A FINANCIAL ANALYSIS OF THE BELL TELEPHONE REGIONAL HOLDING COMPANIES

BY

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I. INTRODUCTION

On December 29, 1989 the Federal Communications Commission (FCC) initiated a formal proceeding to represcribe the authorized rate of return for the interstate services of the Local Exchange Carriers (LECs). 1/ In the testimony filed by the seven Bell Regional Holding Companies (RHCs), among others, two dominant themes emerged. 2/ First, the RHCs had become less risky than the LEC's since divestiture due to the portfolio effect of diversification into non-regulated lines of business. This caused the investor required rate of return on common equity to be higher for the LECs than for the RHCs. Second, the LECs needed significant amounts of new investment to protect their competitiveness. This increased the risks of investment in RHCs and LECs to potential investors, thus requiring a higher ROE to induce such investments.

The submissions filed in response to the RHCs argued that these themes were undocumented assertions lacking in both analytical support and evidence. 3/ The FCC ultimately issued a rate of

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1/ In the matter of Represcribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket No. 89-624, Order, DA 90-5 (released January 5, 1990) ("Jan.5 Order").

2/ Initial Rate of Return Submissions, CC Docket No. 89-624, (February 16, 1990)

3/ Responsive Submissions, CC Docket No. 89-624, (March 27, 1990).