

Appendix A

Summary of Refund Owed to Ratepayers Pacific Bell Intrastate Regulated Operations Phases 2A and 2B

	1997 Sharable Earnings Owed to Ratepayers	1998 Sharable Earnings Owed to Ratepayers	1999 VEBA 1 PBOP Trust Fund Withdrawal Owed to Ratepayers	TOTAL
Refund Amount	\$0	\$288,322,373	\$136,218,000	\$424,540,373
Interest Factor for 1998 (one half of principal x one half of 10% annual interest rate) ¹	—	1.0250	—	—
Interest Factor (10% annual rate compounded monthly from 1/1/1999 through 7/31/2003) ¹	—	1.5784	—	—
Interest Factor (10% annual rate compounded monthly from 1/1/2000 through 7/31/2003) ¹	—	—	1.4288	—
Total Refund With Interest	\$0	\$466,474,873	\$194,630,647	\$661,105,519

1. Note: Interest factor for 1998 and the monthly compounding of interest in 1999 and subsequent years is based on the guidance provided by (1) D.89-10-031, Ordering Paragraph 16, and (2) D.88-09-028, Ordering Paragraph 4.

Appendix B

Summary of Sharable Earnings Pacific Bell Intrastate Regulated Operations Phases 2A and 2B

		1997	1998	1999
1.	Adopted Net Operating Income	\$938,047,275	\$1,430,265,122	\$1,318,535,122
2.	Adopted Rate Base	\$9,270,126,526	\$9,390,436,276	\$9,456,802,574
3.	Rate of Return	10.12%	15.23%	13.94%
4.	Sharing Trigger	11.50%	11.50%	N/A
5.	ROR above Trigger	0.00%	3.73%	N/A
6.	Total Sharable Earnings: ROR above Trigger Times Adopted Rate Base (Row 5 x Row 2)	\$0	\$350,364,951	--
7.	Ceiling Rate of Return (15%)	15%	15%	--
8.	Sharable Earnings over Ceiling ROR ((Row 3 - Row 7) x Row 2)	\$0	\$21,699,681	--
9.	Sharable Earnings Between Trigger and Ceiling (Row 6 - Row 8)	\$0	\$328,665,270	--
10.	Ratepayer Portion (30%) of Sharable Earnings over Ceiling (Row 8 x 30%)	\$0	\$6,509,904	--
11.	Ratepayer Portion (50%) of Sharable Earnings between Trigger and Ceiling (Row 9 x 50%)	\$0	\$164,332,635	--
12.	Total Ratepayer Portion of Sharable Earnings (Row 10 + Row 11)	\$0	\$170,842,539	--
13.	Tax Gross-up Factor (1/(1-0.40746))	168.76%	168.76%	--
14.	Ratepayer Amount With Gross-up (Row 12 x Row 13)	\$0	\$288,322,373	--

Appendix C

Financial Summary of Adopted Adjustments Pacific Bell Intrastate Regulated Operations Phases 2A and 2B

		1997	1998	1999	Reference
1.	Net Operating Income Reported by Pacific Bell	\$652,499,328	\$922,472,419	\$962,198,083	Exhibit Phase 2A: 400, p. 11. Appendix D of today's Decision. Appendix D of today's Decision.
2.	Adopted Adjustments: Phase 2A	(\$7,924,000)	\$285,319,000	\$241,699,000	
3.	Adopted Adjustments: Phase 2B	\$293,471,947	\$222,473,703	\$114,638,039	
4.	Adopted Net Operating Income	\$938,047,275	\$1,430,265,122	\$1,318,535,122	
5.	Rate Base Reported by Pacific Bell	\$10,057,145,000	\$10,170,675,000	\$9,963,603,000	Exhibit Phase 2A: 404, Attach. 11-21. Appendix E of today's Decision. Appendix E of today's Decision.
6.	Adopted Adjustments: Phase 2A	-	\$43,446,454	\$132,371,666	
7.	Adopted Adjustments: Phase 2B	(\$787,018,474)	(\$823,685,178)	(\$639,172,092)	
8.	Adopted Rate Base	\$9,270,126,526	\$9,390,436,276	\$9,456,802,574	
9.	Rate of Return Reported by Pacific Bell	6.49%	9.07%	9.66%	Exhibit Phase 2A: 400, p. 11. Note 1, Line 21. Note 1, Line 22.
10.	Adopted Adjustments: Phase 2A	-0.08%	2.86%	2.34%	
11.	Adopted Adjustments: Phase 2B	3.71%	3.30%	1.95%	
12.	Adopted Rate of Return	10.12%	15.23%	13.94%	

Line 4/Line 8, or Line 9 + Line 10 + Line 11.

Note 1: ROR Impact of Adopted Adjustments

	1997	1998	1991	
13. ROR Impact of Phase 2A Adjustments	-0.08%	2.75%	2.27%	((Line 1 + Line 2)/(Line 5 + Line 6)) - (Line 1/Line 5).
14. ROR Impact of Phase 2B Adjustments	3.72%	3.18%	1.89%	((Line 1 + Line 3)/(Line 5 + Line 7)) - (Line 1/Line 5).
15. Subtotal	3.64%	5.93%	4.16%	Line 13 + Line 14
16. Proportionate Impact - Phase 2A	-2.20%	46.37%	54.57%	Line 13/Line 15
17. Proportionate Impact - Phase 2B	102.20%	53.63%	45.43%	Line 14/Line 15
18. Adopted Rate of Return	10.12%	15.23%	13.94%	Line 12
19. Reported Rate of Return	6.49%	9.07%	9.66%	Line 9
20. Difference	3.63%	6.16%	4.29%	Line 18 - Line 19
21. Difference Attributable to Phase 2A Adjustments	-0.08%	2.86%	2.34%	Line 16 x Line 20
22. Difference Attributable to Phase 2B Adjustments	3.71%	3.30%	1.95%	Line 17 x Line 20
23. Total	3.63%	6.16%	4.29%	Line 21 + Line 22

Appendix D**Summary of Adopted Adjustments to Net Operating Income (NOI) - Pacific Bell Intrastate Regulated Operations
Phases 2A and 2B**

Adopted Adjustments to NOI ¹		1997	1998	1999	Total
Phase 2A					
1. Pension Trust Fund Withdrawal	-	-	-	\$40,737,000	\$40,737,000
2. SFAS 106 - Regulatory Asset Write-Off	-	\$165,636,000	-	-	\$165,636,000
3. SFAS 106 - VEBA 3 to VEBA 5 Transfer	\$5,829,000	\$35,559,000	-	-	\$41,388,000
4. SFAS 106 - Prefunded Contributions - TBO Amortization ²	-	25,686,000	\$4,281,000	\$29,967,000	\$29,967,000
5. Income Tax Flow Through - Phase 2A Issues	(\$13,753,000)	\$58,438,000	\$196,681,000	\$241,366,000	\$241,366,000
6. Subtotal Phase 2A	(\$7,924,000)	\$285,319,000	\$241,699,000	\$519,094,000	\$519,094,000
Phase 2B					
7. SBC Ops. SFAS 106 Merger Conforming Expense	-	-	\$1,656,603	\$1,656,603	\$1,656,603
8. AMDOC Awards SBC Operations	-	-	\$252,655	\$252,655	\$252,655
9. SBC Ops. Excess Executive Compensation	-	\$481,010	\$625,082	\$1,106,092	\$1,106,092
10. SBC Ops. Sec. Allocation of Parent Mgt. Fees	-	\$291,835	\$270,743	\$562,578	\$562,578
11. SBC Ops. Call Ctr. Deprec., Merger Implement. Expense	-	\$237,025	-	\$237,025	\$237,025
12. SBC Svcs. Excess Executive Compensation	-	\$162,893	\$134,581	\$297,474	\$297,474
13. SBC Svcs., CFL, TRI Sec. Alloc. of Parent Mgt. Fees	-	\$265,789	\$216,392	\$482,181	\$482,181
14. Parent Excess Executive Compensation	\$1,472,683	\$6,834,760	\$7,089,914	\$15,397,357	\$15,397,357
15. Parent Political and Legislative Influence Expense	\$8,574,885	\$10,009,837	\$4,186,554	\$22,771,276	\$22,771,276
16. Parent Legal Expense	-	\$438,876	\$212,061	\$650,937	\$650,937
17. Parent Public Relations & Corp. Sponsorship Expense	\$1,700,568	\$8,583,357	\$8,818,057	\$19,101,982	\$19,101,982
18. Parent Corporate Development Expense	-	\$3,068,824	\$3,506,106	\$6,574,930	\$6,574,930
19. Parent Strategic Planning Expense	\$1,675,592	\$532,041	\$409,813	\$2,617,446	\$2,617,446
20. Parent Contributions, Memberships, Foundation Expense	\$161,013	\$657,620	(\$3,067,831)	(\$2,249,198)	(\$2,249,198)
21. Parent Out of Period Expense	(\$3,442,873)	\$3,360,784	-	(\$82,089)	(\$82,089)
22. Parent Merger Conforming Expense	-	-	\$454,553	\$454,553	\$454,553
23. Parent Impact of Adjustmts. on Billings to PacBell Direct.	\$770,974	\$3,914,927	\$4,453,797	\$9,139,698	\$9,139,698
24. MSI USA Excess Executive Comp. Billed Directly	-	-	\$2,001,766	\$2,001,766	\$2,001,766
25. Parent PB Employee Transfer Fees Billed to PacBell	\$626,616	-	-	\$626,616	\$626,616
26. Nevada Bell Net Directory Revenue	-	-	(\$11,253,000)	(\$11,253,000)	(\$11,253,000)
27. TRI Expense	-	\$11,127,125	\$9,225,599	\$20,352,724	\$20,352,724
28. Depreciation Expense Timing Adjustment	-	-	\$1,728,488	\$1,728,488	\$1,728,488
29. Advertising Direct Assignment and Common Allocations	-	\$1,930,885	\$1,752,588	\$3,683,473	\$3,683,473
30. Customer Service Non-Productive Salary Allocations	(\$1,039,093)	(\$3,366,101)	(\$4,813,537)	(\$9,218,731)	(\$9,218,731)
31. Affiliate Marketing Services Revenue	-	\$3,235,271	\$13,689,808	\$16,925,079	\$16,925,079
32. Non-regulated Tracking Code Direct Assignment Errors	\$7,398	\$4,250,163	\$3,237,874	\$7,495,435	\$7,495,435
33. National-Local Strategy Implementation	-	-	\$3,695,373	\$3,695,373	\$3,695,373
34. 1997 Corporate Sponsorship Costs	\$1,014,546	-	-	\$1,014,546	\$1,014,546
35. Customer Premise Equipment Costs	-	\$10,097,537	\$3,467,830	\$13,565,367	\$13,565,367
36. Unsupported Contingent Liabilities - Revenues	\$23,976,238	-	-	\$23,976,238	\$23,976,238
37. Bellcore Dividends	\$3,883,507	-	-	\$3,883,507	\$3,883,507
38. Uncollect. Revenues - RCRMS (PacBell repts. flows thru)	\$53,533,000	-	-	\$53,533,000	\$53,533,000
39. Gain on Sale of Bellcore	\$9,122,587	-	-	\$9,122,587	\$9,122,587
40. Local Number Portability Costs	\$51,313,964	\$27,904,486	\$22,306,761	\$101,525,211	\$101,525,211
41. Local Competition Costs	\$24,278,763	\$4,718,957	-	\$28,997,720	\$28,997,720
42. Merger Savings	-	\$2,488,668	2,488,668	\$4,977,336	\$4,977,336
43. Advanced Communications Network	\$17,846,219	\$4,284,040	\$2,226,486	\$24,356,745	\$24,356,745
44. Software Buy-Out Agreement	-	-	\$26,347,581	\$26,347,581	\$26,347,581
45. Unsupported Contingent Liabilities - Operating Expense	\$52,834,609	\$1,134,101	\$6,971,314	\$60,940,024	\$60,940,024
46. Incentive Pay Accrual	\$20,355,921	(\$24,140,020)	\$20,775,097	\$16,990,998	\$16,990,998
47. ISP-Bound Traffic Separations	(\$11,329,359)	-	-	(\$11,329,359)	(\$11,329,359)
48. Uncollectible Settlements - RCRMS	\$16,614,105	\$7,809,938	\$511,880	\$24,935,922	\$24,935,922
49. SFAS 112	\$5,684,918	-	-	\$5,684,918	\$5,684,918
50. Intrabuilding Cable Amortization	\$19,473,832	\$16,611,028	-	\$36,084,860	\$36,084,860
51. SAVR Delayed Retirements	\$5,906,945	4,236,207	-	\$10,143,152	\$10,143,152
52. SAVR Reverse Retirements	\$271,567	615,253	\$2,344,456	\$3,231,276	\$3,231,276
53. Equal Access IEMR Ratemaking Adjustment	-	(6,477,055)	-	(\$6,477,055)	(\$6,477,055)
54. Ameritech Income Tax Misclassification	-	-	\$8,001,866	\$8,001,866	\$8,001,866
55. Excess Deferred Income Tax	-	\$29,624,090	\$29,671,332	\$59,295,422	\$59,295,422
56. Sales and Use Tax Accrual	\$460,647	\$457,024	(\$1,425,307)	(\$507,636)	(\$507,636)
57. Employment Tax Error	-	-	\$4,345,305	\$4,345,305	\$4,345,305
58. PIU Accrual	(\$8,694,340)	-	-	(\$8,694,340)	(\$8,694,340)
59. USOA Re-write Turnaround Accrual	(\$13,701,303)	-	-	(\$13,701,303)	(\$13,701,303)
60. LNP Depreciation	\$687,346	\$1,586,822	\$2,516,517	\$4,790,685	\$4,790,685
61. AFUDC	\$105,472	\$388,706	\$507,214	\$1,001,392	\$1,001,392
62. Income Tax Flow Through - Phase 2B Issues	\$9,325,000	\$85,117,000	(\$64,903,000)	\$29,539,000	\$29,539,000
63. Subtotal Phase 2B	293,471,947	222,473,703	\$114,638,039	\$630,583,689	\$630,583,689
64. Total Phase 2A and 2B	\$285,547,947	\$507,792,703	\$356,337,039	\$1,149,677,689	\$1,149,677,689

Note 1: All amounts are after-tax (normalized) revenues or expenses, except for the adjustment for flow-through tax accounting, which represents the effect of using flow through tax accounting instead of normalized tax accounting with respect to Phase 2A and 2B issues that do not result in an audit adjustment.

Note 2: No TBO adjustment for 1997 because the SFAS 106 costs recognized for CPUC purposes during 1997 were limited to tax-deductible contributions, making it unnecessary to revise SFAS 106 costs reported during 1997 to reflect the corrected TBO.

Appendix E

Summary of Adopted Adjustments to Rate Base Pacific Bell Intrastate Regulated Operations Phases 2A and 2B

Adopted Adjustments to Rate Base	1997	1998	1999	Total	Reference
Phase 2A					
Accumulated Deferred Income Tax (Note 1)	\$0	\$43,446,454 (Note 2)	\$132,371,666 (Note 3)	\$175,818,120	See footnotes 1, 2, and 3 below.
Subtotal Phase 2A	\$0	\$43,446,454	\$132,371,666	\$175,818,120	
Phase 2B					
SFAS 106 Accrued Liability	\$124,000	(\$5,998,000)	\$5,352,000	(\$522,000)	Phase 2B Decision, Appendix A, Index No. 31
SFAS 112 Accrued Liability	(\$213,204,405)	(\$236,462,847)	(\$255,430,427)	(\$705,097,679)	Phase 2B Decision, Appendix A, Index No. 29
Vacation Liability	(\$51,867,976)	(\$51,359,429)	(\$45,735,145)	(\$148,962,550)	Phase 2B Decision, Appendix A, Index No. 30
Accrued Contingent Liability	(\$28,039,000)	(\$20,106,000)	(\$7,800,000)	(\$55,945,000)	Phase 2B Decision, Appendix A, Index No. 32
Depreciation Expense Timing Adjustment	\$0	\$0	\$2,917,083	\$2,917,083	Phase 2B Decision, Appendix A, Index No. 60a
Cash Working Capital	(\$511,550,000)	(\$530,735,000)	(\$378,865,000)	(\$1,421,150,000)	Phase 2B Decision, Appendix A, Index No. 27
Prepaid Directory Expense	\$93,805,000	\$83,904,000	\$71,382,000	\$249,091,000	Phase 2B Decision, Appendix A, Index No. 28
Restructure Reserve	(\$29,070,727)	(\$29,024,711)	(\$28,975,159)	(\$87,070,597)	Phase 2B Decision, Appendix A, Index No. 35
Accumulated Reserve for Depreciation	\$14,069,957	\$36,308,845	\$46,060,404	\$96,439,206	Phase 2B Decision, Appendix A, Index No. 36
Excess Deferred Income Tax	\$0	\$12,800,000	\$38,400,000	\$51,200,000	Phase 2B Decision, Appendix A, Index No. 38
LNP Rate Base	(\$14,482,000)	(\$32,794,000)	(\$43,507,000)	(\$90,783,000)	Phase 2B Decision, Appendix A, Line No. 70
AFUDC	(\$2,327,000)	(\$8,370,000)	(\$12,964,000)	(\$23,661,000)	Phase 2B Decision, Appendix A, Index No. 71
PBOP Pre-Funding Plant Adj.	\$13,312,000	\$13,312,000	\$13,312,000	\$39,936,000	Phase 2B Decision, Appendix A, Index No. 72
Accumulated Deferred Income Tax	(\$57,788,323)	(\$55,160,036)	(\$43,318,848)	(\$156,267,207)	Phase 2B Decision, Appendix A, Index No. 37
Subtotal Phase 2B	(\$787,018,474)	(\$823,685,178)	(\$639,172,092)	(\$2,249,875,744)	
Total Phase 2A and 2B	(\$787,018,474)	(\$780,238,724)	(\$506,800,426)	(\$2,074,057,624)	

Note 1: All of the Phase 2A adjustment to accumulated deferred income tax relates to the CHCF-B. The source of the information is Overland Exhibit Phase 2A: 404, Volume 2, Attachment 9-10.

Note 2: $43,446,454 = ((110,252,000 - 0)/2) * 0.78813$

Note 3: $132,371,666 = ((222,880,000 - 110,252,000)/2) * 0.79471$

Appendix F

CALCULATION OF THE 1998 WRITE-OFF OF THE PBOP REGULATORY ASSET

	<u>Amounts in</u> <u>\$000's</u>	<u>Reference</u>
Total Intrastate Regulated PBOP Cost Claimed by		
1. Pacific Bell in 1998 (Including the Write Off of the PBOP Regulatory Asset)	\$559,942	Exhibit 2A: 404, Volume 2, Page 7-27, Table 7-8
2. TBO Correction	<u>\$2,148</u>	Note 1, Line 17
3. Corrected PBOP Costs Claimed by Pacific Bell	\$562,090	Line 1 + Line 2
4. PBOP Tax-Deductible Contribution Claimed by Pacific Bell in 1998 (Including VEBA 3 Transfer)	(239,205)	Note 2, Line 24
5. Regulated Asset Write-Off	\$322,885	Line 3 + Line 4
6. Less: TBO Adjustment for Expensing of VEBA 3 Contributions in 1989 and 1990	(43,350)	Appendix I, Line 14 (See Note 3)
7. Subtotal	\$279,536	Line 5 + Line 6
8. Tax Factor	0.59254	(1 - .40746 (Combined Fed. and State Tax))
9. Normalized After-Tax Regulatory Asset Write-Off	<u><u>\$165,636</u></u>	Line 7 x Line 8

Note 1

10. CPUC - TBO Adjustment	(\$12,708)	Exhibit 2A: 404, Volume 2, Attachment 7 - 7
11. Intrastate Correction Per Pacific Bell	<u>0.8043</u>	Exhibit. Phase 2A: 307, p. 25, Lines 1 - 15; and Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
12. Corrected CPUC - TBO Adjustment	(\$10,221)	Line 10 x Line 11
13. Difference	\$2,487	Line 10 - Line 12
14. Regulated Factor	0.9409	Exhibit 2A: 404, Attachment 7 - 7
15. Regulated Amount	\$2,340	Line 13 x Line 14
16. Expense Factor	0.9180	Exhibit 2A: 404, Attachment 7-7
17. Amount to Correct TBO	<u><u>\$2,148</u></u>	Line 15 x Line 16

Note 2

18. Pacific Bell Tax-Deductible Contribution - 1998	\$236,788	Exhibit 2A: 404, Attachment 7-7
19. VEBA 3 to VEBA 5 Transfer - 1998	<u>\$79,300</u>	Exhibit Phase 2A: 307, p. 30, Line 1. See Note 3.
20. Total Contribution Claimed by Pacific Bell	\$316,088	Line 18 + Line 19
21. Intrastate Factor	0.8043	Exhibit Phase 2A: 404, Attachment 7-7
22. Intrastate Amount	\$254,230	Line 20 x Line 21
23. Regulated Factor	0.9409	Exhibit Phase 2A: 404, Attachment 7-7
24. Intrastate Regulated Amount	<u><u>\$239,205</u></u>	Line 22 x Line 23

Note 3

To avoid double counting, the write-off of the PBOP regulatory asset is reduced by (i) the VEBA 3 transfer in 1998, and (ii) the adjustment to Pacific's TBO caused by expensing the VEBA 3 contributions in 1989 and 1990. In Appendix D, the effects of the VEBA 3 transfer and TBO adjustment on Pacific's NOI are listed separately from the write-off of the PBOP regulatory asset.

Appendix G

Calculation of Pacific Bell's SFAS 106 Z-Factor in 1997 and 1998

SFAS 106 Z-Factor Based on D.92-12-015, OP 8, which Limited the Z-Factor to the Lesser of (i) Pacific's SFAS 106 Accrual Less PAYGO Costs, or (ii) Pacific's Tax-Deductible Contributions to PBOP Trusts.

<u>1997 Z-Factor</u>	<u>Intrastate Regulated Amounts in 000's</u>	<u>Reference</u>
1. SFAS 106 Accrual (Includes Deprecation)	180,867	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6
2. Plus: Correction to TBO	2,148	Exhibit Phase 2A: 307, p. 25, Lines 1 -15; Appendix F, Line 17
3. Less: TBO Reduction for VEBA 3 Contributions	<u>(7,225)</u>	Appendix I, Line 11
4. Net SFAS 106 Accrual	175,790	Line 1 + Line 2 + Line 3
5. PAYGO Costs	123,728	Note 1
6. Tax-Deductible Contributions (Excludes VEBA 3 Transfers)	206,192	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-6
7. Z-Factor Authorized by D.92-12-015: Lesser of (i) SFAS 106 Accrual - PAYGO, or (ii) Contributions	52,062	Line 4 - Line 5
8. Actual Z-Factor	99,500	D.98-10-026, 82 CPUC 2d 335, 366
9. Difference Between Authorized and Actual Z-Factor	(47,438)	Line 7 - Line 8
<u>1998 Z-Factor</u>	<u>000's</u>	<u>Reference</u>
10. SFAS 106 Accrual (Includes Deprecation)	159,940	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
11. Plus: Correction to TBO	2,148	Exhibit Phase 2A: 307, p. 25, Lines 1 -15; Appendix F, Line 17
12. Less: TBO Reduction for VEBA 3 Contributions	<u>(7,225)</u>	Appendix I, Line 11
13. Net SFAS 106 Accrual	154,863	Line 10 + Line 11 + Line 12
14. PAYGO Costs	125,882	Note 2
15. Tax-Deductible Contributions (Excludes VEBA 3 Transfers)	164,499	Exhibit Phase 2A: 404, Vol. 2, Attach. 7-7
16. Z-Factor Authorized by D.92-12-015: Lesser of (i) SFAS 106 Accrual - PAYGO, or (ii) Contributions	28,981	Line 13 - Line 14
17. Actual Z-Factor	99,500	D.98-10-026, 82 CPUC 2d 335, 366
18. Difference Between Authorized and Actual Z-Factor	(70,519)	Line 16 - Line 17
<u>Note 1 - 1997 PAYGO Costs</u>		
19. PAYGO Costs	178,100	Exhibit Phase 2A: 307, p. 30
20. Intrastate Factor	0.8043	Exhibit. Phase 2A: 404, Attach. 7-6
21. Regulated Factor	0.9409	Exhibit. Phase 2A: 404, Attach. 7-6
22. Expense Factor	0.9180	Exhibit. Phase 2A: 404, Attach. 7-6
23. Pre-Tax Intrastate Regulated PAYGO Costs	<u>123,728</u>	Line 19 x Line 20 x Line 21 x Line 22
<u>Note 2 - 1998 PAYGO Costs</u>		
24. PAYGO Costs	181,200	Exhibit Phase 2A: 307, p. 30
25. Intrastate Factor	0.8043	Exhibit. Phase 2A: 404, Attach. 7-7
26. Regulated Factor	0.9409	Exhibit. Phase 2A: 404, Attach. 7-7
27. Expense Factor	0.9180	Exhibit. Phase 2A: 404, Attach. 7-7
28. Pre-Tax Intrastate Regulated PAYGO Costs	<u>125,882</u>	Line 24 x Line 25 x Line 26 x Line 27

Appendix H

ADJUSTMENT TO PACIFIC BELL'S NOI FOR NON-TAX-DEDUCTIBLE TRANSFERS OF ASSETS FROM THE VEBA 3 PBOP TRUST TO THE VEBA 5 PBOP TRUST

	<u>Amounts in 000's</u>	<u>Reference</u>
<u>1997</u>		
1. VEBA 3 to 5 Transfer	\$13,000	Pacific Exhibit Phase 2A: 307, p. 30, Line 1
2. Intrastate Factor	0.8043	Overland Exhibit Phase 2A: 404, Attachment 7-6
3. Intrastate Portion	\$10,456	Line 1 x Line 2
4. Regulated Factor	0.9409	Overland Exhibit Phase 2A: 404, Attachment 7-6
5. Intrastate Regulated	\$9,838	Line 3 x Line 4
6. Tax Factor	<u>0.59254</u>	(1 - .40746 (Combined Fed. And State Tax))
7. After Tax VEBA 3 to 5 Transfer	<u><u>\$5,829</u></u>	Line 5 x Line 6 (Note 1)
<u>1998</u>		
8. VEBA 3 to 5 Transfer	\$79,300	Pacific Exhibit Phase 2A: 307, p. 30, Line 1
9. Intrastate Factor	0.8043	Overland Exhibit Phase 2A: 404, Attachment 7-7
10. Intrastate Portion	\$63,781	Line 8 x Line 9
11. Regulated Factor	0.9409	Overland Exhibit Phase 2A: 404, Attachment 7-7
12. Intrastate Regulated	\$60,012	Line 10 x Line 11
13. Tax Factor	<u>0.59254</u>	(1 - .40746 (Combined Fed. And State Tax))
14. After Tax VEBA 3 to 5 Transfer	<u><u>\$35,559</u></u>	Line 12 x Line 13
<u>1999 (Note 2)</u>		
15. VEBA 3 to 5 Transfer	\$89,900	Exhibit Phase 2A: 307, page 30, line 1
16. Intrastate Factor	0.8043	Exhibit Phase 2A: 404, Attachment 7-8
17. Intrastate Portion	\$72,307	Line 15 x Line 16
18. Regulated Factor	0.9409	Exhibit Phase 2A: 404, Attachment 7-8
19. Intrastate Regulated	68,033	Line 17 x Line 18
20. Tax Factor	<u>0.59254</u>	(1 - .40746 (Combined Fed. And State Tax))
21. After Tax VEBA 3 to 5 Transfer	<u><u>\$40,312</u></u>	Line 19 x Line 20
<u>Effect of 1997 VEBA 3 Transfer on Costs in 1998</u>		
22. Effect on Size of PBOP Reg. Asset	\$5,829	Line 7 and Note 1
23. Effect on Write-Off of PBOP Reg. Asset	\$5,829	Line 7 and Note 1

Note 1: Decreasing Pacific's allowed SFAS 106 costs in 1997 by the amount of the VEBA 3 transfer during that year has the effect of increasing the size of (1) Pacific's PBOP regulatory asset in 1998 by the amount of the VEBA 3 transfer in 1997, and (2) the PBOP regulatory asset write-off in 1998 by the amount of the VEBA 3 transfer in 1997. Thus, the decrease in Pacific's allowable SFAS 106 costs in 1997 is exactly offset by an increase in the PBOP regulatory asset write-off in 1998. However, because today's decision requires the 1998 write-off to be recorded below the line, the increase in the size of the write-off caused by the VEBA 3 transfer in 1997 has no effect on NOI in 1998. Hence, the effect of the VEBA 3 transfer in 1997 on the write-off in 1998 is not included in the write-off shown in Appendices D and F.

Note 2: There is no adjustment to Pacific's NOI for VEBA 3 transfers in 1999 because of the finding reached in today's decision that the amount of PBOP costs recognized for regulatory accounting purposes in 1999 should equal Pacific's SFAS 106 accrual in 1999 regardless of Pacific's actual tax-deductible contributions. Amounts shown of 1999 are for illustrative purposes only.

Appendix I

CALCULATION OF SFAS 106 TBO AMORTIZATION ADJUSTMENT

Reduction of TBO Amortization Expense Included in Annual Accrual of SFAS 106 Costs
if VEBA 3 Contributions in 1989 & 1990 Had Been Expensed Instead of Capitalized

	<u>Amounts in 000's</u>	<u>Reference</u>
1. 1989 Pre-Funded PBOP Contribution ¹	117,000	D.92-12-015, 46 CPUC 2d 499, 526
2. 1990 Pre-Funded PBOP Contribution ¹	<u>91,000</u>	D.92-12-015, 46 CPUC 2d 499, 526
3. Total Contributions for 1989 and 1990 ¹	208,000	Line 1 + Line 2
4. Intrastate Factor	0.8043	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
5. Intrastate Amount	167,294	Line 3 x Line 4
6. Amortization Period	20	D.92-12-015, Ordering Paragraph 1.c
7. Annual Amortization	8,365	Line 5 divided by Line 6
8. Regulated Factor	0.9409	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
9. Intrastate Regulated Amount	7,870	Line 7 x Line 8
10. Expense Factor	0.9180	Exh. Phase 2A: 404, Attach. 7-6, 7-7, and 7-8
11. Pre-Tax Intrastate Regulated Expense	<u>7,225</u>	Line 9 x Line 10
12. Tax Factor	0.59254	(1 - .40746 (Combined Fed. and State Tax))
13. After-Tax Intrastate Regulated Expense	<u>4,281</u>	Line 11 x Line 12
14. Cumulative Pre-Tax TBO Adjustment for 1993 - 1998	<u><u>43,350</u></u>	Line 11 x 6
15. Cumulative After-Tax TBO Adjustment for 1993 - 1998	<u><u>25,687</u></u>	Line 13 x 6

Note 1: The Pre-Funded PBOP contributions consisted of tax-deductible contributions to Pacific's VEBA 3 trust.

PACIFIC BELL
Phases 2A and 2B
INCOME TAX FLOW-THROUGH ADJUSTMENT
YEAR 1997
(\$000)

Reference:	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7
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Note 1: Overland Exhibit Phase 2A: 402, Part 2, Attachment S9-1, p. 2.
 Note 2: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 4.
 Note 3: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 1.
 Note 4: Overland Exhibit Phase 2A: 404, Attachment 9-6, p. 2, less Attachment 9-4, p. 1.
 Column Total of (102,195) = 47,103 (Attachment 9-6, p. 2) - 149,298 (Exhibit 404,
 Note 5: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-4, p. 2.
 Note 6: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p.1.
 Note 7: See supporting schedule in Appendix K.

Appendix J

PACIFIC BELL
Phases 2A and 2B
INCOME TAX FLOW-THROUGH CORRECTION
YEAR 1998
(\$000)

	----- Recorded FCC BASIS ----- Deferred (i.e., Normalized) Income Tax Expense					Jurisdictional Adjustments		IEMR Adjustments	Total Intrastate E+F+G+H	Change in Deferred (i.e., Normalized) Income Tax Exp. Caused by Audit Adjustment	Deferred (i.e., Normalized) Income Tax Exp. Net of Audit Adjust. I+J	Increase (Decrease) to Net Operating Income by Removing Deferred (i.e., Normalized) Income Tax Exp.	
	Federal Income Tax	State Income Tax	Total A+B	Separations Factor	Intrastate C x D	Federal	State					Phase 2A	Phase 2B
	A	B	C	D	E	F	G	H	I	J	K	L	M
1. Pension	29,578	8,195	37,773	0.7713	29,134	(57,025)	(15,800)		(43,691)		(43,691)	(43,691)	
2. SFAS 106	7,198	1,994	9,192	0.7713	7,090	2,357	653	(162,985)	(152,885)	156,016	3,130	3,130	
3. CHCF-B	100,506	27,847	128,353	0.7713	98,999				98,999		98,999	98,999	
4. FCC vs. CPUC Depreciation		(16,356)	(16,356)	0.7713	(12,615)	0	13,464		849		849		849
5. Advanced Communications Network	(1,351)	(374)	(1,725)	0.7713	(1,330)				(1,330)		(1,330)		(1,330)
6. Capitalized Software	10,064	2,788	12,852	0.7713	9,913				9,913		9,913		9,913
7. State Income Tax Accrual	0	0	0	0.7713	0				0		0		0
8. Team Award	36,973	10,244	47,217	0.7713	36,418				36,418	(16,600)	19,819		19,819
9. Vacation Pay Accrual	215	59	274	0.7713	211	(3,420)			(3,209)		(3,209)		(3,209)
10. Restructuring Reserve			0	0.7713	0				0		0		0
11. Monthly Accrual and Reversal			0	0.7713	0	10,721	3,215		13,936		13,936		13,936
12. Contingent Liabilities			0	0.7713	0	5,142	1,433		6,575	780	7,355		7,355
13. Internet Contested Traffic MOU	(17,717)	(4,909)	(22,626)	0.7713	(17,451)				(17,451)		(17,451)		(17,451)
14. Transfer Pricing CPUC vs. FCC			0	0.7713	0	20,166	5,587		25,753		25,753		25,753
15. Merger Refund Accrual	12,381	3,481	15,862	0.7713	12,234			(11,437)	797		797		797
16. Community Partnership	2,125	589	2,714	0.7713	2,093			(2,527)	(434)		(434)		(434)
16. Prior Year True Up			0	0.7713	0				0		0		0
17. Tax Reserve			0	0.7713	0	30,047			30,047		30,047		30,047
18. Other Small Items	(21,139)	5,820	(15,319)	0.7713	(11,816)	4,774	(2,815)		(9,857)	8,930	(927)		(927)
19. Total	158,833	39,378	198,211		152,880	12,762	5,737	(176,949)	(5,570)	149,125	143,556	58,438	85,117

Reference: Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7

References

- Note 1: Overland Exhibit Phase 2A: 402, Part 2, Attachment S9-1, p. 3.
 Note 2: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 6.
 Note 3: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 1.
 Note 4: Overland Exhibit Phase 2A: 404, Attachment 9-6, p. 2, less Attachment 9-4, p. 3.
 Column Total of 12,762 = 48,057 (Attachment 9-6, p. 2) - 35,295 (Exhibit 404,
 Note 5: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-4, p. 4.
 Note 6: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p.1.
 Note 7: See supporting schedule in Appendix K.

Appendix J

PACIFIC BELL
Phases 2A and 2B
INCOME TAX FLOW-THROUGH CORRECTION
YEAR 1999
(\$000)

	----- Recorded FCC BASIS ----- Deferred (i.e., Normalized) Income Tax Expense					Jurisdictional Adjustments		IEMR Adjustments H	Total Intrastate E+F+G+H I	Change in Deferred (i.e., Normalized) Income Tax Exp. Caused by Audit Adjustment J	Deferred (i.e., Normalized) Income Tax Exp. Net of Audit Adjust. I+J K	Increase (Decrease) to Net Operating Income by Removing Deferred (i.e., Normalized) Income Tax Exp.	
	Federal Income Tax A	State Income Tax B	Total A+B C	Separations Factor D	Intrastate C x D E	Federal F	State G					Phase 2A L	Phase 2B M
1. Pension	181,445	32,369	213,814	0.7725	165,178	(60,101)	(13,905)		91,172		91,172	91,172	
2. SFAS 106	(34,441)	(9,072)	(43,513)	0.7725	(33,615)	2,791	758		(30,066)	30,956	890	890	
3. CHCF-B	106,977	28,447	135,424	0.7725	104,619				104,619		104,619	104,619	
4. FCC vs. CPUC Depreciation		(5,589)	(5,589)	0.7725	(4,318)		(18,515)		(22,833)		(22,833)		(22,833)
5. Advanced Communications Network	(49,865)	(13,036)	(62,901)	0.7725	(48,593)				(48,593)		(48,593)		(48,593)
6. Capitalized Software	18,499	3,969	22,468	0.7725	17,357				17,357		17,357		17,357
7. AIT Merger Severance Accrual	(8,111)	(2,247)	(10,358)	0.7725	(8,002)				(8,002)		(8,002)		(8,002)
8. Savings Plan Contribution	(22,810)	(5,170)	(27,980)	0.7725	(21,615)				(21,615)		(21,615)		(21,615)
9. State Income Tax Cash Basis	0		0	0.7725	0				0		0		0
10. Team Award	(25,551)	(8,649)	(34,200)	0.7725	(26,421)				(26,421)	14,286	(12,135)		(12,135)
11. Vacation Pay Accrual	(16,580)	(4,759)	(21,339)	0.7725	(16,485)	4,749	1,445		(10,291)		(10,291)		(10,291)
12. Restructuring Reserve			0	0.7725	0				0		0		0
13. Monthly Accrual and Reversal			0	0.7725	0	3,691	(9,863)		(6,172)		(6,172)		(6,172)
14. Contingent Liabilities			0	0.7725	0	9,813	1,957		11,770	4,794	16,564		16,564
15. Internet Contested Traffic MOU	(18,895)	(3,298)	(22,193)	0.7725	(17,145)				(17,145)		(17,145)		(17,145)
16. Transfer Pricing CPUC vs. FCC	(10,847)	(2,854)	(13,701)	0.7725	(10,584)	9,994	2,907		2,317		2,317		2,317
17. Merger Refund Accrual	22,303	4,584	26,887	0.7725	20,771			(13,810)	6,961		6,961		6,961
18. Community Partnership	1,696	44	1,740	0.7725	1,344			548	1,892		1,892		1,892
19. Prior Year True Up			0	0.7725	0				0		0		0
20. Tax Reserve	19,011		19,011	0.7725	14,687				14,687		14,687		14,687
21. Other Small Items	7,919	5,465	13,384	0.7725	10,340	(7,409)	(1,229)	(74)	1,628	20,477	22,105		22,105
22. Total	170,750	20,204	190,954		147,518	(36,472)	(36,445)	(13,336)	61,265	70,513	131,778	196,681	(64,903)

Reference: Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7

References

- Note 1: Overland Exhibit Phase 2A: 402, Part 2, Attachment S9-1, p. 4.
 Note 2: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 8.
 Note 3: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p. 1.
 Note 4: Overland Exhibit Phase 2A: 404, Attachment 9-6, p. 2, less Attachment 9-4, p. 5. Column Total of
 (36,472) = 229,618 (Attachment 9-6, p. 2) - 266,094 (Exhibit 404, Attachment 9-4, p. 5).
 Note 5: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-4, p. 6.
 Note 6: Overland Exhibit Phase 2A: 404, Vol. 2, Attachment 9-6, p.1.
 Note 7: See supporting schedule in Appendix K.

Appendix K

Pacific Bell - - Phases 2A and 2B

Reconciliation of Income Tax Normalization & Flow Through for Adopted Audit Adjustments Other than CHCF-B

Adjustment Description	Reference ¹	1997 Increase/(Decrease) to Pacific's NOI Intrastate Regulated Amounts			
		Adopted Audit Adj.	Tax Rate	Normalized Tax Effect	After-Tax Effect
SFAS 106: VEBA 3 Transfer	2A Decision, Appendix H, Line 7	9,838,000	40.746%	(4,008,591)	5,829,409
Unsupported Contingent Liabilities:					
Revenues	Index No. 1	40,463,493	40.746%	(16,487,255)	23,976,238
Operating Expense	Index No. 10	89,166,316	40.746%	(36,331,707)	52,834,609
Total Unsupported Contingent Liabilities		129,629,809		(52,818,962)	76,810,847
Other Small Items					
Local Competition	Index No. 6	40,974,049	40.746%	(16,695,286)	24,278,763
Incentive Pay Accrual	Index No. 11	34,353,665	40.746%	(13,997,744)	20,355,921
Uncollectible Settlements - RCRMS	Index No. 13	28,038,790	40.746%	(11,424,685)	16,614,105
SFAS 112	Index No. 16	9,594,151	40.746%	(3,909,233)	5,684,918
Sales and Use Tax	Index No. 25	777,410	40.746%	(316,763)	460,647
PIU Accrual	Index No. 68 (Index shows after tax.)	(14,673,001)	40.746%	5,978,661	(8,694,340)
USOA Rewrite Turnaround Accrual	Index No. 69 (Index shows after tax.)	(23,123,001)	40.746%	9,421,698	(13,701,303)
Total Other Small Items		75,942,063		(30,943,353)	44,998,710
TOTAL		215,409,872		(87,770,906)	127,638,966

Adjustment Description	Reference ¹	1998 Increase/(Decrease) to Pacific's NOI Intrastate Regulated Amounts			
		Adopted Audit Adj.	Tax Rate	Normalized Tax Effect	After-Tax Effect
SFAS 106: Regulatory Asset Write Off	2A Decision, Appendix F, Line 7	279,536,000	40.746%	(113,899,739)	165,636,261
SFAS 106: PBOP Pre-funding TBO Adj.	2A Decision, Appendix I, Line 14	43,350,000	40.746%	(17,663,391)	25,686,609
SFAS 106: VEBA 3 Transfer	2A Decision, Appendix H, Line 12	60,012,000	40.746%	(24,452,490)	35,559,510
Contingent Liability Expense	Index No. 10	1,913,966	40.746%	(779,865)	1,134,101
Incentive Pay Accrual	Index No. 11	(40,739,899)	40.746%	16,599,879	(24,140,020)
Other Small Items					
Local Competition	Index No. 6	7,963,946	40.746%	(3,244,989)	4,718,957
Uncollectible Settlements - RCRMS	Index No. 13	13,180,440	40.746%	(5,370,502)	7,809,938
Sales and Use Tax	Index No. 25	771,297	40.746%	(314,273)	457,024
Total Other Small Items		21,915,683		(8,929,764)	12,985,919
TOTAL		365,987,750		(149,125,369)	216,862,381

Adjustment Description	Reference ¹	1999 Increase/(Decrease) to Pacific's NOI Intrastate Regulated Amounts			
		Adopted Audit Adj.	Tax Rate	Normalized Tax Effect	After-Tax Effect
SFAS 106: PBOP Pre-funding TBO Adj.	2A Decision, Appendix I, Line 11	7,225,000	40.746%	(2,943,899)	4,281,102
Pension Trust Fund Withdrawal	Exhibit Phase 2A: 409, Table 7 of 7	68,749,000	40.746%	(28,012,468)	40,736,532
Contingent Liability Expense	Index No. 10	11,765,136	40.746%	(4,793,822)	6,971,314
Incentive Pay Accrual	Index No. 11	35,061,088	40.746%	(14,285,991)	20,775,097
Other Small Items					
Software Buy-Out Agreement	Index No. 9	44,465,490	40.746%	(18,117,909)	26,347,581
Uncollectible Settlements - RCRMS	Index No. 13	863,874	40.746%	(351,994)	511,880
Sales and Use Tax	Index No. 25	(2,405,419)	40.746%	980,112	(1,425,307)
Employment Tax Error	Index No. 26	7,333,353	40.746%	(2,988,048)	4,345,305
Total Other Small Items		50,257,298		(20,477,839)	29,779,459
TOTAL		173,057,522		(70,514,018)	102,543,504

Note 1: All References to Phase 2B Decision, Appendix A, except as noted.

Appendix L

Pacific Bell Summary of Recorded Normalized Income Tax Expense Phase 2A (\$000)

	Normalized Income Tax Expense for Adopted Adjustments	Normalized Income Tax Exp. for Pension and PBOP Costs Net of Adopted Adjustments	Normalized Income Tax Expense for CHCF-B	Total Recorded Normalized Income Tax For Phase 2A Issues A+B+C	Reference
	A	B	C	D	
1. 1997	(4,009)	(13,753)	0	(17,761)	Note 1
2. 1998	(156,016)	(40,560)	98,999	(97,577)	Note 2
3. 1999	(30,956)	92,062	104,619	165,725	Note 3
4. Total	(190,981)	37,749	203,618	50,386	
	Note 4	Note 5	Note 6	Note 7	

Note 1: Appendix J, Table for 1997, Columns J and K, Rows 1 and 2.

Note 2: Appendix J, Table for 1998, Columns J and K, Rows 1, 2, and 3.

Note 3: Appendix J, Table for 1999, Columns J and K, Rows 1, 2, and 3.

Note 4: Normalized income tax expense for adopted adjustments is embedded in the adjustments to NOI shown in Schedule D, Lines 1, 2, 3, and 4.

Note 5: Normalized income tax expense in Column B of the above Table is embedded in the adjustment to NOI for "Income Tax Flow Through" shown in Schedule D, Line 5.

Note 6: Normalized income tax expense for CHCF-B in Column C of the above Table is embedded in the adjustment to NOI for "Income Tax Flow Through" shown in Schedule D, Line 5.

Note 7: Row 1, Column D, of the above Table sums to Appendix J, Table for 1997, Column I, Rows 1 and 2. Row 2, Column D, of the above Table sums to Appendix J, Table for 1998, Column I, Rows 1, 2, and 3. Row 3, Column D, of the above Table sums to Appendix J, Table for 1999, Column I, Rows 1, 2, and 3.