§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 of $100 million or more.

"Average Outstanding Debt" is the average of the total debt for the most recent two years for all local exchange carriers with annual revenues of $100 million or more.

[60 FR 28545, June 1, 1995]

§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 of $100 million or more. "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 exchange carriers with annual revenues of $100 million or more.

[60 FR 28545, June 1, 1995]

§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 of $100 million or more.

"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 of $100 million or more.

The total of all proportions shall equal 1.00.

[60 FR 28545, June 1, 1995]

§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