

## Preface

In compliance with the Federal Communication Commission's (FCC) Rules and Regulations and the 2006 TRP Order, Alltel Telephone System (ATS), herein adjusts rates for issuing carrier's contained in its Interstate Access Service Tariff F.C.C. No. 1.<sup>1</sup> The proposed rates are for the period July 1, 2006 through June 30, 2007. Information provided to support this filing is contained in the following volumes:

### **Volume 1-1      Description and Justification**

The Description and Justification provides a detailed review of the methods, procedures and assumptions that were used to produce the proposed rates.

### **Volume 1-2      Tariff Review Plan**

The Tariff Review Plan provides the Commission defined display of cost, demand, rates, earnings and revenue information associated with this filing.

### **Volume 2          47 CFR § 61.38 - Cost Study Work Papers**

Part 69 cost study work papers provide a showing of interstate revenue requirement detail used in rate development to produce interstate rates.

### **Volume 3          47 CFR § 61.38 - Special Study, Individual Case Basis (ICB) and Settlement Information**

Special study results provide the information used to develop the following charges: non-recurring, optional feature and function, and additional labor and engineering. Also, Alltel Georgia Communications Corporation participates in a single bill settlement arrangement and those settlements are used to adjust its revenue requirement.

### **Volume 4          47 CFR § 61.38 - Demand Forecast Work Papers**

Demand forecast work papers provide a showing of the development of forecasted interstate demand quantities. This includes the historical demand, forecasting methods and relevant statistical information, where appropriate.

### **Volume 5          47 CFR § 61.38 - Rate Development Work Papers**

This volume provides detailed work papers showing the development of interstate rates proposed in this filing.

### **Section 1          Introduction and Overview**

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<sup>1</sup> 47 CFR § 69.3 and *In the Matter of Material to be Filed in Support of 2006 Annual Access Tariff Filings*, WCB/Pricing File No. 06-15, released March 24, 2006 (2006 TRP Order).

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**1. Introduction and Overview****1.1 Introduction**

In this filing, Alltel Telephone System (ATS) proposes to adjust tariff rates for issuing carriers contained in ATS,

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Interstate Tariff F.C.C. No. 1, for the period July 1, 2006 through June 30, 2007 (test year).<sup>2</sup> Alltel's study areas are making this filing under the Commission's rules for rate of return carriers.

The Description and Justification (D&J) for this filing is contained in the following pages of Volume 1-1. Volumes 1-2 through 5 are provided as supporting work papers to the rate changes proposed in this filing.

The D&J is comprised of 5 sections. Section 1 is an introduction and overview of the 2006 annual access tariff filing. Section 2 is a review of the methods, procedures and assumptions that were used in preparing forecasted interstate revenue requirements for the test year. Section 3 provides the special studies results used in the development of non-recurring charges (NRC), optional features and functions (OFF), and additional labor and engineering charges and to produce the relative index studies used in special access rate development. Section 3 also describes the development of Individual Case Basis (ICB) rates and special service arrangements for issuing carriers contained in the ATS Tariff. Alltel's 2006-07 demand assumptions and forecast processes are described in Section 4. Section 5 contains Alltel's rate development methodology.

Unless specifically noted, percentage changes in this document are based on the 2006/2007 filing period compared to Alltel's last filing period which was for July 1, 2004 through June 30, 2005.

### 1.2 Issuing Carrier Status

Each issuing carrier in ATS FCC No. 1, with the exception of Alltel Georgia Communications Corporation and Georgia Alltel Telecom, Inc. will continue to reference NECA FCC No. 5 for carrier common line access service. All other interstate access service regulations, rates and charges will be provided out of ATS FCC No. 1. End user and traffic sensitive access rates will be developed and filed at a study area level for all study areas except the following:

Alltel New York properties: Alltel New York, Inc. - Fulton, Alltel New York, Inc. - Jamestown, and Alltel New York, Inc. - Red Jacket will file composite traffic sensitive access rates and end user rates.

Oklahoma properties: Oklahoma Alltel, Inc. and Alltel Oklahoma, Inc. will file composite traffic sensitive and end user access rates.

Georgia properties: Alltel Georgia, Inc., Alltel Georgia Communications Corporation and Georgia Alltel Telecom, Inc. will file composite traffic sensitive and end user access rates. Alltel Georgia Communications Corporations and Georgia Alltel Telecom, Inc. will file composite ISDN port rates.

Composite rates are based on aggregated study area revenue requirement and demand forecasts for the test year.

### 1.3 FCC Rule Conformance

This filing conforms to all relevant Commission Orders affecting the provision of access service.<sup>3</sup> The rates contained in this filing conform to 47 C.F.R. Parts 32, 36, 64, 65 and 69. All transitional aspects of Part 36 and Part 69 rules have been reflected in the test year revenue requirements and rate development.

### 1.4 Demand Methodology

As a result of Alltel filing multiple company switched and special access rates, a systematic approach to demand

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<sup>2</sup> The term issuing carrier is used interchangeably throughout the D&J with the term study area.

<sup>3</sup> See, for example, *Access Billing Requirements for Joint Service Provision*, CC Docket No. 87-579, 4 FCC Rcd 7183 (1989) (Meet Point Billing Order); 2006 TRP Order, *Access Charge Reform*, CC Docket No. 96-262, First Report and Order, FCC 97-158 (May 16, 1999).

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forecasting was used in the present filing to determine test year demand. Alltel utilized econometric forecasting techniques to develop switched access and special access demand forecasts. Other “stock items” were forecasted based on a thorough analysis of historical demand trends and current billing. A more detailed description of the demand forecasting methodology follows in Section 4 of this Volume.

### 1.5 Annual Access Tariff Filing Waivers

In addition to the company specific waivers contained in the order, Alltel utilized the following industry-wide waivers granted by the Commission:<sup>4</sup>

1. Maintain the special access surcharge rate of \$25.00.
2. Establish and maintain an information surcharge rate element.
3. Establish a monthly end user charge for the recovery of universal service contributions.

### 1.6 Local Transport Restructure

In this filing, Alltel revises the local transport restructure rates for the test year. These revisions incorporate Alltel’s prospective switched transport revenue requirements and special access rates as the basis for establishing the Entrance Facility, Direct Trunked Transport, Tandem Switched Transport, Tandem Switching and the Residual Interconnection charges. More information on Local Transport rate development is contained in Section 5 of this volume.

### 1.7 Access Reform (MAG Order)

In this filing Alltel complies with the Commission’s rules prescribed in the “MAG Order”<sup>5</sup>. Alltel has used the 30% proxy to shift line port costs from local switching costs to common line costs. Alltel is performing this calculation in its cost studies as opposed to a rate development adjustment. In addition, Alltel has re-allocated the Transport Interconnection Costs (TIC) among the remaining access categories.

### 1.8 Access Service Arrangements

Service arrangements offered under ATS Tariff FCC No. 1 are for both switched and special access. Switched access service arrangements are provided by feature group and are distinguished by standard operational capabilities. Special access service arrangements are provided for private line facilities inclusive of the closed end WATS/800. Further detail for both switched and special access service can be found in ATS Tariff FCC No. 1, Sections 6 and 7, respectively. In addition, Alltel end office and meet point data required for ordering and billing access services are contained in NECA Tariff FCC No. 4.

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<sup>4</sup> See: *Annual 1989 Access Tariff Filings*, DA 88-1872, Memorandum Opinion and Order, released 12/2/88 (1989 Waiver Order), *In the Matter of Waiver of Sections 69.3(a) and 69.3(d) of the Commission’s Rules*, DA 01-1429, released June 14, 2001.

<sup>5</sup> See *In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Services on Non-Price Cap Incumbent Local Exchange Carriers*, FCC 01-304, Second Report and Order and Further Notice of Proposed Rulemaking, released November 8, 2001. (“MAG Order”)

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### 2 Development of Test Year and Past Year Cost of Service

#### 2.1 Introduction and Assumptions

This volume describes the development of forecasted access revenue requirements within the carrier common line, traffic sensitive switched and special access categories. These forecasts were performed to provide the necessary information for rate development as well as furnish the data required by the Commission's Tariff Review Plan (TRP). Revenue requirement forecasts for the test year were developed using the following assumptions:

- 1) The test year for this comprehensive filing is July 1, 2006 through June 30, 2007 as prescribed in the 2006 TRP Order.
- 2) The past year cost of service (PYCOS) period supporting this filing is January through December 2005, in accordance with the 2006 TRP Order.
- 3) Current 47 C.F.R. Part 32 Accounting Standards, Part 36 Separations Rules, and Part 69 Access Charge Rules are reflected.
- 4) Regulated and non-regulated costs are apportioned in compliance with FCC Part 64 Cost Allocation Rules.<sup>6</sup>
- 5) The definition of rate base is determined in accordance with the Rate Base Order which amended Part 65 of the Commission's rules.<sup>7</sup>
- 6) Revenue requirements are calculated to achieve the currently authorized 11.25% rate of return on Rate Base.
- 7) Jurisdictional allocation factors are frozen based on calendar year 2000 data as prescribed in FCC Report and Order 01-162 and FCC Order 06-70. Alltel elected to not freeze category relationships for its rate of return companies.
- 8) Other post retirement employee benefits are incorporated based upon Financial Accounting Standards Board (FASB) #106.
- 9) Remote COE is projected based upon RAO Letter 21.<sup>8</sup>
- 10) Other billing & collection (OB&C) expenses are projected based upon the Commission's OB&C Order.<sup>9</sup>
- 11) The revenue requirement data reflect the expense/capital threshold prescribed in the \$500 Expense Limit Order.<sup>10</sup>
- 12) The federal income tax rate for the test year is calculated at the currently prescribed corporate tax rate of thirty

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<sup>6</sup> *Separation of Costs of Regulated Telephone Service from Costs of Non-regulated Activities*, CC Docket No. 86-111, Report and Order, 2 FCC Rcd 1298 (1987), released 2/6/87 (Cost Allocation Manual Order).

<sup>7</sup> *Rate Base Order*, CC Docket No. 86-497, Report and Order, 2 FCC Rcd 269 (1987)

<sup>8</sup> *Classification of Remote Central Office Equipment for Accounting Purposes*, DA 92-1225, Common Carrier Bureau, Responsible Accounting Officer (RAO) Letter 21, released 9/8/92, (RAO Letter 21).

<sup>9</sup> *Petition for Declaratory ruling Pertaining to Interstate Common Line Allocation of Other Billing and Collection Expenses Under Part 36 and 69 of the Commission's Rules*, Common Carrier Services, Memorandum Opinion and Order, released 12/16/92, (OB&C Order).

<sup>10</sup> *Revisions of the Uniform System of Accounts for Telecommunications Companies*, CC Docket No. 87-135, , Common Carrier Services, Report and Order, 3 FCC Rcd 6701 (1988), released 7/22/88, (\$500 Expense Limit Order).

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five percent.

- 13) Thirty percent of Switching (Line Port) costs were subtracted from the Local Switching element and added to the Common Line element as prescribed in FCC Second Report and Order 01-304.

### 2.2 2006-2007 Projected Financial Data

ATS FCC No 1 issuing carriers utilized the Alltel budgeting process as the basis for projecting test year revenue requirements. Alltel's budgeting process requires the preparation of a five year business plan, prepared each year, for the five subsequent calendar year periods. Expenses during the test year reflect a change in the Corporate structure, whereby the corporation will be 100% wireline after the wireline operations are separated from Alltel Corporation (See DA 06-154 at WC Docket No. 05-354, dated January 25, 2006).

Because the test year is comprised of information pertaining to two calendar years, additional analysis is required to arrive at the test year forecasts. With the five-year business plan as a starting point, capital improvements and operating expenses are trended for 2006 and 2007, with beginning and end points then determined for each calendar year. Data from the two- (2) calendar years is then aggregated to produce the test year forecasts. Provided below is an overview of Alltel's supplemental analysis used to arrive at test year financial forecasts:

- 1) Forecasts for calendar years 2006 and 2007 for each Alltel study area were prepared. Capital budgets were prepared at the study area level by operating company personnel and by staff from corporate services.
- 2) Data was established using seasonal trends obtained from actual historical annual patterns. Capital expenditures were based on approved budgets. The half-year convention was employed for the introduction of anticipated COE and C&WF additions and associated expenses.
- 3) Capital and operating expense activity for the test year were reviewed and adjusted to reflect expenditures for the proper year of introduction. Applicable expenses and capital related to Alltel's wireline spin-off from Alltel was included in the forecasts. The spin-off related expenses constitutes about 3% of total expenses in the forecast.

This analysis represents each study areas best estimate of future costs. The test year forecast takes into account known or expected changes in the business operations, state regulatory changes, growth and modernization, and expected policy and financial changes. Estimates of investment, operating expense and varying levels of service demand are analyzed to produce a comprehensive budget view. When combined with financial performance objectives, operating results are created.

Alltel's 2006 and 2007 budgets utilize Part 32 Accounting Rules. Non-regulated costs, in accordance with Part 64 of the Commission's Rules, are removed. The resultant regulated costs, subject to separations, are jurisdictionally allocated in accordance with Part 36 rules. Access elements are derived in accordance with Part 69 rules.

### 2.3 Cost of Service Study Development

#### 1) Past Year Cost of Services

Data supporting financial results were utilized as the starting data for the 2005 PYCOS study. Financial statements were reviewed and careful consideration given to segregate regulated and non-regulated investment and expenses. These statements were analyzed and regulated baseline data was utilized for jurisdictional separation based upon Part 36 of the Commission's Rules. Access elements were further developed based upon Part 69 of the Commission's Rules. Volume 2, Section 3, contains the results of the PYCOS studies for each study area. A summary of study area PYCOS data is also available in the TRP, Volume 1-2.

#### 2) July 1, 2006 through June 30, 2007 Forecasted Cost of Service

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As previously discussed, data supporting the July 1, 2006 through June 30, 2007 period was forecasted for the test year. These statements were analyzed and regulated baseline data was utilized for jurisdictional separation based upon Part 36 of the Commission's Rules. Access elements were further developed based upon Part 69 of the Commission's Rules. Volume 2, Section 2, contains the results of the test year studies for each study area. A summary of study area test year data is also available in the TRP, Volume 1-2.

### 2.4 Analysis of Significant Changes in Revenue Requirement

1) Total Revenue Requirement

Total revenue requirement decreased 7.6% over the previous filing period due mainly to new depreciation studies. Since Alltel's previous tariff filing, new depreciation studies that resulted in lower depreciation expense were completed for 6 study areas (Alltel Alabama, Alltel Florida, Combined Georgia, Alltel Carolina, Alltel Pennsylvania, and Alltel South Carolina).

2) Interstate Total Revenue Requirement

Total revenue requirement increased 8.5% over the previous tariff filing primarily due to additional special access related investments. Alltel experienced exceptional growth in special access circuits and broadband ports since the last tariff filing. Updates to the basic studies to properly reflect the change in investment pursuant to Part 36 of the Commission's Rules were performed, which shifted investment from intrastate to interstate. Correspondingly, interstate expenses also increased as investment shifted to interstate. For some companies expenses were partially offset by decreased depreciation expense as the result of new depreciation studies, as noted in 2.2.1 above.

3) Interstate Special Access Revenue Requirement

Interstate special access revenue requirement increased 51.7% over the previous tariff filing due to a 58.9% increase in expenses and a 32.4% increase in net investment. The increase in net investment was caused by increases in central office investment, general support assets and cable and wire investment as a result of the significant increase in circuit and DSL demand (See section 4.4 for further details). The increase in expenses is due to increases in plant maintenance expense, marketing expense, network operations expense and corporate expenses caused mainly by the increases in investment.

Alltel Alabama's Interstate Special Access Revenue Requirement increased 191.6% due to increases in expenses of 222.9% and a 121.3% increase in return on investment. The increased return on investment was the result of increased central office and cable and wire investments. The expense increases were caused by increased plant maintenance expense, network operations expense and marketing expense initiated by the growth in investment.

Alltel Arkansas' Interstate Special Access Revenue Requirement increased 41.7% due to increases in expenses of 53.1% and a 19.4% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, depreciation expense, marketing expense and corporate expense initiated by the growth in investment.

Alltel Florida's Interstate Special Access Revenue Requirement increased 123.9% due to increases in expenses of 131.1% and a 103.6% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense and marketing expense initiated by the growth in investment. A 39.4% decrease in depreciation expense was the result of a new depreciation study.

Georgia Combined Interstate Special Access Revenue Requirement increased 59.6% due to increases in expenses of 70.4% and a 34.0% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, marketing expense and corporate expense initiated by the growth in investment. A 26.3% decrease in depreciation expense was due to a new

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depreciation study.

Alltel Kentucky's Interstate Special Access Revenue Requirement increased 13.3% due to increases in expenses of 8.1% and a 19.6% increase in return on investment. The expense increases were caused by increased depreciation expense.

Alltel Mississippi's Interstate Special Access Revenue Requirement increased 22.6% due to increases in expenses of 18.9%. The expense increases were caused by increased plant maintenance expense, network operations expense, marketing expense and corporate expense. A 29.2% decrease in depreciation expense was due to a declining ratebase.

Alltel Missouri's Interstate Special Access Revenue Requirement increased 96.4% due to increases in expenses of 146.3%. The expense increases were caused by increased plant maintenance expense, network operations expense, depreciation expense, marketing expense and corporate expense.

Combined New York Interstate Special Access Revenue Requirement increased 46.1% due to increases in expenses of 66.5% and a 22.1% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, depreciation expense, marketing expense and corporate expense initiated by the growth in investment.

Alltel Carolina's Interstate Special Access Revenue Requirement increased 46.2% due to increases in expenses of 38.6% and a 59.2% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, marketing expense and corporate expense initiated by the growth in investment. A 47.8% decrease in depreciation expense was due to a new depreciation study.

Combined Oklahoma Interstate Special Access Revenue Requirement increased 117.0% due to increases in expenses of 169.4% and a 10.1% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, depreciation expense, marketing expense and corporate expense.

Alltel Pennsylvania's Interstate Special Access Revenue Requirement increased 47.7% due to increases in expenses of 48.3% and a 41.7% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, marketing expense and corporate expense initiated by the growth in investment. A 50.1% decrease in depreciation expense was to the result of a new depreciation study.

Alltel South Carolina's Interstate Special Access Revenue Requirement increased 96.3% due to increases in expenses of 79.1% and a 163.6% increase in return on investment. The expense increases were caused by increased plant maintenance expense, network operations expense, marketing expense and corporate expense initiated by the growth in investment. A 62.9% decrease in depreciation expense was the result of a new depreciation study.

Sugar Land Telephone's Interstate Special Access Revenue Requirement increased 19.7% due to increases in expenses of 27.3%. The expense increases were caused by increased plant maintenance expense, network operations expense, marketing expense and corporate expense.

Alltel Texas' Interstate Special Access Revenue Requirement increased 25.6% due to increases in expenses of 38.4%. The expense increases were caused by increased plant maintenance expense, network operations expense, depreciation expense, marketing expense and corporate expense.

Western Reserve's Special Access Revenue Requirement increased 34.5% due to increases in expenses of 45.8%. The expense increases were caused by increased plant maintenance expense, network operations



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expense, depreciation expense, marketing expense and corporate expense.

4) Interstate Local Switching

Total revenue requirement decreased 11.4% over the previous filing period due to an 8.8% decrease in expenses and 24.3% decrease in return on investment. Plant specific expenses increased by 6.9% while plant non-specific expenses decreased by 27.5%, due mainly too new depreciation studies. Alltel Alabama, Alltel Florida, Georgia Combined, Alltel Pennsylvania and Alltel South Carolina's Local Switching Revenue Requirement decreased 29.4%, 34.5%, 15.7%, 22.1% and 10.8% respectively due primarily to new depreciation studies which resulted in lower depreciation expense. Western Reserve had a Local Switching Revenue Requirement decrease of 10.5% due to a 33.0% decrease in return on investment caused by a declining ratebase.

5) Interstate Local Transport

Total revenue requirement decreased 10.2% over the previous filing period due to a 17.1% decrease in expenses. Alltel Florida, Georgia Combined, Alltel Carolina, Alltel Pennsylvania and Alltel South Carolina's Local Transport Revenue Requirement decreased 21.8%, 15.1%, 16.2%, 13.9% and 22.7% respectively. The decrease in expenses is primarily due to the results of new depreciation studies mentioned in 4) above.

6) Interstate Local information

Total revenue requirement increased 13.3% over the previous filing period due to increases in customer service and corporate expenses.

7) Interstate Carrier Common Line

Total revenue requirement decreased 4.7% over the previous filing period due to a 6.0% decrease in expenses. The decrease in expenses is due to new depreciation studies.

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### 3. Development of Special Studies, Individual Case Basis Services and Single Bill Settlements

#### 3.1 Special Studies

The study results for the studies listed below are displayed in Volume 3 of this filing.

- A) Access Service Provisioning NRC Study
- B) Access Service Ordering NRC Study
- C) Optional Features and Functions Study
- D) Loaded Labor Rate Study
- E) Capitalized Loading Factor Study

The Access Service Order and Provisioning NRC studies, Loaded Labor Rate study and Capitalized Loading Factor study were not reissued and completed for incorporation in the 2006 Annual Access Tariff filing. These studies were last issued and completed for the 2003 Annual Access Tariff filing. The summarized results of these studies are displayed in Volume 3 of this filing.

#### 3.2 Special Access Service Indices

Alltel utilizes special access service indices to separate special access revenue requirements into sub-element detail. Special access service indices are developed for each issuing carrier based on the corresponding rate relationships evident in the regional Bell operating company. The indices reflect the embedded relationship of monthly special access rates (Channel Termination, Channel Mileage Termination and Channel Mileage Facility) to the corresponding two-wire voice grade Channel Termination rate. Where necessary, the special access indices were adjusted to account for variations in the rate structure between the Alltel and regional Bell operating company interstate tariff and/or conform the embedded service relationships to the prescribed rate relationships set forth in the Commission's Special Access Pricing Order.<sup>11</sup> More information on special access rate development is provided in Section 5 of this volume.

#### 3.3 ICB Services

Alltel currently provides certain service arrangements under Individual Case Basis (ICB) rates where the customer has requested: (1) unique service arrangements not currently offered in the tariff, (2) service arrangements that an ATS issuing carrier has had no previous demand or experience in provisioning, or (3) services and specialized equipment over and above the standard equipment used by the telephone company in provisioning a generally tariffed service pursuant to the required technical specifications referenced in the tariff.

For the current test year Alltel forecasted the continuation of two existing arrangements. The arrangements in existence as of this filing are:

- Alltel Carolina, Inc.'s provision of alternate routing to Sara Lee Corporation.
- Alltel Carolina, Inc.'s provision of optical DS1 service to Westinghouse Incorporated.

The revenues associated with these arrangements are displayed on Volume 3.

#### 3.4 Single Bill Settlement

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<sup>11</sup>Investigation of Special Access Tariffs of Local Exchange Carriers, CC Docket No. 85-166, Phase II, Part 1, Memorandum Opinion and Order, released December 1, 1988 (Special Access Order).

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Alltel Georgia Communications Corporation, BellSouth, Nelson-Ballground Telephone, Ellijay Telephone and Blue Ridge Telephone have entered into a single bill, single tariff arrangement for switched access transport and special access transport service for the fiber optic self-healing ring installed in Northwest Georgia. Under this arrangement, each company bills the access customer 100% of the transport between its own end office and the access customer's serving wire center (SWC) at each company's own tariffed rates. Since this is a self healing fiber optic ring, traffic may traverse the network from end office(s) to SWC(s) in a clockwise or counter clockwise direction, but not consistently one way or the other. As a result, the companies agreed to a single bill, single tariff application for the ring arrangement with monthly settlement dollars flowing to and from each company to compensate for the transport that normally would be billed by each company under a multiple bill, multiple tariff meet point billing arrangement. The monthly settlement dollars were calculated by pricing out sampled demand units (minutes for switched access and circuits for special access) for each company. The demand units were then multiplied by each company's specific rate and the agreed upon ring meet point billing percent. Finally the sampled demand from each company's end office(s) was multiplied by that company's specific rate for 100% of the transport. The difference between what the end office company bills at 100% transport using their specific rates and the pay out that the end office company owes to each ring participant is the net settlement amount. The settlement numbers used to adjust the revenue requirement are displayed in Volume 3.

#### **4. Development of Test Period Demand**

##### **4.1 Introduction**

This section describes the methodologies used to develop prospective access demand quantities for the switched,

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special access and end user categories. Traffic sensitive - switched minutes of use (MOU), special access and end user demand forecasts were developed for the following study areas:

1. Alltel Carolina, Inc.
2. Alltel Florida
3. Alltel Georgia Communications Corp
4. Georgia Alltel Telecom, Inc.
5. Alltel Kentucky
6. Alltel New York, Inc. - Red Jacket
7. Alltel New York, Inc. - Fulton
8. Alltel New York, Inc - Jamestown
9. Oklahoma Alltel, Inc.
10. Alltel Pennsylvania
11. Sugar Land Telephone
12. Alltel Georgia
13. Alltel Mississippi
14. Alltel Missouri
15. Alltel Oklahoma
16. Alltel South Carolina
17. Western Reserve Telephone
18. Alltel Alabama
19. Texas Alltel
20. Alltel Arkansas
21. Alltel Ohio - End User Demand Only

### 4.2 Estimating Alltel Demand

Alltel uses historical data from its Carrier Access Billing System (CABS) to forecast access demand. As CABS was designed primarily for billing purposes, historical data is maintained with an emphasis on billing efficiency rather than date sensitivity. As a result, the month in which the service usage was billed may differ from the month it was incurred, causing distortions in the historical base.

Billing problems, which occurred over the course of several months were often corrected using an algorithm, which allocates billed usage to the appropriate time frame. Nevertheless, the correction process is imperfect, and the minutes of use (MOU) data series still fluctuates significantly, as can be seen in the attached Volume 4, Section 2. These fluctuations dictate the choice of statistical methodologies used in forecasting MOU.

### 4.3 Access Line and Minutes of Use Forecasting Methodology

An extensive data series analysis was performed for the 2006 filing and is described in detail in the Description and Justification, Section 4 for year 2006 filing. The analyses consisted of employing a univariate time series analysis to forecast each series. A univariate time series model describes the behavior of a variable using only a function of past values of the variable and a disturbance, as shown in equation 1:

$$X_t = F(X_{t-1}, X_{t-2}, \dots, u)$$

Where appropriate, the dependent variable was modeled using each of the following methods: Holt-Winters smoothing, Box-Jenkins ARIMA, autoregressive conditional heteroskedasticity (ARCH), and generalized autoregressive conditional heteroskedasticity (GARCH). In almost all cases the method which provided the best forecast according to objective econometric measures was a Holt-Winters exponential smoothing method containing a multiplicative seasonal term. This is the reason that all of the forecasts for the year 2006 filing were obtained

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using the Holt-Winters exponential smoothing.

### The Holt-Winters Method

The Holt-Winters method is a simple to apply, albeit powerful generalized exponential smoothing procedure. This method is generally considered appropriate for forecasting series with a time trend. The Holt-Winters method allows the user specify whether the model should account for seasonal variation. In each instance, we followed the standard procedure of estimating the mean, trend, and seasonality smoothing parameters used in the Holt-Winters forecast.

### Alltel Alabama

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Alabama was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Arkansas

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Arkansas was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Florida

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Florida was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel New York, Inc. - Fulton

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel New York - Fulton was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Georgia

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Georgia was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term

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was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Georgia Communications Corp.

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Georgia Communications Corp., was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Georgia Alltel Telecom, Inc.

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Georgia Alltel Telecom, Inc. was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel New York, Inc - Jamestown

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel New York - Jamestown, Inc. was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Kentucky

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Kentucky was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Missouri

#### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Missouri was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

### Alltel Mississippi

**Description and Justification**1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Mississippi was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

Alltel Ohio1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Ohio was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

Alltel Carolina, Inc.1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Carolina was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

Alltel Oklahoma1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Oklahoma was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

Oklahoma Alltel1. Access Lines and MOU

Data for the number of access lines and MOU for Oklahoma Alltel was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

Alltel Pennsylvania1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel Pennsylvania was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

Alltel New York, Inc. - Red Jacket

## Description and Justification

### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel New York, Inc. - Red Jacket was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

#### Alltel South Carolina

### 1. Access Lines and MOU

Data for the number of access lines and MOU for Alltel South Carolina was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

#### Sugar Land Telephone Company

### 1. Access Lines and MOU

Data for the number of access lines and MOU for Sugar Land Telephone Company was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

#### Texas Alltel

### 1. Access Lines and MOU

Data for the number of access lines and MOU for Texas Alltel was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

#### Western Reserve

### 1. Access Lines and MOU

Data for the number of access lines and MOU for Western Reserve was available for the period between January 2001 and December 2005. The exponential smoothing technique Holt-Winters containing a multiplicative seasonal term was used to obtain both MOU and access line forecasts. Forecast results for the fiscal year 2006 (July to June) are shown in Volume 4 Section 2.

## **4.4 Special Access and Dedicated Switched Access Circuits**

As a general rule, there were not enough observations to conduct reliable forecasts using Box-Jenkins ARIMA or ARCH models. Therefore, where there was enough data to do so, special access and dedicated switched access circuits were forecasted using Holt-Winters methods. In several cases, there were not enough observations even to conduct Holt-Winters forecasts, in which case we merely took an average of existing observations or used our judgement to determine if there was an actual trend. Additionally, in a few instances there were severe outliers among the observations that could be reliably attributed to billing errors; where appropriate in such cases, we



**Description and Justification**

averaged out the outliers prior to applying the Holt-Winters method.

Alltel has experienced significant growth in the demand for special access circuits and DSL ports since the prior tariff filing. This includes DS1 growth of 56%, DS3 growth of 96% and DSL growth of 111%. The table below provides additional detail by company. See volume 4 for test year demand quantities.

<b>Forecasted DS1, DS3, DSL Demand Growth Over Prior Tariff Filing</b>				
	<b>Company</b>	<b>DS1 Growth</b>	<b>DS3 Growth</b>	<b>DSL Growth</b>
1.	Alltel Carolina, Inc.	61%	175%	132%
2.	Alltel Florida	58%	434%	270%
3.	Alltel Georgia Combined	73%	117%	107%
4.	Alltel Kentucky	11%	173%	20%
5.	Alltel New York, Inc.	70%	91%	43%
6.	Alltel Pennsylvania	47%	56%	114%
7.	Sugar Land Telephone	48%	33%	14%
8.	Alltel Mississippi	-18%	300%	37%
9.	Alltel Missouri	29%	358%	238%
10.	Oklahoma combined	117%	350%	256%
11.	Alltel South Carolina	57%	63%	217%
12.	Western Reserve Telephone	37%	38%	106%
13.	Alltel Alabama	112%	275%	283%
14.	Texas Alltel	82%	61%	47%
15.	Alltel Arkansas	52%	61%	140%

## Description and Justification

### 5. Development of Test Year Interstate Access Rates

#### 5.1 Introduction

This section describes the end user and traffic sensitive rate development processes used by Alltel in this filing. For rate making purposes, Volume 2 displays the test year revenue requirement and Volume 4 displays the test year demand quantities.

#### 5.2 End User Rate Development

- 1) End user rate development can be found in Volume 5, Page 2.
- 2) End User Universal Service Charge can be found in Attachment EU-USF.

##### 5.2.1 End User Rate Development

End user charges for the Alltel study areas were calculated by the following method:

- 1) Subtract revenues associated with test year special access surchargeable channels from the BFP revenue requirement.
- 2) Divide "adjusted" BFP revenue requirement by the test year access lines to obtain annual multi-line rate.
- 3) Divide annual multi-line rate by 12 to obtain monthly multi-line rate (cost per line).
- 4) Compare monthly multi-line rate to the Commission's capped rate of \$9.20 and file the smaller of the two.
- 5) Residential and single line business were set at the lower of the prescribed cap of \$6.50 or the monthly cost per line.

End user test year demand is displayed in Volume 4, Section 2. BFP revenue requirement is displayed in Volume 2. End user rate development is displayed in Volume 5, Page 2.

#### 5.3 Switched Access Rate Development

Switched access is composed of the following access elements: local switching, information surcharge and transport.

##### 5.3.1 Local Switching

The switched access local switching rate element is designed to recover costs associated with Category 3, COE investment and expenses and SS7 signaling costs as mandated in FCC 97-158. There are two (2) premium local switching categories, LS-2 and LS-1. The LS-2 rate applies to FGC and FGD local switching minutes. The LS-1 rate applies to FGA and FGB local switching minutes where equal access is available. The proposed LS-2 and LS-1 rate was calculated by dividing the test year local switching revenue requirement plus SS7 revenue requirement, less the dial equipment weighting amount that will be recovered through the USF fund less 30% shifted to common line plus TIC re-allocation costs, by the test year chargeable minutes (premium minutes plus 45% of the non-premium minutes). The non-premium LS rate was calculated by multiplying the LS-2 rate by 45%. The non-premium LS rate applies to FGA and FGB in non-equal access offices.

Local switching rate development is displayed in Volume 5, Page 4. Local switching revenue requirement is displayed in Volume 2. Test year switching minutes are displayed in Volume 4, Section 1.

### **5.3.2 Information Surcharge**

The information surcharge rate is designed to recover the costs for directory expenses ("white pages"), Account 6622. These expenses are recovered through the information surcharge rate element, which is priced per 100 access minutes. The proposed premium information surcharge rate was computed by dividing the test year information surcharge revenue requirement (plus TIC re-allocation) by the test year chargeable minutes (premium minutes plus 45% of non-premium minutes). The non-premium information surcharge rate was calculated by multiplying the premium rate by 45%.

Information surcharge rate development is displayed in Volume 5, Page 4. Information surcharge revenue requirement is displayed in Volume 2. Test year switching minutes are displayed in Volume 4, Section 1.

### **5.3.3 Transport**

The transport rate elements are designed to recover the costs associated with providing originating or terminating switched access service between the end user's end office and the IC serving wire center. Transport rates are filed in accordance with the Commission's Transport Orders.

### **Direct Trunked and Entrance Facility Rate Calculation**

The term "Direct Trunked Transport" denotes switched access transport from the IC serving wire center (SWC) to the end office or from the IC SWC to the access tandem. The Direct Trunked Transport Rates are flat rate charges billed on a monthly basis where mileage exists between end offices and hubs, hubs and hubs, end office and IC SWC or tandem and IC SWC. The mileage sensitive element is Direct Trunked Facility (DTF) and is comparable to the special access rate element Channel Mileage Facility (CMF). The termination or fixed charge is Direct Trunked Termination (DTT) and is comparable to the special access rate element Channel Mileage Termination (CMT). The Switched DS1 to Voice multiplexor rate equates to the special access DS1 to Voice multiplexor rate. In developing Direct Trunked Transport rates, Voice Grade and High Capacity DS1 mileage rates were utilized.

The term "Entrance Facility" denotes a switched access service dedicated Local Transport Facility between the customer's IC SWC and the customer-designated premise (i.e. Point of Presence - POP). The Entrance Facility Rates are flat rate charges billed on a monthly basis for the portion of service between the IC SWC and the customer's POP. The Entrance Facility (EF) rate is comparable to the special access Channel Termination (CT) rate element. In developing the EF rates, Voice Grade 2 Wire, Voice Grade 4 Wire and High Capacity DS1 rates were utilized.

#### **Rate Application**

The DTT rate applies to each end of a measured segment of transport where the customer has ordered direct trunking. The DTF rate applies to the airline miles between the measured direct trunked transport segments. If there are zero miles between end points (i.e. collocated IC SWC and End Office) neither the DTT nor DTF will apply. The EF rate applies to the facilities between the IC SWC and IXC POP. The EF rates will apply when the IC SWC and POP are collocated. The calculation for DTT, DTF and EF rates are found in Volume 5, Page 6.

### **Tandem Switching Rate Calculation**

Projected demand was used to calculate the Tandem Switching charge. To develop the Tandem Switching

charge, only those minutes switched at an Alltel Tandem are used for rate development. Therefore, Alltel totaled historical minutes from offices that route through an Alltel tandem and developed a percent of minutes switched at the tandem. This percent was applied to the projected MOUs and the result was used as the denominator for Tandem Switching rate development. The Tandem Switching rate was calculated by dividing the adjusted rate making revenue requirement found in Volume 5, Page 5 by the total MOUs switched at the Alltel Tandem. Volume 4, Section 5 displays the percent of minutes tandem routed.

#### Rate Application

The Tandem Switching rate is applied per minute switched at an Alltel Tandem. The calculation for Tandem Switching rates are found in Volume 5, Page 5.

#### **Tandem Switched Transport Rates**

In the Transport Orders, the Commission ordered the Tandem Switched Transport rates to be developed using high capacity rates and actual minutes per circuit per month loading factor found in Volume 4, Section 5. The term "Tandem Switched Transport" denotes switched access transport from the tandem to the end office. The two rate elements associated with Tandem Switched Transport are Tandem Switched Termination (TST) and Tandem Switched Facility (TSF). The TST rate is calculated by dividing the Direct Trunked Termination DS1 Rate by 24 (voice grade channels on a DS1) by the actual minutes of use per trunk, in accordance with FCC 97-158. The TSF rate is calculated by dividing the Direct Trunked Facility DS1 Rate by 24 (voice grade channels on a DS1) by the actual minutes of use per trunk, in accordance with FCC 97-158. Adjustments may be required, in accordance with the Access Charge Reform Order, to ensure that the revenue requirement for Host-Remote facilities is recovered 100% from TST/TSF rates and not the RIC rate. These Host-Remote adjustment computations are summarized in Volume 5, Page 5 with supporting detail found in Volume 5, Page 13.

#### Rate Application

The TST rate applies per access minute at each end of a measured segment of transport switched at an end office or tandem where the customer has not ordered direct trunked transport to an end office. The TSF rate applies per access minute to the airline miles between the measured segments of transport switched at an end office or tandem where the customer has not ordered direct trunked transport to an end office. If there are zero miles between end points (i.e. collocated IC SWC and End Office) neither the TST nor TSF will apply.

Two special rate applications exist for TST and TSF. First, Host-Remote configurations will be measured in two segments, Remote to Host and Host to Tandem. The segment from the Remote to Host will incur two (2) TST charges (1 at Remote and 1 at Host) and the TSF rate will apply to the airline miles from the Remote to Host, regardless if the Host to IC SWC is ordered as Direct Trunked Transport. Second, when a Feature Group A (FGA) customer orders dial tone from an end office that is not the customer's SWC, Direct Trunked Transport will apply between the dial tone office and the SWC and Tandem Switched Transport (TST and TSF), excluding the Tandem Switching charge, will apply from the dial tone office to the end office. The calculation of Tandem Switched Transport rates are detailed in Volume 5, Page 5.

#### **Demand Data Required for Transport Rate Development**

Alltel utilized current billing of dedicated trunks, entrance facilities and common transport minutes of use as the basis for rate making demand in this filing. The current billing is in accordance with the bifurcated transport change required per Commission order in FCC 97-158.

Under Alltel's current transport tariff, TST and DTT charges are applied at each end of a measured segment of transport. An average number of switched terminations (Terms) were calculated for each company based on the number of Alltel SWCs and Tandems. These Terms are used to price out the TST and DTT revenues and are found in Volume 4, Section 5.

Alltel recalculated the average length of haul (ALOH) for DTF and TSF for each company. Each company's ALOH changed slightly, with the exception of Alltel Florida where the ALOH went from 19.5 miles to 45.3 miles and for Alltel Arkansas where the ALOH went from 29.3 miles to 20.7 miles. The change in Florida ALOH was caused by the turning up of the Live Oak switch to a class 4/5 switch and various Alltel end offices were rehomed from the BellSouth tandem to the Live Oak tandem resulting in an increase in ALOH. This ALOH was multiplied by the total common transport minutes to determine total common transport minute-miles. Alltel also calculated a Remote to Host ALOH, which is based on total common transport minutes, for use in pricing the Remote only MOUs. The Remote to Host ALOH was multiplied by the total common transport minutes to determine Host-Remote common transport minute-miles. The Host-Remote common transport minute-miles was subtracted from total common transport minute-miles to determine minute-miles from the Host/End Office to the Tandem. The Host Remote ALOH, Total ALOH and number of Terms for the Remote-Host minutes are in Volume 4, Section 4.

Historical demand and projected demand for switched access DS1 to Voice multiplexors is zero. Therefore, Volume 4, Section 4 shows zero percent DS1 to Voice multiplexors.

### **Direct Trunked Transport and Entrance Facility Revenues**

The DTT revenues were calculated by multiplying the monthly test period number of direct trunks by the DTT rates multiplied by the number of terminations. The DTF revenues were calculated by multiplying the test period number of direct trunks by the DTT rates, multiplied by the adjusted ALOH (previously described). The sum of the DTT and DTF revenues equals Dedicated Transport Revenues. These calculations are in Volume 5, Page 6.

The EF revenues were calculated by multiplying the test period number of entrance facilities by the EF Rates. These calculations are displayed in Volume 5, Page 6.

### **Tandem Switched Transport Revenues**

The Tandem Switched Transport revenues were priced out in two steps. Step one priced Remote to Host Transport and step two priced minutes from End Office or Host Office to the Tandem. Combining the revenues from the two steps produces the total Tandem Switched Transport revenues (excluding Tandem Switching revenues). These calculation steps are displayed in Volume 5, Page 6.

#### Remote-Host Revenues

For TST revenues, the test period common transport MOUs were multiplied by the average number of remote terms per common transport MOU the multiplied by the TST rate. For TSF revenues, the common transport MOUs were multiplied by the Remote ALOH times the TSF rate. Combined, the TST and TSF revenues obtained above make up the total Remote to Host revenues.

#### End Office or Host to SWC Revenues

For TST revenues, common transport MOUs were multiplied by the average number of total terms per common transport MOU to derive total common transport terminations. The number of remote terminations derived above was subtracted from the total to determine the number of terms from the End Office/Host to the Tandem. This number was multiplied by the TST rate to determine TST revenue from the End Office/Host to the Tandem. For TSF revenues, common transport MOUs were multiplied by the total ALOH per common transport MOU to derive total common transport minute-miles. The number of remote minute-miles derived above was subtracted from the total to determine the number of minute-miles from the End Office/Host to the Tandem. This number was multiplied by the TSF rate to determine TSF revenue from the End Office/Host to the Tandem. Combined, the TST and TSF make up the End Office to Tandem or Host to Tandem revenues.

### **800 Database Query Revenues**

800 Database query rates proposed in this filing are designed to recover expenses associated with 800 data base access service as described in ATS F.C.C. No. 1, Section 6.10.2. 800 data base query charges will only be billed at Alltel offices designated in NECA F.C.C. No. 4 Wire Center Tariff as 800 series query billing locations.

The proposed 800 database query rates are based on the interstate tariff rates of Targus, which handles all of Alltel's 800 database queries.

Development of 800 data base test period query volumes is contained in Volume 4, Section 5. Development of 800 Database query revenues and is detailed in Volume 5, Page 7.

#### **5.4 Special Access Rate Development**

The development of special access rates is a multi-step process designed to produce rates that reflect the hierarchical cost of service provision, fall within the prescribed rate relationships of the FCC, reflect regional market conditions spurred by new entrant competition for special access provision and recover individual company revenue requirements.

##### Development of Proposed Rates

The starting point for developing proposed special access rates is the total special access revenue requirement from Volume 2 with net settlement revenues (Volume 3) included where applicable. From this revenue requirement, the total NRC, OFF and ICB revenues are used to reduce the total special access revenue requirement in order to obtain the total special access recurring (rate making) revenue requirement which is then split between channel termination, channel mileage termination, and channel mileage facility based on Alltel's investment ratios for these elements. This process is displayed in Volume 5, Page 9.

The next step involves weighting forecasted special access demand with the appropriate special access service index. Where F.C.C. guidelines exist, they are used as the index. For example, a benchmark ratio of 1.6 to 1.0 exists for comparing the Voice Grade 4 Wire CT rate to the Voice Grade 2 Wire CT rate. Therefore the index for Voice Grade 4 Wire CT is 1.6. Each index is multiplied by its corresponding demand to produce a weighted demand. These calculations are displayed in Volume 5, Pages 10.

The proposed monthly rates were determined calculating a revenue requirement to weighted demand factor. This factor was applied to each special access service index to obtain the proposed recurring special access rates. This calculation is displayed in Volume 5, Page 10.

Exhibit USF

**ALLTEL Communications, Inc.**  
**MLB & Centrex USF Factor Calculation**

Region	Company Name	Total MLB B	Centrex C	% Centrex of MLB D = C / B	MLB SLC Rate E	MLB I/S Retail Revenue F = E * B	MLB USF Contribution G = F * 10.5%	Adj MLB Lines H = B - (C * 8/9)	USF Chargeable MLB Revenue I = E * H	Recovery Factor J = NECA or G / I	Non Centrex per Line Factor K = J	Centrex Per Line Factor L = K / 9
SE	ALLTEL GEORGIA COMM CORP	58,451	37,628	0.643752887	\$ 7.69	\$ 449,488.19	\$ 47,196.26	25,004	\$ 192,279.91	0.2454560	24.5%	2.7%
SE	GEORGIA ALLTEL TELECOM	11,577	7,330	0.633151939	\$ 7.69	\$ 89,027.13	\$ 9,347.85	5,061	\$ 38,922.51	0.2401656	24.0%	2.7%

SAR_ID	SAR_ABBR	06/07 Test Period Line Port Shift to Common Line	06/07 Test Period TIC Shift to Common Line	06/07 Total Test Period MAG Shift to Common Line
300665	ALLTEL OHIO INC.	861,801	793,688	1,655,489