

BPS TELEPHONE COMPANY

Analysis of Staff Growth Rates
Schedules 4-1 to 4-4

	Ten Year Growth		Five Year Growth	
	<u>DPS</u>	<u>EPS</u>	<u>DPS</u>	<u>EPS</u>
Bell South Corp	2.00%	7.50%	2.50%	4.00%
Century Tel Inc.	5.00	15.00	5.00	12.00
SBC Communications Inc.	4.50	6.50	5.00	1.50
Verizon Comm	<u>1.50</u>	<u>5.50</u>	<u>0.50</u>	<u>4.00</u>
Total	13.00	34.50	13.00	21.50
Average	<u>3.25%</u>	<u>8.62%</u>	<u>3.25%</u>	<u>5.38%</u>
				<u>10.67%</u>

BVPS

EPS

DPS

EPS

BVPS

EPS

DPS

EPS

BVPS

EPS

DPS

EPS

Analysis of Staff Growth Rates
Schedules 4-1 to 4-4

	<u>DPS</u>	<u>EPS</u>	<u>BYPS</u>
Ten Year Average	3.25%	8.62%	7.37%
Five Year Average	<u>3.25%</u>	<u>5.38%</u>	<u>10.62%</u>
Average	<u>3.25%</u>	<u>7.00%</u>	<u>9.00%</u>

Recalculation of Staff DCF
Cost of Equity

Staff initial estimate	9.20%
Eliminate inappropriate DPS growth rate	0.79%
Eliminate negative growth rate	0.26%
Make pre-offering pressure adjustment	<u>0.21%</u>
Corrected DCF cost of equity	<u>10.46%</u>

Recalculation of Staff Rate of Return on Equity Using Corrected DCF Calculation
Staff Result Weighting

<u>Method</u>	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost*</u>
DCF	75.00%	10.40%	7.85%
CAPM	15.00%	11.67%	1.75%
Risk Premium	10.00%	19.03%	<u>1.90%</u>
ESTIMATED COST OF EQUITY			<u>11.50%</u>

*Reproduction of Staff Schedule 13

Recalculation of Staff Rate of Return Using Recalculated Return on Equity*

<u>Type of Capital</u>	<u>Capital Rates</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	90.52%	11.50%	10.40%
Long Term Debt	<u>9.48%</u>	5.25%	<u>0.50%</u>
TOTAL	<u>100.00%</u>		<u>10.90%</u>

*Reproduction of Staff Schedule 19

Recalculation of Return on Equity Using Equal Weighting
of Methods With Corrected DCF Estimate of
Return on Equity

<u>Method</u>	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
DCF	33.33%	10.46%	3.48%
CAPM	33.33%	11.67%	3.89%
Risk Premium	33.33%	19.03%	<u>6.34%</u>
ESTIMATED COST OF EQUITY			<u>13.71%</u>

Recalculation of Rate of Return
Using Equal Weighting Method
With Corrected DCF Estimate of Return on Equity

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Common Equity	90.52%	13.71%	12.41%
Long Term Debt	<u>9.48%</u>	5.25%	<u>0.50%</u>
TOTAL	<u>100.00%</u>		<u>12.91%</u>