

Federal Communications Commission
Washington, D.C. 20554

In the Matter of)	
)	
JULY 1, 2004 ANNUAL ACCESS CHARGE)	WCB/Pricing 04-18
TARIFF FILINGS)	
)	

**REPLY COMMENTS OF ALLTEL COMMUNICATIONS, INC.
TO THE PETITION OF AT&T CORP. TO SUSPEND AND INVESTIGATE
ALLTEL TELEPHONE SYSTEMS, INC. ANNUAL FILING**

Pursuant to Section 1.773 of the Commission’s Rules, 47 C.F.R. §1.773, and the Commission’s Order, DA 04-1049, released April 19, 2004,¹ ALLTEL Communications, Inc. (“ALLTEL”) submits these reply comments to AT&T Corp.’s (“AT&T”) Petition² to suspend for one day and investigate the tariff revisions filed on behalf of ALLTEL Telephone Systems, Inc. (ATS FCC#1).³

In its petition, AT&T alleges that ALLTEL has consistently earned in excess of the authorized rate-of-return⁴ and should be required to make mid-course filings to adjust for substantial over-earnings during the first year of the monitoring period.⁵ In addition, AT&T contends that ALLTEL’s DSL forecast is overstated and not consistent with reductions in

¹ *In the Matter of July 1, 2004 Annual Access Charge Tariff Filings*, WCB/Pricing 04-18, DA 04-1049, released April 19, 2004.

² Petition of AT&T Corp. (filed June 23, 2004)(“Petition”)

³ Transmittal No. 138, filed June 16, 2004.

⁴ Petition at 2.

⁵ Id. at 4.

forecasted demand, resulting in an increase of \$30 million to the rate base underlying ALLTEL's interstate special access revenue requirement.⁶

When seeking suspension of a tariff, Section 1.773 of the Commission's Rules requires petitioners to show that the challenged filing raises substantial questions of lawfulness. Furthermore, the petitioner must provide specific reasons why the tariff warrants suspension and investigation.⁷ For the reasons discussed in these reply comments, AT&T's Petition fails to meet that burden. Therefore, AT&T's Petition should be denied and the ALLTEL tariff filing should be allowed to take effect as filed.

I. ALLTEL's PRIOR EARNINGS DO NOT WARRANT A SUSPENSION AND INVESTIGATION OF THE CURRENT FILING.

In its Petition, AT&T asserts that ALLTEL has consistently earned in excess of the Commission's authorized rate-of-return and concludes, without any analysis to support it, that such over-earnings are a result of systemic problems in forecasting.⁸ As a result of this alleged problem, AT&T recommends that several LECs, including certain ALLTEL companies, file mid-year corrections to adjust for substantial over-earnings during the first year of the monitoring period.⁹

AT&T, in order to support this claim, has selectively chosen only the ALLTEL filing entities that earned in excess of the authorized rate-of-return. AT&T would like the Commission to believe that ALLTEL's forecasting techniques are inadequate because it achieved earnings in excess of the authorized return in some of its filing entities. AT&T neglected to mention that ten of the fifteen ALLTEL filing entities earned at or below the authorized return.

⁶ Id. at 14.

⁷ See 47 C.F.R. §1.773(a)

⁸ Petition at 2.

Exhibit A attached to these reply comments shows that when all fifteen filing entities are included in the analysis, ALLTEL has not over-earned during the last several monitoring periods. It is clear from these results that there is no systemic problem in ALLTEL's forecasting process, as alleged by AT&T, and that ALLTEL's forecasts are a reasonable estimation of the costs and demand ALLTEL expects to incur in providing interstate access services for the tariff period. Furthermore, with the exception of DSL investment, AT&T has not provided any specific concerns with the forecasts used by ALLTEL in the current annual filing.

ALLTEL further submits that requiring mid-year corrections is unwarranted at this time. ALLTEL has clearly shown that its forecasting techniques are sound and that the majority of its filing entities earnings are reasonable.

II. ALLTEL'S DSL INVESTMENT AND DEMAND FORECASTS ARE REASONABLE

AT&T asserts that ALLTEL's special access revenue requirement is overstated because of massive increases in DSL investment. AT&T also alleges that ALLTEL's reduction in special access loops for the tariff period is inconsistent with the increases in DSL investment.¹⁰ In support of this claim, AT&T attempts to compare investment levels from 2002 through the current filing. However AT&T is misinterpreting the data in ALLTEL's filing and has miscalculated changes in ALLTEL's DSL investment when making these accusations. The following discussion explains in detail the actual changes in DSL investment and its impact on the interstate revenue requirement.

⁹ Id. at 4.

¹⁰ Petition at 13.

AT&T attempts to discredit ALLTEL's projected DSL investment by questioning ALLTEL's reported increase of \$86.4 million from 2002 to 2003.¹¹ ALLTEL emphasizes that the changes from 2002 to 2003 were included in the 2003/2004 annual filing and AT&T did not find them objectionable at that time. Furthermore, when one compares ALLTEL's actual total DSL investment as of December 31, 2003 of \$129.98 million to the forecasted total DSL investment included in the 2003/2004 annual filing of \$131 million, the variance is less than 1%.¹² Clearly ALLTEL's DSL investment projections for the 2003/2004 filing were reasonably accurate despite AT&T's allegations.

AT&T questions the DSL investment projections for the present filing by stating that the growth in DSL investment of \$204.287 million, representing an increase of 155.93%, is remarkable.¹³ It appears that AT&T is misinterpreting the data in ALLTEL's filing. The \$204 million DSL investment referred to by AT&T in its response represents the total of ALLTEL's DSL investment from inception through the filing period. ALLTEL is projecting additional DSL investment of \$73.3 million in its present filing.¹⁴ This is a 55% increase in ALLTEL's total DSL investment since the last tariff filing rather than the 155% increase alleged by AT&T.

The projections calculated by ALLTEL are reasonable considering that ALLTEL continues to extend its DSL footprint in order to expand broadband access to our customer base. As ALLTEL continues to expand the availability of DSL in its various service areas, the number of DSL subscribers is expected to increase. ALLTEL has accounted for this growth in the present filing by increasing DSL revenues from \$26.2 million in 2003/2004 (annualized actual revenues from July 1, 2003 through May 31, 2004) to \$36.6 million in the 2004/2005 annual

¹¹ Id.

¹² See AT&T Exhibit G-1.

¹³ Petition at 13.

filing, a 77.5% increase (see Exhibit B). This clearly shows that ALLTEL's additional DSL investment is supported by the projected DSL customer base.

AT&T also alleges that ALLTEL, as a result of unwarranted DSL investment increases, has inflated the rate base underlying its special access revenue requirement by approximately \$30 million.¹⁵ It is unclear how AT&T arrived at this figure because it is not explained nor referenced in any of the Exhibits filed with its Petition. It appears, however, that AT&T has miscalculated the impact that DSL investment projections will have on the special access rate base. A simple calculation, multiplying the growth in DSL investment (\$73.3 million) times the authorized rate-of-return (11.25%) yields an increase of \$8.2 million in ALLTEL's special access rate base. This amount is significantly smaller than the \$30 million increase alleged by AT&T.

In its Petition AT&T also asserts that special access plant in service should reflect the decline ALLTEL shows in special access loop demand.¹⁶ In support of this position, AT&T analyzed the DSL investment for other carriers relative to their special access loops. From this analysis, AT&T concludes that some companies projecting increases in DSL/Special Access investment also reported increases in special access loops.¹⁷

Contrary to AT&T's assertion, the 14,787 decline in special access loops excludes DSL units (it only includes special access circuits). While it is true that ALLTEL is projecting a decrease in special access loops, the Commission and AT&T must carefully look at the changes taking place within the special access service offerings. AT&T's comparison of special access

¹⁴ See AT&T Exhibit G-1. (The \$73.3 million increase in DSL investment is calculated by subtracting the total in Column C from the total in Column H.)

¹⁵ Petition at 14.

¹⁶ Id.

¹⁷ Petition at footnote 27.

circuits and its conclusion that investment and loop counts should move in the same direction ignores the realities that exist in the market place for special access services.

Special access customers are replacing low bandwidth circuits with high capacity circuits. While ALLTEL is projecting declines in Voice-Grade, Program Audio and Digital Data circuits, ALLTEL is projecting increases in DS1 and DS3 high capacity circuits. This transition, however, does not result in a circuit by circuit replacement because customers can replace multiple low bandwidth circuits with just fewer high capacity circuits (See Exhibit C). As a result, AT&T's findings that investment and loop counts move in the same direction are inaccurate.

Furthermore, ALLTEL's DSL customers and revenues continue to increase. DSL units in service have increased from 41,849 in December 2002, to 100,097 in December 2003, to 116,186 at the end of March 2004. In addition, DSL revenues have also increased from \$9.5 million in 2002, to \$20.6 million in 2003, to a projected \$36.6 million in the 2004/2005 annual filing. ALLTEL submits that the projected increase in DSL revenues is caused by customer growth, therefore AT&T's claim that ALLTEL's growth in DSL investment is not supported by a corresponding growth in customers is without merit and should be dismissed.

III. CONCLUSION

AT&T has failed to demonstrate that it met the standards of Section 1.773 to warrant a suspension and investigation of the ALLTEL tariff. Accordingly, AT&T's Petition should be denied and the ALLTEL tariff should be found lawful and allowed to become effective on July 1, 2004.

Respectfully submitted,

ALLTEL Communications, Inc.

By: /s/ Cesar Caballero

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Dated: June 29, 2004

CERTIFICATE OF SERVICE

I hereby certify that a copy of ALLTEL's Reply was served this 29th day of June 2004, by electronic filing, electronic mail, facsimile transmission, or U.S. Mail to the persons listed below.

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Exhibit A
ALLTEL Telephone System
Summary of Interstate Rate of Return
1999 through 2003 Preliminary

	Total Interstate Rate of Return			
	2003 Monitoring Period	2001/2002 Monitoring Period	1999/2000 Monitoring Period	
ALLTEL Arkansas	13.36%	12.81%	10.30%	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Companies selected for comparison by AT&T. </div>
ALLTEL Florida	13.48%	9.53%	11.17%	
ALLTEL Missouri	12.45%	11.81%	13.10%	
ALLTEL New York	12.47%	10.20%	10.88%	
ALLTEL Oklahoma	11.98%	11.07%	12.01%	
Georgia Properties	9.92%	8.19%	12.36%	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Companies excluded from reference by AT&T. </div>
Texas ALLTEL	10.73%	10.89%	11.16%	
Sugar Land Telephone	10.28%	10.20%	9.45%	
Western Reserve	10.50%	10.65%	10.31%	
ALLTEL Mississippi	11.28%	11.10%	10.56%	
ALLTEL Kentucky	7.79%	5.14%	10.93%	
ALLTEL Alabama	11.37%	10.60%	10.68%	
ALLTEL South Carolina	9.26%	9.64%	10.85%	
ALLTEL Carolina	8.09%	8.67%	10.56%	
ALLTEL Pennsylvania	9.65%	10.27%	12.24%	

Source: Rate of Return Reports (492s)

Exhibit B
ALLTEL Telephone System
Comparison of DSL Investment and DSL Revenues

	Actual DSL Investment as of Dec. 31, 2003	Total Forecasted DSL Investment as of June 30, 2004	Total Forecasted DSL Investment as of June 30, 2005	Change in total DSL Investment June 30, 2005 compared to Dec. 31, 2003	Actual (annualized) DSL Revenue July 1, 2003 - May 31, 2004	Forecasted DSL Revenue July 1, 2003 - June 30, 2004	Forecasted DSL Revenue July 1, 2004 - June 30, 2005	Change in forecast for the 12 months ended June 30, 2005 compared to annualized period ending June 30, 2004
	A	B	C	D = C-A	E	F	G	H = G-E
Alabama	1,040,612	1,039,517	2,312,653	1,272,041	193,379	205,778	411,990	218,611
Arkansas	6,633,221	8,243,376	13,284,339	6,651,118	1,496,464	1,995,554	1,923,609	427,145
Florida	2,232,716	3,698,881	5,219,691	2,986,975	746,325	1,015,208	1,266,931	520,606
Georgia	39,161,971	35,058,853	62,727,086	23,565,115	8,961,187	12,476,051	11,988,254	3,027,067
Kentucky	3,892,438	3,882,336	6,013,297	2,120,859	492,569	1,324,810	1,379,208	886,639
Mississippi	299,310	170,116	1,052,184	752,874	59,996	86,816	225,284	165,288
Missouri	718,228	1,225,974	1,499,625	781,397	215,900	337,346	372,240	156,340
North Carolina	21,096,550	19,348,549	31,141,157	10,044,607	3,755,632	5,516,945	4,655,827	900,195
New York	7,798,325	8,534,416	10,465,409	2,667,084	1,279,780	2,043,601	1,571,405	291,625
Oklahoma	244,252	-	1,669,916	1,425,664	26,572	-	230,406	203,834
Pennsylvania	14,646,003	15,615,560	23,415,690	8,769,687	3,184,030	4,521,294	4,416,960	1,232,930
South Carolina	3,391,767	3,800,731	6,006,447	2,614,680	668,629	842,609	908,973	240,344
Sugar Land	8,483,988	8,770,013	10,876,602	2,392,614	1,987,739	2,494,214	2,705,197	717,458
Texas	1,072,313	2,139,230	2,833,881	1,761,568	219,774	749,420	773,995	554,221
Western Reserve	19,273,085	19,487,773	25,769,740	6,496,655	2,892,313	3,883,904	3,796,211	903,898
	<u>129,984,779</u>	<u>131,015,325</u>	<u>204,287,717</u>	<u>74,302,938</u>	<u>26,180,289</u>	<u>37,493,549</u>	<u>36,626,489</u>	<u>10,446,200</u>

Percent Growth in DSL Investment and Revenue From 2003

57.2%

39.9%

Source: Columns A, B and C from Petition of AT&T Corp. Exhibit G-1.
Column E from ALLTEL financial reports.
Column F from 2003/2004 Annual Filing, Volume 5.
Column G from 2004/2005 Annual Filing, Volume 5.

Exhibit C
ALLTEL Telephone System
Summary of Changes in Special Access Circuit Demands

Year	Service	ALLTEL																Total ALLTEL
		Carolina	Florida	Georgia Properties	ALLTEL Kentucky	ALLTEL Mississippi	ALLTEL South Carolina	ALLTEL New York Properties	ALLTEL Oklahoma Properties	ALLTEL Missouri	Sugar Land Telephone	ALLTEL Pennsylvania	Western Reserve	ALLTEL Arkansas	ALLTEL Alabama	ALLTEL Texas		
HIGH CAPACITY CIRCUITS																		
2004		16,747	4,929	26,625	1,473	455	3,821	5,744	2,458	3,787	11,962	16,367	17,839	10,569	837	1,949	125,562	
2003		15,696	4,080	24,531	1,100	196	3,460	6,144	2,180	3,300	16,034	16,384	17,313	10,104	920	2,132	123,574	
High Capacity Increase		1,051	849	2,094	373	259	361	(400)	278	487	(4,072)	(17)	526	465	(83)	(183)	1,988	

Net increase in DS1 circuits of 1,522 and DS3 circuits of 466 for a total increase in high capacity circuits of 1,988

VOICE GRADE, PROGRAM AUDIO AND DIGITAL DATA CIRCUITS																	
2004		5,571	3,081	22,184	380	205	1,282	3,450	2,031	3,289	4,403	8,524	6,504	5,729	367	1,088	68,088
2003		7,840	3,568	24,716	656	228	1,688	4,800	2,272	4,328	7,791	9,584	9,148	6,244	516	1,484	84,863
Circuit Change		(2,269)	(487)	(2,532)	(276)	(23)	(406)	(1,350)	(241)	(1,039)	(3,388)	(1,060)	(2,644)	(515)	(149)	(396)	(16,775)

Net decrease of 16,775 non high capacity circuits.

TOTAL CIRCUIT COUNTS																	
2004		22,318	8,010	48,809	1,853	660	5,103	9,194	4,489	7,076	16,365	24,891	24,343	16,298	1,204	3,037	193,650
2003		23,536	7,648	49,247	1,756	424	5,148	10,944	4,452	7,628	23,825	25,968	26,461	16,348	1,436	3,616	208,437
Total Circuit Change		(1,218)	362	(438)	97	236	(45)	(1,750)	37	(552)	(7,460)	(1,077)	(2,118)	(50)	(232)	(579)	(14,787)

Source: Vol 5, P10