

Explanation of Exhibits

Exhibit 1A

Summarizes the Sharing and Lower Formula Adjustment amounts resulting from performing Addback in Exhibit 2. The column “Add-back 1993 final” combines the 1993 preliminary and 1993 final sharing adjustments found in Exhibit 2. These amounts are then used in Exhibit 3 and Exhibit 4.

Exhibit 1B

In Verizon West, 1993 had Common Line in a single jurisdiction, while other study areas (“COSAs”) maintained the Traffic Sensitive, Special Access and IX baskets. Exhibit 1B breaks down the totals found on Exhibit 1A and identifies a total Common Line amount by using revenues to allocate between Common Line and all other baskets. The residual other basket amounts are then allocated back to the COSAs based on the original Exhibit 1A distribution of Addback Sharing. The other basket amounts are included in Exhibit 3D and are allocated to the baskets based on the “R” revenue value of the 1993 and 1994 annual filings.

Exhibit 1C

Between 1993 and 1994, the former GTE companies deconsolidated from Super COSAs to single COSAs. Exhibit 1A data are by total only at the level of the rate of return reports, which in many cases include more than COSA. To calculate the impact on the PCIs in Exhibit 3A, it is necessary to allocate the sharing/lower formula adjustment amounts in Exhibit 1A to the COSAs filed in the 1994 tariffs. The mapping between companies and COSAs is attached to Exhibit 4.

Some COSAs are sufficient as represented in Exhibit 1A and no further allocation is necessary. For the others, we used the Common Line Deconsolidation filing revenues for the COSA breakdown and allocated the Exhibit 1A number by the percentage of revenues. For example, GTIM has two underlying COSAs (GTIA and GTMN). The revenues associated with GTIA and GTMN are used to allocate the Exhibit 1 amount for GTIM into GTIA and GTMN. The COSA level data are then used in Exhibit 3D, where the data are allocated to the baskets.

Exhibit 2

1. Base case data are gathered from the preliminary 492A reports filed for 1992 and 1993. Sharing/LFA amounts are taken from the annual access tariff filings. The tariff transmittals are:

BATR

1992: TM 505, filed on April 2, 1992

1993: TM 565, filed April 2, 1993

1994: TM 644, filed April 1, 1994

1995: TM 777, filed May 9, 1995

GTE (fGTOC)

1992: TM 711, filed on April 2, 1992
1993: TM 781, filed April 2, 1993
1994: TM 867, filed April 1, 1994
1995: TM 963, filed May 9, 1995

Contel (fGSTC)

1992: TM 14, filed on April 2, 1992
1993: TM 38, filed April 2, 1993
1994: TM 84, filed April 1, 1994
1995: TM 146, filed May 9, 1995

2. The preliminary 492A reports filed for 1992 and 1993 are recalculated by making the following adjustments to base case earnings:

a) Increase (decrease) earnings by “adding back” (i.e., reversing) the revenue reduction (increase) for sharing (LFA) realized during the calendar year. For the 1992 492A reports, this would be half of the 1991 preliminary sharing (LFA) adjustment which was reflected in tariff rates during the second half of 1992. For the 1993 Form 492 reports, this would be half of the 1991 preliminary sharing (LFA) which was reflected in tariff rates during the first half of 1993, plus half of each of the 1991 sharing (LFA) true up adjustment and the 1992 preliminary sharing (LFA) adjustment which were reflected in tariff rates during the second half of 1993.

b) Decrease (Increase) the earnings in the 492A reports by the state and federal tax effects of the revenues computed in step 2a. This is done, because the increased (decreased) revenues due to add-back of sharing (LFA) would have produced additional (reduced) tax payments. The net effect of the additional (reduced) revenues after tax effects is added to originally filed earnings to calculate the adjusted earnings.

3. The adjusted earned rate of return is calculated by dividing the adjusted earnings calculated in step 2 by the rate base shown in the originally filed Form 492A.

4. The revised sharing (LFA) adjustments are calculated by using the adjusted rate of return calculated in step 3. Taxes are then added to bring the shared (LFA) earnings to a revenue requirement level.

5. Incremental sharing (LFA) is calculated by subtracting the originally computed 1992 and 1993 preliminary sharing (LFA) adjustments in the 1993 and 1994 access tariff filings from the revised sharing (LFA) adjustment calculated in step 4.

6 - 9. Steps 1 - 4 are repeated using the final 492A reports filed for 1992 and 1993. The sharing (LFA) from the preliminary reports in step 4 are subtracted from the results to get the required true-up with add-back. The original true-up as filed is subtracted to get the revised incremental true-up.

10. The incremental sharing (LFA) for the 1993 annual filing in the second column of Exhibit 1A is taken from the results for the preliminary 1992 earnings report in step 5.

11. The incremental sharing (LFA) for the 1994 filing starts with the incremental add-back (LFA) adjustment for the 1993 earnings in step 5 and adds to that the incremental true-up for 1993 from step 9. This is shown in the third column of Exhibit 1A. The incremental true-up to the 1992 report from step 9 is shown in the fourth column of Exhibit 1A.

The sharing/LFA amounts in the last column of Exhibit 1A are the sum of the second through third columns of that exhibit.

Exhibit 3

The purpose of the Exhibit 3 series is to provide the new PCIs resulting from add-back, which are shown on Line 240 of Exhibit 3A. In Verizon West, Exhibit 3 has 4 pages per year designated 3A, 3B, 3C and 3D. Exhibits 3B and 3D provide necessary support to the change in exogenous “Z” factor in Exhibit 3A on line 150 due to the impact of add-back on sharing or lower formula adjustment shown. Specifically, starting with Exhibit 3D, the amounts from Exhibit 1B or Exhibit 1C, depending on the year, were spread to the baskets based on the revenue, or “R” values shown in Line 160 in Exhibit 3A. These amounts were then added to the existing annual filing Sharing Exogenous amounts in Exhibit 3B to prepare a new exogenous total to be used in the PCI calculations in Exhibit 3A, line 150. Exhibit 3C recalculates the common line PCI as a result of the add-back impact shown in 3D.

Since Verizon East is a Single COSA, both 1993 and 1994 were included in one file. Exhibits 3A-3D are the same as described above for Verizon West. In Verizon East, Exhibit 3D includes both 1993 and 1994. Exhibits 3E-G perform the same functions as 3A-C but for the 1994 period.

Exhibit 4

Exhibit 4 compares the changes in sharing or lower formula adjustments to the headroom by basket and by total interstate. This exhibit is divided into Exhibit 4 East and Exhibit 4 West. The data are displayed the same in each file. Backup workpapers displaying the filing detail and headroom calculations are also included.