

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

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 stock for the most recent two years for all local ex-

change 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]

**§ 65.304 Capital structure.**

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

Proportion in the capital structure =

$$\frac{\text{Book Value of particular component}}{\text{Book Value of Debt} + \text{Book Value of Preferred Stock} + \text{Book Value of Equity}}$$

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

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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 through 6441), plant nonspecific operations (Accounts 6510 through 6560), customer operations (Accounts 6610 through 6620), corporate operations (Accounts 6720 through 6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200 through 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 6560 (Depreciation and Amortization Expense) 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)

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shall be included in net income for ratemaking purposes, but adjusted to reflect the relative amount of time such property was used in regulated operations and included in the rate base; and

(3) Proceeds related to the disposition of property depreciated on a group basis and used jointly in regulated and nonregulated activities, including sale-leaseback arrangements for property depreciated on a group basis, shall be credited to the related reserves and attributed to regulated and nonregulated in proportion to the accumulated regulated and nonregulated depreciation for that group.

(c) Gains or losses related to the disposition of property that was never included in the rate base shall not be considered for ratemaking purposes.

(d) Except for the allowance for funds used during construction, reasonable charitable deductions and interest related to customer deposits, the amounts recorded as nonoperating income and expenses and taxes (Accounts 7300 and 7400) and interest and related items (Account 7500) and extraordinary items (Account 7600) shall not be included unless this Commission specifically determines that particular items recorded in those accounts shall be included.

[53 FR 1029, Jan. 15, 1988, as amended at 60 FR 12139, Mar. 6, 1995; 67 FR 5702, Feb. 6, 2002]

## Subpart D—Interexchange Carriers

### § 65.500 Net income.

The net income methodology specified in § 65.450 shall be utilized by all interexchange carriers that are so designated by Commission order.

[60 FR 28546, June 1, 1995]

## Subpart E—Rate of Return Reports

### § 65.600 Rate of return reports.

(a) Subpart E shall apply to those interstate communications common carriers and exchange carriers that are so designated by Commission order.

(b) Each local exchange carrier or group of affiliated carriers which is not subject to §§ 61.41 through 61.49 of this chapter and which has filed individual