6.60%	3.90	0.74
20	6.29%	4.14	0.72
Terminal	6.29%	154.60	26.92

3-stage DCF Model - SBC

Stock Price	43.250
Expected Dividend	1.02
I/B/E/S 5-Year Growth Rate	12.87%
Long-Term Growth Rate	6.285%
Cost of Equity	10.34%

Period	Growth Rate	Dividend Amount	PV of Dividend
			43.25
0			
1		1.02	0.92
2	12.87%	1.15	0.95
3	12.87%	1.30	0.97
4	12.87%	1.47	0.99
5	12.87%	1.66	1.01
6	12.43%	1.86	1.03
7	11.99%	2.08	1.05
8	11.55%	2.33	1.06
9	11.11%	2.58	1.07
10	10.68%	2.86	1.07
11	10.24%	3.15	1.07
12	9.80%	3.46	1.06
13	9.36%	3.78	1.05
14	8.92%	4.12	1.04
15	8.48%	4.47	1.02
16	8.04%	4.83	1.00
17	7.60%	5.20	0.98
18	7.16%	5.57	0.95
19	6.72%	5.95	0.92
20	6.28%	6.32	0.88
Terminal	6.29%	165.72	23.17

3-stage DCF Model - ALLTEL

Stock Price	61.938
Expected Dividend	1.34
I/B/E/S 5-Year Growth Rate	14.41%
Long-Term Growth Rate	6.285%
Cost of Equity	10.49%

Period	Growth Rate	Dividend Amount	PV of Dividend
			61.94
0			
1		1.34	1.21
2	14.41%	1.53	1.26
3	14.41%	1.75	1.30
4	14.41%	2.01	1.35
5	14.41%	2.30	1.39
6	13.87%	2.61	1.44
7	13.33%	2.96	1.47
8	12.79%	3.34	1.50
9	12.24%	3.75	1.53
10	11.70%	4.19	1.54
11	11.16%	4.66	1.55
12	10.62%	5.15	1.56
13	10.08%	5.67	1.55
14	9.54%	6.21	1.54
15	8.99%	6.77	1.52
16	8.45%	7.34	1.49
17	7.91%	7.92	1.45
18	7.37%	8.51	1.41
19	6.83%	9.09	1.37
20	6.29%	9.66	1.31
Terminal	6.29%	244.10	33.19

3-stage DCF Model - CenturyTel

Stock Price	28.750
Expected Dividend	0.22
I/B/E/S 5-Year Growth Rate	14.79%
Long-Term Growth Rate	6.285%
Cost of Equity	7.96%

Period	Growth Rate	Dividend Amount	PV of Dividend
			28.75
0			
1		0.22	0.20
2	14.79%	0.25	0.22
3	14.79%	0.29	0.23
4	14.79%	0.33	0.24
5	14.79%	0.38	0.26
6	14.22%	0.44	0.28
7	13.66%	0.50	0.29
8	13.09%	0.56	0.30
9	12.52%	0.63	0.32
10	11.96%	0.71	0.33
11	11.39%	0.79	0.34
12	10.82%	0.87	0.35
13	10.25%	0.96	0.36
14	9.69%	1.05	0.36
15	9.12%	1.15	0.36
16	8.55%	1.25	0.37
17	7.99%	1.35	0.37
18	7.42%	1.45	0.36
19	6.85%	1.55	0.36
20	6.29%	1.65	0.36
Terminal	6.29%	104.17	22.50

3-stage DCF Model - Verizon

Stock Price	55.00
Last Dividend Declared	1.54
I/B/E/S 5-Year Growth Rate	11.65%
Long-Term Growth Rate	6.285%
Cost of Equity	11.07%

Period	Growth Rate	Dividend Amount	PV of Dividend
			55.00
0		1.54	
1	11.65%	1.72	1.55
2	11.65%	1.92	1.56
3	11.65%	2.14	1.56
4	11.65%	2.39	1.57
5	11.65%	2.67	1.58
6	11.29%	2.97	1.58
7	10.93%	3.30	1.58
8	10.58%	3.65	1.58
9	10.22%	4.02	1.56
10	9.86%	4.42	1.55
11	9.50%	4.84	1.52
12	9.15%	5.28	1.50
13	8.79%	5.74	1.47
14	8.43%	6.23	1.43
15	8.07%	6.73	1.39
16	7.72%	7.25	1.35
17	7.36%	7.78	1.31
18	7.00%	8.33	1.26
19	6.64%	8.88	1.21
20	6.28%	9.44	1.16
Terminal	6.29%	209.85	25.72