

TRANSMITTAL MATRIX CAM CHANGES
Description of change

Page USOA Account	<u>Change From</u>	<u>Change To</u>	<u>Reason for Change</u>	<u>Annualized Quantification</u>
V-25	N/A	Insurance Services	Added service category to matrix.	N/A
V-25	Telecommunications Services and Equipment (FDC) – Southern New England Telecommunications Corporation, #8, Daily	Telecommunications Services and Equipment (FDC) – Southern New England Telecommunications Corporation, #8, Occasionally	Updated matrix.	N/A
V-25 6728	N/A	Insurance Services (FDC) – Gateway Rivers Insurance Company, #18, Daily	Added service from affiliate.	\$47 million impact on regulated operations.

SECTION I - INTRODUCTION

OVERVIEW

In compliance with the Federal Communication Commission (FCC) Report and Order (the "Joint Cost Order"), CC Docket No. 86-111, released February 6, 1987¹, Ameritech, Nevada Bell, Pacific Bell and Southwestern Bell Telephone (the "Companies") have prepared a Cost Allocation Manual (CAM) based on the attributable cost method of fully distributing costs, with an emphasis on cost causation. This CAM provides the Companies' methodology for separating the costs of regulated telephone service from the costs of nonregulated activities.

The Joint Cost Order established two separate but complementary sets of rules: (1) a cost allocation process which separates the costs of regulated and nonregulated activities offered by a carrier, and (2) rules governing transactions for goods and services between a carrier and its nonregulated affiliates. These rules require carriers to file and maintain current CAMs describing the application of these rules to their particular operations, the results of which are reviewed by an independent auditor.

This CAM establishes the procedures for the identification of costs associated with nonregulated activities. These procedures follow the FCC rules and are intended to guard against the subsidy of nonregulated activities by regulated activities and to detail transactions between the Companies and their nonregulated affiliates. The Companies' CAM complies with the FCC's Joint Cost Order, Order on Reconsideration², and Order on Further Reconsideration³, in CC Docket No. 86-111, and Report and Orders in CC Docket Nos. 96-150⁴, 99-253⁵ and 00-199⁶, RAO 19⁷ and RAO 26⁸.

¹In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, CC Docket No. 86-111, Report and Order ("Joint Cost Order"), released February 6, 1987.

²In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, CC Docket No. 86-111, Order on Reconsideration, released October 16, 1987.

³In the Matter of Separation of costs of regulated telephone service from costs of nonregulated activities, CC Docket No. 86-111, Order on Further Reconsideration, released November 18, 1988.

⁴ In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order, released December 24, 1996 (FCC 96-490) (Report and Order).

⁵In the Matter of Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I, CC Docket No. 99-253, Report and Order, released March 8, 2000.

⁶In the Matter of 2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, CC Docket No. 00-199, Report and Order, released November 5, 2001.

⁷ Re: CC Docket No. 86-111 Cost Allocation Manual-Format and Filing procedures, Responsible Accounting Officer (RAO) 19, released December 23, 1991, (DA-91-1570).

⁸ Re: Cost Allocation Manuals – Section V, Transactions with Affiliates, Responsible Accounting Officer (RAO) 26, released May 6, 1998, (DA 98-855).

COST ALLOCATION REQUIREMENTS

Regulated products and services refer to activities which (a) are subject to the Title II tariff filing requirements; (b) are common carrier products and services tariffed by the state commissions; (c) are non-tariffed activities offered incidental to the Companies' regulated tariffed services; or (d) are nontariffed services offered pursuant to a Section 252(e) agreement (Title 47 of the Code of Federal Regulations, Section 64.901(b)(1)). Products and services which are preemptively deregulated by the FCC or which have never been subject to regulation are classified as nonregulated activities. Regulated services the FCC ordered to be treated as nonregulated for federal accounting purposes are also classified as nonregulated activities.

All Companies' revenues, expenses and investments are recorded on the regulated set of books in accordance with the Uniform System of Accounts, Part 32 of the FCC's Rules and Regulations. In accordance with Part 64, The Companies use the attributable cost method of fully distributed cost allocation to apportion total company booked costs between regulated and nonregulated activities.

THE ATTRIBUTABLE COST ALLOCATION CONCEPT

The CAM utilizes an attributable cost allocation approach (i.e., fully distributed costing) that provides for an evaluation of all direct and all other costs that bear a direct or indirect causal relationship to nonregulated activities. The CAM accounts for all of the costs contained in appropriate Part 32 accounts. Any costs not accounted for by a tariff rate, direct cost assignment, or direct or indirect cost causal apportionment, will be allocated via the marketing allocator or the general allocator.⁹

Attributable cost, as applied in the CAM, dictates the necessity of a careful study of all costs and the identification of a causal relationship between each cost and its related final cost objective(s). Emphasis is placed on direct assignment, then attribution.

The CAM's attributable cost approach also provides sufficient controls to ensure that all of the Companies' costs are accounted for and that no cost is counted more than once in the calculation of total costs for nonregulated activities. The attributable costing approach presented herein supports this objective.

THE COST POOL ALLOCATION CONCEPT

Cost pools are the vehicles through which direct costs are assigned and common costs are allocated to regulated and nonregulated cost objectives. Cost pools contain only homogeneous cost data. A homogeneous cost pool, as described here, contains costs similar in nature. All costs that are not directly assigned are allocated to final cost objectives via these homogeneous cost pools. Thus, whenever a cost is applicable to regulated and nonregulated cost objectives, that cost will be assigned to the proper cost pool and then will be allocated. The allocation process will attribute all cost data in that pool to regulated and nonregulated activities.

⁹ Joint Cost Order at para. 161.

THE COST CLASSIFICATION CONCEPT

The CAM categorizes costs according to the following fully distributed costing hierarchy:

- (1) Tariff rate (including a Section 252(e) agreement): When regulated services are used in the provision of nonregulated products and services, the Companies will impute the regulated service at its tariffed rate to the nonregulated product or service. Imputation to nonregulated requires the Companies to record a debit to Account 5280, Nonregulated Revenue (and credit regulated revenue), to charge nonregulated the tariff rate for use of the regulated service.
- (2) Direct Assignable Costs: Those costs that are directly identifiable with (exclusively used for) regulated or nonregulated activities. The Companies CAM will use the direct assignment method for as many costs as possible.
- (3) Directly Attributable Costs: Costs associated with resources and assets used to provide both regulated and nonregulated services are attributed using direct measures of cost causation.
- (4) Indirectly Attributable Costs: Costs associated with resources and assets used to provide both regulated and nonregulated services, which require an indirect (surrogate) measure of cost causation in order to relate the costs to a final cost objective, are attributed using the indirect measure.
- (5) Residual Costs:
 - (a) Costs Allocated by the General Allocator: Shared residual costs (non-marketing) incurred for the common benefit of both regulated and nonregulated activities, but which are considered unattributable, i.e., for which no causal relationship exists, are allocated to regulated and nonregulated activities by the general allocator. These costs will be grouped into a cost pool and allocated to regulated and nonregulated activities as described in the Order on Reconsideration.
 - (b) Costs Allocated by the Marketing Allocator: Shared residual marketing costs incurred for the common benefit of both regulated and nonregulated activities, but which are considered unattributable, i.e., for which no causal relationship exists, are allocated to regulated and nonregulated activities by the marketing allocator.

COST ALLOCATION PROCEDURES

The following provides the procedures for separating the costs of nonregulated activities from the costs of regulated activities. These procedures were filed with the FCC pursuant to the Joint Cost Order permitting each of the companies to prepare and file with the FCC a Cost Allocation Manual (CAM) as a prerequisite to engaging in nonregulated activities. The CAM should be considered an evolving document and not a final statement of position.

The CAM is a costing method used for the removal of CAM developed nonregulated costs from the jurisdictional separations process. As the Commission recognized in the Joint Cost Order, it "...is not our purpose, nor should it be our purpose, to seek to attribute costs to particular nonregulated activities for purposes of establishing a relationship between cost and price."¹⁰ The Companies agree that the CAM method should not dictate pricing strategy.

The CAM is based on accounting for all costs recorded in appropriate Part 32 accounts in the Companies' books of account and supplemental records as required by the FCC. This concept allows an auditor to "audit" the development of the nonregulated activities' total costs by tracing back to the source of those costs in the Company's books of account. The CAM will serve to assist in provision of an audit trail that tracks costs from the books of account to appropriate final cost objectives (i.e., total regulated or total nonregulated activities).

COST ALLOCATION MANUAL SECTIONS

The Companies' CAM is comprised of the following sections in accordance with RAO 19:

Section I – Introduction - This section describes the cost allocation requirements; the attributable cost allocation concept; the cost pool allocation concept; the cost classification concept; and cost allocation procedures.

Section II – Nonregulated Activities - This section contains descriptions of nonregulated activities that the Companies offer. A matrix indicates which accounts are impacted by each nonregulated activity.

Section III – Incidental Activities - This section includes a listing of activities which the Companies classified as incidental for accounting treatment pursuant to the guidelines set forth in the Joint Cost Order. This section also includes a brief statement of these guidelines.

Section IV – Chart of Affiliates - This section contains a chart of the Companies' affiliates.

Section V – Transactions with Affiliates - This section lists the transactions between the Companies and its affiliates. A matrix indicates, by service, which affiliates provide transactions to the Companies and which affiliates receive transactions from the Companies in accordance with RAO 26. The provisions of RAO 26 apply to all affiliate transactions and are detailed in Section V.

Section VI – Cost Apportionment Tables - This section contains a full description of the cost apportionment table development, and the cost apportionment table itself which addresses appropriate Part 32 accounts. The introduction defines the column headings in the cost apportionment table: USOA

¹⁰ Joint Cost Order at para. 40.

Part 32 accounts; cost pool name; cost pool identification basis; cost pool apportionment method; and the comments section.

Section VII – Time Reporting Procedures - This section contains time reporting methods; a discussion of teaching, monitoring and reinforcing time reporting systems, methods and procedures; and an explanation of how nonproductive time is allocated. Per RAO 19, Section VII contains a matrix showing the time reporting method used by each employee group.

DEFINITIONS

This section provides definitions of general terms used throughout this manual. Definitions of more specific terms unique to a section will be defined in that section.

AOCs – Ameritech Operating Companies, i.e., Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Telephone Company; and Wisconsin Bell, Inc.

CAM - Cost Allocation Manual – The CAM is the Companies' manual that documents the methods used to separate regulated and nonregulated costs. The CAM comprises the seven sections previously listed, i.e., Introduction; Nonregulated Activities; Incidental Activities; Chart of Affiliates; Transactions With Affiliates; Cost Apportionment Tables; and Time Reporting Procedures. The rules pertaining to the CAM are codified in the Code of Federal Regulations, Title 47, Part 64.901-904, Subpart I – Allocation of Costs.

The "Companies" – Ameritech (i.e., Ameritech Operating Companies), Nevada Bell, Pacific Bell and Southwestern Bell Telephone.

FDC - Fully Distributed Cost – Carriers required to separate their regulated costs from nonregulated costs shall use the attributable cost method of cost allocation for such purpose. (CFR 47 64.901(a)) This method is also known as fully distributed cost (FDC). The FDC methodology was described previously in Section I under "The Cost Classification Concept" (Joint Cost Order, para. 161). Per the Accounting Safeguards Order, para. 165, the FCC concludes, ". . . that a reasonable rate of return to be used by all incumbent local exchange carriers in determining the fully distributed costs associated with affiliate transactions is the rate of return on interstate services, as amended periodically by the Commission. In establishing the prescribed interstate rate of return, the Commission considered the cost of capital to provide interstate access services and prescribed a rate of return of 11.25% for the local exchange carriers."

General Allocator - The method by which expenses that are considered unattributable are allocated to regulated and nonregulated activities. This method will not be applied to residual marketing expenses.

Marketing Allocator - The method by which marketing expenses that are considered unattributable are allocated to regulated and nonregulated activities. The marketing allocator will be employed to determine the regulated and nonregulated amounts of residual marketing expenses.

NB – Nevada Bell Telephone Company (a/k/a Nevada Bell)

OCS - Official Communications Service.

Project Number – A code placed on transactions to provide cost tracking associated with a specific project or undertaking. Project numbers may be used to track specific regulated, nonregulated and affiliate costs.

PB – Pacific Bell Telephone Company (a/k/a Pacific Bell)

RAO - Responsible Accounting Officer letter issued by the FCC.

AT&T – AT&T Inc. - The parent entity of the Companies.

SWBT - Southwestern Bell Telephone, L.P. (a/k/a Southwestern Bell Telephone)

Telco - Telephone company.

USOA - Uniform System of Accounts (Part 32).

SECTION II – NONREGULATED ACTIVITIES

The Companies presently offer the following nonregulated activities. If individual operating companies are not specified, the activity is provided by Ameritech, Nevada Bell, Pacific Bell and Southwestern Bell Telephone.

Billing and Payment Processing Services - Southwestern Bell

This service provides billing and processing of customer bill payments for outside third parties and affiliates. It includes billing, customer support, receiving, depositing and processing the payments and creating the payment data.

Computer Services

Computer services involve the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available data which may be conveyed via intraLATA telecommunications. It includes the E911 automatic location identification (ALI) service, which is also offered interLATA on an integrated basis in accordance with CC Docket No. 96-149.

It also includes computer bureau services, which involve providing the use of company-owned or leased computer hardware, as well as the systems personnel, to process software owned or licensed by the customer. It also involves related report generation and systems maintenance. Also included is Responsible Organization Services offered by Ameritech.

Customer Premises Equipment and Wire Services

These services include the sale or lease, installation, maintenance and repair of customer premises equipment (CPE), simple and complex wire, intra- and inter-building cable and voice, data and/or video equipment as well as other related telecommunications equipment on the customer's side of the network interface. For example, this would include Digital NCTE. This service also includes installation, maintenance and/or management services (e.g., consulting, design, engineering and administration activities) associated with customer-owned networks. These network plans can consist of customized wiring (copper, coaxial or fiber) and/or equipment that provide voice, data and/or video services. Inside wire maintenance plans are also offered as a part of this service.

Directory Listing Services

These services include the provision of (1) nonregulated operator-assisted directory information, including listings for out-of-region interLATA telephone numbers, such as National Directory Assistance, International Directory Assistance and Reverse Directory Assistance, (2) directory-provided information services such as Category Search, and (3) electronic directory services, such as Electronic White Pages and Reverse Number Search, in which directory listing information is provided in response to an electronic customer request.

Directory White Page Service - Southwestern Bell

This service involves providing individual business customers with advertising in the business white pages through the sale of enhanced listings (e.g., "Feature Bold Listing") and cover advertising.

Incidental InterLATA Services – Ameritech, Pacific Bell and Southwestern Bell

This activity is classified as nonregulated for accounting purposes and consists of certain incidental interLATA services that the Companies were authorized to provide pursuant to Section 271(g) (but not including interLATA services described at 271(g)(4)) of the Telecommunications Act of 1996. Such services were not previously authorized or permitted under the Modification of Final Judgment ("MFJ"). These services are being classified as nonregulated, even though they may be provided under tariff, pursuant to the requirements of the Accounting Safeguards Order, CC Docket No. 96-150, adopted December 23, 1996, paragraphs 75-76.

Internet Protocol Services—Southwestern Bell

Internet Protocol (IP) Services which include internet access and IP video.

Marketing Services

Marketing services include retail sales of products and the administrative support of sales operations, including joint marketing, for outside third parties and affiliates.

Pay Telephone CPE and Service

CC Docket 96-128, Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, adopted rules to implement Section 276 of the Telecommunications Act of 1996 which established pay telephone service as a competitive nonregulated service. The new law required the reclassification of pay telephone equipment and service to nonregulated effective April 15, 1997. Consistent with the 1996 Act's definition, "payphone service" means the provision of public and semi-public pay telephones, the provision of inmate telephone service in correctional facilities and any ancillary services.

Phone Cost Management Support - Ameritech, Nevada and Pacific Bell

Phone Cost Management Support offers customers such products as Customer Dialed Account Recording (CDAR) and Account Code. The products permit a customer to add a customer-designated account number to the Automatic Message Accounting (AMA) record for any Station Message Detail Recording (SMDR) call. The record is provided to the customer with the monthly bill and contains all information required for SMDR plus the customer-designated account number.

Planning and Development Activities

This service involves the planning and development of potential nonregulated services, and also includes regulated services that are classified as nonregulated. These planning and development activities include all preparation activities prior to introducing the product for public offering. There are no revenues associated with this activity.

Post Sales Customer Care

This activity begins after the initial point of sale. It includes handling customer complaints; and customer inquiries and change requests related to due dates, services, features, pricing plans, etc.

Professional Services – Ameritech

This activity provides outside third parties with an array of professional services (e.g., legal, tax, marketing, human resources) by third party vendors as well as developed internally. This service also includes provision to outside third parties of training classes/curriculums and training materials which have been developed or acquired for use within the Company, and which may be modified to meet a customer's specific needs. Training services for employees of affiliates are provided by a separate subsidiary, as displayed in Section V.

Protocol Conversion - Ameritech, Pacific Bell and Southwestern Bell

The Protocol Conversion service provides net conversions between different transmission protocols (e.g., asynchronous, bisynchronous, X.25, X.75, 370 SNA, X.PC), excluding conversions between X.25 and X.75. Net conversion occurs when the protocol originated at the sending computer or terminal is different than that delivered at the receiving end.

Protocol processing includes both regulated (basic) and nonregulated (enhanced) components. The basic components support like - protocol transmissions (e.g., asynchronous to asynchronous, X.25 to X.25) and X.25 to X.75 transport, and are offered as tariffed services. The enhanced portion provides net conversion between protocols, excluding X.25 to X.75.

Software Services - Ameritech and Southwestern Bell

These services include: a) the licensing, sub-licensing or other sale of programming efforts to create, maintain or customize software for outside third parties and affiliates; and b) funding the development of applications software by outside third parties and affiliates, for which royalties may be received.

Spread Spectrum Alarm Service – Ameritech

This service provides for the "enhanced" transmission of alarm information between an alarm company and its customers over ordinary telephone loops. This service is provided subject to the conditions outlined in the Commission's AST Order, including that the costs associated with the scanning and routing functions be treated as nonregulated.

Voice Messaging Services – Ameritech

These services provide customers the ability to record customized greetings for incoming messages, and store messages for future retrieval, forwarding and deletion.

NONREGULATED ACTIVITIES

ACTIVITY																				
1: Billing and Payment Processing Services							7: Marketing Services							13: Protocol Conversion						
2: Computer Services							8: Pay Telephone CPE and Service							14: Software Services						
3: Customer Premises Equipment and Wire Services							9: Phone Cost Management Support							15: Spread Spectrum Alarm Service						
4: Directory Listing Services							10: Planning and Development Activities							16: Voice Messaging Services						
5: Directory White Page Service							11: Post Sales Customer Care							17: Reserved						
6: Incidental InterLATA Services							12: Professional Services							18: Internet Protocol Services						
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18		
ACCT																				
1220	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
1410	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2002			X					X												
2003			X	X		X		X						X	X	X		X		
2111	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2112	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X		
2114	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X		
2121	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2122	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2123	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2124	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2211									X											
2212						X			X	X			X					X		
2220				X																
2231						X														
2232						X									X			X		
2311			X																	
2341		X	X																	
2351								X												
2362			X															X		
2411										X										
2421																		X		
2422						X												X		
2423						X												X		
2441						X														
2681	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X		
2682	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		
2690	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X		

NONREGULATED ACTIVITIES

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
ACCT																		
3100	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
3410	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X
3420	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
4100	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
4300	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
4340	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
5280	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
5300	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6112		X	X	X	X	X	X	X	X	X	X		X	X	X			X
6114		X	X	X	X	X	X	X	X	X	X		X	X	X			X
6121		X	X	X	X	X	X	X	X	X	X		X	X	X	X		X
6122		X	X	X	X	X	X	X	X	X	X		X	X	X	X		X
6123	X	X	X	X	X	X	X	X	X	X	X		X	X	X	X		X
6124	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6211									X									
6212						X										X		X
6220				X				X										
6231						X												
6232		X				X												X
6311			X															
6341			X															
6351								X										
6362		X	X							X								X
6421			X															X
6422			X			X												X
6423			X															X
6441			X			X												
6512	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6531			X	X		X	X				X		X			X		X
6532			X	X		X		X		X						X		
6533			X				X	X			X				X			
6534	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6535	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X

NONREGULATED ACTIVITIES

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
ACCT																		
6540								X										
6561	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6563	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6564	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
6611	X	X	X	X	X		X	X	X	X	X		X	X	X	X		X
6613		X	X	X			X	X	X		X			X	X	X		X
6622			X	X	X			X										
6623		X	X	X			X	X	X		X		X		X	X		X
6720	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
7100	X	X	X	X	X	X	X	X	X		X	X	X	X	X	X		X
7210		X	X	X	X	X	X	X	X	X	X		X	X	X	X		X
7220	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
7230	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
7240	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
7250	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
7300	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
7500	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X

SECTION III - INCIDENTAL ACTIVITIES

OVERVIEW

Ameritech, Nevada Bell, Pacific Bell and Southwestern Bell Telephone (Telcos) classify as incidental, for accounting treatment, those nontariffed activities that meet the qualitative and quantitative criteria promulgated by the Commission. Specifically, each incidental activity listed in this section meets the following criteria:

- a) The activity is an outgrowth of regulated operations;
- b) The activity is not a separate line of business:
 - There is no business or marketing plan,
 - The Telcos do not actively solicit customers for the activity,
 - There is only an insubstantial commitment of resources or investment made by the Telcos.
- c) The total revenue of all incidental activities does not exceed, in the aggregate, one percent of total revenues.

The incidental activities included herein do not include activities such as nonregulated lines of business, transactions limited to affiliates or court-ordered arrangements, e.g., shared network facilities, equal access. When incidental services are provided to affiliates, the affiliate transaction rules apply. See Section V for services provided to affiliates. Activities provided under state tariffs are not considered incidental.

LISTING OF INCIDENTAL ACTIVITIES:

- 1) Directory Revenue
This activity includes:
 - The leasing of White Pages street address directories. Furnishing lists of telephone subscribers under a license arrangement is tariffed in Wisconsin. Revenue earned from this activity in Wisconsin is not included in incidental activities.
 - Contracts billed through the Dallas special bill unit including all revenues associated with any listing sales agreements related to the local White Pages directories for the purpose of publishing a telephone directory.
- 2) Rent Revenue
This activity includes:
 - Revenue from the rental of surplus land (other than right of way property) and space in buildings.
 - Revenues from the rental of pole line space for attachments, space in conduits and use of right of way based on agreements with other utility and CATV companies (tariffed in Illinois, Indiana, Michigan, Ohio and Wisconsin).
 - Revenues from the rental to others of central office equipment such as circuit, switching equipment and plant and circuits furnished apart from

telephone service rendered by the Company. Amounts received for the use of facilities in connection with Extended Area Service (EAS) shall be included in this account.

3) Corporate Operations Revenue

This activity includes:

Revenue derived from services rendered to other companies under a license agreement, general services contract or other arrangement providing for the furnishing of general accounting, financial, legal, patent and other general services associated with the provision of regulated telecommunications services.

4) Special Billing Arrangements Revenue

This activity includes:

Revenue derived from the provision, either under tariff or through contractual arrangements, of special billing information to customers in the form of files, magnetic tapes, cards or statements. Special billing information provides detail in a format and/or a level of detail not normally provided in the standard billing rendered for the regulated telephone services utilized by the customer.

5) Customer Operations Revenue

This activity includes:

- Revenue derived from the performance of customer operations services for others incident to the company's regulated telecommunications operations that are not provided for elsewhere.
- This further includes company operator services; flat amounts charged other Telephone Companies for operating services on toll lines of such connecting Companies terminating in the switchboard of the Company; providing centralized rate and route information for others; and rendering unattended dial exchange operating office service.

6) Plant Operations Revenue

This activity includes:

Revenue from contract services (plant maintenance) performed for others incident to the company's regulated telephone operations. This includes revenue from the incidental performance of nontariffed operating and maintenance activities for others which are similar in nature to those activities which are performed by the company in operating and maintaining its own telecommunications plant facilities.

7) Other Incidental Regulated Revenue

This activity includes:

Miscellaneous intrastate regulated revenues not accounted for elsewhere.

- Operator services not covered by tariff.
- Operator services functions such as directory assistance (excluding nonregulated directory assistance, credit card and third number party calls provided to customers of local exchange carriers and billed to that carrier).

8) Income From Custom Work

This activity includes:

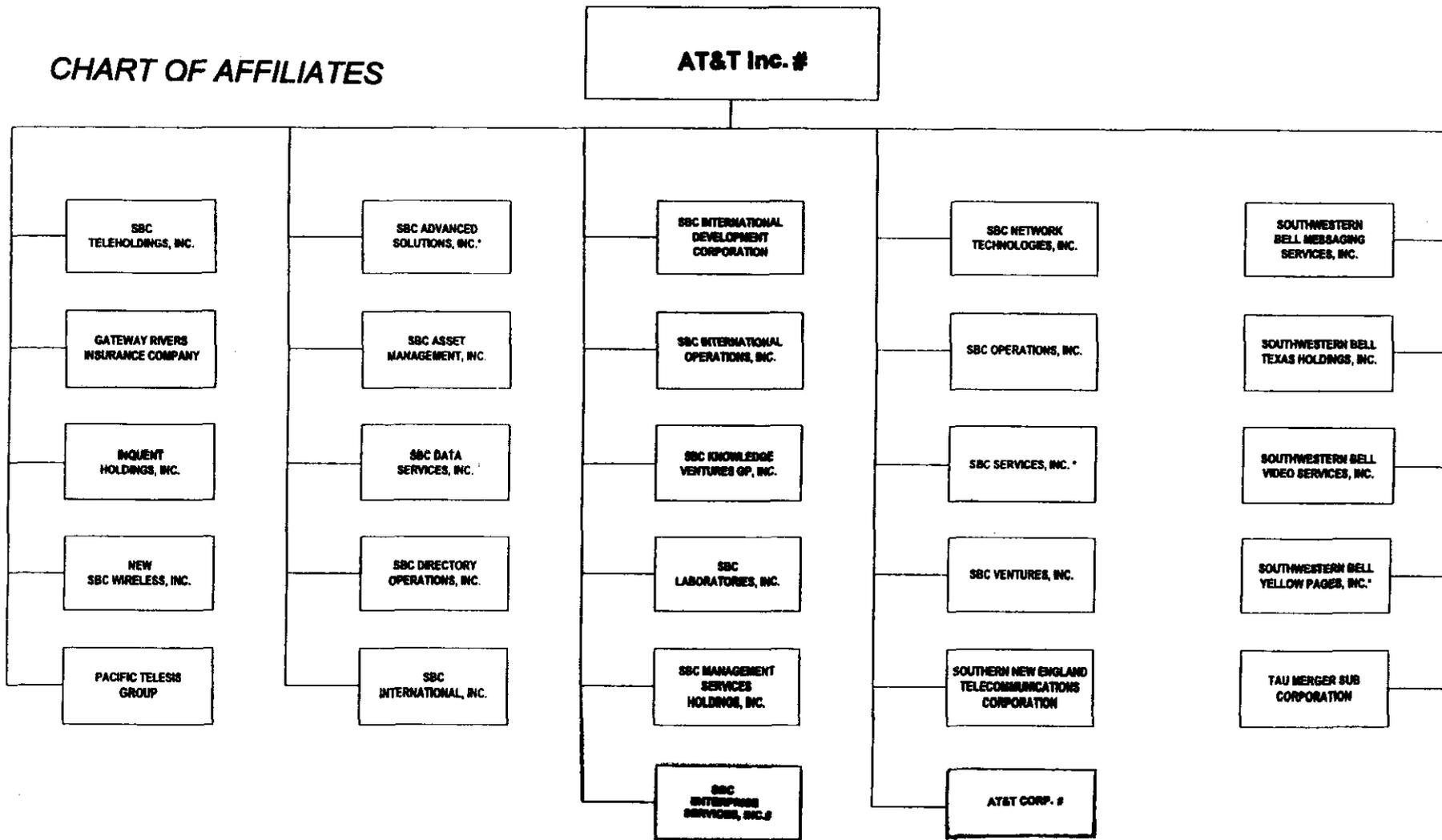
Profits realized from custom work (plant construction) performed for others incident to the company's regulated telecommunications operations. This includes profits from the incidental performance of nontariffed construction activities (including associated engineering and design) for others, which are similar in nature, to those activities performed by the company in constructing its own telecommunications plant facilities.

INCIDENTAL ACTIVITIES	AOCs	NB	PB	SWBT
1) Directory Revenue	X			X
2) Rent Revenue	X	X	X	X
3) Corporate Operations Revenue			X	
4) Special Billing Arrangements Revenue	X	X	X	X
5) Customer Operations Revenue	X	X	X	X
6) Plant Operations Revenue	X		X	X
7) Other Incidental Regulated Revenue	X			
8) Income From Custom Work	X	X	X	X



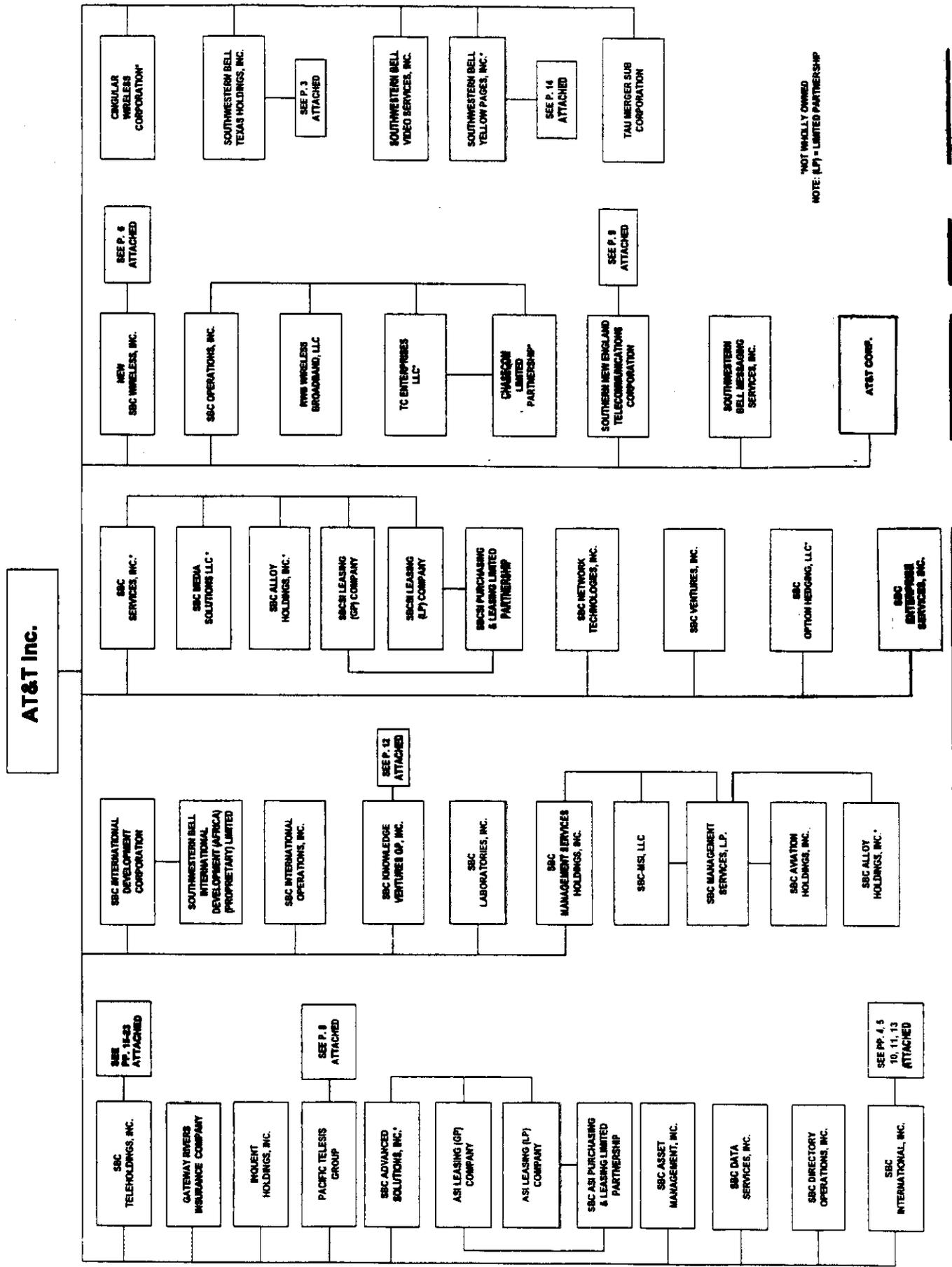
FIRST-TIER SUBSIDIARIES
 AS OF SEPTEMBER 30, 2005

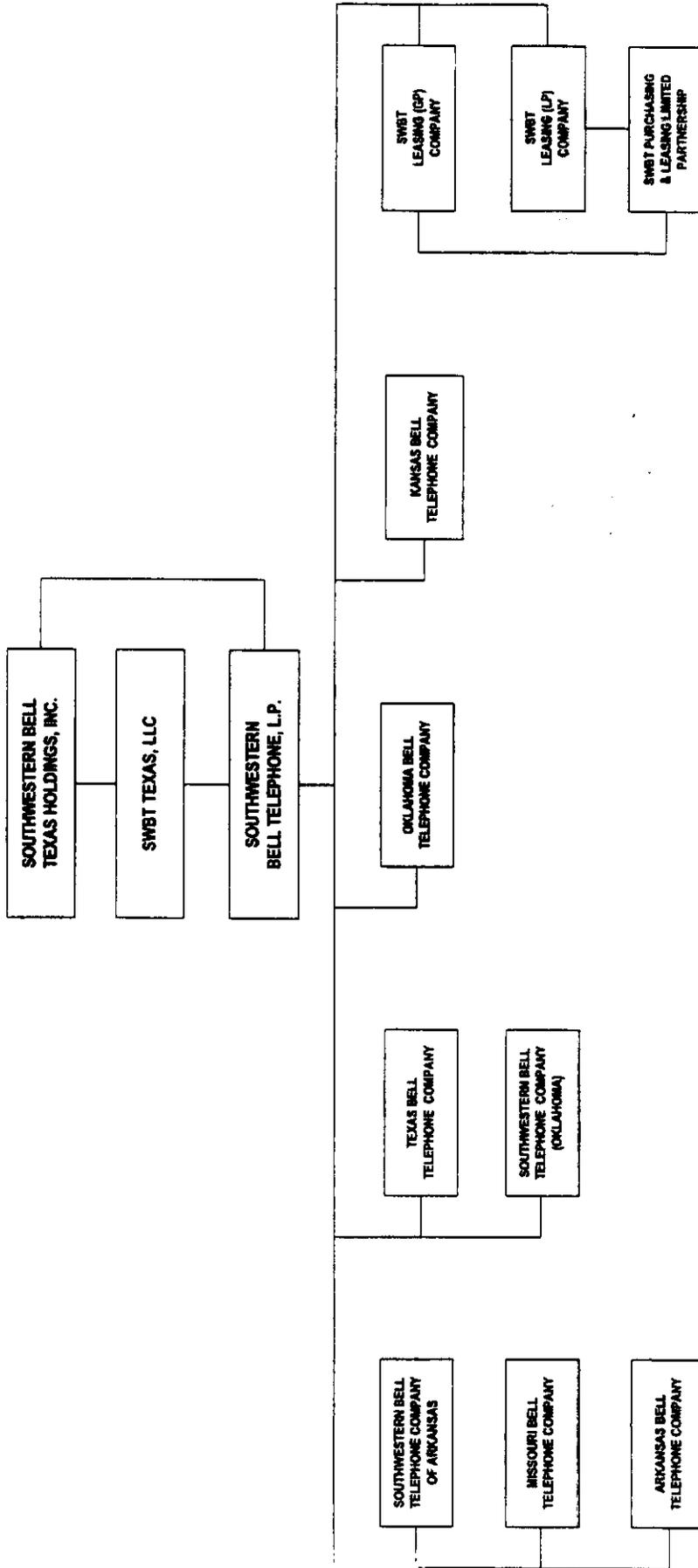
CHART OF AFFILIATES

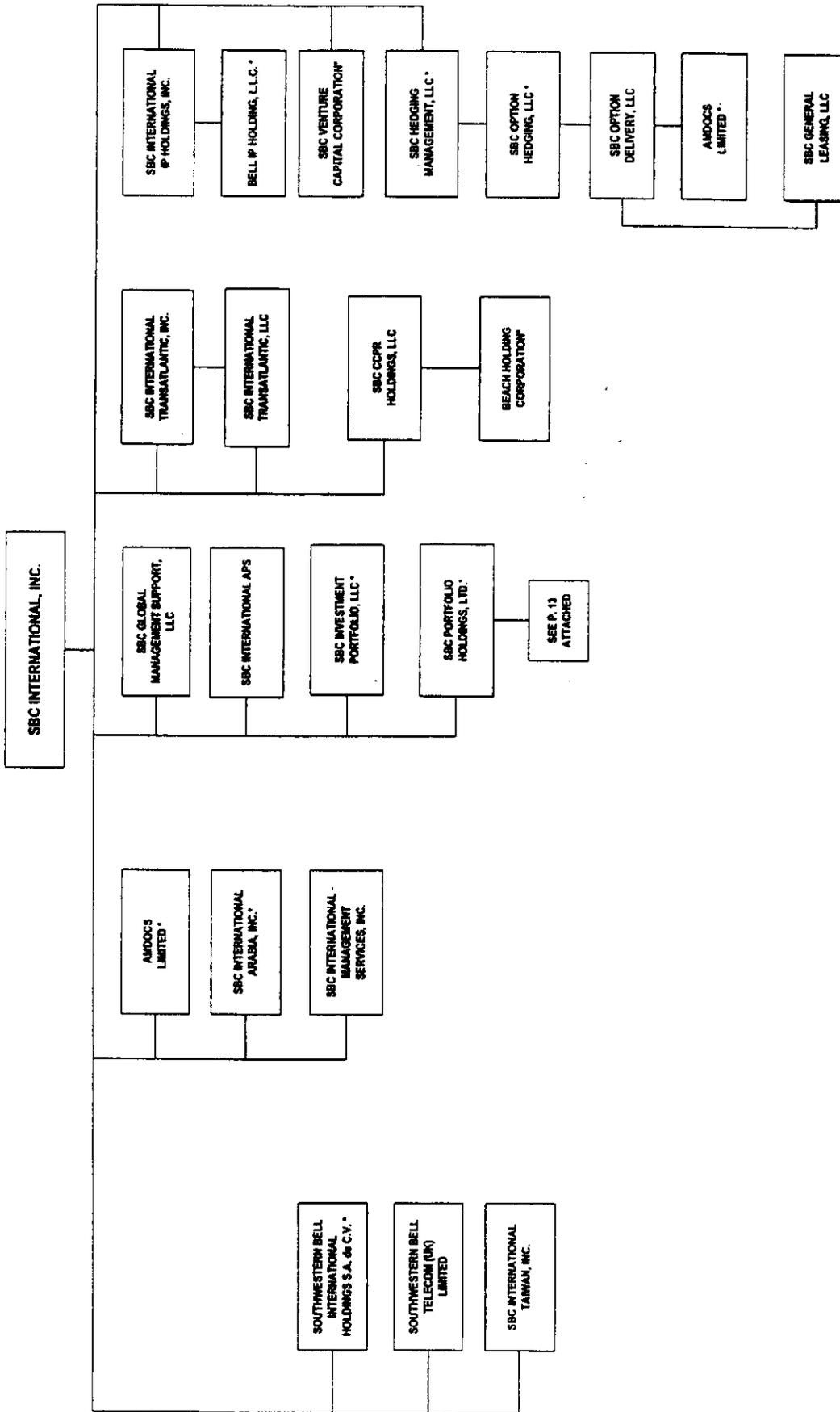


#Note: SBC Communications Inc. was renamed AT&T Inc. after merger with AT&T Corp., subsequent to the September 30, 2005 organization chart date. SBC Enterprise Services, Inc. was created after the September 30, 2005 organization chart date.

*NOT WHOLLY OWNED







*NOT WHOLLY OWNED