

**Subpart C—Exchange Carriers****§ 65.300 Calculations of the components and weights of the cost of capital.**

(a) Sections 65.301 through 65.303 specify the calculations that are to be performed in computing cost of debt, cost of preferred stock, and financial structure weights for prescription proceedings. The calculations shall determine, where applicable, a composite cost of debt, a composite cost of preferred stock, and a composite financial structure for all local exchange carriers with annual revenues equal to or above the indexed revenue threshold as defined in § 32.9000. The calculations shall be based on data reported to the Commission in FCC Report 43-02. (See 47 CFR 43.21). The results of the calculations shall be used in the prescription proceeding to which they relate unless the record in that proceeding shows that their use would be unreasonable.

(b) Excluded from cost of capital calculations made pursuant to § 65.300 shall be those sources of financing that are not investor supplied, or that are

otherwise subtracted from a carrier's rate base pursuant to Commission orders governing the calculation of net rate base amounts in tariff filings that are made pursuant to section 203 of the Communications Act of 1934, 47 U.S.C. 203, or that were treated as "zero cost" sources of financing in section 450 and subpart G of this part 65. Specifically excluded are: accounts payable, accrued taxes, accrued interest, dividends payable, deferred credits and operating reserves, deferred taxes and deferred tax credits.

[60 FR 28545, June 1, 1995, as amended at 67 FR 5702, Feb. 6, 2002]

**§ 65.301 Cost of equity.**

The cost of equity shall be determined in represcription proceedings after giving full consideration to the evidence in the record, including such evidence as the Commission may officially notice.

[60 FR 28545, June 1, 1995]

**§ 65.302 Cost of debt.**

The formula for determining the cost of debt is equal to:

$$\text{Embedded Cost of Debt} = \frac{\text{Total Annual Interest Expense}}{\text{Average Outstanding Debt}}$$

Where:

"Total Annual Interest Expense" is the total interest expense for the most recent two years for all local exchange carriers with annual revenues equal to or above the indexed revenue threshold as defined in § 32.9000.

"Average Outstanding Debt" is the average of the total debt for the most recent two years for all local exchange carriers with

annual revenues equal to or above the indexed revenue threshold as defined in § 32.9000.

[60 FR 28545, June 1, 1995, as amended at 67 FR 5702, Feb. 6, 2002]

**§ 65.303 Cost of preferred stock.**

The formula for determining the cost of preferred stock is:

$$\text{Cost of Preferred Stock} = \frac{\text{Total Annual Preferred Dividends}}{\text{Proceeds from the Issuance of Preferred Stock}}$$

Where:

"Total Annual Preferred Dividends" is the total dividends on preferred stock for the most recent two years for all local exchange carriers with annual revenues

equal to or above the indexed revenue threshold as defined in § 32.9000. "Proceeds from the Issuance of Preferred Stock" is the average of the total net proceeds from the issuance of preferred

## § 65.304

stock for the most recent two years for all local exchange carriers with annual revenues equal to or above the indexed revenue threshold as defined in § 32.9000.

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## 47 CFR Ch. I (10–1–14 Edition)

### § 65.304 Capital structure.

The proportion of each cost of capital component in the capital structure is equal to:

Proportion in the capital structure =

Book Value of particular component

Book Value of Debt + Book Value of Preferred Stock + Book Value of Equity

Where:

“Book Value of particular component” is the total of the book values of that component for all local exchange carriers with annual revenues equal to or above the indexed revenue threshold as defined in § 32.9000.

“Book Value of Debt+Book Value of Preferred Stock+Book Value of Equity” is the total of the book values of all the components for all local exchange carriers with annual revenues equal to or above the indexed revenue threshold as defined in § 32.9000.

The total of all proportions shall equal 1.00.

[60 FR 28545, June 1, 1995, as amended at 67 FR 5702, Feb. 6, 2002]

### § 65.305 Calculation of the weighted average cost of capital.

(a) The composite weighted average cost of capital is the sum of the cost of debt, the cost of preferred stock, and the cost of equity, each weighted by its proportion in the capital structure of the telephone companies.

(b) Unless the Commission determines to the contrary in a prescription proceeding, the composite weighted average cost of debt and cost of preferred stock is the composite weight computed in accordance with § 65.304 multiplied by the composite cost of the component computed in accordance with § 65.301 or § 65.302, as applicable. The composite weighted average cost of equity will be determined in each prescription proceeding.

[60 FR 28546, June 1, 1995]

### § 65.306 Calculation accuracy.

In a prescription proceeding, the final determinations of the cost of equity, cost of debt, cost of preferred stock and their capital structure

weights shall be accurate to two decimal places.

[60 FR 28546, June 1, 1995]

### § 65.450 Net income.

(a) Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services. The calculation of expenses entering into the determination of net income shall include the interstate portion of plant specific operations (Accounts 6110–6441), plant nonspecific operations (Accounts 6510–6565), customer operations (Accounts 6610–6623), corporate operations (Accounts 6720–6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200–7250), except to the extent this Commission specifically provides to the contrary.

(b) Gains and losses related to the disposition of plant in service items, shall be handled as follows:

(1) Gains related to property sold to others and leased back under capital leases for use in telecommunications services shall be recorded in Account 4300, Other long-term liabilities and deferred credits, and credited to Account 6563, Amortization expense—tangible, over the amortization period established for the capital lease;

(2) Gains or losses related to the disposition of land and other nondepreciable items recorded in Account 7100 (Other operating income and expense) shall be included in net income for ratemaking purposes, but adjusted to reflect the relative amount of time