#### MEMORANDUM

## April 4, 2002

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (FUDGE)

RE: DOCKET NO. 990649B-TP - INVESTIGATION INTO PRICING OF UNBUNDLED NETWORK ELEMENTS(SPRINT/VERIZON TRACK). CORRECTION OF WITNESS DAVID DRAPER TESTIMONY

Attached is a <u>MEMORANDUM</u>, with attachments, to be issued in the above-referenced docket. (Number of pages in memorandumr - 3)

DATE MEMORANDUM SENT ELECTRONICALLY TO CCA  $\underline{4}$ 

4/4/02-

JKF/anc Attachment I:990649/letcor.jkf

> DOCUMENT NUMBER-DATE 03849 APR-58 FPSC-COMMISSION CLERK



# Hublic Service Commission -M-E-M-O-R-A-N-D-U-M-

# DATE: APRIL 4, 2002 TO: ALL PARTIES OF RECORD FROM: JASON K. FUDGE, SENIOR ATTORNEY RE: DOCKET NO. 990649B-TP - INVESTIGATION INTO PRICING OF UNBUNDLED NETWORK ELEMENTS(SPRINT/VERIZON TRACK). CORRECTION OF WITNESS DAVID DRAPER TESTIMONY

After prefiling his testimony, Staff witness David Draper found a miscalculation in his testimony. Accordingly, Staff witness David Draper's testimony should be corrected as follows:

On page 8, line 6, the sentence "The allowance for issuance costs added approximately 15 basis points to the overall cost of equity." should read as follows: "The allowance for issuance costs added approximately 4 basis points (rounded) to the overall cost of equity."

This change will affect the overall cost of equity and WACC for both Verizon-Florida and Sprint-Florida as reflected in revised Exhibits DJD-5 & DJD-6 (attached).

JKF/anc

990649/letcor.jkf

DOCUMENT NUMBER-DATE

FPSC-COMMISSION CLERK

MEMORANDUM DOCKET NO. 990649B-TP PAGE 2

### **REVISED EXHIBIT DJD-5**

## CAPITAL ASSET PRICING MODEL COST OF EQUITY

CAPM Analysis Formula

K	=	RF + Beta(MR - RF) + FC
K	=	Investor's required rate of return
RF	=	Risk-free rate (Blue Chip forecast for 30-year Treasury bond)
Beta	=	Measure of systematic risk
MR	=	Market return
FC	=	Flotation cost adjustment

Telecommunications CAPM = 5.4% + 1.02(10.87% - 5.4%) + .04% = 11.02%

Source: Blue Chip Financial Forecasts, December 1, 2001 Value Line Investment Survey for Windows, November 2001 edition MEMORANDUM DOCKET NO. 990649B-TP PAGE 3

#### **REVISED EXHIBIT DJD-6**

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#### DOCKET NO. 990649B-TP INVESTIGATION INTO PRICING UNBUNDLED NETWORK ELEMENTS WITNESS: DAVID J. DRAPER

# FORWARD-LOOKING WEIGHTED AVERAGE COST OF CAPITAL SPRINT FLORIDA

DMMON EQUITY $60\%$ $11.49\%$ $6.89\%$ 9.86%       9.86%         VERIZON FLORIDA         Ratio       Cost Rate       WACC         EBT       40%       7.22%       2.89%         OMMON EQUITY       60%       11.24%       6.74%         OMMON EQUITY       60%       11.24%       9.63%         APM Results:       11.02%       9.63%         CF Results:       11.45%       9.63%         on Florida Cost of Debt:       11.24%       11.24%         term Debt:       5.00% + 2.84% = 7.84% x 75% = 5.88%									
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	eighted Average Cost of Debt:	<u>7.22%</u>							

Sprint Florida Cost of Debt:

Long-term Debt:	5.00% + 3.12% = 8.12% x	75% = 6.09%
Short-term Debt:	Forecasted Prime Rate= 5.36% x	25% = <u>1.34%</u>
Weighted Average	Cost of Debt:	<u>7.43%</u>