

Decision **PROPOSED ALTERNATE PAGES OF COMMISSIONER PEEVEY**  
**(Mailed 9/9/2004)**

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Joint Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Switching in Its First Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application 01-02-024  
(Filed February 21, 2001)

Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Loops in Its First Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application 01-02-035  
(Filed February 28, 2001)

Application of The Telephone Connection Local Services, LLC (U 5522 C) for the Commission to Reexamine the Recurring Costs and Prices of the DS-3 Entrance Facility Without Equipment in Its Second Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application 02-02-031  
(Filed February 28, 2002)

Application of AT&T Communications of California, Inc. (U 5002 C) and WorldCom, Inc. for the Commission to Reexamine the Recurring Costs and Prices of Unbundled Interoffice Transmission Facilities and Signaling Networks and Call-Related Databases in Its Second Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application 02-02-032  
(Filed February 28, 2002)

Application of Pacific Bell Telephone Company (U 1001 C) for the Commission to Reexamine the Costs and Prices of the Expanded Interconnection Service Cross-Connect Network Element in the Second Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application 02-02-034  
(Filed February 28, 2002)

Application of XO California, Inc. (U 5553 C) for the Commission to Reexamine the Recurring Costs of DS1 and DS3 Unbundled Network Element Loops in Its Second Annual Review of Unbundled Network Element Costs Pursuant to Ordering Paragraph 11 of D.99-11-050.

Application 02-03-002  
(Filed March 1, 2002)

**OPINION ESTABLISHING REVISED UNBUNDLED NETWORK  
ELEMENT RATES FOR PACIFIC BELL TELEPHONE COMPANY  
DBA SBC CALIFORNIA**

**. Table 1**  
**Adopted UNE Rates**

| <b>UNE</b>                     | <b>Adopted Rate<sup>1</sup></b> |
|--------------------------------|---------------------------------|
| Average 2-wire Loop            | \$14.44                         |
| Average DS-1 Loop              | \$71.29                         |
| Average DS-3 Loop <sup>2</sup> | \$573.20                        |
| 2-wire port                    | \$3.16                          |
| UNE-Platform <sup>3</sup>      | \$18.85                         |

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<sup>1</sup> These rates include a 21% shared and common cost markup, as adopted in D.02-09-049.

<sup>2</sup> In modeling DS-3 costs, the assumptions adopted in this decision produce costs substantially higher than that requested by SBC-CA. This result is so anomalous, that we believe that it is more reasonable to adopt that amounts requested by SBC-CA. This affects the following UNE's: DS-3 Loop, Unbundled Dedicated Transport using the DS-3 Loop, and the DS-3 Entrance Facility.

<sup>3</sup> UNE-Platform (UNE-P) refers to the combination of a 2-wire loop, 2-wire port, and switching UNEs.

costs we rely solely on HM 5.3.

Some of the key modeling inputs used for the Commission's model runs include a 9.82% cost of capital, asset lives based on those previously adopted by this Commission, and a 41.7% copper distribution fill factor. The Commission's model runs include several inputs and assumptions proposed by SBC-CA, including plant mix, labor rates, Lucent and Nortel switch vendor assumptions, the forward-looking mix between Universal Digital Loop Carrier (UDLC) and Integrated Digital Loop Carrier (IDLC) technologies, and a 12,000-foot crossover point (beyond which fiber replaces copper). Furthermore, today's order adopts a flat-rate structure for the switching UNE wherein all switching costs are incorporated into one flat monthly port price, as proposed by JA.

As set forth in D.02-05-042 and D.02-09-052, SBC-CA must adjust, or "true-up" the interim rates it charged for its UNEs to the new rates adopted in this order. In other words, SBC-CA must calculate whether the previous interim rates were higher or lower than these newly adopted rates, and whether it has over or under-collected the appropriate revenues for any UNEs it sold at interim rates. This order stays the effective date of any true-up until its amount can be calculated and further proceedings held to determine payment options or consider other mitigations to minimize negative financial effects of the true-up on competitive carriers and customers.

- Corrected asset lives to ensure correct data used in all columns and to use proposed lives of SBC-CA. (Section VI.A)
- Corrected copper distribution and feeder fill factors to ensure the adopted fill factor is used for both material and installation costs (Section VI.E.1-2)
- Modified fill factor for copper distribution to 41.7%, copper feeder to 66.2%, DLC common equipment to 47.4% and DLC plug-in equipment to 53.1% (Sections VI.E.1,2,4 and 5)
- Corrected average switch size in SICAT to use SBC average for Nortel switches (Section V.D.2, Other Switching and Port Model Changes.)
- Modified NID inputs to use a 2 pair NID, one hour NID installation time, and adjusted residential premise termination fill factor to 53.4% (Section VI.E.7)
- Modified cost of capital to 9.82% based on an 11.78% cost of equity and a 6.34% debt rate, and a capital structure of 64% equity and 36% debt. (Section VI.B)
- Modified expense levels and cost factors related to non-regulated expenses, affiliate expenses, TBO expenses, and land and building factors (Section V.A.4.c)
- Adjusted fill factors in SPICE for SONET and common equipment fill to 85%, and fiber fill 54% (Section V.A.3)
- Modified split of new and growth switching lines (Section VI.J.2)
- Adjusted port cost calculation to correct labor costs and concentration ratio, as suggested by SBC-CA (Section V.D.2, Other Switching and Port Model Changes)
- Modified IDLC/UDLC inputs to 95% UDLC and 5% IDLC (Section VI.C.)

The final corrections and other modeling changes we made to HM 5.3 in response to comments were:

- Modified fill rates for copper distribution, copper feeder, DLC common equipment, and DLC plug-in equipment to match SBC-CA proposals. (Section VI.E.1,2, 4 and 5)
- Removed FCC cable prices and used HM 5.3 default values instead (Section V.D.2, Cable Prices)
- Modified plant mix inputs to match SBC-CA models (Section VI.G)
- Adjusted switching investment per line calculation (Section V.D.2, Switch Vendors)
- Corrected Verizon best in class expenses (Section V.B.6)
- Corrected BRI and trunk port factors (Section V.D.2, Other Switching and Port Model Changes)
- Modified cost of capital to 9.82% (Section VI.B)
- Adjusted DS-1 and DS-3 loop costs to account for missing equipment (Section V.D.2, DS-1 and DS-3 Loops)
- Calculated deaveraged rates for 4-wire, coin, PBX and ISDN loops (Section V.D.2, Deaveraged Rates)
- Modified NID installation time to one hour (Section VI.E.7)
- Removed additional splice crew to return to original splice crew proposals (Section VI.H)
- Modified split of new and growth switching lines (Section VI.J.2)
- Modified interoffice fiber fill factor to 54% to match run of SPICE (Section V.D.2, Interoffice Rates)
- Modified PBX loop option to include investment for PBX line card (Section V.D.2, PBX loops)
- Adjusted asset lives to match SBC-CA proposal (Section VI.A)

## 2. Description of HM 5.3 and SBC-CA Model Runs

Our decision to use HM 5.3 to set permanent UNE rates aside from the local loops for SBC-CA is based on runs of the HM 5.3 and SBC-CA models where we have set as many inputs as possible at the same levels. The reasoning behind our chosen input levels is described at length in the Modeling Inputs Section VI below. Here, we will briefly summarize which inputs were used for the two model runs that ultimately led to our decision to rely on HM 5.3 for ratesetting purposes. The inputs that we varied for our runs are the following:

Cost of Capital: We modified both models to use an input assumption of a 9.82% cost of capital. Also, we modified the tax rate in HM 5.3 to 40.75% to match the SBC-CA models.

Asset Lives: We used the asset lives proposed by SBC-CA in both the SBC-CA models and in HM 5.3.

IDLC/UDLC: We adjusted both models to assume a configuration of 5% IDLC, and 95% UDLC.

Structure Sharing: In the HM 5.3 model, we used structure sharing levels from the FCC Inputs Order, and we assumed 55% sharing of the distribution and feeder network. In the SBC-CA models, we were not able to modify SBC-CA's proposed structure sharing percentages because we could not determine the percentages assumed by SBC-CA.

equity by averaging it with book value. She explains that the results of her approach comport with SBC-CA's own internal target capital structure used in its capital budgeting process. (JA/Murray 3/12/03, p. 68.)

Z-Tel proposes use of SBC-CA's target capital structure, which gives a greater weight to debt levels and includes short-term debt. (Z-Tel/Ford, 2/7/03, p. 21.) Ford cites two sources in support of the use of target capital structure over the firm's current capital structure for valuation purposes. (*Id.*, p. 29.)

We will not adopt the 84% equity and 16% debt capital structure proposed by SBC-CA because we do not find a capital structure to be forward-looking if it is based on market values from 1998.

We are provided with a wide range of estimates for the capital structure. Excluding SBC-CA's proposal to use an 84% equity amount because it is too dated, we are still left with a range of 57% to 74% as proposed by JA. The low of 57% is based upon a 50/50 averaging of market and book values while the 74% is calculated by using more recent market data from the proxy group. This range, from 57% to 74%, provides us with a range of reasonableness. Any number in this range, including the endpoints, is reasonable.

We find that it is best to use some percentage of book value to moderate the potential swings that stock prices can have on market values. We disagree with Murray's proposal that book value should have a 50% weighting. Such a high weighting would understate the importance of the proxy group.

We will use a 70% market value and 30% book value as the appropriate amount of weighting. Such a ratio indicates our desire to give more significance to real world experience based upon the proxy group than numbers based upon historical costs. A 70% market/30% book ratio results in an equity percentage of 64%. The remaining 36% is the debt percentage.

We do not agree with Murray that we should use any short-term debt in the capital structure. In our forward-looking analysis of a hypothetical competitive network, we will assume that all debt is long term consistent with our assumptions regarding asset lives.

**f. Summary of Weighted Average  
Cost of Capital**

The results of our analysis are summarized in the table below. In short, we derive the capital structure for our analysis based on a 64% equity/36% debt forecast of a “forward-looking” capital structure. The 11.78% cost of equity that

we use is based on our revisions to the parties' CAPM analysis. We give no weight to the parties' DCF analyses. The 6.34% cost of debt that we use is based on an update to SBC-CA's 30-year debt rate. Altogether, these inputs result in a weighted average cost of capital for SBC-CA of 9.82%.

**Table 6**  
**Weighted Average Cost of Capital**

| Component | Percent of Total | Cost   | Weighted Cost |
|-----------|------------------|--------|---------------|
| Equity    | 64.00%           | 11.78% | 7.54%         |
| Debt      | 36.00%           | 6.34%  | 2.28%         |
|           | 100%             |        | 9.82%         |

- The Commission should use only HM 5.3 to set UNE rates
- The Commission should use only the SBC-CA models to set rates
- Corrections to the SBC-CA models were ignored
- The true-up of interim rates to permanent rates is too large and causes competitive harm
- The new rates create a price squeeze

We address these key comment issues briefly below. The revised proposed decision addressing these comments was mailed to the parties to allow them an additional opportunity to comment, based on the substantial changes from the original proposed decision.

The Proposed Alternate Pages of Commissioner Peevey received comments on \_\_\_\_\_ and reply comments on \_\_\_\_\_.

suggest “outboard calculations” to approximate the higher labor rates used in the SBC-CA models, which the Commission found were difficult to transport into HM 5.3. We have incorporated these suggestions as discussed herein.

### **C. The True-Up of Interim Rates**

CALTEL, Vycera, Navigator, and Mpower all comment that because the rates in the Proposed Decision are substantially higher than the interim rates adopted in D.02-05-042 and D.02-09-052, the size of the adjustment, or true-up, resulting from SBC-CA’s new permanent UNE rates will hurt the level of competition in California’s local exchange telephone market and drive CLCs into bankruptcy. These parties urge the Commission to consider the effects of the true-up in limiting consumer choice by driving competitors out of the market and to take steps to mitigate these negative effects.

For example, Mpower suggests limiting the amount of any back payments owed to SBC-CA to the prior OANAD rates set in D.99-11-050, rather than the lower interim rates adopted in D.02-05-042. ORA/TURN suggest the Commission should offer CLCs the option of a phased true-up payment plan to even out the cash flow consequences of an unexpected increase in UNE rates. They also suggest that interest accrual on amounts CLCs owe to SBC-CA should cease with the effective date of a decision ordering final UNE prices. (ORA/TURN, 6/7/04, p. 9.)

We note that the size of the true-up in this decision differs dramatically from the true-up that might have occurred had the Proposed Decision been adopted unchanged. We are persuaded that further

98. The Commission has generally excluded short-term debt when setting the cost of capital for utilities.

99. SBC-CA's proposed capital structure uses market values of equity and debt from 1998.

100. The firms in SBC-CA's proxy group have substantially increased their debt levels in recent years.

101. Ibbotson Associates has stated that a firm's target or optimal capital structure should be used in weighting the cost of equity and debt.

102. The capital structure proposed by JA, which mixes book and market values, stabilizes the swings of a pure market value study.

#### **IDLC/UDLC**

103. SBC-CA's engineering guidelines call for greater deployment of IDLC systems when economical.

104. A CLC cannot gain access to an unbundled IDLC.

105. UDLC loops are required for circuits that cannot be provisioned over an IDLC system, such as ISDN, DS-1, and burglar alarms.

106. At present, there are no stand-alone loops provisioned over IDLC anywhere in the U.S.

64. JA's three stage DCF analysis, based on more current growth rates than SBC-CA's analysis, is more reasonable than assuming all telecommunications firms will grow continuously at a faster rate than the whole economy.

65. SBC-CA's interest rate adjustment to the market risk premium is not reasonable because of updated assumptions regarding interest rate effects on equity premiums.

66. A market risk premium of 7.4%, based on Ibbotson Associates study of equity premiums from 1926 to 2001, is reasonable to use in our CAPM analysis because it is based on documented equity returns rather than disputed expectation of future returns.

67. It is more reasonable to base a risk-free rate on 30-year bonds, rather than 10-year bonds, to match the longer investment horizon in our market risk premium figure.

68. A risk free rate of 4.92% is more reasonable than SBC-CA's outdated risk free rate.

69. We should adopt SBC-CA's updated beta coefficient of .93 because it is based on recent data for the same proxy group that we use for our other cost of capital inputs.

70. When setting the cost of equity, we should give no weight to the DCF model results because DCF relies heavily on widely disparate growth forecasts for telecommunications firms.

71. It is reasonable to adopt an 11.78% cost of equity based on the conservatively higher CAPM results.

72. It is reasonable to determine a cost of capital by more heavily weighing the returns investors require in capital markets.

73. It is reasonable to assume that capital markets have already figured the relative risk of UNEs into the equity returns they require for SBC's stock.

74. SBC-CA's UNE business is subject to regulatory risk regarding the accuracy of UNE prices and competitive risk.

75. SBC-CA's cost of capital should equate to, but not be greater than, the cost of capital for SBC as a whole.

76. The Commissions' cost of capital analysis should incorporate long-term debt costs that match UNE asset lives, and are less volatile than short-term debt costs.

77. It is reasonable to assume a long-term debt cost of 6.34% for our analysis.

78. A capital structure based on a mix of market values and book values is appropriate for TELRIC pricing.

79. It is reasonable to base a capital structure on a firm's target capital structure, which includes a mix of market and book values.

80. The Commission should use a capital structure of 64% equity and 36% debt.

#### **IDLC/UDLC**

81. UDLC is the forward-looking technology choice for network design.

82. The Commission should assume a mix of 5% IDLC and 95% UDLC in its model runs because UDLC is the forward-looking technology that permits the unbundling of loops.

#### **DLC Costs**

83. It is reasonable to incorporate DLC installation costs above and beyond those listed in the Alcatel contract in our TELRIC model runs.

84. SBC-CA could not reasonably explain how LoopCAT's DLC installation factor was derived.

Appendix A  
Adopted UNE Rates \*

| UNEs   | Current Rates   | Commission Run<br>of SBC-CA Models | Commission Run<br>of HM 5.3 | Adopted rates <sup>1</sup>    |
|--|-----------------|------------------------------------|-----------------------------|-------------------------------|
| <b>Loop</b>                                    |                 |                                    |                             |                               |
| <b>2-Wire Loop</b>                             | <b>\$ 9.82</b>  | <b>\$ 14.40</b>                    | <b>\$ 14.49</b>             | <b>\$ 14.44</b>               |
| Zone 1   | \$ 8.24         | \$ 13.30                           | \$ 11.76                    | \$ 12.53                      |
| Zone 2   | \$ 11.19        | \$ 15.95                           | \$ 15.86                    | \$ 15.91                      |
| Zone 3   | \$ 19.69        | \$ 17.96                           | \$ 30.66                    | \$ 24.31                      |
| <b>4-Wire Loop</b>                             | <b>\$ 36.27</b> | <b>\$ 34.67</b>                    | <b>\$ 28.35</b>             | <b>\$ 31.51</b>               |
| Zone 1   | \$ 32.62        | \$ 31.95                           | \$ 25.50                    | \$ 28.72                      |
| Zone 2   | \$ 39.46        | \$ 39.04                           | \$ 30.85                    | \$ 34.94                      |
| Zone 3   | \$ 58.93        | \$ 41.50                           | \$ 46.07                    | \$ 43.78                      |
| <b>Coin Option</b>                             | <b>\$ 2.98</b>  | <b>\$ 2.48</b>                     | <b>\$ 1.75</b>              | <b>\$ 2.11</b>                |
| Zone 1   | \$ 3.04         | \$ 2.25                            | \$ 1.79                     | \$ 2.02                       |
| Zone 2   | \$ 2.95         | \$ 3.01                            | \$ 1.74                     | \$ 2.37                       |
| Zone 3   | \$ 2.54         | \$ 2.35                            | \$ 1.49                     | \$ 1.92                       |
| <b>PBX Option</b>                              | <b>\$ 2.21</b>  | <b>\$ 2.27</b>                     | <b>\$ 1.15</b>              | <b>\$ 1.71</b>                |
| Zone 1   | \$ 2.26         | \$ 2.07                            | \$ 1.18                     | \$ 1.62                       |
| Zone 2   | \$ 2.19         | \$ 2.76                            | \$ 1.14                     | \$ 1.95                       |
| Zone 3   | \$ 1.89         | \$ 2.16                            | \$ 0.98                     | \$ 1.57                       |
| <b>ISDN Option</b>                             | <b>\$ 4.51</b>  | <b>\$ 5.63</b>                     | <b>\$ 1.54</b>              | <b>\$ 3.58</b>                |
| Zone 1   | \$ 4.37         | \$ 5.05                            | \$ 1.49                     | \$ 3.27                       |
| Zone 2   | \$ 4.73         | \$ 6.95                            | \$ 1.61                     | \$ 4.28                       |
| Zone 3   | \$ 5.05         | \$ 5.62                            | \$ 1.72                     | \$ 3.67                       |
| <b>DS-1 Loop</b>                               | <b>\$ 93.91</b> |                                    | <b>\$ 71.29</b>             | <b>\$ 71.29</b>               |
| Zone 1   | \$ 89.68        |                                    | \$ 61.17                    | \$ 61.17                      |
| Zone 2   | \$ 97.78        |                                    | \$ 81.72                    | \$ 81.72                      |
| Zone 3   | \$ 119.40       |                                    | \$ 125.31                   | \$ 125.31                     |
| <b>DS-3 Loop</b>                               | <b>N/A</b>      |                                    | <b>\$ 633.23</b>            | <b>\$ 573.20</b> <sup>4</sup> |
| Zone 1   | N/A             |                                    | \$ 554.53                   | \$ 482.71 <sup>4</sup>        |
| Zone 2   | N/A             |                                    | \$ 823.89                   | \$ 714.60 <sup>4</sup>        |
| Zone 3   | N/A             |                                    | \$ 1,322.02                 | \$ 1,411.63 <sup>4</sup>      |
| <b>4-wire CO Facility Interface Connection</b> | <b>\$ 15.15</b> |                                    | <b>\$ 3.17</b>              | <b>\$ 3.17</b>                |
| <b>Switching</b>                               |                 |                                    |                             |                               |
| <b>Port <sup>2</sup></b>                       |                 |                                    |                             |                               |
| 2-Wire   | \$ 0.83         |                                    | \$ 3.16                     | \$ 3.16                       |
| Coin   | \$ 1.12         |                                    | \$ 3.08                     | \$ 3.08                       |
| Centrex  | \$ 1.29         |                                    | \$ 3.16                     | \$ 3.16                       |
| DID  | \$ 1.26         |                                    | \$ 5.89                     | \$ 5.89                       |
| ISDN/BRI                                       | \$ 4.26         |                                    | \$ 4.83                     | \$ 4.83                       |
| DS-I   | \$ 6.31         |                                    | \$ 128.10                   | \$ 128.10                     |
| <b>Switch Usage</b>                            |                 |                                    |                             |                               |
| <b>Interoffice - Originating</b>               |                 |                                    |                             |                               |
| Setup per Message                              | \$ 0.001751     |                                    | \$ -                        | \$ -                          |
| Holding Time per MOU                           | \$ 0.000547     |                                    | \$ -                        | \$ -                          |
| <b>Interoffice - Terminating</b>               |                 |                                    |                             |                               |
| Setup per Message                              | \$ 0.002076     |                                    | \$ -                        | \$ -                          |
| Holding Time per MOU                           | \$ 0.000554     |                                    | \$ -                        | \$ -                          |
| <b>Intraoffice</b>                             |                 |                                    |                             |                               |
| Setup per Message                              | \$ 0.003974     |                                    | \$ -                        | \$ -                          |
| Holding Time per MOU                           | \$ 0.001071     |                                    | \$ -                        | \$ -                          |

Appendix A  
Adopted UNE Rates \*

| UNEs  | Current Rates   | Commission Run<br>of SBC-CA Models | Commission Run<br>of HM 5.3 | Adopted rates <sup>1</sup> |
|---|-----------------|------------------------------------|-----------------------------|----------------------------|
| <b>Unbundled Tandem Switching</b>                 |                 |                                    |                             |                            |
| Setup per Attempt                                 | \$ 0.000153     |                                    | \$ 0.000471                 | \$ 0.000471                |
| Setup per Completed Message                       | \$ 0.000231     |                                    | \$ 0.000183                 | \$ 0.000183                |
| Holding Time per MOU                              | \$ 0.000135     |                                    | \$ 0.000471                 | \$ 0.000471                |
| <b>Trunk Port Termination</b>                     |                 |                                    |                             |                            |
| End Office Termination                            | \$ 6.31         |                                    | \$ 135.06                   | \$ 135.06                  |
| <b><u>Interoffice Transmission Facilities</u></b> |                 |                                    |                             |                            |
| <b>Unbundled Dedicated Transport</b>              |                 |                                    |                             |                            |
| Voice Grade - Fixed                               | \$ 3.05         |                                    | \$ 4.69                     | \$ 4.69                    |
| Variable mileage per mile                         | \$ 0.185735     |                                    | \$ 0.010828                 | \$ 0.010828                |
| DS-1 - Fixed                                      | \$ 32.15        |                                    | \$ 34.68                    | \$ 34.68                   |
| Variable mileage per mile                         | \$ 1.873612     |                                    | \$ 0.259881                 | \$ 0.259881                |
| DS-3 - Fixed                                      | \$ 375.36       |                                    | \$ 971.16                   | \$ 483.95 <sup>4</sup>     |
| Variable mileage per mile                         | \$ 36.32        |                                    | \$ 7.28                     | \$ 4.89 <sup>4</sup>       |
| <b><u>Additional Elements</u></b>                 |                 |                                    |                             |                            |
| <b>SS7</b>  |                 |                                    |                             |                            |
| <b>SS7 Links</b>                                  |                 |                                    |                             |                            |
| Voice Grade - Fixed                               | \$ 3.05         |                                    | \$ 4.69                     | \$ 4.69                    |
| Variable mile                                     | \$ 0.185735     |                                    | \$ 0.010828                 | \$ 0.010828                |
| DS-1 - Fixed                                      | \$ 32.15        |                                    | \$ 34.68                    | \$ 34.68                   |
| Variable mile                                     | \$ 1.873612     |                                    | \$ 0.259881                 | \$ 0.259881                |
| <b>Entrance Facility</b>                          |                 |                                    |                             |                            |
| DS-3 Entrance Facility w/o equipment              | \$ 733.47       |                                    | \$ 489.22                   | \$ 145.94 <sup>4</sup>     |
| <hr/>   |                 |                                    |                             |                            |
| <b>UNE-P <sup>3</sup></b>                         | <b>\$ 13.94</b> |                                    | <b>\$ 18.90</b>             | <b>\$ 18.85</b>            |

\* All rates include a 21% markup for shared and common cost.

<sup>1</sup> Adopted rates for loops other than DS1 and DS3 are average of Commission run of SBC-CA and HM 5.3 models.  
All other adopted UNE rates, except for those with footnote 4, are based on HM 5.3.

<sup>2</sup> The following HM 5.3 and adopted port rates, 2-wire, Centrex and ISDN, include an additional \$0.060 of extraneous SS7 investment.

<sup>3</sup> UNE-P calculated based on usage assumption of 1400 voice 700 toll.

<sup>4</sup> Adopted rates are based on SBC proposed.

Appendix B  
Comparison of Proposed and Adopted UNE Rates \*

| UNEs   | Current Rates   | SBC-CA Proposal  | JA Proposal      | Adopted UNE Rates |
|--|-----------------|------------------|------------------|-------------------|
| <b>Loop</b>                                    |                 |                  |                  |                   |
| <b>2-Wire Loop</b>                             | <b>\$ 9.82</b>  | <b>\$ 23.86</b>  | <b>\$ 5.24</b>   | <b>\$ 14.44</b>   |
| Zone 1   | \$ 8.24         | \$ 21.81         | \$ 4.45          | \$ 12.53          |
| Zone 2   | \$ 11.19        | \$ 27.16         | \$ 5.77          | \$ 15.91          |
| Zone 3   | \$ 19.69        | \$ 28.99         | \$ 11.31         | \$ 24.31          |
| <b>4-Wire Loop</b>                             | <b>\$ 36.27</b> | <b>\$ 56.11</b>  | <b>\$ 9.94</b>   | <b>\$ 31.51</b>   |
| Zone 1   | \$ 32.62        | \$ 51.25         | N/A              | \$ 28.72          |
| Zone 2   | \$ 39.46        | \$ 64.53         | N/A              | \$ 34.94          |
| Zone 3   | \$ 58.93        | \$ 65.96         | N/A              | \$ 43.78          |
| <b>Coin Option</b>                             | <b>\$ 2.98</b>  | <b>\$ 3.54</b>   | <b>\$ 0.13</b>   | <b>\$ 2.11</b>    |
| Zone 1   | \$ 3.04         | \$ 3.23          | N/A              | \$ 2.02           |
| Zone 2   | \$ 2.95         | \$ 4.31          | N/A              | \$ 2.37           |
| Zone 3   | \$ 2.54         | \$ 3.37          | N/A              | \$ 1.92           |
| <b>PBX Option</b>                              | <b>\$ 2.21</b>  | <b>\$ 3.25</b>   | <b>\$ -</b>      | <b>\$ 1.71</b>    |
| Zone 1   | \$ 2.26         | \$ 2.96          | N/A              | \$ 1.62           |
| Zone 2   | \$ 2.19         | \$ 3.96          | N/A              | \$ 1.95           |
| Zone 3   | \$ 1.89         | \$ 3.09          | N/A              | \$ 1.57           |
| <b>ISDN Option</b>                             | <b>\$ 4.51</b>  | <b>\$ 16.52</b>  | <b>\$ 0.13</b>   | <b>\$ 3.58</b>    |
| Zone 1   | \$ 4.37         | \$ 14.48         | N/A              | \$ 3.27           |
| Zone 2   | \$ 4.73         | \$ 20.80         | N/A              | \$ 4.28           |
| Zone 3   | \$ 5.05         | \$ 17.81         | N/A              | \$ 3.67           |
| <b>DS-1 Loop</b>                               | <b>\$ 93.91</b> | <b>\$ 112.24</b> | <b>\$ 20.99</b>  | <b>\$ 71.29</b>   |
| Zone 1   | \$ 89.68        | \$ 109.11        | \$ 17.80         | \$ 61.17          |
| Zone 2   | \$ 97.78        | \$ 115.95        | \$ 26.70         | \$ 81.72          |
| Zone 3   | \$ 119.40       | \$ 125.20        | \$ 53.07         | \$ 125.31         |
| <b>DS-3 Loop</b>                               | <b>N/A</b>      | <b>\$ 573.20</b> | <b>\$ 210.80</b> | <b>\$ 573.20</b>  |
| Zone 1   | N/A             | \$ 482.71        | \$ 205.05        | \$ 482.71         |
| Zone 2   | N/A             | \$ 714.60        | \$ 236.86        | \$ 714.60         |
| Zone 3   | N/A             | \$ 1,411.63      | \$ 325.32        | \$ 1,411.63       |
| <b>4-wire CO Facility Interface Connection</b> | <b>\$ 15.15</b> | <b>\$ 0.47</b>   | <b>\$ 2.49</b>   | <b>\$ 3.17</b>    |
| <b>Switching</b>                               |                 |                  |                  |                   |
| <b>Port</b>                                    |                 |                  |                  |                   |
| 2-Wire   | \$ 0.83         | \$ 3.13          | \$ 1.28          | \$ 3.16           |
| Coin   | \$ 1.12         | \$ 3.13          | \$ 1.28          | \$ 3.08           |
| Centrex  | \$ 1.29         | \$ 3.13          | \$ 1.28          | \$ 3.16           |
| DID  | \$ 1.26         | \$ 7.48          | \$ 4.01          | \$ 5.89           |
| ISDN/BRI                                       | \$ 4.26         | \$ 12.32         | \$ 5.25          | \$ 4.83           |
| DS-1   | \$ 6.31         | \$ 163.88        | \$ 85.88         | \$ 128.10         |
| <b>Switch Usage</b>                            |                 |                  |                  |                   |
| <b>Interoffice - Originating</b>               |                 |                  |                  |                   |
| Setup per Message                              | \$ 0.001751     | \$ 0.001696      | \$ 0.000068      | \$ -              |
| Holding Time per MOU                           | \$ 0.000547     | \$ 0.000784      | \$ -             | \$ -              |
| <b>Interoffice - Terminating</b>               |                 |                  |                  |                   |
| Setup per Message                              | \$ 0.002076     | \$ 0.000266      | \$ 0.000068      | \$ -              |
| Holding Time per MOU                           | \$ 0.000554     | \$ 0.000784      | \$ -             | \$ -              |
| <b>Intraoffice</b>                             |                 |                  |                  |                   |
| Setup per Message                              | \$ 0.003974     | \$ 0.001584      | \$ 0.000135      | \$ -              |
| Holding Time per MOU                           | \$ 0.001071     | \$ 0.000784      | \$ -             | \$ -              |

Appendix B  
Comparison of Proposed and Adopted UNE Rates \*

| UNEs                                       | Current Rates   | SBC-CA Proposal | JA Proposal    | Adopted UNE Rates |
|--|-----------------|-----------------|----------------|-------------------|
| <b>Unbundled Tandem Switching</b>          |                 |                 |                |                   |
| Setup per Attempt                          | \$ 0.000153     | \$ 0.001561     | \$ 0.000360    | \$ 0.000471       |
| Setup per Completed Message                | \$ 0.000231     | \$ 0.001728     | \$ 0.000135    | \$ 0.000183       |
| Holding Time per MOU                       | \$ 0.000135     | \$ 0.000836     | \$ 0.000360    | \$ 0.000471       |
| <b>Trunk Port Termination</b>              |                 |                 |                |                   |
| End Office Termination                     | \$ 6.31         | \$ 163.88       | \$ 91.33       | \$ 135.06         |
| <b>Interoffice Transmission Facilities</b> |                 |                 |                |                   |
| <b>Unbundled Dedicated Transport</b>       |                 |                 |                |                   |
| Voice Grade - Fixed                        | \$ 3.05         | \$ 39.36        | \$ 4.01        | \$ 4.69           |
| Variable mileage per mile                  | \$ 0.185735     | \$ 0.008470     | \$ 0.003417    | \$ 0.010828       |
| DS-1 - Fixed                               | \$ 32.15        | \$ 125.04       | \$ 27.49       | \$ 34.68          |
| Variable mileage per mile                  | \$ 1.873612     | \$ 0.195415     | \$ 0.082006    | \$ 0.259881       |
| DS-3 - Fixed                               | \$ 375.36       | \$ 483.95       | \$ 769.80      | \$ 483.95         |
| Variable mileage per mile                  | \$ 36.32        | \$ 4.89         | \$ 2.30        | \$ 4.89           |
| <b>Additional Elements</b>                 |                 |                 |                |                   |
| <b>SS7</b>                                 |                 |                 |                |                   |
| <b>SS7 Links</b>                           |                 |                 |                |                   |
| Voice Grade - Fixed                        | \$ 3.05         | \$ 39.36        | \$ 4.01        | \$ 4.69           |
| Variable mile                              | \$ 0.19         | \$ 0.01         | \$ 0.00        | \$ 0.010828       |
| DS-1 - Fixed                               | \$ 32.15        | \$ 125.04       | \$ 27.49       | \$ 34.68          |
| Variable mile                              | \$ 1.87         | \$ 0.20         | \$ 0.08        | \$ 0.259881       |
| <b>Entrance Facility</b>                   |                 |                 |                |                   |
| DS-3 Entrance Facility w/o equipment       | \$ 733.47       | \$ 145.94       | \$ 386.05      | \$ 145.94         |
| <b>UNE-P **</b>                            | <b>\$ 13.94</b> | <b>\$ 30.52</b> | <b>\$ 7.77</b> | <b>\$ 18.85</b>   |

\* All rates include a 21% markup for shared and common cost.

\*\* UNE-P calculated based on usage assumption of 1400 voice 700 toll.

Appendix C  
Switching Rates Based on Minute of Use \*

| UNEs                              | Current Rates | Commission Run<br>of HM 5.3 ** |
|-----------------------------------|---------------|--------------------------------|
| <b>Switch Usage</b>               |               |                                |
| <b>Interoffice - Originating</b>  |               |                                |
| Setup per Message                 | \$ 0.001751   | \$ 0.001392                    |
| Holding Time per MOU              | \$ 0.000547   | \$ 0.001301                    |
| <b>Interoffice - Terminating</b>  |               |                                |
| Setup per Message                 | \$ 0.002076   | \$ 0.001392                    |
| Holding Time per MOU              | \$ 0.000554   | \$ 0.001301                    |
| <b>Intraoffice</b>                |               |                                |
| Setup per Message                 | \$ 0.003974   | \$ 0.001483                    |
| Holding Time per MOU              | \$ 0.001071   | \$ 0.001301                    |
| <b>Unbundled Tandem Switching</b> |               |                                |
| Setup per Attempt                 | \$ 0.000153   | \$ 0.000471                    |
| Setup per Completed Message       | \$ 0.000231   | \$ 0.001483                    |
| Holding Time per MOU              | \$ 0.000135   | \$ 0.000471                    |

\* All rates include a 21% markup for shared and common cost.

\*\* Based on a 70 / 30 split of traffic sensitive / non-traffic sensitive cost.