

**ALLTEL TELEPHONE SYSTEM**  
**TARIFF F.C.C. NO. 1 & 3**  
**DESCRIPTION AND JUSTIFICATION**

**Transmittal No. 134**

**February 13, 2004**

| <b>SECTION</b> | <b>DESCRIPTION</b>            |
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| 2              | Cost Development              |

## **SECTION 1**

### **DESCRIPTION and JUSTIFICATION**

#### **DESCRIPTION**

This filing is being made to add an additional Asymmetrical Digital Subscriber Line (ADSL) option to ALLTEL Telephone System Tariff F.C.C No. 1 and ALLTEL Telephone System Tariff F.C.C No. 3. ALLTEL's new ADSL option is an access data service which is offered at 512 KBPS downstream / 512 KBPS upstream. Upstream speeds represent transmission from the customer's designated premise (CDP) to the ALLTEL connection point. Downstream speeds represent the connection from the ALLTEL ADSL connection point to the CDP

The data speeds set forth in the tariff are maximum speeds. The actual speeds may be impacted by length of transport and other technical factors. Therefore, data speeds are not guaranteed.

#### **JUSTIFICATION**

This filing is being made subject to §61.38 (b)(2) of the Annotated F.C.C Rules as revised February 1, 1998.

## **SECTION 2**

### **COST DEVELOPMENT**

#### **Cost Development**

##### **Recurring ADSL Access Port Costs**

This section describes the underlying costs and methodology used to determine the interstate costs for the new ADSL option (Option 5).

The direct investment required to provide ADSL Access Port from the CDP to the ADSL connection point was determined from discussions with our outside plant and engineering departments. The cost of this equipment was developed at the end user level based on the projected service demand.

After the direct investment was determined for the service ALLTEL calculated a General Support Factor using data from 4<sup>th</sup> quarter 2003 regulated total company costs as a ratio of General Support Facilities to Total Telephone Plant. This ratio was applied to the Direct Investment to develop a Total Investment for ADSL Access Port.

ALLTEL then applied the effective tax rate to our authorized rate of return to develop a before tax rate of return to use with an estimated economic life to determine an annual amortized cost. Using this formula, a monthly amortized cost was developed.

Next, an operating expense percentage, developed as a percent of investment from its available 4<sup>th</sup> quarter 2003 regulated total company costs to the total investment, was applied to determine an annual operating expense amount. This was divided by twelve (12) to arrive at a monthly expense amount.

The cost of transport incurred in providing ADSL Access Port was then added to the monthly amortized investment cost and monthly operating expense. This transport charge was determined by calculating the average distance required to transport this service in the territory in which the service is provided and applying the applicable monthly DS3 Channel Mileage Termination and Channel Mileage Facility charges. The transport charges were then divided by the capacity of ADSL customers on the DS3 circuit to arrive at the monthly transport charge to be included in the ADSL Access Port.

The monthly charges for the amortized investment cost, operating expense, and transport charge were then added to arrive at the sixty month annuity cost of providing ADSL Access Port.

ALLTEL then calculated the necessary monthly rate factor required to determine a monthly rate. This factor was based on the expected values of selling the service to a month-to-month customer. This factor was applied to the total sixty month annuity cost of providing ADSL Access Port Option 5 to arrive at the monthly rate as shown in Exhibit AP.

### **Demand and Revenue Projections**

ALLTEL calculated projected demand for each service based on marketing data for a twelve-month period beginning March 1, 2004 and ending February 28, 2005. The effect of ADSL Service on ALLTEL's revenues was then calculated using projected demand times the appropriate rate element. The projected Demand and the revenue effect of ADSL Service can be seen on Exhibit Revenue.

# Exhibit AP

## Calculation of ADSL Access Port Option 5

|     |                            |                             |           |
|-----|----------------------------|-----------------------------|-----------|
| 1.  | Direct Investment          |                             | \$736.65  |
| 2.  | GSF Factor                 | 12.29%                      | \$ 90.53  |
| 3.  | Total Investment           | (Ln 1 + Ln2)                | \$827.18  |
| 4.  | Authorized Rate of Return  | 11.25%                      |           |
| 5.  | Effective Tax Rate         | 56.67%                      |           |
| 6.  | Before Tax Rate of Return  | Ln 4/(1-Ln5)                | 25.96%    |
| 7.  | Economic Life (Years)      | 5                           |           |
| 8.  | Annual Authorized Payment  | Pmt(Ln 6,7,3)               | \$313.68  |
| 9.  | Monthly Authorized Payment | Pmt(Ln 6/12, Ln 7*12, Ln 3) | \$24.75   |
| 10. | Operating Expense Factor   | 31.46%                      |           |
| 11. | Annual Operating Expense   | Ln 3 * Ln 10                | \$ 260.23 |
| 12. | Monthly Operating Expense  | Ln 11 / 12                  | \$ 21.69  |
| 13. | Monthly Transport          |                             | \$ 3.52   |
| 14. | 60-Month Annuity Cost      | Ln 9 + Ln 12 + Ln 13        | \$ 49.95  |
| 15. | Monthly Rate Factor        | 20.00%                      |           |
| 16. | Monthly Rate               |                             | \$ 59.95  |

Exhibit Revenue

**ADSL Revenue Impact**  
**March 2004 through February 2005**

| <b>Rate Element</b>     | <b>Demand</b> | <b>Rate</b> | <b>Revenue</b> |
|-------------------------|---------------|-------------|----------------|
| <b>ADSL Access Port</b> |               |             |                |
| Option 5                | 15,000        | \$ 59.95    | \$ 899,250.00  |