

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

PUBLIC NOTICE

Released: February 6, 1996

**COMMON CARRIER BUREAU SETS PLEADING
SCHEDULE
IN PRELIMINARY RATE OF RETURN INQUIRY**

AAD 96-28

This Notice asks for comment on whether the Commission should initiate a rate of return represcription proceeding for those local exchange carriers ("LECs") that are subject to rate of return regulation for their earnings on interstate access services.¹

On March 30, 1995, the Commission adopted a *Report and Order* in CC Docket No. 92-133 that revised the rules governing procedures and methodologies for prescribing and enforcing the rate of return for LECs not subject to price cap regulation.² In the *Report and Order*, the Commission adopted new represcription procedures for monitoring the monthly average yields on ten-year United States Treasury securities. Whenever such monthly average yields remain for a consecutive six-month period at least 150 basis points (*i.e.*, 1.5 percent) above or below a certain reference point, the Commission must issue a Notice inquiring whether to commence a rate of return represcription proceeding. The reference point is the average of the average monthly yields in effect for the consecutive six-month period immediately prior to the effective date of the current rate of return prescription. The Notice must: (1) set filing deadlines for comments and replies; (2) set forth the cost of debt, cost of preferred stock, and capital structure computed in accordance with Part 65 of the Commission's rules; and (3) solicit "such further information as the Commission might deem proper."³ The Commission delegated authority to issue the Notice to the Chief, Common Carrier Bureau.⁴

As stated in the *Report and Order*, the reference point currently is set at 8.64 percent.⁵ Because the Commission released the *Report and Order* on April 6, 1995, we count May, 1995, as the first month in computing the average monthly yield on ten-year United States Treasury securi-

ties. Those yields were more than 150 basis points below the 8.64 percent reference point for the consecutive six-month period May through October 1995:

Month (1995)	Yield ⁶	Difference
May	6.63%	-2.01%
June	6.17%	-2.47%
July	6.28%	-2.36%
August	6.49%	-2.15%
September	6.20%	-2.44%
October	6.04%	-2.60%

This downward trend in rates continued for the month of November 1995 when the yield on the ten-year Treasury securities was 5.93 percent, *i.e.*, 2.71 percent below the reference point. Any interested person may file comments and replies in response to this Notice in order to help the Commission decide whether to initiate a represcription proceeding. We invite commenters to submit any evidence and opinion they deem relevant, including evidence regarding the cost of equity for LEC interstate access services. The Commission may decide to initiate a represcription proceeding based on information submitted in this proceeding and "on any other information specifically identified" by the Commission.⁷ We set out calculations of the cost of debt and capital structure in the attached Appendix. For purposes of this Notice, we request comment on cost of debt determined by the formula set out in Section 65.302, but we note that this formula would appear to yield an excessively high cost of carrier debt (*i.e.*, 14.96%). This cost of debt results from an apparent error in the numerator in the cost of debt formula. That numerator, Total Annual Interest Expense, is defined as for "the most recent two years" for all LECs with annual revenues of \$100 million, rather than "the most recent year" which would appear to be consistent with the intent of the Commission's Order.⁸ The Bureau intends to propose to the Commission that it change the rule to reflect this modification. In the meantime, and pursuant to Section 65.101(b), commenters are invited to address revised cost of debt calculations based on a modified formula as set out in the attached Appendix.

In the Appendix, for LECs with annual revenues of \$100 million or more, we compute a composite cost of debt of 7.21 percent and a capital structure composed of 42.48 percent debt and 57.52 percent equity. Based on information currently available to the Commission, no LEC subject to rate of return regulation for interstate access services has issued preferred stock as of the date of this Notice. We invite comment on whether this is in fact the case and, if it is not, commenters may submit their analyses and cost calculations for preferred stock in their replies. All data submitted shall be filed in paper format and electronically

¹ See 47 C.F.R. § 65.101.

² Amendment of Parts 65 and 69 of the Commission's Rules to Reform the Interstate Rate of Return Represcription and Enforcement Processes, *Report and Order*, CC Docket No. 92-133, 10 FCC Rcd 6788 (1995) ("*Report and Order*"). Rate of return represcriptions also affect the price cap LECs in limited ways. These include: possible changes in the amounts that price cap LECs receive from the Universal Service Fund or pay for long-term support of NECA's common line pool; possible changes in price cap LECs' accounting for those affiliate transactions that our rules require LECs to record at cost; and possible changes to the amounts those LECs pay the Tele-

communications Relay Services Fund to give hearing-impaired users full access to the voice telecommunications network. *Id.* at 6818.

³ 47 C.F.R. §§ 65.302, 65.303, and 65.304.

⁴ 47 C.F.R. § 65.101(c).

⁵ 10 FCC Rcd at 6807, at n.103.

⁶ Economic Indicators: Prepared for the Joint Economic Committee by the Council of Economic Advisers October 1995, 104th Cong., 1st Sess. 30 (1995).

⁷ See 47 C.F.R. § 65.101(b).

⁸ See *Report and Order*, 10 FCC Rcd at 6835.

on 3.5 inch high-density diskettes in either Lotus 123 (version 4.x or below) or Microsoft Excel (version 4.x or below).

For purposes of this proceeding, our non-restricted "permit but disclose" *ex parte* rules will apply.⁹ These rules generally allow *ex parte* presentations in non-restricted proceedings subject to a public disclosure requirement. Responses to Commission and staff inquiries that are designed to clarify or adduce evidence, or to resolve issues, are considered exempt *ex parte* presentations pursuant to 47 C.F.R. § 1.1204(b)(7), provided that any new information is disclosed pursuant to the Note to that section and 47 C.F.R. § 1.1206(a).

All comments shall be filed no later than **March 11, 1996**. Reply comments shall be filed no later than **April 15, 1996**. Comments should reference file number AAD 95-172. Four copies of each pleading should be sent to Ernestine Creech, FCC, Common Carrier Bureau, 2000 L Street, N.W., Suite 257, Washington, D.C. 20554, and one copy of each pleading to the International Transcription Service (ITS), 2100 M Street N.W., Suite 140, Washington, D.C. 20037. Copies are available for public inspection in the Accounting and Audits Division public reference room 2000 L Street N.W., Room 812, Washington, D.C. Copies are available from ITS.

For further information, contact Thomas J. Beers at (202) 418-0872 or John C.K. Hays at (202) 418-0875.

By the Chief, Common Carrier Bureau

FEDERAL COMMUNICATIONS COMMISSION

⁹ 47 C.F.R. §§ 1.1200(a) and 1.1006.

Appendix

Local Exchange Carrier Cost of Debt and Capital Structure for the Year 1994*

Local Exchange Carrier	Total Debt			Total Interest on Debt for 1994	Cost of Debt for 1994	Total Equity			Average Total Capital	Debt Ratio	Equity Ratio
	12/31/93	12/31/94	Avg. for 1994			12/31/93	12/31/94	Avg. for 1994			
	a	b	c=(a+b)/2	d	e=d/c	f	g	h=(f+g)/2	i=c+h	j=c/i	k=h/i
Illinois Bell	1,721,522	1,591,989	1,656,756	109,156	6.59%	1,837,962	1,096,233	1,467,098	3,123,853	53.04%	46.96%
Indiana Bell	381,465	308,388	344,927	18,062	5.24%	815,784	595,169	705,477	1,050,403	32.84%	67.16%
Michigan Bell	1,533,521	1,340,650	1,437,086	97,844	6.81%	1,761,736	1,179,958	1,470,847	2,907,933	49.42%	50.58%
Ohio Bell	884,887	849,144	867,016	63,610	7.34%	1,246,924	768,088	1,007,506	1,874,522	46.25%	53.75%
Wisconsin Bell	546,933	488,483	517,708	30,319	5.88%	679,556	459,201	569,379	1,087,087	47.62%	52.38%
Bell of Pennsylvania	1,753,826	1,667,292	1,710,559	128,024	7.48%	2,476,951	2,457,893	2,467,422	4,177,981	40.94%	59.06%
C&P of D.C.	245,204	252,245	248,725	18,930	7.81%	354,226	354,476	354,351	603,076	41.24%	58.76%
C&P of Maryland	1,030,601	1,011,686	1,021,144	71,658	7.02%	1,468,259	1,467,094	1,467,677	2,488,820	41.03%	58.97%
C&P of Virginia	960,345	961,840	961,093	69,627	7.24%	1,510,019	1,484,735	1,497,377	2,458,470	39.09%	60.91%
C&P of W. Va.	284,896	264,407	274,652	18,904	6.88%	442,890	433,124	438,007	712,659	38.54%	61.46%
Diamond State	103,688	111,528	107,608	8,386	7.79%	201,253	198,085	199,669	307,277	35.02%	64.98%
New Jersey Bell	1,392,269	1,419,297	1,405,783	105,674	7.52%	2,549,508	2,505,010	2,527,259	3,933,042	35.74%	64.26%
BellSouth	7,681,692	7,768,763	7,725,228	557,726	7.22%	10,743,264	11,115,595	10,929,430	18,654,657	41.41%	58.59%
Centel Tel (NC & NV)	278,637	394,088	336,363	22,461	6.88%	606,681	806,641	806,681	943,024	35.87%	64.33%
Centel of Florida	87,389	108,963	98,176	8,131	8.28%	147,824	163,846	155,835	254,011	38.65%	61.35%
Centel of Illinois	49,911	69,852	59,882	4,467	7.46%	87,469	81,426	84,448	144,329	41.49%	58.51%
Centel of Virginia	82,481	96,974	89,728	6,232	6.95%	139,806	141,571	140,689	230,416	38.84%	61.06%
Cincinnati Bell	312,646	314,526	313,586	25,311	8.07%	445,715	454,902	450,309	763,895	41.05%	58.95%
Contel of the South	90,954	81,188	86,071	5,725	6.65%	89,193	93,629	91,411	177,482	48.60%	51.50%
Contel of California	165,594	148,400	156,997	12,139	7.73%	188,648	215,259	200,954	357,951	43.88%	56.14%
Contel of Texas	120,431	103,306	111,869	8,594	7.68%	128,027	122,154	125,091	236,959	47.21%	52.79%
GTE of the North	1,633,091	1,674,561	1,653,826	112,719	6.82%	2,188,294	2,376,718	2,282,506	3,936,332	42.01%	57.99%
GTE of the Midwest	391,148	346,862	369,005	28,394	7.69%	384,939	420,263	402,601	771,606	47.82%	52.18%
GTE California	1,463,830	1,404,116	1,433,973	89,366	6.23%	2,432,100	2,497,347	2,464,724	3,898,697	36.78%	63.22%
GTE Florida	1,313,837	875,109	1,094,473	61,151	5.59%	1,179,014	1,211,235	1,195,125	2,289,598	47.80%	52.20%
GTE Hawaii	413,933	540,291	477,112	33,555	7.03%	508,148	522,316	515,232	992,344	48.08%	51.92%
GTE Northwest	680,137	728,758	704,448	52,392	7.44%	901,436	966,818	934,127	1,638,575	42.99%	57.01%
GTE South	428,638	765,663	597,151	60,005	10.05%	722,322	1,033,703	878,013	1,475,163	40.48%	59.52%
GTE Southwest	765,749	743,636	754,693	56,344	7.47%	1,047,737	1,025,122	1,036,430	1,791,122	42.14%	57.86%
Lincoln Tel.	73,920	60,932	67,426	5,490	8.14%	156,052	162,920	159,486	226,912	29.71%	70.29%
New England Tel	2,338,902	2,233,474	2,286,188	155,884	6.82%	2,918,483	2,968,528	2,943,506	5,229,694	43.72%	56.28%
New York Tel	3,413,411	4,004,357	3,708,884	305,895	8.25%	5,185,316	4,805,270	4,995,293	8,704,177	42.61%	57.39%
Pacific Bell	5,687,094	5,435,785	5,561,440	439,106	7.90%	6,238,584	6,328,979	6,283,782	11,845,221	46.95%	53.05%
Pacific Nevada	84,476	87,911	86,194	7,323	8.50%	116,446	123,138	119,792	205,966	41.84%	58.16%
Rochester Telephone	383,791	473,559	428,675	41,251	9.62%	666,019	758,691	712,355	1,141,030	37.57%	62.43%
Southwestern Bell	5,051,432	4,932,826	4,992,129	357,944	7.17%	7,151,076	7,065,274	7,108,175	12,100,304	41.26%	58.74%
So. New Eng. Tel	992,114	751,995	872,055	53,817	6.17%	1,105,631	1,179,731	1,142,681	2,014,736	43.28%	56.72%

Appendix

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Local Exchange Carrier Cost of Debt and Capital Structure for the Year 1994*

Local Exchange Carrier	Total Debt			Total Interest on Debt for 1994 d	Cost of Debt for 1994 e=d/c	Total Equity			Average Total Capital i=c+h	Debt Ratio j=c/i	Equity Ratio k=h/i
	12/31/93 a	12/31/94 b	Avg. for 1994 c=(a+b)/2			12/31/93 f	12/31/94 g	Avg. for 1994 h=(f+g)/2			
United Florida	475,165	499,084	487,125	35,951	7.38%	721,071	697,546	709,309	1,196,433	40.71%	59.29%
United Indiana	58,518	62,529	60,524	4,454	7.36%	101,656	96,271	98,964	159,487	37.95%	62.05%
United Inter Mtn.	114,275	108,879	111,577	8,625	7.73%	141,157	144,745	142,951	254,528	43.84%	56.16%
United Missouri	96,171	95,016	95,594	7,983	8.35%	118,388	134,085	126,237	221,830	43.08%	56.91%
United New Jersey	51,316	54,494	52,905	3,690	6.97%	84,054	90,124	87,089	139,994	37.79%	62.21%
United N. Carolina	315,573	310,224	312,899	22,629	7.23%	452,020	515,368	483,694	796,593	39.28%	60.72%
United Ohio	166,113	184,599	165,356	11,640	7.04%	259,735	273,991	266,863	432,219	38.26%	61.74%
United Pennsylvania	120,127	119,667	119,897	9,463	7.89%	148,556	159,740	154,148	274,045	43.75%	56.25%
United Texas	51,949	56,247	54,098	4,538	8.39%	88,815	90,330	89,573	143,671	37.65%	62.35%
US West	5,516,845	5,885,345	5,701,095	373,948	6.56%	7,675,724	7,955,666	7,815,695	13,516,790	42.18%	57.82%
Totals	51,790,447	51,768,928	51,779,688	3,734,537	7.21%	70,812,468	69,598,008	70,105,238	121,884,926	42.48%	57.52%

*Sources: Columns a & b: 1993 and 1994 ARMIS 43-02, Table I, Rows 420+4020+4050+4060+1407.

Column d: 1994 ARMIS 43-02, Table II, Row 7500.

Columns f & g: 1993 and 1994 ARMIS 43-02, Table I, Row 440.

Only those LECs that filed ARMIS reports for both 1993 and 1994 were included in this table.