

BPS TELEPHONE COMPANY
CASE NO. TC-2002-1076

**AN ANALYSIS OF THE COST OF CAPITAL
FOR BPS TELEPHONE COMPANY
CASE NO. TC-2002-1076**

BY

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UTILITY SERVICES DIVISION

MISSOURI PUBLIC SERVICE COMMISSION

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Small Telephone Company Earnings Investigation

Criteria for Selecting Local Exchange Industry Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(5)
Telecommunication Companies	Stock Publicly Traded	Information Printed In Value Line	11 Years of DPS & EPS Information	- Debt to Total Capital < 62%	LEC (Includes RBOC's and RLEC's, but not CLECS)*	Wireline/Landline Operations Revenue >40%	Comparable Company Met All Criteria
1 ALLTEL Corporation	Yes	Yes	Yes	Yes	Yes	No	
2 AT&T Corporation	Yes	Yes	Yes	Yes	No		
3 BellSouth Corporation	Yes	Yes	Yes	Yes	Yes	Yes	Yes
4 Broadwing Inc.	Yes	Yes	No				
5 Century Tel Inc.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
6 Citizens Communications	Yes	Yes	No				
7 Commonwealth Telephone Enterprises, Inc.	Yes	Yes	No				
8 Covista Communications, Inc.	Yes	No					
9 Dycom Industries, Inc.	Yes	Yes	No				
10 I-Link Corp.	Yes	No					
11 NTELOS, Inc.	Yes	Yes	No				
12 SBC Communications, Inc.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
13 Sprint Corporation	Yes	Yes	No				
14 Telephone & Data	Yes	Yes	Yes	Yes	Yes	No	
15 United States Cellular Corporation	Yes	Yes	No				
16 Verizon Communications	Yes	Yes	Yes	Yes	Yes	Yes	Yes
17 WorldCom Inc.	Yes	Yes	No				

Sources: The Value Line Investment Survey: Summary & Index and Ratings & Reports, April 5, 2002.

* LEC - Local Exchange Carrier
RBOC - Regional Bell Operating Company
RLEC - Rural Local Exchange Carrier

Small Telephone Company Earnings Investigation

Four Telecommunications Companies

Number	Ticker Symbol	Company Name
1	BLS	BellSouth Corporation
2	CTL	CenturyTel Inc.
3	SBC	SBC Communications, Inc.
4	VZ	Verizon Communications

Source: Value Line Investment Survey: Ratings & Reports, April 5, 2002

Small Telephone Company Earnings Investigation

**Interest Coverage, Common Equity Ratio, and Return on Common Equity
for the Four Telecommunications Companies**

Number	Company Name	Times Interest Earned 12/31/2001		Common Equity Ratio (2001)	Return on Common Equity (2001)
1	BellSouth Corporation	5.40	x	54.40%	21.40%
2	CenturyTel Inc.	3.00	x	51.90%	8.50%
3	SBC Communications, Inc.	6.81	* x	65.50%	24.50%
4	Verizon Communications	5.00	** x	45.50%	*** 22.00%
	Average	5.05	x	54.33%	19.10%

Source: The Value Line Investment Survey: Ratings & Reports, April 5, 2002

*12/31/01 SEC 10K Reports

**As of 9/30/2001

***Represent estimates by Value Line

Small Telephone Company Earnings Investigation

BellSouth Corporation

Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates

<u>Year</u>	<u>Dividends Per Share</u>	<u>Earnings Per Share</u>	<u>Book Value Per Share</u>
1991	0.69	0.78	6.75
1992	0.69	0.85	6.99
1993	0.69	0.90	6.80
1994	0.69	1.05	7.24
1995	0.71	1.12	5.95
1996	0.72	1.27	6.68
1997	0.72	1.41	7.64
1998	0.73	1.65	8.26
1999	0.76	1.98	7.87
2000	0.76	2.18	9.03
2001	0.76	2.11	9.79

Annual Compound Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991 - 2001	0.97%	10.46%	3.79%
1996 - 2001	1.09%	10.69%	7.94%

Geometric Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991 - 2001	0.97%	10.46%	3.79%
1996 - 2001	1.09%	10.69%	7.94%

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
Average of Historical Growth Rates:	1.03%	10.58%	5.87%
Standard Deviation:	0.06%	0.11%	2.08%

Source: The Value Line Investment Survey: Ratings & Reports, April 5, 2002.

Small Telephone Company Earnings Investigation

CenturyTel Inc.

Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates

<u>Year</u>	<u>Dividends Per Share</u>	<u>Earnings Per Share</u>	<u>Book Value Per Share</u>
1991	0.13	0.36	3.02
1992	0.13	0.53	3.50
1993	0.14	0.58	4.45
1994	0.14	0.73	5.38
1995	0.15	0.85	6.64
1996	0.16	0.95	7.56
1997	0.16	1.09	9.46
1998	0.17	1.42	11.03
1999	0.18	1.65	13.15
2000	0.19	1.55	14.39
2001	0.20	1.40	16.49

Annual Compound Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991-2001	4.40%	14.55%	18.50%
1996-2001	4.56%	8.06%	16.88%

Geometric Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991-2001	4.40%	14.55%	17.82%
1996-2001	4.56%	8.06%	16.16%

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
Average of Historical Growth Rates:	4.48%	11.31%	17.34%
Standard Deviation:	0.08%	3.24%	0.89%

Source: The Value Line Investment Survey: Ratings & Reports, April 5, 2002.

Small Telephone Company Earnings Investigation

SBC Communications, Inc.

**Dividends Per Share, Earnings Per Share & Book Value
Per Share Growth Rates**

<u>Year</u>	<u>Dividends Per Share</u>	<u>Earnings Per Share</u>	<u>Book Value Per Share</u>
1991	0.71	0.96	7.38
1992	0.73	1.09	7.76
1993	0.76	1.20	6.34
1994	0.79	1.37	6.86
1995	0.83	1.55	5.13
1996	0.86	1.73	5.70
1997	0.90	1.84	5.38
1998	0.94	2.08	6.52
1999	0.97	2.15	7.87
2000	1.01	2.26	9.00
2001	1.02	2.35	9.69

Annual Compound Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991-2001	3.69%	9.37%	2.76%
1996-2001	3.47%	6.32%	11.20%

Geometric Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991-2001	3.43%	8.37%	2.76%
1996-2001	3.06%	5.64%	11.20%

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
Average of Historical Growth Rates:	3.41%	7.42%	6.98%
Standard Deviation:	0.23%	1.51%	4.22%

Source: The Value Line Investment Survey: Ratings & Reports, April 5, 2002.

Small Telephone Company Earnings Investigation

Verizon Communications

Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates

<u>Year</u>	<u>Dividends Per Share</u>	<u>Earnings Per Share</u>	<u>Book Value Per Share</u>
1991	1.26	1.71	9.89
1992	1.30	1.62	9.00
1993	1.34	1.70	9.43
1994	1.38	1.77	6.97
1995	1.40	1.94	7.63
1996	1.43	1.98	8.48
1997	1.49	2.48	8.24
1998	1.54	2.72	8.39
1999	1.54	3.01	10.24
2000	1.54	2.91	9.25
2001	1.54	3.00	13.80 *

Annual Compound Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991-2001	2.03%	5.78%	3.39%
1996-2001	1.49%	8.67%	10.23%

Geometric Growth Rates

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
1991-2001	2.03%	5.78%	3.39%
1996-2001	1.49%	8.67%	10.23%

	<u>DPS</u>	<u>EPS</u>	<u>BVPS</u>
Average of Historical Growth Rates:	1.76%	7.22%	6.81%
Standard Deviation:	0.27%	1.44%	3.42%

Source: The Value Line Investment Survey: Ratings & Reports, April 5, 2002.

Notes: *Represents an estimate by Value Line.

Small Telephone Company Earnings Investigation

Expected Dividends Per Share, Earnings Per Share, & Return On Common Equity for the Four Telecommunications Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Company Name	2002 Projected DPS	2003 Projected DPS	Expected DPS	2002 Projected EPS	2003 Projected EPS	Expected EPS	2002 Projected ROE	2003 Projected ROE	Expected ROE
BellSouth Corporation	\$0.76	\$0.80	\$0.78	\$2.40	\$2.60	\$2.50	21.00%	20.00%	20.50%
CenturyTel Inc.	\$0.21	\$0.24	\$0.23	\$2.15	\$2.35	\$2.25	11.50%	11.50%	11.50%
SBC Communications, Inc.	\$1.07	\$1.08	\$1.08	\$2.45	\$2.55	\$2.50	22.00%	20.50%	21.25%
Verizon Communications	\$1.54	\$1.60	\$1.57	\$3.25	\$3.45	\$3.35	21.50%	21.50%	21.50%

Notes: Column 3 = {(Column 1 + Column 2) / 2}
Column 6 = {(Column 4 + Column 5) / 2}
Column 9 = {(Column 7 + Column 8) / 2}

Sources: The Value Line Investment Survey: Ratings and Reports, April 5, 2002.

Small Telephone Company Earnings Investigation

**Sustainable Growth Rates
for the Four Telecommunications Companies**

	(1)	(2)	(3)	(4)	(5)
Company Name	Expected DPS	Expected EPS	Expected ROE	Retention Rate	Sustainable Growth
BellSouth Corporation	\$0.78	\$2.50	20.50%	68.80%	14.10%
CenturyTel Inc.	\$0.23	\$2.25	11.50%	90.00%	10.35%
SBC Communications, Inc.	\$1.08	\$2.50	21.25%	57.00%	12.11%
Verizon Communications	\$1.57	\$3.35	21.50%	53.13%	11.42%
Average					12.00%

Notes: Column 4 = $[1 - (\text{Column 1} / \text{Column 2})]$
Column 5 = $[\text{Column 3} * \text{Column 4}]$

Sources: Reilly, Frank K. and Brown, Keith C., Investment Analysis and Portfolio Management: Fifth Edition,
The Dryden Press, Fort Worth, 1997, pp. 406-408.
Column 1 = Schedule 5.
Column 2 = Schedule 5.
Column 3 = Schedule 5.

Small Telephone Company Earnings Investigation

Historical, Sustainable, & Projected Growth Rates for the Four Telecommunications Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Company Name	Historical Growth Rate (DPS, EPS, & BVPS)	Sustainable Growth	Projected 5 Year Growth IBES (mean)	Projected 5 Year EPS Growth (S&P)	Projected 3-5 Year EPS Growth (Value Line)	Average Projected Growth	Average Historical & Projected Growth
BellSouth Corporation	5.82%	14.10%	8.50%	9.00%	12.50%	11.03%	8.42%
CenturyTel Inc.	11.04%	10.35%	10.30%	12.00%	13.50%	11.54%	11.29%
SBC Communications, Inc.	5.94%	12.11%	6.00%	7.00%	6.00%	7.78%	6.86%
Verizon Communications	5.26%	11.42%	7.50%	8.00%	8.50%	8.86%	7.06%
Average	7.02%	12.00%	8.08%	9.00%	10.13%	9.80%	8.41%

Notes : Column 6 = [(Sum of Columns 2 through 5) / 4]
Column 7 = [(Sum of Columns 1 and 6) / 2]

Sources: Column 1 = Average Historical DPS, EPS, & BVPS Growth Rates from Schedule 4.
Column 2 = Schedule 6.
Column 3 = I/B/E/S Inc.'s Institutional Brokers Estimate System (Utility Sector
Five Year Growth Rate-Company Data by Industry), March 14, 2002.
Column 4 = Standard & Poor's Corporation's Earnings Guide, April 2002.
Column 5 = The Value Line Investment Survey: Ratings and Reports, April 5, 2002.

Small Telephone Company Earnings Investigation

**Average High/Low Stock Price for January 2002 through April 2002
for the Four Telecommunications Companies**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	January 2002		February 2002		March 2002		April 2002		
Company Name	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	Average High/Low Stock Price
BellSouth Corporation	\$40.900	\$37.310	\$40.750	\$37.300	\$39.900	\$36.810	\$37.000	\$30.250	\$37.528
CenturyTel Inc.	\$33.050	\$28.800	\$33.250	\$30.010	\$35.500	\$32.680	\$34.450	\$27.000	\$31.843
SBC Communications, Inc.	\$40.990	\$35.120	\$38.680	\$34.290	\$39.560	\$37.250	\$38.400	\$30.140	\$36.804
Verizon Communications	\$51.090	\$45.130	\$48.150	\$43.020	\$48.700	\$45.510	\$46.010	\$38.620	\$45.779

Notes: Column 9 = [(Sum of Columns 1 through 8) / 8]

Sources: S&P Stock Guides: May 2002, April 2002, March 2002, February 2002

Small Telephone Company Earnings Investigation

**Discounted Cash Flow (DCF) Cost of Equity Estimates
for the Four Telecommunications Companies**

	(1)	(2)	(3)	(4)	(5)
Company Name	Expected Dividend	Average High/Low Stock Price	Projected Dividend Yield	Average Growth Rate	Cost of Common Equity
BellSouth Corporation	\$0.78	\$37.528	2.08%	8.42%	10.50%
CenturyTel Inc.	\$0.23	\$31.843	0.71%	11.29%	12.00%
SBC Communications, Inc.	\$1.08	\$36.804	2.92%	6.86%	9.78%
Verizon Communications	\$1.57	\$45.779	3.43%	7.06%	10.49%
			<u>2.28%</u>	<u>8.41%</u>	<u>10.69%</u>

Notes: Column 3 = [Column 1 / Column 2]
Column 5 = [Column 3 + Column 4]

Sources: Column 1 = The Value Line Investment Survey: Ratings and Reports, April 5, 2002.
Average of 2002 estimated DPS and 2003 estimated DPS
Column 2 = Schedule 8.
Column 4 = Schedule 7.

Small Telephone Company Earnings Investigation

Average Risk Premium Above the Yields of 30-Year U.S. Treasury Bonds for BellSouth Corporation's Expected Returns on Common Equity

Mo/Year	BellSouth's Expected ROE	30-Year U.S. Treasury Bond Yields	BellSouth's Risk Premium	Mo/Year	BellSouth's Expected ROE	30-Year U.S. Treasury Bond Yields	BellSouth's Risk Premium
Jan 1992	12.50%	7.58%	4.92%	Jan 1997	19.00%	6.83%	12.17%
Feb	12.50%	7.85%	4.65%	Feb	19.00%	6.69%	12.31%
Mar	12.50%	7.97%	4.53%	Mar	19.00%	6.93%	12.07%
Apr	12.50%	7.96%	4.54%	Apr	19.00%	7.09%	11.91%
May	12.50%	7.89%	4.61%	May	19.00%	6.94%	12.06%
Jun	12.50%	7.84%	4.66%	Jun	19.00%	6.77%	12.23%
Jul	12.50%	7.60%	4.90%	Jul	19.00%	6.51%	12.49%
Aug	12.50%	7.39%	5.11%	Aug	19.00%	6.58%	12.42%
Sep	12.50%	7.34%	5.16%	Sep	19.00%	6.50%	12.50%
Oct	12.00%	7.53%	4.47%	Oct	19.00%	6.33%	12.67%
Nov	12.00%	7.61%	4.39%	Nov	19.00%	6.11%	12.89%
Dec	12.00%	7.44%	4.56%	Dec	19.00%	5.99%	13.01%
Jan 1993	12.50%	7.34%	5.16%	Jan 1998	19.00%	5.81%	13.19%
Feb	12.50%	7.09%	5.41%	Feb	19.00%	5.89%	13.11%
Mar	12.50%	6.82%	5.68%	Mar	19.00%	5.95%	13.05%
Apr	12.50%	6.85%	5.65%	Apr	19.50%	5.92%	13.58%
May	12.50%	6.92%	5.58%	May	19.50%	5.93%	13.57%
Jun	12.50%	6.81%	5.69%	Jun	19.50%	5.70%	13.80%
Jul	12.00%	6.63%	5.37%	Jul	19.00%	5.68%	13.32%
Aug	12.00%	6.32%	5.68%	Aug	19.00%	5.54%	13.46%
Sep	12.00%	6.00%	6.00%	Sep	19.00%	5.20%	13.80%
Oct	12.00%	5.94%	6.06%	Oct	20.00%	5.01%	14.99%
Nov	12.00%	6.21%	5.79%	Nov	20.00%	5.25%	14.75%
Dec	12.00%	6.25%	5.75%	Dec	20.00%	5.06%	14.94%
Jan 1994	13.50%	6.29%	7.21%	Jan 1999	22.50%	5.16%	17.34%
Feb	13.50%	6.49%	7.01%	Feb	22.50%	5.37%	17.13%
Mar	13.50%	6.91%	6.59%	Mar	22.50%	5.58%	16.92%
Apr	15.00%	7.27%	7.73%	Apr	23.50%	5.55%	17.95%
May	15.00%	7.41%	7.59%	May	23.50%	5.81%	17.69%
Jun	15.00%	7.40%	7.60%	June	23.50%	6.04%	17.46%
Jul	15.00%	7.58%	7.42%	July	23.50%	5.98%	17.52%
Aug	15.00%	7.49%	7.51%	Aug	23.50%	6.07%	17.43%
Sep	15.00%	7.71%	7.29%	Sept	23.50%	6.07%	17.43%
Oct	14.50%	7.94%	6.56%	Oct	24.50%	6.26%	18.24%
Nov	14.50%	8.08%	6.42%	Nov	24.50%	6.15%	18.35%
Dec	14.50%	7.87%	6.63%	Dec	24.50%	6.35%	18.15%
Jan 1995	15.00%	7.85%	7.15%	Jan 2000	26.00%	6.63%	19.37%
Feb	15.00%	7.61%	7.39%	Feb	26.00%	6.23%	19.77%
Mar	15.00%	7.45%	7.55%	March	26.00%	6.05%	19.95%
Apr	14.50%	7.36%	7.14%	Apr	26.00%	5.85%	20.15%
May	14.50%	6.95%	7.55%	May	26.00%	6.15%	19.85%
Jun	14.50%	6.57%	7.93%	June	26.00%	5.93%	20.07%
Jul	17.50%	6.72%	10.78%	July	23.00%	5.85%	17.15%
Aug	17.50%	6.86%	10.64%	Aug	23.00%	5.72%	17.28%
Sep	17.50%	6.55%	10.95%	Sept	23.00%	5.83%	17.17%
Oct	18.00%	6.37%	11.63%	Oct	23.50%	5.80%	17.70%
Nov	18.00%	6.26%	11.74%	Nov	23.50%	5.78%	17.72%
Dec	18.00%	6.06%	11.94%	Dec	23.50%	5.49%	18.01%
Jan 1996	19.00%	6.05%	12.95%	Jan 2001	23.00%	5.54%	17.46%
Feb	19.00%	6.24%	12.76%	Feb	23.00%	5.45%	17.55%
Mar	19.00%	6.60%	12.40%	March	23.00%	5.34%	17.66%
Apr	18.50%	6.79%	11.71%	Apr	23.00%	5.65%	17.35%
May	18.50%	6.93%	11.57%	May	23.00%	5.78%	17.22%
Jun	18.50%	7.06%	11.44%	June	23.00%	5.67%	17.33%
Jul	19.00%	7.03%	11.97%	July	21.50%	5.61%	15.89%
Aug	19.00%	6.84%	12.16%	Aug	21.50%	5.48%	16.02%
Sep	19.00%	7.03%	11.97%	Sept	21.50%	5.48%	16.02%
Oct	19.00%	6.81%	12.19%	Oct	21.00%	5.32%	15.68%
Nov	19.00%	6.48%	12.52%	Nov	21.00%	5.12%	15.88%
Dec	19.00%	6.55%	12.45%	Dec	21.00%	5.48%	15.52%
				Jan 2002	21.50%	5.45%	16.05%
				Feb	21.50%	5.40%	16.10%
				Mar	21.50%	5.71%	15.79%
				Apr	21.00%	5.67%	15.33%

Summary Information (January 1992 - April 2002)

Average Risk Premium: 11.95%

High Risk Premium: 20.15%

Low Risk Premium: 4.39%

Sources: The Value Line Investment Survey: Ratings & Reports for each quarter.
 St. Louis Federal Reserve Website: <http://www.stls.frb.org/fred/data/irates/g30>
 Yahoo Finance at:
<http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?s=%5SETYX&d=1y>

Small Telephone Company Earnings Investigation

Average Risk Premium Above the Yields of 30-Year U.S. Treasury Bonds for CenturyTel Inc.'s Expected Returns on Common Equity

Mo/Year	Century Tel's Expected ROE	30-Year U.S. Treasury Bond Yields	Century Tel's Risk Premium	Mo/Year	Century Tel's Expected ROE	30-Year U.S. Treasury Bond Yields	Century Tel's Risk Premium
Jan 1992	12.50%	7.58%	4.92%	Jan 1997	13.50%	6.83%	6.67%
Feb	12.50%	7.85%	4.65%	Feb	13.50%	6.69%	6.81%
Mar	12.50%	7.97%	4.53%	Mar	13.50%	6.93%	6.57%
Apr	13.00%	7.96%	5.04%	Apr	13.00%	7.09%	5.91%
May	13.00%	7.89%	5.11%	May	13.00%	6.94%	6.06%
Jun	13.00%	7.84%	5.16%	Jun	13.00%	6.77%	6.23%
Jul	13.50%	7.60%	5.90%	Jul	13.00%	6.51%	6.49%
Aug	13.50%	7.39%	6.11%	Aug	13.00%	6.58%	6.42%
Sep	13.50%	7.34%	6.16%	Sep	13.00%	6.50%	6.50%
Oct	14.50%	7.53%	6.97%	Oct	13.00%	6.33%	6.67%
Nov	14.50%	7.61%	6.89%	Nov	13.00%	6.11%	6.89%
Dec	14.50%	7.44%	7.06%	Dec	13.00%	5.99%	7.01%
Jan 1993	15.50%	7.34%	8.16%	Jan 1998	13.50%	5.81%	7.69%
Feb	15.50%	7.09%	8.41%	Feb	13.50%	5.89%	7.61%
Mar	15.50%	6.82%	8.68%	Mar	13.50%	5.95%	7.55%
Apr	16.00%	6.85%	9.15%	Apr	13.00%	5.92%	7.08%
May	16.00%	6.92%	9.08%	May	13.00%	5.93%	7.07%
Jun	16.00%	6.81%	9.19%	Jun	13.00%	5.70%	7.30%
Jul	16.50%	6.63%	9.87%	Jul	13.00%	5.68%	7.32%
Aug	16.50%	6.32%	10.18%	Aug	13.00%	5.54%	7.46%
Sep	16.50%	6.00%	10.50%	Sep	13.00%	5.20%	7.80%
Oct	14.50%	5.94%	8.56%	Oct	12.50%	5.01%	7.49%
Nov	14.50%	6.21%	8.29%	Nov	12.50%	5.25%	7.25%
Dec	14.50%	6.25%	8.25%	Dec	12.50%	5.06%	7.44%
Jan 1994	15.00%	6.29%	8.71%	Jan 1999	13.50%	5.16%	8.34%
Feb	15.00%	6.49%	8.51%	Feb	13.50%	5.37%	8.13%
Mar	15.00%	6.91%	8.09%	Mar	13.50%	5.58%	7.92%
Apr	12.50%	7.27%	5.23%	Apr	13.50%	5.55%	7.95%
May	12.50%	7.41%	5.09%	May	13.50%	5.81%	7.69%
Jun	12.50%	7.40%	5.10%	June	13.50%	6.04%	7.46%
Jul	14.00%	7.58%	6.42%	July	14.00%	5.98%	8.02%
Aug	14.00%	7.49%	6.51%	Aug	14.00%	6.07%	7.93%
Sep	14.00%	7.71%	6.29%	Sept	14.00%	6.07%	7.93%
Oct	13.50%	7.94%	5.56%	Oct	13.50%	6.26%	7.24%
Nov	13.50%	8.08%	5.42%	Nov	13.50%	6.15%	7.35%
Dec	13.50%	7.87%	5.63%	Dec	13.50%	6.35%	7.15%
Jan 1995	15.50%	7.85%	7.65%	Jan 2000	13.50%	6.63%	6.87%
Feb	15.50%	7.61%	7.89%	Feb	13.50%	6.23%	7.27%
Mar	15.50%	7.45%	8.05%	March	13.50%	6.05%	7.45%
Apr	14.50%	7.36%	7.14%	Apr	12.50%	5.85%	6.65%
May	14.50%	6.95%	7.55%	May	12.50%	6.15%	6.35%
Jun	14.50%	6.57%	7.93%	June	12.50%	5.93%	6.57%
Jul	15.00%	6.72%	8.28%	July	12.50%	5.85%	6.65%
Aug	15.00%	6.86%	8.14%	Aug	12.50%	5.72%	6.78%
Sep	15.00%	6.55%	8.45%	Sept	12.50%	5.83%	6.67%
Oct	14.50%	6.37%	8.13%	Oct	11.00%	5.80%	5.20%
Nov	14.50%	6.26%	8.24%	Nov	11.00%	5.78%	5.22%
Dec	14.50%	6.06%	8.44%	Dec	11.00%	5.49%	5.51%
Jan 1996	15.50%	6.05%	9.45%	Jan 2001	11.50%	5.54%	5.96%
Feb	15.50%	6.24%	9.26%	Feb	11.50%	5.45%	6.05%
Mar	15.50%	6.60%	8.90%	March	11.50%	5.34%	6.16%
Apr	13.00%	6.79%	6.21%	Apr	11.50%	5.65%	5.85%
May	13.00%	6.93%	6.07%	May	11.50%	5.78%	5.72%
Jun	13.00%	7.06%	5.94%	June	11.50%	5.67%	5.83%
Jul	13.50%	7.03%	6.47%	July	11.50%	5.61%	5.89%
Aug	13.50%	6.84%	6.66%	Aug	11.50%	5.48%	6.02%
Sep	13.50%	7.03%	6.47%	Sept	11.50%	5.48%	6.02%
Oct	13.50%	6.81%	6.69%	Oct	11.50%	5.32%	6.18%
Nov	13.50%	6.48%	7.02%	Nov	11.50%	5.12%	6.38%
Dec	13.50%	6.55%	6.95%	Dec	11.50%	5.48%	6.02%
				Jan 2002	11.50%	5.45%	6.05%
				Feb	11.50%	5.40%	6.10%
				Mar	11.50%	5.71%	5.79%
				Apr	11.50%	5.67%	5.83%

Summary Information (January 1992 - April 2002)

Average Risk Premium:	7.01%
High Risk Premium:	10.50%
Low Risk Premium:	4.53%

Sources: The Value Line Investment Survey: Ratings & Reports for each quarter.
 St. Louis Federal Reserve Website: <http://www.stls.frb.org/fred/data/irates/gs30>
 Yahoo Finance at:
<http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?s=%SETYX&d=1y>

Small Telephone Company Earnings Investigation

Average Risk Premium Above the Yields of 30-Year U.S. Treasury Bonds for SBC Communications, Inc.'s Expected Returns on Common Equity

Mo/Year	SBC's Expected ROE	30-Year U.S. Treasury Bond Yields	SBC's Risk Premium	Mo/Year	SBC's Expected ROE	30-Year U.S. Treasury Bond Yields	SBC's Risk Premium
Jan 1992	13.50%	7.58%	5.92%	Jan 1997	27.00%	6.83%	20.17%
Feb	13.50%	7.85%	5.65%	Feb	27.00%	6.69%	20.31%
Mar	13.50%	7.97%	5.53%	Mar	27.00%	6.93%	20.07%
Apr	13.50%	7.96%	5.54%	Apr	35.50%	7.09%	28.41%
May	13.50%	7.89%	5.61%	May	35.50%	6.94%	28.56%
Jun	13.50%	7.84%	5.66%	Jun	35.50%	6.77%	28.73%
Jul	13.50%	7.60%	5.90%	Jul	30.00%	6.51%	23.49%
Aug	13.50%	7.39%	6.11%	Aug	30.00%	6.58%	23.42%
Sep	13.50%	7.34%	6.16%	Sep	30.00%	6.50%	23.50%
Oct	14.00%	7.53%	6.47%	Oct	36.50%	6.33%	30.17%
Nov	14.00%	7.61%	6.39%	Nov	36.50%	6.11%	30.39%
Dec	14.00%	7.44%	6.56%	Dec	36.50%	5.99%	30.51%
Jan 1993	14.50%	7.34%	7.16%	Jan 1998	34.00%	5.81%	28.19%
Feb	14.50%	7.09%	7.41%	Feb	34.00%	5.89%	28.11%
Mar	14.50%	6.82%	7.68%	Mar	34.00%	5.95%	28.05%
Apr	18.50%	6.85%	11.65%	Apr	31.50%	5.92%	25.58%
May	18.50%	6.92%	11.58%	May	31.50%	5.93%	25.57%
Jun	18.50%	6.81%	11.69%	Jun	31.50%	5.70%	25.80%
Jul	18.50%	6.63%	11.87%	Jul	31.50%	5.68%	25.82%
Aug	18.50%	6.32%	12.18%	Aug	31.50%	5.54%	25.96%
Sep	18.50%	6.00%	12.50%	Sep	31.50%	5.20%	26.30%
Oct	18.50%	5.94%	12.56%	Oct	32.00%	5.01%	26.99%
Nov	18.50%	6.21%	12.29%	Nov	32.00%	5.25%	26.75%
Dec	18.50%	6.25%	12.25%	Dec	32.00%	5.06%	26.94%
Jan 1994	19.50%	6.29%	13.21%	Jan 1999	29.50%	5.16%	24.34%
Feb	19.50%	6.49%	13.01%	Feb	29.50%	5.37%	24.13%
Mar	19.50%	6.91%	12.59%	Mar	29.50%	5.58%	23.92%
Apr	19.50%	7.27%	12.23%	Apr	30.00%	5.55%	24.45%
May	19.50%	7.41%	12.09%	May	30.00%	5.81%	24.19%
Jun	19.50%	7.40%	12.10%	June	30.00%	6.04%	23.96%
Jul	19.00%	7.58%	11.42%	July	30.00%	5.98%	24.02%
Aug	19.00%	7.49%	11.51%	Aug	30.00%	6.07%	23.93%
Sep	19.00%	7.71%	11.29%	Sept	30.00%	6.07%	23.93%
Oct	20.00%	7.94%	12.06%	Oct	30.00%	6.26%	23.74%
Nov	20.00%	8.08%	11.92%	Nov	30.00%	6.15%	23.85%
Dec	20.00%	7.87%	12.13%	Dec	30.00%	6.35%	23.65%
Jan 1995	20.00%	7.85%	12.15%	Jan 2000	25.00%	6.63%	18.37%
Feb	20.00%	7.61%	12.39%	Feb	25.00%	6.23%	18.77%
Mar	20.00%	7.45%	12.55%	March	25.00%	6.05%	18.95%
Apr	20.00%	7.36%	12.64%	Apr	25.50%	5.85%	19.65%
May	20.00%	6.95%	13.05%	May	25.50%	6.15%	19.35%
Jun	20.00%	6.57%	13.43%	June	25.50%	5.93%	19.57%
Jul	20.00%	6.72%	13.28%	July	25.50%	5.85%	19.65%
Aug	20.00%	6.86%	13.14%	Aug	25.50%	5.72%	19.78%
Sep	20.00%	6.55%	13.45%	Sept	25.50%	5.83%	19.67%
Oct	29.50%	6.37%	23.13%	Oct	25.50%	5.80%	19.70%
Nov	29.50%	6.26%	23.24%	Nov	25.50%	5.78%	19.72%
Dec	29.50%	6.06%	23.44%	Dec	25.50%	5.49%	20.01%
Jan 1996	28.00%	6.05%	21.95%	Jan 2001	24.50%	5.54%	18.96%
Feb	28.00%	6.24%	21.76%	Feb	24.50%	5.45%	19.05%
Mar	28.00%	6.60%	21.40%	March	24.50%	5.34%	19.16%
Apr	29.00%	6.79%	22.21%	Apr	24.00%	5.65%	18.35%
May	29.00%	6.93%	22.07%	May	24.00%	5.78%	18.22%
Jun	29.00%	7.06%	21.94%	June	24.00%	5.67%	18.33%
Jul	29.00%	7.03%	21.97%	July	23.50%	5.61%	17.89%
Aug	29.00%	6.84%	22.16%	Aug	23.50%	5.48%	18.02%
Sep	29.00%	7.03%	21.97%	Sept	23.50%	5.48%	18.02%
Oct	29.00%	6.81%	22.19%	Oct	23.50%	5.32%	18.18%
Nov	29.00%	6.48%	22.52%	Nov	23.50%	5.12%	18.38%
Dec	29.00%	6.55%	22.45%	Dec	23.50%	5.48%	18.02%
				Jan 2002	21.50%	5.45%	16.05%
				Feb	21.50%	5.40%	16.10%
				Mar	21.50%	5.71%	15.79%
				Apr	22.00%	5.67%	16.33%

Summary Information (January 1992 - April 2002)

Average Risk Premium:	18.00%
High Risk Premium:	30.51%
Low Risk Premium:	5.53%

Sources: The Value Line Investment Survey: Ratings & Reports for each quarter.
 St. Louis Federal Reserve Website: <http://www.stls.frb.org/fred/data/irates/gs30>
 Yahoo Finance at:
<http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?e=%SETYX&d=1y>

**Average Risk Premium Above the Yields of 30-Year U.S. Treasury Bonds
for Verizon Communication's Expected Returns on Common Equity**

Mo/Year	Verizon's Expected ROE	30-Year U.S. Treasury Bond Yields	Verizon's Risk Premium	Mo/Year	Verizon's Expected ROE	30-Year U.S. Treasury Bond Yields	Verizon's Risk Premium
Jan 1992	17.50%	7.58%	9.92%	Jan 1997	25.50%	6.83%	18.67%
Feb	17.50%	7.65%	9.65%	Feb	25.50%	6.69%	18.81%
Mar	17.50%	7.97%	9.53%	Mar	25.50%	6.93%	18.57%
Apr	17.50%	7.96%	9.54%	Apr	25.50%	7.09%	18.41%
May	17.50%	7.89%	9.61%	May	25.50%	6.94%	18.56%
Jun	17.50%	7.84%	9.66%	Jun	25.50%	6.77%	18.73%
Jul	17.50%	7.60%	9.90%	Jul	25.00%	6.51%	18.49%
Aug	17.50%	7.39%	10.11%	Aug	25.00%	6.58%	18.42%
Sep	17.50%	7.34%	10.16%	Sep	25.00%	6.50%	18.50%
Oct	17.00%	7.53%	9.47%	Oct	23.00%	6.33%	16.67%
Nov	17.00%	7.61%	9.39%	Nov	23.00%	6.11%	16.89%
Dec	17.00%	7.44%	9.56%	Dec	23.00%	5.99%	17.01%
Jan 1993	18.00%	7.34%	10.66%	Jan 1998	20.50%	5.81%	14.69%
Feb	18.00%	7.09%	10.91%	Feb	20.50%	5.89%	14.61%
Mar	18.00%	6.82%	11.18%	Mar	20.50%	5.95%	14.55%
Apr	18.50%	6.85%	11.65%	Apr	10.00%	5.92%	4.08%
May	18.50%	6.92%	11.58%	May	10.00%	5.93%	4.07%
Jun	18.50%	6.81%	11.69%	Jun	10.00%	5.70%	4.30%
Jul	18.00%	6.63%	11.37%	Jul	24.50%	5.68%	18.82%
Aug	18.00%	6.32%	11.68%	Aug	24.50%	5.54%	18.96%
Sep	18.00%	6.00%	12.00%	Sep	24.50%	5.20%	19.30%
Oct	18.50%	5.94%	12.56%	Oct	24.00%	5.01%	18.99%
Nov	18.50%	6.21%	12.29%	Nov	24.00%	5.25%	18.75%
Dec	18.50%	6.25%	12.25%	Dec	24.00%	5.06%	18.94%
Jan 1994	18.50%	6.29%	12.21%	Jan 1999	24.00%	5.16%	18.84%
Feb	18.50%	6.49%	12.01%	Feb	24.00%	5.37%	18.63%
Mar	18.50%	6.91%	11.59%	Mar	24.00%	5.58%	18.42%
Apr	18.50%	7.27%	11.23%	Apr	23.00%	5.55%	17.45%
May	18.50%	7.41%	11.09%	May	23.00%	5.81%	17.19%
Jun	18.50%	7.40%	11.10%	June	23.00%	6.04%	16.96%
Jul	18.00%	7.58%	10.42%	July	30.50%	5.98%	24.52%
Aug	18.00%	7.49%	10.51%	Aug	30.50%	6.07%	24.43%
Sep	18.00%	7.71%	10.29%	Sept	30.50%	6.07%	24.43%
Oct	25.00%	7.94%	17.06%	Oct	30.50%	6.26%	24.24%
Nov	25.00%	8.08%	16.92%	Nov	30.50%	6.15%	24.35%
Dec	25.00%	7.87%	17.13%	Dec	30.50%	6.35%	24.15%
Jan 1995	24.50%	7.85%	16.65%	Jan 2000	29.00%	6.63%	22.37%
Feb	24.50%	7.61%	16.89%	Feb	29.00%	6.23%	22.77%
Mar	24.50%	7.45%	17.05%	March	29.00%	6.05%	22.95%
Apr	25.50%	7.36%	18.14%	Apr	29.00%	5.85%	23.15%
May	25.50%	6.95%	18.55%	May	29.00%	6.15%	22.85%
Jun	25.50%	6.57%	18.93%	June	29.00%	5.93%	23.07%
Jul	25.50%	6.72%	18.78%	July	29.50%	5.85%	23.65%
Aug	25.50%	6.86%	18.64%	Aug	29.50%	5.72%	23.78%
Sep	25.50%	6.55%	18.95%	Sept	29.50%	5.83%	23.67%
Oct	25.50%	6.37%	19.13%	Oct	41.50%	5.80%	35.70%
Nov	25.50%	6.26%	19.24%	Nov	41.50%	5.78%	35.72%
Dec	25.50%	6.06%	19.44%	Dec	41.50%	5.49%	36.01%
Jan 1996	25.00%	6.05%	18.95%	Jan 2001	37.50%	5.54%	31.96%
Feb	25.00%	6.24%	18.76%	Feb	37.50%	5.45%	32.05%
Mar	25.00%	6.60%	18.40%	March	37.50%	5.34%	32.16%
Apr	25.00%	6.79%	18.21%	Apr	30.00%	5.65%	24.35%
May	25.00%	6.93%	18.07%	May	30.00%	5.78%	24.22%
Jun	25.00%	7.06%	17.94%	June	30.00%	5.67%	24.33%
Jul	25.50%	7.03%	18.47%	July	22.50%	5.61%	16.89%
Aug	25.50%	6.84%	18.66%	Aug	22.50%	5.48%	17.02%
Sep	25.50%	7.03%	18.47%	Sept	22.50%	5.48%	17.02%
Oct	25.50%	6.81%	18.69%	Oct	22.00%	5.32%	16.68%
Nov	25.50%	6.48%	19.02%	Nov	22.00%	5.12%	16.88%
Dec	25.50%	6.55%	18.95%	Dec	22.00%	5.48%	16.52%
				Jan 2002	21.50%	5.45%	16.05%
				Feb	21.50%	5.40%	16.10%
				Mar	21.50%	5.71%	15.79%
				Apr	21.50%	5.67%	15.83%

Summary Information (January 1992 - April 2002)

Average Risk Premium:	17.27%
High Risk Premium:	36.01%
Low Risk Premium:	4.07%

Sources: The Value Line Investment Survey: Ratings & Reports for each quarter.
 St. Louis Federal Reserve Website: <http://www.stls.frb.org/fred/data/irates/g30>
 Yahoo Finance at:
<http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?s=%SETYX&d=1y>

Small Telephone Company Earnings Investigation

**Risk Premium Cost of Equity Estimates
for the Four Telecommunications Companies
(30-Year Treasury)**

	(1)	(2)	(3)
Company Name	April 2002 30-Year U.S. Treasury Yield	Equity Premium	Cost of Common Equity
BellSouth Corporation	5.67%	11.95%	17.62%
CenturyTel Inc.	5.67%	7.01%	12.68%
SBC Communications, Inc.	5.67%	18.00%	23.67%
Verizon Communications	5.67%	17.27%	22.94%
Average		13.56%	19.23%

NOTES:

Column 1 = The appropriate yield is equal to the average 30-year U.S. Treasury Bond yield for April 2002 which was obtained from Yahoo Finance at <http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?s=%5ETUX&d=1y>

Column 2 = The equity premium represents the average positive difference between the Company's expected return on common equity as reported in The Value Line Investment Survey: Ratings & Report and the average yield on 30-year U.S. Treasury Bonds from January 1992 through April 2002.
See Schedules 10-1 through 10-4.

Column 3 = Column 1 + Column 2.

Small Telephone Company Earnings Investigation

Capital Asset Pricing Model (CAPM) Cost of Equity Estimates for the Four Telecommunications Companies

	(1)	(2)	(3)	(4)
Company Name	Risk Free Rate	Company's Beta	Market Risk Premium	Cost of Common Equity
BellSouth Corporation	5.67%	0.75	7.00%	10.92%
CenturyTel Inc.	5.67%	1.05	7.00%	13.02%
SBC Communications, Inc.	5.67%	0.75	7.00%	10.92%
Verizon Communications	5.67%	NA	7.00%	NA
Average		<u>0.85</u>		<u>11.62%</u>

NOTES:

Column 1 = The appropriate yield is equal to the 30-Year U.S. Treasury Bond yield for April 2002 which was obtained from Yahoo Finance at <http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?s=%5ETYX&d=1y>

Column 2 = Beta is a measure of the movement and relative risk of an individual stock to the market as a whole as reported by The Value Line Investment Survey: Ratings & Reports, April 5, 2002.

Column 3 = The Market Risk Premium is the amount over the Risk Free Rate that is demanded by investors for holding a portfolio of equal risk to the market, and was reported by Ibbotson Associates, Inc. in Stocks, Bonds, Bills, and Inflation: 2002 Yearbook. See Table 2-1, Arithmetic Mean (large company stocks less long-term government bonds).

Column 4 = [Column 1 + (Column 2 * Column 3)].

Cost of Common Equity Summary

Method	Weighting of Method	Cost of Common Equity Estimate	Weighted Cost of Common Equity Estimate
DCF	75.00%	10.69%	8.02%
Risk Premium	10.00%	19.23%	1.92%
CAPM	15.00%	11.62%	1.74%
Estimated Overall Cost of Common Equity for the Four Telecommunications Companies			<u>11.68%</u>

Notes:

See Schedule 9 for DCF Estimated Cost of Common Equity.

See Schedule 11 for Risk Premium Estimated Cost of Common Equity.

See Schedule 12 for CAPM Estimated Cost of Common Equity.

**Capital Asset Pricing Model (CAPM) Unlevered Beta Cost of Equity Estimates
for the Four Telecommunications Companies**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Company Name	Risk Free Rate	Company's Original Beta	Company's Unlevered Beta	Market Risk Premium	Cost of Common Equity	Unlevered Cost of Common Equity	Adjustment for Leverage
BellSouth Corporation	5.67%	0.75	0.49	7.00%	10.92%	9.09%	1.83%
CenturyTel Inc.	5.67%	1.05	0.69	7.00%	13.02%	10.50%	2.52%
SBC Communications, Inc.	5.67%	0.75	0.56	7.00%	10.92%	9.58%	1.34%
Verizon Communications	5.67%	NA	NA	7.00%	NA	NA	NA
Average		0.85	0.58		11.62%	9.72%	1.90%

NOTES:

Column 1 = The appropriate yield is equal to the average 30-year U.S. Treasury Bond yield for April 2002 which was obtained from Yahoo Finance at <http://www.investopedia.com/offsite.asp?URL=http://quote.yahoo.com/q?s=%5ETIYX&d=1y>

Column 2 = Beta is a measure of the movement and relative risk of an individual stock to the market as a whole as reported by The Value Line Investment Survey: Ratings & Reports, April 5, 2002.

Column 3 = $B_L / [1 + (1 - T)D/E]$ Where B_L = levered beta; T = tax rate as reported by Value Line; and D/E = the debt to equity ratio according to Value Line information

Column 4 = The Market Risk Premium is the amount over the Risk Free Rate that is demanded by investors for holding a portfolio of equal risk to the market, and was reported by Ibbotson Associates, Inc. in Stocks, Bonds, Bills, and Inflation: 2002 Yearbook. See Table 2-1, Arithmetic Mean (large company stocks less long-term government bonds).

Column 5 = $[\text{Column 1} + (\text{Column 2} * \text{Column 4})]$.

Column 6 = $[\text{Column 1} + (\text{Column 3} * \text{Column 4})]$

Column 7 = Column 5 - Column 6

NA = Not Available

Source: The Value Line Investment Survey: Ratings and Reports, April 5, 2002.

**Capital Asset Pricing Model (CAPM) Unlevered Beta Cost of Equity Estimates
for the Six Telecommunications Companies**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Company Name	Risk Free Rate	Company's Original Beta	Company's Unlevered Beta	Market Risk Premium	Cost of Common Equity	Unlevered Cost of Common Equity	Adjustment for Leverage
ALLTEL Corporation	5.67%	0.85	0.55	7.80%	12.30%	9.96%	2.34%
BellSouth Corporation	5.67%	0.85	0.61	7.80%	12.30%	10.42%	1.88%
Century Tel Inc.	5.67%	1.00	0.52	7.80%	13.47%	9.70%	3.77%
SBC Communications, Inc.	5.67%	0.85	0.63	7.80%	12.30%	10.61%	1.69%
Telephone & Data Systems	5.67%	0.80	0.55	7.80%	11.91%	9.93%	1.98%
Verizon Communications	5.67%	NA	NA	7.80%	NA	NA	NA
Average		0.87	0.57		12.46%	10.12%	2.33%

NOTES:

Column 1 = The appropriate yield is equal to the average 30-year U.S. Treasury Bond yield for June 2001 which was obtained from the St. Louis Federal Reserve Website: <http://www.stls.frb.org/fred/data/irates/gs30>.

Column 2 = Beta is a measure of the movement and relative risk of an individual stock to the market as a whole as reported by The Value Line Investment Survey: Ratings & Reports, April 6, 2001.

Column 3 = $B_L / [1 + (1 - T)D/E]$ Where B_L = levered beta; T = tax rate as reported by Value Line; and D/E = the debt to equity ratio according to Value Line information

Column 4 = The Market Risk Premium is the amount over the Risk Free Rate that is demanded by investors for holding a portfolio of equal risk to the market, and was reported by Ibbotson Associates, Inc. in Stocks, Bonds, Bills, and Inflation: 2000 Yearbook. See Table 2-1, Arithmetic Mean (large company stocks less long-term government bonds).

Column 5 = $[\text{Column 1} + (\text{Column 2} * \text{Column 4})]$.

Column 6 = $[\text{Column 1} + (\text{Column 3} * \text{Column 4})]$

Column 7 = Column 5 - Column 6

NA = Not Available

Source: The Value Line Investment Survey: Ratings and Reports, April 6, 2001.

**Capital Asset Pricing Model (CAPM) Unlevered Beta Cost of Equity Estimates
for the Five Telecommunications Companies**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Company Name	Risk Free Rate	Company's Original Beta	Company's Unlevered Beta	Market Risk Premium	Cost of Common Equity	Unlevered Cost of Common Equity	Adjustment for Leverage
ALLTEL Corporation	5.81%	0.75	0.49	7.80%	11.66%	9.65%	2.01%
AT&T Corporation	5.81%	0.95	0.82	7.80%	13.22%	12.20%	1.01%
BellSouth Corporation	5.81%	0.85	0.60	7.80%	12.44%	10.47%	1.97%
Century Tel Inc.	5.81%	0.95	0.55	7.80%	13.22%	10.08%	3.14%
SBC Communications Inc.	5.81%	0.85	0.59	7.80%	12.44%	10.41%	2.03%
Average		0.87	0.61		12.59%	10.56%	2.03%

NOTES:

Column 1 = The Risk Free Rate of Interest which is equal to the 30-year U. S. Treasury Rate as quoted in The Wall Street Journal, October 17, 2000.

Column 2 = Beta is a measure of the movement and relative risk of an individual stock to the market as a whole as reported by The Value Line Investment Survey: Ratings & Reports, August 4, 2000.

Column 3 = $B_L / [1 + (1 - T)D/E]$ Where B_L = levered beta; T = tax rate as reported by Value Line; and D/E = the debt to equity ratio according to Value Line information

Column 4 = The Market Risk Premium is the amount over the Risk Free Rate that is demanded by investors for holding a portfolio of equal risk to the market, and was reported by Ibbotson Associates, Inc. in Stocks, Bonds, Bills, and Inflation: 2000 Yearbook. See Table 2-1, Arithmetic Mean (large company stocks less long-term government bonds).

Column 5 = $[\text{Column 1} + (\text{Column 2} * \text{Column 4})]$.

Column 6 = $[\text{Column 1} + (\text{Column 3} * \text{Column 4})]$

Column 7 = Column 5 - Column 6

Source: The Value Line Investment Survey: Ratings and Reports, July 7, 2000.

Unlevered Adjustment to Return on Equity Averages for the 2002, 2001, and 2000 Small Telephone Studies

	(1)	(2)	(3)
Year	Average Levered ROE	Unlevered Adjustment	Unlevered ROE
2002	11.68%	1.90%	9.78%
2001	13.47%	2.33%	11.14%
2000	14.25%	2.03%	12.22%
		Average	<u>11.05%</u>

NOTES:

Column 1 = Final estimated cost of common equity from the small telephone studies

Column 2 = Column 7 from Schedules 14, 15 and 16

Column 3 = Column 1 - Column 2

Source: 2002, 2001 and 2000 small telephone studies

Average High ROE's for the 2002, 2001, and 2000 Small Telephone Studies

Year	High Levered ROE's
2002	12.22%
2001	17.35%
2000	15.92%
Average	15.16%

Source: 2002, 2001 and 2000 small telephone studies

BPS Telephone Company
Rate Review

**Weighted Cost of Capital
BPS Telephone Company
as of December 31, 2001**

Capital Component	Capital Dollars	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of: 11.57%
Common Stock Equity	\$ 7,906,873	87.24%	-----	10.09%
Long-Term Debt	1,156,667	12.76%	8.56%	1.09%
Short-Term Debt	0	0.00%	0.00%	0.00%
Total	<u>9,063,540</u>	<u>100.00%</u>		<u>11.19%</u>