

# **Released From Confidential Status**

**Case Numbers: 96-1310-TP-COI**

**Date: 04/20/2009**

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**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Commission's	)	
Investigation into the Implementation of	)	
Section 276 of the Telecommunications	)	Case No. 96-1310-TP-COI
Act of 1996 Regarding Pay Telephone	)	
Services	)	

**DIRECT TESTIMONY  
OF  
MICHAEL STARKEY**

**PUCO**

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On behalf of

**Payphone Association of Ohio**

August 4, 2003

**CONFIDENTIAL VERSION**

**Data which SBC Ohio has identified as "Confidential" is highlighted in the following manner \*\* \_\_ \*\*. This information is redacted from the PUBLIC VERSION.**

**CONFIDENTIAL**

amount of regulatory intervention is required to produce reasonable rates. Hence, overhead costs determined for UNEs, even without considering the flaws inherent in both the *Physical Collocation Tariff Order* and *ONA Tariff Order* methodologies, remains the most economically rational approach to setting a ceiling for overhead loadings assessed for payphone services.

**Q. PLEASE IDENTIFY THE OVERHEAD LOADING APPROVED BY THE PUCO SPECIFIC TO SBC OHIO'S UNE RATES IN CASE NO. 96-922-TP-UNC.**

A. Though the PUCO's *Ameritech TELRIC Order* does not identify a specific overhead loading value, after having made the revisions required by the PUCO and running its overhead cost model consistent with the Order, SBC Ohio arrived at an overhead loading equal to approximately **\*\*32%\*\*** of direct costs. Said another way, the PUCO allowed SBC to recover its direct costs plus an additional **\*\*32%\*\*** associated with overhead costs not directly assignable to any given element or service.<sup>24</sup>

**D. PAO PROPOSED ACCESS LINE RATES**

**Q. CONSISTENT WITH YOUR DISCUSSION ABOVE, HAS THE PAO BEEN ABLE TO CALCULATE PAYPHONE ACCESS LINE RATES IT BELIEVES BEST MEET WITH THE FCC'S NEW SERVICES TEST, AND AS SUCH, SHOULD BE ADOPTED AS PERMANENT RATES BY THE PUCO IN THIS PROCEEDING?**

<sup>24</sup> See *Ameritech TELRIC Order* pages 35-57 for a discussion of SBC Ohio's proposed shared and common cost model and the revisions required by the PUCO thereto.

**\*\* TABLE INCLUDES CONFIDENTIAL DATA \*\***

**PAO PROPOSED ACCESS LINE RATES**

Row	Description	Access Areas			Source
		B	C	D	
1	Total Annual LRSIC costs	\$7.66	\$9.81	\$11.99	June 2000 Cost Study, Dr. Currie Exhibit 2, pg. 1 of 1
2	PUCO Approved UNE Ovrhd.	1.32	1.32	1.32	PUCO Ameritech TELRIC Order
3	Total Direct + Ovrhd. Costs	\$10.11	\$12.95	\$15.83	Row 1 + Row 2
4	SBC Ohio Current EUCL	(\$5.39)	(\$5.39)	(\$5.39)	SBC Ohio Tariff F.C.C. No. 2, Page 79
5	New Services Test Compliant Intrastate Access Line Rate	\$4.72	\$7.66	\$10.44	Row 3 + Row 4

**E. USAGE RATES**

**Q. HOW DID THE PUCO ESTABLISH INTERIM RATES ASSOCIATED WITH LOCAL USAGE SERVICES?**

A. In its *Interim Rate Order*, the PUCO relied upon SBC Ohio's TELRIC-based Unbundled Local Switching ("ULS") rate as a proxy for retail usage costs (\$0.003226 per minute or fraction thereof). Likewise, in an effort to maintain SBC Ohio's existing local usage rate structure (a "per message" rate structure), the PUCO created an interim per message rate based upon an assumption that a message would, on average, last approximately 4.9 minutes.

**Q. DOES DR. CURRIE'S JUNE 2000 LRSIC STUDY DISCUSSED ABOVE INCLUDE LRSIC COSTS SPECIFIC TO PAYPHONE USAGE?**

A. Unfortunately, it does not nor has SBC Ohio, to my knowledge, produced any such usage cost study in this proceeding to date.

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In the Matter of the Commission's )  
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Act of 1996 Regarding Pay Telephone )  
Services )

Case No. 96-1310-TP-COI

PUCO

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**DIRECT TESTIMONY  
OF  
MICHAEL STARKEY**

**ATTACHMENT 2**

**This attachment includes confidential information and is available only  
in the Confidential Version of the testimony.**

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission's )  
Investigation into the Implementation of )  
Section 276 of the Telecommunications )  
Act of 1996 Regarding Pay Telephone )  
Services )

Case No. 96-1310-TP-COI

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DIRECT TESTIMONY OF DR. KENT A. CURRIE  
AMERITECH OHIO EXHIBIT \_\_\_\_

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Respectfully submitted,

AMERITECH OHIO

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DIRECT TESTIMONY OF DR. KENT A. CURRIE

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**Qualifications**

Q. Please state your name and business address.

A. My name is Kent A. Currie. My business address is 45 Erieview Plaza, Room 1545,  
Cleveland, Ohio 44114.

Q. By whom are you employed and in what capacity?

A. I am employed by SBC as Associate Director, Cost Analysis and Regulatory.

Q. What are your current responsibilities in that position?

A. I took on my current responsibilities in the new SBC cost organization at the end of  
January 2000. In this role I am primarily responsible for cost study methods for switching  
services. Consequently, my responsibilities are similar to my previous position at  
Ameritech, where I was responsible for developing and maintaining the methodological  
framework for economic cost studies for Ameritech's telecommunications services. These  
cost methods are used in many studies such as Long-Run Service Incremental Cost  
("LRSIC") studies, Total Service Long-Run Incremental Cost ("TSLRIC") studies, Total  
Element Long-Run Incremental Cost ("TELRIC") studies, universal service cost studies  
including Forward-Looking Economic Cost ("FLEC") studies and avoided cost studies.  
In order to monitor the application of these methods, I direct, supervise, and prepare  
studies using these methods. In addition, my responsibilities have included the internal and

1 external dissemination of Ameritech's policy regarding studies using these methods and  
2 related issues.

3

4 Q. Please describe your educational background.

5 A. I received a Ph.D. in economics from the University of Iowa in 1973. In addition, I have a  
6 Master of Science degree in economics from the University of Iowa, and a Bachelor of  
7 Science degree in mathematics from Bradley University. I specialize in microeconomic  
8 theory and industrial organization, concentrating in public utility economics. After  
9 completing my graduate studies, I held full-time teaching and research appointments at  
10 two engineering universities.

11

12 Q. Please briefly describe your telecommunications work experience.

13 A. I began my telecommunications career in 1980 at Ohio Bell. I have performed,  
14 contributed to, and supervised many cost analyses dealing with the complete range of  
15 services offered by Ameritech. My responsibilities have included the development and  
16 monitoring of cost methods used in service cost studies at Ohio Bell. Since the divestiture  
17 of the Bell System, I have participated in the coordination and development of these  
18 responsibilities across Ameritech.

19

20 Q. Have you previously testified before any regulatory commission?

A. I have testified on cost and other economic issues in regulatory proceedings before the  
Illinois Commerce Commission in Docket No. 00-0027, the Indiana Utility Regulatory  
Commission in Cause Nos. 39705 and 40785-S1, the Public Utilities Commission of Ohio



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In Case Nos. 96-1057-TP-UNC, 96-1027-TP-CSS, 96-922-TP-UNC, 96-888-TP-ARB, 96-752-TP-ARB, 96-694-TP-ARB, 93-487-TP-ALT, 90-471-TP-ATA, 90-467-TP-ATA, 84-1435-TP-AIR, and 83-300-TP-AIR, and the Public Service Commission of Wisconsin in Dockets 05-TI-160 and 6655-NC-101.

1

2 **Purpose of Testimony**

3 Q. What is the purpose of your testimony?

4 A. The purpose of my testimony is to demonstrate that Ameritech Ohio is complying with the  
5 FCC's requirements described in its Report and Order<sup>1</sup>, and its Order on Reconsideration<sup>2</sup>.

6

7 **New Services Test**

8 Q. Please explain why New Services Tests were completed for Ameritech Ohio's services  
9 provided to payphone providers.

10 A. The FCC, in its Report and Order at paragraph 146, concluded that New Services Tests  
11 were necessary in order to ensure that certain central office coin services are priced  
12 reasonably.

13

14 Q. For what services did the FCC require New Services Tests?

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<sup>1</sup> *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, FCC 96-388, Report and Order, CC Docket No. 96-128, released September 20, 1996.

<sup>2</sup> *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, Order on Reconsideration, CC Docket No. 96-128, released November 8, 1996.

PUCO Case No. 95-1310-TP-COI

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1 A. This issue is discussed in more detail by Mr. Caldwell. As he explains, in its April 4 1997  
2 Order<sup>3</sup>, the FCC stated that "...the requirement to file tariffs only applies to payphone-  
3 specific, network-based, unbundled features and functions provided to others or taken by  
4 a LSC's operations... we do not include in this federal tariffing requirement features and  
5 functions that are generally available to all local exchange customers and are only  
6 incidental to payphone service." The four payphone-specific services in Ohio are

- 7 1. COCOT Line,
- 8 2. COCOT Coin Line,
- 9 3. Answer Supervision, and
- 10 4. Restricted Coin Access (RCA).

11 According to the Commission's Entry dated April 27, 2000, only the first two services, the  
12 COCOT line and the COCOT Coin line, are at issue in this case.

13

14 Q. Please describe the basis of the New Services Test calculations.

15 A. The New Services Tests Ameritech Ohio conducted were based on the following  
16 information:

- 17 1. the definition of the test described in 47 CFR 61.49;
- 18 2. the requirement set forth in the FCC's Report and Order and the Order on  
Reconsideration that payphone services must be cost-based;
- 19 3. the PUCO's approved Long Run Service Incremental Cost (LRSIC)  
20 methodology; and
- 21 4. established Ameritech Ohio practices for FCC New Services Test filings.
- 22
- 23

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<sup>3</sup> Implementation of the Pay Telephone Reclassification and Compensation Provisions of the

1

2 Q. Please describe the process involved in calculating the New Services Tests in more detail.

3 A. The New Services Tests were calculated using the Long Run Service Incremental Cost

4 (LRSIC) methodology, as approved by the Commission in Case No. 93-487-TP-ALT.

5 Because these services already existed, the LRSIC studies that supported the original tariff

6 filings for these services were updated using the then most recent cost inputs consistent

7 with Ameritech Ohio's approved LRSIC methodology. Using the parameters described in

8 47 CFR 61.49 and established Ameritech Ohio practices for filing FCC New Services

9 Tests, these LRSIC results were then put into the standard FCC format. This format

10 includes a projection of costs for a representative 12-month period and estimates of the

11 revenues for the same representative 12-month period. These New Services Tests were

12 provided to the PUCO on May 16, 1997, as part of a submission certifying that Ameritech

13 Ohio had met all FCC requirements to be eligible for per-call payphone compensation.

14

15 Q. What were the results of the New Services Tests?

16 A. The New Services Tests are attached as Attachment 1. These tests demonstrate that the

17 revenues for Ameritech Ohio's payphone services exceed their LRSICs, which

18 demonstrates that these services are not being subsidized. The tests also determine how

19 much contribution these services generate. Mr. Caldwell explains why the contribution

20 level is reasonable.

21

22 Conclusion

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PUCO Case No. 96-1310-TP-COI

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1 Q. Does this conclude your testimony?

2 A. Yes.

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Attachment 1  
Page 1

**Payphone Services - Ohio**

Attached are the "new services test" for the following payphone services/features:

COCOT Access Line

COCOT Coin Line

Answer Supervision

Restricted Coin Access

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Attachment 1  
Page 2

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**EXHIBIT 1**  
Page 1 of 1

### AMERITECH OHIO

#### ANNUAL REVENUE SUMMARY

RATE ELEMENT	PROPOSED FIRST YEAR DEMAND	PROPOSED MONTHLY RATE	PROPOSED FIRST YEAR REVENUES
	(A)	(B)	C=(A*B*12)
<b>COCOT Coin Line</b>			
- Rate Zone B	8,781	\$ 28.20	\$ 2,984,790
- Rate Zone C	17,880	\$ 30.20	\$ 6,479,712
- Rate Zone D	18,068	\$ 30.20	\$ 6,544,509
<b>TOTAL ANNUAL REVENUES</b>			<b><u>\$ 16,969,011</u></b>
 <b>COCOT Line</b>			
- Rate Zone B	1,383	\$ 21.00	\$ 348,408
- Rate Zone C	2,973	\$ 23.00	\$ 820,954
- Rate Zone D	2,468	\$ 22.00	\$ 545,976
<b>TOTAL ANNUAL REVENUES</b>			<b><u>\$ 1,665,934</u></b>

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**AMERITECH OHIO****CONFIDENTIAL**Attachment 1  
Page 3  
**EXHIBIT 2**  
Page 1 of 1**ANNUAL DIRECT COST SUMMARY**

<b>RATE ELEMENT</b>	<b>PROPOSED FIRST YEAR DEMAND</b>	<b>ESTIMATED MONTHLY COST</b>	<b>ESTIMATED FIRST YEAR COST</b>
	<b>(A)</b>	<b>(B)</b>	<b>C=(A*B*12)</b>
<b>COCOT Coin Line</b>			
- Rate Zone B	8,711	\$ 10.87	\$ 1,142,846
- Rate Zone C	17,830	\$ 14.13	\$ 3,030,732
- Rate Zone D	18,039	\$ 18.22	\$ 3,515,578
<b>TOTAL ANNUAL COSTS</b>			<b>\$ 7,689,156</b>
 <b>COCOT Line</b>			
- Rate Zone B	1,383	\$ 7.66	\$ 127,052
- Rate Zone C	2,973	\$ 9.81	\$ 350,014
- Rate Zone D	2,439	\$ 11.90	\$ 358,098
<b>TOTAL ANNUAL COSTS</b>			<b>\$ 835,164</b>

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Attachment 1

Page 4

EXHIBIT 3

Page 1 of 2

**AMERITECH Ohio****COGOT COIN LINE**

	RATE ZONE B	RATE ZONE C	RATE ZONE D
<b>ESTIMATED INVESTMENTS:</b>			
Recoverable Material Cost	\$ 244.61	\$ 343.68	\$ 379.71
Installation Cost	147.22	160.12	213.27
<b>TOTAL</b>	<b>\$ 391.83</b>	<b>\$ 503.80</b>	<b>\$ 592.98</b>
<b>ESTIMATED RECURRING COSTS:</b>			
Depreciation	\$ 38.86	\$ 64.00	\$ 82.43
Cost of Money	28.08	36.37	42.89
Income Tax	12.86	18.62	18.47
Maintenance	12.80	18.80	28.48
Other Recurring Expense	18.84	18.84	18.84
Ad Valorem Tax	7.82	9.78	11.38
<b>TOTAL ANNUAL COST</b>	<b>\$ 114.37</b>	<b>\$ 182.39</b>	<b>\$ 177.46</b>
<b>SUB-TOTAL MONTHLY COST:</b>	<b>\$ 9.53</b>	<b>\$ 15.19</b>	<b>\$ 14.79</b>
Monthly Gross Revenue Tax	1.34	1.43	1.43
<b>TOTAL MONTHLY COST:</b>	<b>\$ 10.87</b>	<b>\$ 16.62</b>	<b>\$ 16.22</b>
<b>SUB-TOTAL MONTHLY PROPOSED RATE</b>	<b>\$ 28.39</b>	<b>\$ 38.39</b>	<b>\$ 38.39</b>
<b>MONTHLY PROPOSED RATE:</b>	<b>\$ 28.39</b>	<b>\$ 38.39</b>	<b>\$ 38.39</b>
<b>Monthly Rate to Monthly Cost Ratio:</b>	<b>2.8942</b>	<b>2.1349</b>	<b>1.9916</b>
<b>patient breakout</b>	<b>30%</b>	<b>40%</b>	<b>40%</b>
<b>Mixed Rate to Cost Ratio</b>		<b>2.12</b>	

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**CONFIDENTIAL**Attachment 1  
Page 5EXHIBIT 3  
Page 2 of 2**AMERITECH**

Ohio

**COCOT LINE**

	RATE ZONE B	RATE ZONE C	RATE ZONE D
<b>ESTIMATED INVESTMENTS:</b>			
Recoverable Material Cost	\$ 188.04	\$ 229.81	\$ 261.33
Installation Cost	127.97	134.18	187.79
<b>TOTAL</b>	<b>\$ 296.03</b>	<b>\$ 363.76</b>	<b>\$ 449.12</b>
<b>ESTIMATED RECURRING COSTS:</b>			
Depreciation	\$ 25.40	\$ 36.73	\$ 43.64
Cost of Money	21.77	36.88	33.46
Income Tax	9.38	11.48	14.41
Maintenance	8.88	12.87	21.58
Other Recurring Expense	0.00	0.00	0.00
All Valorem Tax	8.88	8.88	8.88
<b>TOTAL ANNUAL COST</b>	<b>\$ 78.91</b>	<b>\$ 104.83</b>	<b>\$ 130.76</b>
<b>SUB-TOTAL MONTHLY COST:</b>	<b>\$ 6.58</b>	<b>\$ 8.72</b>	<b>\$ 10.90</b>
Monthly Gross Revenue Tax	1.00	1.00	1.00
<b>TOTAL MONTHLY COST:</b>	<b>\$ 7.58</b>	<b>\$ 9.81</b>	<b>\$ 11.90</b>
<b>SUB-TOTAL MONTHLY PROPOSED RATE</b>	<b>\$ 21.80</b>	<b>\$ 23.80</b>	<b>\$ 23.80</b>
<b>MONTHLY PROPOSED RATE:</b>	<b>\$ 21.80</b>	<b>\$ 23.80</b>	<b>\$ 23.80</b>
<b>Monthly Rate to Monthly Cost Ratio:</b>	<b>2.7427</b>	<b>2.3643</b>	<b>1.9954</b>
<b>percent breakeven</b>	<b>30%</b>	<b>43%</b>	<b>38%</b>
<b>Breakeven Rate to Cost Ratio</b>		<b>2.27</b>	

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**CONFIDENTIAL**Attachment 1  
Page 6EXHIBIT 1  
Page 1 of 1**AMERITECH OHIO****ANNUAL REVENUE SUMMARY**

RATE ELEMENT	PROPOSED FIRST YEAR DEMAND	PROPOSED MONTHLY RATE	PROPOSED FIRST YEAR REVENUES
	<u>(A)</u>	<u>(B)</u>	<u>C=(A*B*12)</u>
Answer Supervision	621	\$ 1.00	\$ 11,923
	<b>TOTAL ANNUAL REVENUES</b>		<b><u>\$ 11,923</u></b>

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**CONFIDENTIAL**Attachment 1  
Page 7EXHIBIT 2  
Page 1 of 1**AMERITECH****Ohio****Answer Supervision**

	Unit Costs
<b>ESTIMATED INVESTMENTS:</b>	
Recoverable Material Cost	\$ 12.61
Installation Cost	3.78
<b>TOTAL</b>	<b>\$ 16.39</b>
<b>ESTIMATED RECURRING COSTS:</b>	
Depreciation	\$ 2.13
Cost of Money	1.06
Income Tax	0.46
Maintenance	0.30
Other Recurring Expense	-
Ad Valorem Tax	0.31
<b>TOTAL ANNUAL COST</b>	<b>\$ 4.26</b>
<b>MONTHLY COST:</b>	<b>\$ 0.35</b>
Monthly Annuity of MRC	\$ 0.19
<b>SUB-TOTAL MONTHLY COST</b>	<b>\$ 0.54</b>
Monthly Gross Revenue Tax	0.38
<b>TOTAL MONTHLY COST:</b>	<b>\$ 0.92</b>
<b>MONTHLY PROPOSED RATE:</b>	<b>\$ 1.89</b>
Monthly Rate to Monthly Cost Ratio:	2.0661

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EXHIBIT 3  
Page 1 of 1**AMERITECH Ohio****ANSWER SUPERVISION**

Per Line	NON- RECURRING EXPENSES (A)	APW 11.50% TYRS (B)	TOTAL ANNUITY EXPENSES C= (A+B)
	3.84	0.03241	0.19

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**CONFIDENTIAL****Restricted Coin Access**

Attachment 1

Page 9

Exhibit 1

Page 1 of 2

**Annual Revenue Summary****Ohio****RATE ELEMENT  
- RCA per line**

<b>(A)</b>	<b>Levelized First Year Demand</b>	<b>4</b>
<b>(B)</b>	<b>Proposed Monthly Rate</b>	<b>\$ 10.75</b>
<b>C=[A*B*12]</b>	<b>Estimated First Year Revenue</b>	<b>\$ 518.00</b>
<b>D=Total of C</b>	<b>Estimated First Year Recurring Revenue</b>	<b>\$ 518.00</b>
<b>E=D of Page 2</b>	<b>Estimated First Year Nonrecurring Revenue</b>	<b>\$ 1,069.00</b>
<b>F=D+E</b>	<b>Total RCA Revenue</b>	<b>\$ 1,578.00</b>

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**CONFIDENTIAL**Attachment 1  
Page 10**Restricted Coin Access**Exhibit 1  
Page 2 of 2**Annual Revenue Summary****Ohio****RATE ELEMENT  
- RCA per line**

<b>[A]</b>	<b>Estimated First Year Demand</b>	<b>6</b>
<b>[B]</b>	<b>Proposed Nonrecurring Charges</b>	<b>\$ 212.00</b>
<b>C=(A*B)</b>	<b>Estimated First Year Charges</b>	<b>\$ 1,272.00</b>
<b>D=Total of C</b>	<b>Estimated First Year Nonrecurring Revenue</b>	<b>\$ 1,000.00 <sup>1</sup></b>

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**CONFIDENTIAL** Attachment 1  
Page 11**Restricted Coin Access****Exhibit 2**  
**Page 1 of 2****Ohio****- RCA per line**

<b>[A]</b>	<b>Processing Cost Per Order</b>	<b>\$ 0.25</b>
<b>[B]</b>	<b>Total Monthly RCA Orders</b>	<b><u>30</u></b>
<b>C=[A*B]</b>	<b>Total Monthly Expense</b> <small>(includes Ohio Receipts Tax where applicable)</small>	<b><u>\$ 7.45</u></b>
	<b>Proposed Monthly Rate</b>	<b>\$ 10.75</b>
	<b>Price to Cost Ratio</b>	<b>1.3854</b>

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**CONFIDENTIAL** Attachment 1  
Page 12**Restricted Coin Access****Exhibit 2**  
**Page 2 of 2****Ohio****- RCA per line**

<b>[A]</b>	<b>Provision of Line Class Code in Central Office</b>	<b>\$ 134.12</b>
<b>[B]</b>	<b>Labor Cost for Programming into ACS10 System</b>	<b>12.59</b>
<b>[C]</b>	<b>Training/M&amp;P/Biting Expenses</b>	<b><u>10.79</u></b>
<b>Dw(A+B+C)</b>	<b>Total Nonrecurring Expenses</b>	<b><u>\$ 157.50</u></b>
	<b>(Includes Gross Receipts Tax where applicable)</b>	
	<b>Proposed Nonrecurring Charge</b>	<b>\$ 212.00</b>



**CONFIDENTIAL**Attachment 1  
Page 13**Restricted Coin Access****Exhibit 2  
Page 2 of 2****Ohio****- RCA per line**

<b>[A]</b>	<b>Provision of Line Class Code in Central Office</b>	<b>\$ 134.12</b>
<b>[B]</b>	<b>Labor Cost for Programming into ACS18 System</b>	<b>12.59</b>
<b>[C]</b>	<b>Training/M&amp;P/Billing Expenses</b>	<b><u>10.79</u></b>
<b>D=[A+B+C]</b>	<b>Total Nonrecurring Expenses</b>	<b><u>\$ 157.50</u></b>
	<b>(Includes Gross Receipts Tax where applicable)</b>	
	<b>Proposed Nonrecurring Charge</b>	<b>\$ 212.00</b>

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