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March 17, 2004

VIA HAND DELIVERY

Mr. Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

Drop Box
RECEIVED
MAR 17 2004
PUBLIC SERVICE COMMISSION

RE: An Inquiry Into the Development of Deaveraged Rates for Unbundled Network Elements, Administrative Case No. 382

Dear Mr. Dorman:

Enclosed for filing please find an original and eleven (11) copies of the Response to March 9, 2004 Staff Request and Petition for Confidential Treatment to portions of Exhibit B. An unredacted copy of Exhibit B is being filed under seal in the enclosed envelope.

Please return a date-stamped copy of the Petition to me. Thank you for your cooperation in this matter. If you have any questions, please do not hesitate to call.

Sincerely,

James H. Newberry, Jr. (SRC)

Enclosures
Petition (original and 11 copies)
cc: Parties of Record
30318485.3

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO THE DEVELOPMENT OF DEAVERAGED RATES FOR UNBUNDLED NETWORK ELEMENTS	)))	**ADM. CASE NO. 382**

RESPONSE TO MARCH 9, 2004 STAFF REQUEST AND PETITION FOR CONFIDENTIAL TREATMENT

Pursuant to the March 9, 2004 request by the staff of the Public Service Commission of Kentucky ("Commission"), Kentucky ALLTEL, Inc. ("Kentucky ALLTEL") files this Response and Petition for Confidential Treatment and in support thereof states as follows:

RESPONSE

1. In its November 7, 2003 Order, the Commission required Kentucky ALLTEL to submit within thirty days proposed UNE rates with supporting documentation and proposed rates for UNE combinations. In its December 5, 2003 Order, the Commission extended the filing deadline. On February 5, 2004, Kentucky ALLTEL filed with the Commission, under confidential seal, its complete UNE Cost Study including the supporting inputs and resulting rates.

2. The Commission's Order on February 10, 2004 directed Kentucky ALLTEL to file additional, more detailed support documentation. In compliance with that Order, on March 1, 2004, Kentucky ALLTEL filed such documentation pursuant to a reservation of rights and Petition for Confidential Treatment.

3. At an informal conference on March 9, 2004, Commission staff requested that Kentucky ALLTEL publicly file a UNE Price List, a copy of which is attached hereto as Exhibit A, and a document entitled "Total Elements Long Run Incremental Cost Development Process", a redacted copy of which is attached hereto as Exhibit B.

4. Kentucky ALLTEL's filings in this matter are provided under protest and without waiving its lawful rights and objections, as Kentucky ALLTEL maintained and continues to maintain that it is not required and has not chosen to offer unbundled local switching or any UNE combinations that include local switching.

PETITION FOR CONFIDENTIAL TREATMENT

5. Pursuant to K.R.S. §61.878(1)(c)(1) and 807 KAR 5:001, Section 7, Kentucky ALLTEL requests that the redacted portions of Exhibit B ("Exhibit B Redactions") be accorded confidential treatment.

6. Exhibit B Redactions were developed internally by ALLTEL Communications, Inc. ("ALLTEL") at its own expense. Exhibit B Redactions are treated as highly confidential by ALLTEL and its affiliates. Exhibit B Redactions have not been released publicly and is disclosed internally within ALLTEL on a need-to-know basis only.

7. Exhibit B Redactions include specific data which Kentucky ALLTEL is providing only to Commission Staff and only pursuant to this confidentiality agreement or enforceable order according the documentation confidential treatment.

8. ALLTEL and its affiliates employ all reasonable measures to protect the confidentiality of Exhibit B Redactions and to guard against inadvertent, unauthorized disclosure.

9. K.R.S. §61.878(1)(c)(1) provides in pertinent part:

> The following public records are excluded from the application of ...[the Open Records Act] and shall be subject to inspection only upon order of a court of competent jurisdiction ...
>
> (c)1. ...records confidentially disclosed to an agency or required by an agency to disclosed to it, generally recognized as confidential or proprietary, which if openly disclosed would permit an unfair commercial advantage to competitors of the entity that disclosed the records.

10. Public disclosure of the Exhibit B Redactions would provide entities offering local exchange or other telecommunications services an unfair competitive advantage by affording them access to Kentucky ALLTEL's valuable pricing information which they could then use to plan unwarranted market entry or competitive strategies to the detriment of Kentucky ALLTEL. Exhibit B Redactions are generally considered confidential and proprietary in the telecommunications industry.

11. Exhibit B Redactions are also protected from disclosure pursuant to K.R.S. §61.878(1)(c)(2)(c) as a confidential and proprietary record disclosed to the Commission in conjunction with the regulation of a commercial enterprise.

12. Kentucky ALLTEL and its affiliates have taken all reasonable steps to prevent the dissemination of the confidential information in Exhibit B Redactions outside of Kentucky ALLTEL, its parent corporation and affiliates.

13. Nondisclosure of the information in the Exhibit B Redactions would not be detrimental to the policy objectives of the Kentucky Open Records Act and instead would actually serve the public interest by promoting fair competition.

14. One unredacted copy of Exhibit B is being filed herewith under seal A redacted copy is attached for public filing. Due to the highly confidential nature of the documentation, Kentucky ALLTEL requests that the documentation be considered proprietary and confidential and not be duplicated.

15. Exhibit A and B were previously tendered to the Commission with other documents pursuant to February 5 and March 1 Petitions for Confidential Treatment. Kentucky ALLTEL renews its request for confidential treatment for all documents previously tendered, other than Exhibits A and B.

WHEREFORE, Kentucky ALLTEL respectfully requests that the Commission grant this Response and Petition for Confidential Treatment; afford the Exhibit B Redactions confidential treatment and place same in the confidential files of the Commission; prohibit any party including Commission Staff from duplicating the documentation; and grant Kentucky ALLTEL all other relief to which it may be entitled including the right to withdraw its filing or cure any deficiencies in this Petition prior to any disclosure of the Exhibit B Redactions.

Dated: March 17, 2004.

Respectfully submitted,

KENTUCKY ALLTEL, INC.

By: _____
James H. Newberry, Jr.
Attorney for Kentucky ALLTEL, Inc.
Wyatt, Tarrant & Combs, LLP
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Lexington, KY 40507
(859) 288.7621

CERTIFICATE OF SERVICE

I hereby certify that a notice with respect to the foregoing Response and Petition has been sent this 17th day of March, 2004 by first class mail, postage prepaid to the parties on the attached service list.

_____
James H. Newberry, Jr.

30321897.1

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EXHIBIT A

Exhibit A:
UNE Price List

Rate Element	Per Billable Unit	Recurring Monthly Costs				NonRecurring Costs					
		Kentucky ALLTEL	Zone 1	Zone 2	Zone 3	First	Additional	Basic Conditioning	Equipment Removal See Note 1	Per Repeater	Per Repeater Shelf
UNE-P											
2W Analog Loops w/o Switching	per Service	$36.11	$30.25	$41.97	$63.76	$156.96	$156.96				
Loop (excluding NID)											
2W Switched Loops	Loop	$30.91	$25.73	$35.82	$56.12	$41.40	$41.40				
2W Analog Loops	Loop	$30.91	$25.73	$35.82	$56.12	$41.40	$41.40				
4W Analog Loops	Loop	$59.92	$49.85	$69.56	$108.54	$41.40	$41.40				
2W Digital Loops	Loop	$36.63	$30.59	$42.06	$67.24	$41.40	$41.40				
4W Digital Loops	Loop	$77.06	$64.41	$88.27	$141.90	$41.40	$41.40				
DS0 Local Loops	Loop	$61.82	$51.47	$71.64	$112.25	$41.40	$41.40				
DS1 Local Loops	Loop	$168.48	$142.07	$188.01	$319.84	$41.40	$41.40				
DS3 Local Loops	Loop	$661.27	$635.72	$615.12	$0.00	$41.40	$41.40				
NID											
NID - 2 Lines	NID	$1.06	$1.06	$1.06	$1.06	$12.92	$12.92				
NID - 6 Lines	NID	$1.24	$1.24	$1.24	$1.24	$12.92	$12.92				
Loop Port											
2W Analog Line Port	Port	$2.04	$2.04	$2.04	$2.04	$37.53	$37.53				
2W ISDN Port	Port	$5.10	$5.10	$5.10	$5.10	$37.53	$37.53				
2W DID Port	Port	$4.50	$4.50	$4.50	$4.50	$37.53	$37.53				
4W Analog Voice Port	Port	$4.08	$4.08	$4.08	$4.08	$37.53	$37.53				
4W ISDN Port	Port	$51.46	$51.46	$51.46	$51.46	$37.53	$37.53				
DS0 Port	Port	$4.08	$4.08	$4.08	$4.08	$37.53	$37.53				
DS1 Port	Port	$77.96	$77.96	$77.96	$77.96	$37.53	$37.53				
DS3 Port	Port	$573.58	$573.58	$573.58	$573.58	$37.53	$37.53				
Switching											
End Office Switching	Minute	$0.002602	$0.002126	$0.003144	$0.005400	$65.10	$65.10				
End Office Switching	Line	$10.107284	$8.899983	$10.480905	$18.090601	$65.10	$65.10				
Tandem Switching	Minute	$0.000679	$0.000679	$0.000679	$0.000679	$65.10	$65.10				
Tandem Switching	Line	$0.392515	$0.392515	$0.392515	$0.392515	$65.10	$65.10				
Dedicated Transport Facilities											
IX Fiber Facilities DS0	IX Air Mile	$0.08	$0.08	$0.08	$0.08						
IX Fiber Facilities DS1	IX Air Mile	$1.01	$1.01	$1.01	$1.01						

Exhibit A:
UNE Price List

Rate Element	Per Billable Unit	Recurring Monthly Costs				NonRecurring Costs					
		Kentucky ALLTEL	Zone 1	Zone 2	Zone 3	First	Additional	Basic Conditioning	Equipment Removal See Note 1	Per Repeater	Per Repeater Shelf
IX Fiber Facilities DS3	IX Air Mile	$21.00	$21.00	$21.00	$21.00						
IX Fiber Facilities OC3	IX Air Mile	$42.00	$42.00	$42.00	$42.00						
IX Fiber Facilities OC12	IX Air Mile	$84.00	$84.00	$84.00	$84.00						
IX Fiber Facilities OC48	IX Air Mile	$168.00	$168.00	$168.00	$168.00						
IX Fiber Facilities STS1	IX Air Mile	$2.10	$2.10	$2.10	$2.10						
Transport Facility											
IX Fiber Facilities DS0	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
IX Fiber Facilities DS1	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
IX Fiber Facilities DS3	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
IX Fiber Facilities OC3	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
IX Fiber Facilities OC12	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
IX Fiber Facilities OC48	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
IX Fiber Facilities STS1	Minute Mile	$0.000100	$0.000056	$0.000146	$0.000411						
Transport Termination											
IX Fiber Ports DS0	Port	$14.47	$14.47	$14.47	$14.47	$37.53	$37.53				
IX Fiber Ports DS1	Port	$57.99	$57.99	$57.99	$57.99	$37.53	$37.53				
IX Fiber Ports DS3	Port	$161.11	$161.11	$161.11	$161.11	$37.53	$37.53				
IX Fiber Ports OC3	Port	$276.75	$276.75	$276.75	$276.75	$37.53	$37.53				
IX Fiber Ports OC12	Port	$910.93	$910.93	$910.93	$910.93	$37.53	$37.53				
IX Fiber Ports OC48	Port	$1,788.24	$1,788.24	$1,788.24	$1,788.24	$37.53	$37.53				
IX Fiber Ports STS1	Port	$139.16	$139.16	$139.16	$139.16	$37.53	$37.53				
Conditioning											
ADSL Loop Qualification	See Note 2					$118.20	$118.20				
ADSL Conditioning	See Note 2							$116.93	$218.42		
BRI-ISDN 2 Wire	See Note 2	$36.60	$36.60	$36.60	$36.60	$173.04	$173.04	$433.79	$218.42	$273.02	$218.42
BRI-ISDN 4 Wire	See Note 2	$36.60	$36.60	$36.60	$36.60	$173.04	$173.04	$1,004.12	$218.42	$273.02	$218.42
DDS 2 Wire	See Note 2	$39.68	$39.68	$39.68	$39.68	$227.87	$227.87	$550.72	$218.42	$273.02	$218.42
DDS 4 Wire	See Note 2	$39.68	$39.68	$39.68	$39.68	$227.87	$227.87	$1,121.05	$218.42	$273.02	$218.42
PRI-ISDN / HDSL 2 Wire	See Note 2	$74.73	$74.73	$74.73	$74.73	$291.24	$291.24	$857.77	$218.42	$273.02	$218.42
PRI-ISDN / HDSL 4 Wire	See Note 2	$74.73	$74.73	$74.73	$74.73	$291.24	$291.24	$1,428.10	$218.42	$273.02	$218.42
PRI-ISDN / DS-1 2 Wire	See Note 2	$50.13	$50.13	$50.13	$50.13	$291.24	$291.24	$857.77	$218.42	$273.02	$218.42
PRI-ISDN / DS-1 4 Wire	See Note 2	$50.13	$50.13	$50.13	$50.13	$291.24	$291.24	$1,428.10	$218.42	$273.02	$218.42
Service Order Charges											
New Service	Order					$31.81	$31.81				

Exhibit A:
UNE Price List

Rate Element	Per Billable Unit	Recurring Monthly Costs				NonRecurring Costs					
		Kentucky ALLTEL	Zone 1	Zone 2	Zone 3	First	Additional	Basic Conditioning	Equipment Removal See Note 1	Per Repeater	Per Repeater Shelf
Change	Order					$31.81	$31.81				
Disconnection	Order					$23.86	$23.86				
Maintenance of Service Charges											
Basic Time	Half Hour					$28.33	$28.33				
Overtime	Half Hour					$42.49	$42.49				
Premium Time	Half Hour					$56.66	$56.66				
Time and Material Charges											
Basic Time	Half Hour					$28.33	$28.33				
Overtime	Half Hour					$42.49	$42.49				
Premium Time	Half Hour					$56.66	$56.66				

Note 1: Removal of Equipment which hinders service availability (average cost).
Per Bridge Tap, Load Coil, Cable or Terminal Throw Removed.

Note 2: Recurring monthly charges per loop plus NRC charges per loop conditioned. Removal costs are per facility removed.

EXHIBIT B

(Redacted)

Total Element Long Run Incremental Cost Development Process

TABLE OF CONTENTS

A. OVERVIEW

1. ALLTEL uses an internally developed TELRIC cost model to develop UNE rates. Investment material costs, facilities information, and demand information are developed in other models and spreadsheets. Data is stored in a Microsoft Access database and imported into the TELRIC cost model for calculation of Unbundled Network Element (UNE) rates. Procedures for developing the input are covered under Loop Investment Process, Switch Investment Process, Digital Line Concentrator Process, IX Investment Process, Other Study Inputs, and Forward Looking Demand sections.

2. Annual carrying charges are developed within the TELRIC cost model. Other factors such as sales tax rates, power and common ratios, EF&I (engineering, freight, and installation), loaded labor rates, forward looking adjustments, rate of return, and income tax rates are calculated or obtained from other sources (as described) and directly input into the model.

3. Collocation charges are calculated in a separate model and the results copied into the TELRIC model. See Section J.

4. The Wholesale Discount Rate is developed within the TELRIC cost model.

5. Existing network routes and switching locations are used in the study in compliance with FCC Part 51.

B. FCC Part 51 Compliance

ALLTEL TELRIC studies are developed in accordance with guidelines specified in FCC Part 51 Interconnection Rules. Following is a detailed description of how ALLTEL's cost study meets those requirements.

1. FCC Part 51, Paragraph 505(b)(1) - Efficient network configuration: ALLTEL's cost study meets the requirements for an efficient network configuration. The entire network is re-built and re-priced using the latest available digital technology and current vendor prices, including company-specific vendor discounts. Existing wire centers and switch locations are used as a starting point. Switches and transport facilities are sized to meet forecasted demand over a five-year period. Forecasted demand is calculated based on the planning methodology used to determine future system growth.

   Forward-looking investment is developed in the same manner as for any network addition or replacement. Detailed description on how the network material costs are developed is provided in Sections D and E. ALLTEL uses current engineering methods and prices, which are designed to use the most efficient means to provide service to customer locations.

   Direct expenses attributable to the network are applied as a percentage of investment. Historical maintenance ratios are adjusted downward to reflect lower expenses associated with a new and efficient network. A five-percent reduction is used as an expected level of efficiency gain over the five-year forecast period. Property taxes and other network expenses are estimated to remain at current percentages of investment.

2. FCC Part 51, Paragraph 505(b)(2) - Forward-looking cost of capital: Cost studies use a forward-looking cost of capital to reflect anticipated future risk levels. The FCC authorized return of 11.25% is used.

3. FCC Part 51, Paragraph 505(b)(3) - Depreciation rates: Economic depreciation rates are used in the cost study. These are the same rates used by ALLTEL's non-regulated operations for financial reporting. Economic lives are based on evaluation of future technological changes and historical experience.

4. FCC Part 51, Paragraph 505(c) - Forward-looking common costs: A reasonable allocation of forward-looking common costs is applied as a percentage of direct costs. Forward-looking common costs are calculated within the model based on embedded costs for a recent 12-month period. This method provides a reasonable ratio of common costs to direct expenses and capital costs. Common costs include general support facilities, general and administrative expenses, insurance, legal expense, and customer service expense. Customer service expense is adjusted to remove the portion of sales & marketing and customer service expenses related to retail operations.

   Common cost overhead percentage is not reduced any further in the model. Forward-looking adjustments to direct expenses will translate to a similar forward-looking adjustment in the amount of common costs allocated in the study. The same is true for the capital costs (rate of return, income taxes, and depreciation expenses) over which common costs are also allocated.

C. COST MODEL Process

1. Model Description

   a. ALLTEL's TELRIC cost model utilizes Microsoft Excel software to develop costs. Forward-looking network data is developed and maintained in separate Microsoft Access databases and switching model.

2. Process Overview

   a. ALLTEL's TELRIC cost model imports the material costs for the forward-looking network and adds minor material costs, sales tax, engineering, freight and installation (EF&I), and power and common costs to arrive at total investment costs. Utilization percentages and fill rates are applied to arrive at the Utilized Investment amount for each network component.
   b. Annual carrying charges for each component are calculated by multiplying the utilized investment by factors for rate of return, income taxes, depreciation expense, direct charges (maintenance, network costs, and property taxes), and common costs. The total of the carrying charges is the total annual cost.
   c. The annual cost is converted to a monthly amount and the applicable portion is allocated to each UNE. Monthly costs are divided by monthly forward-looking demand to arrive at the monthly rate per UNE. This is summarized on the Rate Sheet.

3. Worksheet Description and Purpose:

Worksheet Name	Description	Purpose
Rate Sheet	Summary of UNE Rates	Report
UNE-P	UNE-P cost development for each exchange	Report
Total Costs	Summary of all investment and costs	Report
Total Loop Costs	Summary of all loop costs by type of loop	Cost Calculation
Loop Aerial Copper	Loop Aerial Copper Cable cost development for each exchange	Cost Calculation
Loop Buried Copper	Loop Buried Copper Cable cost development for each exchange	Cost Calculation
Loop UG Copper	Loop Underground Cable cost development for each exchange	Cost Calculation
Drop Aerial	Loop Aerial Drop cost development for each exchange	Cost Calculation
Drop Buried	Loop Buried Drop cost development for each exchange	Cost Calculation
Loop Fiber Cable	Loop Fiber Cable cost development for each exchange	Cost Calculation
Loop Copper Equipment	Development of Loop Electronics cost per loop	Cost Calculation
Loop Fiber Equipment	Loop Fiber Equipment cost development for each exchange	Cost Calculation
NID	Network Interface Device cost development	Cost Calculation
Loop Port	Development of Loop Port cost per port	Cost Calculation
EO Switching	End Office Switching cost development	Cost Calculation
Tandem Switching	Tandem Switching cost development	Cost Calculation
Transport Facility	IX Transport cost development	Cost Calculation
Transport Termination	Development of IX Termination cost per circuit	Cost Calculation
Cost Zones	Assignment of exchanges to cost zones	Report
Demand	Calculation of forecasted Demand	Demand Development
Loop Equipment Demand	Calculation of equivalent demand for loop equipment allocation	Demand Development
Cost Factors	Summary of all cost factors	Annual carrying charge development
Material Factors	Summary of material factors	Input
NRC Install	Nonrecurring charge calculation for installations	Rate development
NRC Disconnect	Nonrecurring charge calculation for disconnection	Rate development
Collocation Costs	Summary of physical and virtual collocation costs from Collocation model	Input
Conditioning Costs	Cost calculation for loop conditioning	Rate development
Avoided Costs	Avoided cost calculation	Wholesale Discount Rate
Common Costs	Common Cost factor development	Annual carrying charge development
Import Data	Data Imported from database	Input
Accounts	Account balances	Input
Input Description	Input Description	Input

4. Study Inputs

a. The Loop Investment Process, Switch Investment Process, Digital Line Concentrator Process, IX Investment Process, Other Study Inputs, and Forward Looking Demand development are completed as described in Sections D through G. All data was entered into the TELRIC input database and then imported into the TELRIC model.

b. Recorded regulated account balances for 2003 were imported to worksheet Accounts for use in calculating carrying charges.
c. Collocation costs are calculated in a separate model and imported into the TELRIC model (See Section J.).
d. Annual Cost Factors for General Support Facilities and Switch Support Assets are imported from Annual Cost Factor file. These are calculated based on data in the embedded cost studies.
e. Switch and Circuit Power and Common factors are entered on the Cost Factors worksheet based on ratios in annual carrying charge files. These have been developed from data contained in embedded cost studies. It is assumed that same level of power and common equipment will be required for future installations.
f. The FCC authorized return of 11.25% is entered on the Cost Factors worksheet and selected for use in this study.
g. Economic depreciation lives are entered on the Cost Factors worksheet. These are based on those utilized by ALLTEL's non-regulated operations.
h. The debt ratio and interest rate were obtained from company records and entered on the Cost Factors worksheet. Tax rates for sales tax, state income taxes, and federal income taxes are entered on the Cost Factors worksheet per information provided by the ALLTEL Tax Department and maintained in a costing database. The Effective Income Tax Rate is calculated and entered on the Cost Factors worksheet. The formula for calculation of the effective tax rate is shown at the bottom of the Input Description worksheet.
i. EF&I ratios are input to the Material Factors worksheet based on analysis of historical installation costs. Percentages were based on review of Property Record costs for closed projects.
j. Other materials percent of 5% is entered on the Material Factors Worksheet. This is the standard rate used by Engineering.
k. Labor Rates are entered on the Cost Factors worksheet. These are fully loaded rates (including paid time off, supervision, benefits and payroll taxes, vehicle and tool expense). Rates are based on studies completed in 2003 using payroll and overhead reports.

5. Input Descriptions:

Worksheet "Input Description" in the model contains a brief description for each of the inputs imported from the TELRIC input database. Also included on this worksheet are descriptions of other inputs to the model. Other inputs include average prices for electronics equipment, time to perform non-recurring functions, average labor rates, and material factors. This worksheet also lists the source for each of the inputs.

6. Data Flow:

a. Investment and monthly costs for the forward-looking network are calculated on worksheets titled Loop Aerial Copper, Loop Buried Copper, Loop UG Copper, Drop Aerial, Drop Buried, Loop Fiber Cable, Loop Copper Equipment, Loop Fiber Equipment, NID, Loop Port, EO Switching, Tandem Switching, Transport Facility, and Transport Termination. See Paragraphs C7 and C8 for more detail.
b. Monthly costs by type of loop are calculated at the bottom of the worksheets for Loop Aerial Copper, Loop Buried Copper, Loop UG Copper, Drop Aerial, Drop Buried, Loop Fiber Cable, Loop Copper Equipment, and Loop Fiber Equipment. This is done by dividing total monthly costs by the equivalent value of the loop or loop equipment.

Equivalent values are developed on the Demand and Loop Equipment Demand worksheets (see Paragraph I6.). The costs by type of loop are then carried forward to worksheet Total Loop Costs and added together to arrive at the total cost per UNE.

7. Utilized Investment Calculation:

   a. Investment material costs are brought forward from the Import Data worksheet to line 1 of the calculation worksheets based on type of investment. Loop Copper Equipment worksheet combines material costs for Digital Line Concentrator Equipment, Pair Gain Equipment, and Serving Area Interface Equipment. Transport Facility includes IX Transport Facility, Common IX Cable, and Dedicated IX Cable.
   b. For NID, Loop Port, and Transport Termination worksheets, calculations are done to determine the portion of investment to allocate to each type of NID or port. This is done based on standard material costs input to the Material Factors worksheet and forward-looking demand units from the Demand worksheet. Total company investment material costs is then brought forward from the Import Data worksheet to line 7 and allocated to each type of Port or NID.
   c. Other materials amount of 5% is added for minor materials expended during construction. This is the standard rate used by Engineering.
   d. Sales tax is calculated by multiplying the total material costs by the applicable sales tax rate. Total material cost and sales tax are added together on the Purchased Material Costs Line.
   e. A fill rate is used to provide additional capacity for growth or spares. ALLTEL used a rate of 100% in this study since investment inputs were already sized for forward-looking growth. Capacity investment is thus the same as the purchased material costs.
   f. EF&I amount for the type of investment is calculated based on the EF&I rates contained on the Material Factors worksheet. EF&I Costs are added to capacity investment to arrive at installed costs.
   g. Power & Common costs are calculated based on the percents contained on the Material Factors worksheet. Power & common amounts are added to the installed costs to arrive at loaded material investment.
   h. Utilization percent contained on the Material Factors worksheet is applied against the loaded material investment. This is 100% in this study since the entire re-built network is being used to develop costs. Result is the Utilized Investment amount upon which UNE costs will be based.

8. Annual Cost Calculation:

   a. Annual cost calculations are the same on each worksheet. The source column provides details on the source of all data and a description of formulas used in the calculations.
   b. Depreciation expense is calculated using the straight-line depreciation method, estimated salvage and economic lives.
   c. Net investment is calculated by assuming a 50% average over the useful life. Return on Net Investment is calculated by multiplying the rate-of-return (11.25%) times net investment.
   d. Income taxes are calculated by applying an effective tax rate to the return on investment.
   e. Direct expense amount is calculated by multiplying the Utilized Investment by the Direct Expense factor calculated on the Cost Factors worksheet. The forward-looking factor from the Cost Factors worksheet is applied as an adjustment to this total. Formula for forward-looking direct expenses is [Utilized Investment * Direct Expense Factor * (1+ Expense Adjustment Factor)].

f. Depreciation expense, return on net investment, income taxes, and direct expenses are totaled on Direct Costs line.
g. The Common Cost factor is multiplied times direct costs to arrive at an amount to add for common costs.
h. Total Annual Costs is the sum of direct costs and common costs.

9. UNE Rate Calculations:

a. Annual costs are divided by twelve to obtain monthly costs. Monthly costs are divided by the number of monthly loops, ports, monthly minutes of use, or facilities as appropriate to arrive at the monthly network element rate. Average unit costs are summarized on the Rate Sheet.
b. The UNE-P worksheet shows the calculation of UNE-P costs and elements that are included. Switching is not included in the UNE-P rate since costs vary with usage.

10. Cost Zones:

a. Exchanges are assigned to three different zones based on costs. The two-wire switched loop rate is used as the basis for the cost zone determination. Zone assignment is performed on worksheet Cost Zones.
b. The average 2-wire loop cost for all exchanges is calculated. Exchanges less than 75% of the average are assigned to Zone 1. Exchanges more than 105% of the average are assigned to Zone 3. Remaining exchanges are assigned to Zone 2.
c. The average costs and demand units for each zone are calculated on each worksheet for the exchanges in the zone. UNE rates are then developed by dividing average zone costs by average zone demand.

11. Direct Expenses

a. Direct Expense ratios are developed on the Cost Factors worksheet.
b. Maintenance factors are based on embedded costs contained in worksheet Accounts. Average investment and total annual expenses are obtained for switching equipment, circuit equipment, copper cable equipment, and fiber equipment. Maintenance factor for each type of investment is the ratio of total annual expenses divided by the average investment.
c. Joint factors ratio includes expenses for Network Operations, Access expense, Miscellaneous expense, and Operating Taxes from the Accounts worksheet. Joint factors ratio is the result the recorded expense amounts divided by the average plant investment.
d. Support Assets Factors for General Support Facilities and Switch Support Assets are derived from data used in annual embedded cost studies. The switch support assets factor includes the costs of land and buildings housing the switch investment. The switch support assets factor is added to the total joint expense factor to create the Switch Joint Expense Factor.
e. The Direct Expense Factor for each element is calculated by adding the maintenance factor applicable to that element to the total joint expense factor. For switching equipment the maintenance factor applicable to switching is added to the Switch Joint Expense Factor.
f. A forward-looking factor is applied to reflect anticipated operating efficiencies of deploying a new lower cost network. A negative 5% ratio is used in this study to reduce maintenance expenses. No other forward-looking adjustments were made. The adjusted Direct Expense factor is calculated for each element on the Cost Factors worksheet. The

net forward-looking adjustment is calculated by dividing the difference between the forward-looking factor and the current factor by the current factor.

12. Common Cost Allocation

    a. The Common Cost Factor is calculated on the Common Costs worksheet. The source column provides details on the source of all data and a description of formulas used in the calculations. Factor is based on embedded costs for calendar year 2003. The factor is the result of (forward-looking common costs)/(revenues – (common costs + retail costs)).
    b. Common costs include general and administrative (G&A) expenses, wholesale marketing and customer service expense, general support facilities (GSF) expense, and commission fees. The portion applicable to retail services is removed from G&A and GSF expenses.

13. Nonrecurring charges

    a. Nonrecurring charges are calculated on NRC Install and NRC Disconnect worksheets. Cost is calculated by multiplying the time required to perform each function in the process by the hourly rate for the department performing the function. Common costs are added using the common cost rate calculated in the model.
    b.

D. LOOP INVESTMENT PROCESS

1. Existing loop facilities information is downloaded from ALLTEL's engineering records (CAD/E system). Only fiber and copper cable information is downloaded, since this data is primarily used to determine the existing layout and design of the outside plant. It is assumed that the plant as it exists is the most efficient design. Embedded costs are not included. The downloaded data includes location information (exchange, lead and structure), cable size, cable length for each segment, and account code. Location information, along with cable size and length, provides the starting point for building a forward-looking network. Lead refers to the cable route from the central office switch or from another lead. Structure refers to a pole, pedestal, manhole, handhole, or similar point along the cable route. The CAD/E IPID (Item of Plant Identification) number is used when structure information is not available.

2. Downloaded information is imported into an access database for processing.

3. Cable data is sorted and grouped in order to combine multiple cables in the same route into a single larger cable. This is done by a program that matches "To" and "From" lead and structure numbers. If two or more cables are found to be concurrent to each other, the study will place one (1) larger cable with enough size to replace the two or more existing cables. This is a more efficient design since one larger cable is cheaper to place than several smaller cables with the same total pair size. The combined cables and all other cables are then converted to standard cable sizes (sizes contained in the cable pricing program).

4. The results in Step 3 are then processed through an Excel program that identifies feeder routes and selects copper cable for conversion to fiber feeder cable. Copper cable exceeding 100 pairs in small exchanges (under 5,000 access lines) and 200 pairs in larger exchanges is converted to fiber. A portion of the copper is retained for future distribution

cable. This portion is set at 90% per Engineering standards. Feeder cable fiber size is converted to 48 fibers in small exchanges and 72 fibers for larger exchanges. The fiber sizes are per engineering specifications to allow for anticipated growth in high-speed data and digital services such as ADSL. Fiber cables larger than these sizes are not converted. The results from the Feeder program are saved in a summary file. This comprises the loop cable portion of the re-built network. The results are further summarized by cable type in the BudLine Table. (See Tab BN in TELRIC Study Results).

5. The summary file in Step 4 is also used to determine the number of Digital Line Concentrators (DLC) to be used in the re-built network. Fiber feeder cables are grouped together by major lead and then totaled. The overall length of a route will be used to determine the necessity and placement of DLCs. The DLCs will be placed such that no end section is over 9000 feet. This footage is based on current engineering guidelines. The cable lengths, including taps, along each main route are totaled and divided by 18,000 feet to determine the number of DLCs required. Fractional amount greater than one half (9,000 feet) is rounded up to one additional DLC. Totals by lead are divided by 18,000 feet and the rounded result determines the number of DLCs for that lead. DLC totals are summarized in a report and priced out as described under Section F.

6. ALLTEL's Outside Plant Engineering group provided the Work Order Management System (WOMS) for use in developing TELRIC investment costs. The WOMS model contains a price book that lists, for each type of cable, the quantities and current prices for the cable and associated equipment required per 1,000 feet of installed cable. These prices are based on ALLTEL Communications Products catalog prices and include all vendor discounts available to ALLTEL. Poles and associated hardware are included for aerial cable units. Conduit, manholes, and associated equipment are included for underground cable units. (See Tab BL in TELRIC Study Results).

7. The prices listed in the WOMS system are multiplied by the re-built network quantities (from Step 5) to arrive at the forward-looking material cost for loop cable. Results by type of cable are summarized in the BudLine Report. (See Tab BN in TELRIC Study Results).

8. WOMS program also calculates drop materials based on the number of access lines and average material cost per line.

9. A summary report is generated for entry into the TELRIC input database.

E. SWITCH INVESTMENT PROCESS

1. The ALLTEL Switching Cost Model is used to develop forward-looking TELRIC costs in compliance with the Telecommunications Act of 1996 and the pursuant Interconnection Orders. These Orders state that TELRIC cost must utilize current switching center locations, current switching technology and current pricing that reflects Company specific discounts.

2. Engineering records are queried to determine current switch center locations. Nortel DMS100, DMS100/200, DMS10 and DMS RSCS switches are the current technology that will be placed in the existing switch locations. Host and remote arrangements will remain as currently configured.

3. Five-year line and trunk forecast information is obtained from network engineering. Growth rates are summarized on Access Line and Trunk Growth Rates report. (See Tab AH in TELRIC Study Results). These are used to calculate exchange specific five-year forward growth rates on access lines and trunks. Switches are sized to accommodate the highest level of demand during the five-year forward-looking period.

4. Current wired, equipped, and working line counts are obtained from ALLTEL Engineering's MIROR data system with the equipped lines being categorized by line card type (Type A, B, C, D & ISDN.) (See Tabs AU through AZ in TELRIC Study Results). The access line growth rate is applied to the line counts to determine the number of line cards required by switch. Resulting forward-looking totals are entered into the Switching Cost Model by exchange.

5. The following equipment is configured for each switch based on the type of switch selected and size of the exchange (See Tabs AS and AT in TELRIC Study Results):
   a. Digital Trunk Controllers (DTC and DTCI) are provisioned in each switch based on the number of Toll, Mixed and EAS trunks from ALLTEL's Access Services and Provisioning System (ASAP) after re-sizing by applying the trunk growth factor. Host/Remote links from the latest Basic Study are also grown and then used to provision the Line Trunk Controllers (LTC) in the switch. Subscriber Carrier Modules (SCM or SMA) are provisioned in the switch based on an average of four links per DLC. This average is the current standard used by engineering when adding new DLCs.
   b. Power and Protection is provisioned based on the respective size of each switch.
   c. LNP software is added for each forecasted line.
   d. LPP & CCS7 Software/Hardware is provisioned based on the switch type.
   e. 2 LIU7 links are provisioned in the DMS100 switches.
   f. A Modular Main Distribution Frame (MDF) is provisioned.
   g. A business management computer (SDM) is provisioned.
   h. Centrex software is provisioned.
   i. Spares, a back-up generator and Local Loop Test Equipment are provisioned in Host switches.

6. The following assumptions are used in development of switching investment costs:
   a. NORTEL switching equipment is the vendor of choice for all new switch replacements. This is based on availability of current technology and favorable vendor discounts to ALLTEL.
   b. The switching network will be designed to accommodate customer lines and traffic requirements for the next five years.
   c. Future wired and working capability by card type will not change significantly from the current equipped card types.
   d. All switches have SS7 capability, are ISDN capable and have Digital Centrex functionality.
   e. An average of four (4) links is used to provision each DLC back to the switch.
   f. CLASS line software is provisioned for 25% of all equipped lines.
   g. Sixty percent (60%) of equipped lines are in Central Office switches while 40% of equipped lines are located in Digital Line Concentrators.
   h. Common equipment equal to 5% of the base switching cost is required.

i. Calix Digital Line Concentrators are in a RT type cabinet, fiber fed, include some SC fiber management, include a cross connect, have a battery heater and are equipped 85% with POTS lines and 15% with ADSL lines.

7. The switching model develops switch equipment costs based on Northern Telecom (Nortel) current digital switch price list per the configuration selections described in paragraphs 4 and 5, above. Prices for switching equipment not provided by Nortel are obtained from current price lists provided by ALLTEL Communications Products. All vendor discounts available to ALLTEL are included in the price lists. Discounts on switching and transmission equipment are a [redacted] standard reduction from the catalog prices and an additional [redacted] volume discount. Net reduction is [redacted].

8. Switch Model cost results are detailed on a three page per exchange report entitled ALLTEL – Switching Cost Worksheet (Tab AR in TELRIC Study Results). These resulting costs are summarized into the following Switch Elements for input to the TELRIC input database:
   a. Switch – Usage Material consisting of:
      i. The Nortel Base Switch Model
      ii. LNP software
      iii. Digital Trunks (DTC/DTCI), Host Interface (LTC), NGDLC (SMA) and TR008 (SCM) interfaces
      iv. The Business Management Computer (BMC or SDM)
      v. ACD software/RTU fees
      vi. CLASS software and RTU fees
      vii. Meridian Digital Centrex software and business sets
      viii. Remote Software
      ix. 1 Test Unit
   b. Switch – Port Material consisting of:
      i. All equipped line cards
      ii. Datapath Startup (DTP) and Datapath cards
      iii. All ISDN related software or fees
      iv. One-half (1/2) the Main Distribution Frame (MDF)
   c. Switch – Loop Material consisting of:
      i. Protection cost
      ii. One-half (1/2) the Main Distribution Frame (MDF)
   d. Switch – SS7 Material consisting of:
      i. LPP & CCS7 Software
      ii. LIU7 Links
   e. Switch – Tandem Material consisting of:
      i. Tandem Software

   NOTE: Power, battery backup power and 5% additional for Common Equipment is allocated to the above Elements based on the ratio of the Element cost to Total Cost.

9. A summary of these costs is produced for input into the TELRIC input database.

F. DIGITAL LINE CONCENTRATOR PROCESS

1. The number of Digital Line Concentrators (DLC) per exchange is calculated per Paragraph D5, above. Results are provided on the Concentrator Listing by Exchange report (Tab BC in TELRIC Study Results).

2. The Calix Budgetary Tool Version 1.5a (a proprietary product of the Calix Corporation) is used to calculate the materials investment in Digital Line Concentrators (DLCs) based on the number of DLCs per exchange. This tool uses current pricing at ALLTEL specific discounts [redacted].

3. Each DLC is based on equipped line size, a RT Cabinet, a GR-303 switch interface, and a DS3 UNI ADSL Uplink fiber feed.

4. The following assumptions were used in development of DLC investment costs:
   a. A RT type cabinet is used.
   b. DLCs are fiber fed, include some SC fiber management, have a battery heater, and include a cross-connect.
   c. Forty percent (40%) of equipped line cards are placed in DLCs.
   d. DLCs are equipped 85% with POTS lines and 15% with ADSL lines.

5. The average number of lines per concentrator is developed and grown by the line growth rate for each exchange (Tab BD in TELRIC Study Results). Concentrators are configured to the next size exceeding the forward-looking line size, and priced out using the Calix model (Tab BB in TELRIC Study Results). The average DLC costs per exchange are multiplied by the number of concentrators to get the total material cost. Line card amount is transferred to Loop Port costs. (Tab BE in TELRIC Study Results)

6. A summary of these costs is produced for input into the TELRIC input database.

G. IX INVESTMENT PROCESS

1. Existing inter-exchange (IX) cables are summarized. IX cable data is normally taken from the most recent basic cable and wire study. If a basic study is not available, the routes are determined and the data is recorded manually by looking at the Engineering records. The cable type, size and cable length are input to the inter-exchange database to provide the route lengths and size requirements for the forward-looking IX cable.

2. The volume of trunking and levels of optic service being provided are obtained from the Access Services and Provisioning System (ASAP).

3. Queries are run in the inter-exchange database to convert the existing cables to a more efficient design.

4. If the route is copper, then the new design will place fiber based on the lengths entered. Model uses sixteen fibers as the size for all inter-exchange cable, unless the existing size is larger. Existing fiber cables below sixteen are increased to sixteen fibers.

5. The WOMS system is used to calculate the costs of inter-exchange facilities (See Paragraph D6). The prices listed in the WOMS system are multiplied by the re-built IX network quantities to arrive at the forward-looking material cost for IX loop cable.

6. The quantity of IX fiber termination facilities required is determined based on the rebuilt inter-exchange loops. Totals are multiplied by the average material cost per termination type to arrive at the value for fiber equipment dollars shown on the Electronic Data report. This is the amount input as IX Transport Termination materials in the study.

7. Input to the TELRIC input database is contained on the Electronic Data Report (Tab AJ in TELRIC Study Results), WOMS Summary Report (Tab AN in TELRIC Study Results), and Common and Dedicated IX Mile Inputs (Tab AP in TELRIC Study Results). Output consists of the material dollars for IX Transport Facility, Dedicated IX Cable, and IX Transport Termination. Also produced is the input for Common IX Miles, Dedicated IX Miles, Tandem IX Miles, EAS IX Miles, IX Fiber Facilities DS0, IX Fiber Facilities DS1, IX Fiber Facilities DS3, IX Fiber Facilities OC3, IX Fiber Facilities OC12, IX Fiber Facilities OC48, and IX Fiber Facilities STS1.

H. OTHER STUDY INPUTS

1. Current access line information is downloaded from MIROR, an ALLTEL system utilized to manage numbering and line card requirements, and input into the access database by exchange. Access line counts are used to determine small/large exchange sizes when re-building the network. They are also used to determine Network Interface Device (NID) quantities. Assumption is one NID per access line. NID material cost is calculated based on an average cost of $22 each. The $22 average cost is based on a typical installation. Access line and NID material costs by exchange are shown on Report Access Lines / NIDS by Exchange. (See Tab AG in TELRIC Study Results).

2. Average cable lengths by loop type are calculated based on information contained in the Access Services and Provisioning System (ASAP). Amounts are summarized on the Electronics Data report and entered into the study. (See Tabs AI and AJ in TELRIC Study Results).

I. FORWARD LOOKING DEMAND

1. Minute of use and messages are downloaded from the Carrier Access Billing Records (CABS). This includes all interstate and intrastate toll minutes and messages. Data is by exchange and includes tandem switch information.

2. Extended Area Service or Extended Local Calling Area minutes are obtained from most recent embedded cost studies and are combined for input as EAS minutes. The latest local minute information is also obtained from recent cost study information.

3. Minutes of use and messages are summarized (and annualized, if necessary) on a worksheet. (See Tabs BJ and BK in TELRIC Study Results). Toll minutes are separated between common and dedicated toll based on percentages contained on the WOMS Summary Report. Totals by exchange are entered into the TELRIC input database.

4. All loop data other than switched loops is obtained from ALLTEL's Access Services and Provisioning System (ASAP). The data is downloaded on an exchange basis for channel usage, facility counts and high capacity circuits (See Tabs AK, AL, and AM in TELRIC

Study Results). These numbers are then used to "rebuild" a trunking system that is the most efficient based on each exchange's circuit counts. Inter-exchange circuits are combined into more efficient DS1 and DS3 level circuits. Two-wire switched loops are determined by subtracting all private line and 4-wire switched loops from the access line total. The re-built loop quantities are summarized on the Electronic Data report (See Tab AJ in TELRIC Study Results). This summary includes both local and inter-exchange loops.

5. Five-year growth rates are developed from line and trunk forecasts developed in the switching process. These growth rates are applied to loops and minutes to determine forward looking demand amounts. This is done on the Demand worksheet in the TELRIC model.

6. Loop equipment costs are allocated over equivalent loop counts. Forward-looking loop demand (per Paragraph I.5.) is multiplied by equivalent loop factors to arrive at equivalent loop counts. This is done on the Loop Equipment Demand worksheet. The equivalent loop factors are determined based on average material costs for loop termination equipment. The equivalent loop factor for each type of loop is the material dollar value for that loop divided by the value for the 2-wire switched loop. Material costs come from analysis of standard cost configurations. The equivalent loop factors and material dollar amounts are shown on the Material Factors worksheet.

J. COLLOCATION COSTS

1. Collocation costs are calculated in a separate Collocation model and the results imported into the ALLTEL TELRIC model. Calculation worksheets from the Collocation model are included as part of the study backup (See Tab BO in TELRIC Study Results).

2. Recurring collocation costs are based on equipment configurations provided by Engineering for each service provided. Material costs are calculated based on quantities and a discounted price list maintained in the model. Calculation of utilized investment and monthly costs is clearly shown on each worksheet.

3. Nonrecurring collocation costs are based on the time required to provide each service multiplied by the average labor rate for each department involved. Process times are based on time projections provided by the groups involved on a typical installation or order process. The labor rates are the same as those used in the TELRIC study.

K. AVOIDED COSTS

1. The Wholesale Discount Rate is calculated on worksheet Avoided Costs. All revenues and expenses used in the calculation are based on the (2003) embedded account values from the Accounts worksheet. The source/account column provides details on the source of all data.

2. Avoided costs are calculated in accordance with FCC Rules and Regulations, Part 51, Paragraph 51.609, Determination of Avoided Costs.

3. It is assumed that 10% of business is subject to resale, so the avoided penetration rate is set at 10% in the model.

4. Direct expenses are listed by account and multiplied by the avoided penetration rate and avoidable percent for that account. Avoidable percents for Operator Systems, Call Completion Services, and Number Services are considered 100% avoidable. FCC default of 90% avoidable is used for Product Management, Sales, and Advertising. Avoidable percent for customer services was set at 80.45% based on a detailed analysis of functions performed (by sub-account charged) during the accounting year.

5. The Avoided Direct Expense Ratio is calculated by dividing total avoided direct expenses by total direct expenses.

6. Avoided amount for indirect expenses is calculated by multiplying General Support, Executive & Planning, and General & Administrative Expenses by the Avoided Direct Expense Ratio.

7. Uncollectibles are considered 100% avoided. The avoided amount is calculated by multiplying Uncollectible Expense by the avoided penetration rate.

8. Total avoided expenses are the sum of avoided direct expenses, avoided indirect expenses, and avoided uncollectible expense.

9. Revenues subject to resale are calculated by multiplying total revenues by the avoided penetration rate.

10. The Wholesale Discount Rate is the result of total avoided expenses divided by the revenues subject to resale amount.