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November 14, 2005

VIA HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870

Re: Dkt. No. 050693-TL; Alltel Florida, Inc.'s Petition to Reduce Intrastate Switched Access Rates in a Revenue Neutral Manner Pursuant to Section 364.164, Florida Statutes.

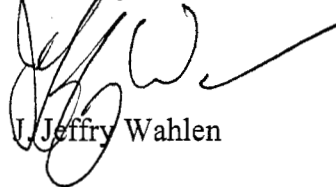
Dear Ms. Bayo:

Enclosed for filing on behalf of Alltel Florida, Inc. ("Alltel") are the original and fifteen (15) copies of Alltel's Prehearing Statement.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Sincerely,



J. Jeffrey Wahlen

Enclosures

cc: Charles J. Beck, Office of Public Counsel (w/encls.)
Jason Rojas, Staff Counsel (w/encls.)

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Alltel Florida, Inc.'s Petition)
To Reduce Intrastate Switched Network)
Access Rates In A Revenue Neutral) Docket No.: 050693-TL
Manner Pursuant to Section 364.164,) Dated: 11.14.05
Florida Statutes)
_____)

ALLTEL'S PREHEARING STATEMENT

Alltel-Florida, Inc. ("Alltel" or the "Company"), pursuant to Order No. PSC-05-0959-PCO-TL, submits the following Prehearing Statement.

A. **WITNESSES**: Alltel's witnesses for this proceeding and the issues to which they will testify are as follows:

1. Mr. David C. Blessing (direct): Issues 1, 1a, 1b, 1c, 2, 3, 5, 6 and 7.
2. Ms. Bettye J. Willis (direct): Issues 3, 4, 5, and 6.

Alltel has made a good-faith attempt to identify the subject matter addressed by these witnesses; however, any given witness' testimony may also relate to other issues in this docket. Alltel reserves the right to call witnesses to respond to Florida Public Service Commission ("Commission") inquiries not addressed in direct or rebuttal testimony and witnesses to address issues not presently designated that may be designated by the Prehearing Officer at the prehearing conference to be held on November 21, 2005.

B. **EXHIBITS**: Alltel intends to offer the following exhibits into evidence:

1. Exhibits to Prepared Direct Testimony of David C. Blessing on behalf of Alltel Florida, Inc., filed September 29, 2005 (DCB-0 through DCB-40) as described below:

Exhibit DCB-0: Composite Exhibit – Tables

Table 1 - Comparison of Alltel Rates v. Costs

Table 2 - Distribution of Household Income in Florida

Table 3 - Telephone Rates Adjusted for Inflation

Table 4 - Comparison of Price of Communication Services in Florida

Table 5 - Comparison of the Price of Communications Services in Florida as a Percentage of Household Income

Table 6 - Local Residential Rates Adjusted to Real (2004) Dollars

Table 7 - Comparison of Rebalanced Rates

Exhibit DCB-1: FCC data regarding Telephone Subscribership in the United States Through March 2003.

Exhibit DCB-2: FCC data regarding Telephone Subscribership in the United States Through March 2005.

Exhibit DCB-3: Florida Statute § 364.164.

Exhibit DCB-4: **(Non-Confidential)** Hatfield HAI 5.0a – Default and ALLTEL-specific model runs plus input changes.

Exhibit DCB-4: **(Confidential)** Hatfield HAI 5.0a – Default and ALLTEL-specific model runs plus input changes.

Exhibit DCB-5: ALLTEL Florida 2004 embedded cost study.

Exhibit DCB-6: Florida Statute § 364.025 Universal Service.

Exhibit DCB-7: FPSC Order regarding the cost of basic local telecommunications service (Docket No. 980696-TP).

Exhibit DCB-8: Order regarding ALLTEL’s depreciation study. (Docket No. 950887-TL).

Exhibit DCB-9: Academic paper: UNIVERSAL RESIDENTIAL TELEPHONE SERVICE.

Exhibit DCB-10: Order regarding Verizon, BellSouth, and Sprint in the Large LEC Rebalancing docket. (Docket No. 030961-TI)

Exhibit DCB-11: Academic paper: “Are Residential Local Exchange Prices Too Low? Drivers to Competition in the Local Exchange Market and the Impact of Inefficient Prices.”

Exhibit DCB-12: Amended Direct Testimony of Dr. Kenneth Gordon On behalf of Verizon, BellSouth, and Sprint in the Large LEC Rebalancing docket. (Docket No. 030961-TI),

- Exhibit DCB-13:** Academic paper: “*Regulatory Behavior and Competitive Entry.*”
- Exhibit DCB-14:** Article: “Telecommunications Privatization and Tariff Rebalancing: Evidence from Latin America,”
- Exhibit DCB-15:** Florida PSC Annual Report To The Legislature On The Status Of Competition In The Telecommunications Industry In Florida as of May 31, 2004.
- Exhibit DCB-16:** Unite Communications Systems website.
- Exhibit DCB-17:** Utopia Net website
- Exhibit DCB-18:** Grant County (Washington State) Public Utility District Zip fiber network website
- Exhibit DCB-19:** Chelan County (Washington State) Public Utility District fiber network website
- Exhibit DCB-20:** Wyoming PSC 2005 Annual Telecom Report.
- Exhibit DCB-21:** Bresnan Communications home page
- Exhibit DCB-22:** Contact Communication’s home page.
- Exhibit DCB-23:** *FCC Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, Table 1.1 July 2005.
- Exhibit DCB-24:** US Census Bureau, 2003 Household Income and Expenditures.
- Exhibit DCB-25:** CPI Data.
- Exhibit DCB-26:** Cellular Telephone Industry Association Annual Survey Results, Dec. 1985 – Dec. 2004.
- Exhibit DCB-27:** National Cable Television Association data about subscribership.
- Exhibit DCB-28:** National Cable Television Association data about the average cable bill.
- Exhibit DCB-29:** “Trends in Telephone Service” – June 30, 2003 data, Table 2.5; FCC.
- Exhibit DCB-30:** Illinois Universal Service Order determining affordable 1R rate; dated: March 13, 2002.
- Exhibit DCB-31:** Wyoming PSC 2000 Annual Telecommunications Report.

Exhibit DCB-32: Florida Statute § 364.10 Lifeline.

Exhibit DCB-33: Academic paper: *“Who Pays for Universal Service?: When Telephone Subsidies Become Transparent.”*

Exhibit DCB-34: Florida Senate Staff Analysis and Economic Impact Statement of CS/SB 654 - *the Tele-Competition Innovation and Infrastructure Enhancement Act.*, April 8, 2003.

Exhibit DCB-35: Verizon Wireless America’s Choice Calling Plan for Live Oak, FL.

Exhibit DCB-36: Article about eBay acquiring Skype dated September 12, 2005.

Exhibit DCB-37: Cox Communications website discussing offering R1 service.

Exhibit DCB-38: Time Warner Inc, Form 10-Q Quarterly Report 3/2005 For Period Ending 6/30/2005.

Exhibit DCB-39: Curriculum Vitae of David C. Blessing.

Exhibit DCS-40: *Local Telephone Competition: Status as of June 30, 2004;* Table 13, FCC.

2. Exhibits to Prepared Direct Testimony of Bettye J. Willis on behalf of Alltel

Florida, Inc., filed September 29, 2005 (BJW-1 through BJW-8) as described below:

Exhibit BJW-1: Exhibit showing Alltel’s current composite intrastate switched access rate of \$0.1132294.

Exhibit BJW-2: Exhibit showing Alltel’s current composite intrastate switched access rate for the Modified Access Based Compensation rate of \$0.1524074.

Exhibit BJW-3: Exhibit showing the first annual reduction for Alltel’s composite intrastate switched access rate.

Exhibit BJW-4: Exhibit showing the second annual reduction for Alltel’s composite intrastate switched access rate.

Exhibit BJW-5: Exhibit showing the third annual reduction for Alltel’s composite intrastate switched access rate.

Exhibit BJW-6: Exhibit showing the impact versus the estimated amounts of each access reduction in Alltel’s new composite intrastate switched access rate.

Exhibit BJW-7: Exhibit showing the increase in basic local residential, single-line business and associated non-recurring rates in three increments over two years.

Exhibit BJW-8: Exhibit that summarizes the increase in basic local residential, single-line business and associated non-recurring rates in three increments over two years.

Alltel recommends that Blessing's exhibits be numbered individually and that Willis' exhibits be numbered as a composite exhibit. Alltel reserves the right to file exhibits to any testimony that may be filed under the circumstances identified in Section A, above. Alltel also reserves the right to introduce exhibits for cross-examination, impeachment, or any other purpose authorized by the applicable Florida Rules of Evidence and the Rules of the Commission.

C. **BASIC POSITION:** Alltel's rate rebalancing proposal satisfies the requirements of Section 364.164(1), Florida Statutes, and should be approved by the Commission because Alltel's proposal will: (1) remove current support for basic local telecommunications services that prevents the creation of a more attractive competitive local exchange market for the benefit of residential consumers; (2) induce enhanced market entry; (3) require intrastate switched network access rate reductions to parity over a period of not less than 2 years or more than 4 years; and (4) be revenue neutral as defined in subsection (7) within the revenue category defined in subsection (2).

Alltel proposes to increase rates for basic local telephone service and to offset the increase by reducing rates for intrastate switched access that currently provide support for basic local telecommunications service. The elimination of implicit support will enhance competitive market entry into Alltel's residential local exchange market which will result in the creation of a more competitive residential local exchange market that will ultimately benefit consumers. Alltel will reduce rates for intrastate switched network access rate by \$6 million over a period of two years and offset those reductions by increasing rates for R1 and B1 service in a revenue neutral manner. Alltel's proposed basic local rate increases will give competitors a stronger

incentive to enter and serve the basic local exchange market which will benefit residential customers by giving them more choices for their local telecommunications service. Alltel's rate rebalancing proposal should be approved because it removes implicit support that prevents increased competition that would benefit residential customers and meets the other criteria in Section 364.164, Florida Statutes.

The fact that Alltel serves a predominately rural area (approximately 50.2 people per square mile) should not preclude the Commission from approving Alltel's proposed rebalancing plan. Alltel estimates that Sprint serves approximately 523,616 access lines in its 62 least dense exchanges with a combined average population density of 50.6 people per square mile which represents nearly one half of all of Sprint's exchanges in Florida. Verizon currently serves a total of 2,221,297 access lines in Florida, of which Alltel estimates Verizon provides approximately 20,955 access lines in its 6 least dense exchanges with a combined average population density of 46.5 people per square mile. BellSouth currently serves a total of 6,277,815 access lines in Florida, of which Alltel estimates BellSouth provides approximately 232,482 access lines in its 34 least dense exchanges with a combined average population density of 49.1 people per square mile. Inasmuch as the Commission has determined that rebalancing rates for the rural customers in Sprint, Verizon, and BellSouth territory will promote competition in those territories, it stands to reason that rebalancing Alltel's rates will also promote competition in Alltel's territory. The evidence Alltel has presented in this case regarding the rebalancing experience in Wyoming further supports this position.

D-F. ISSUES AND POSITIONS: Alltel's positions on the fact, legal and policy issues set forth in Order No. PSC-05-1130-PCO-TL, issued November 10, 2005, are set forth below.

Issue 1: **Will Alltel's rebalancing proposal remove the current support for basic local telecommunications services that prevents the creation of a more attractive competitive market for the benefit of residential consumers?**

Position: Alltel's rebalancing proposal will remove some, but not all, of the support for basic local telecommunications services. The fact that all of the support will not be eliminated should not preclude the Commission from approving the proposal, because Alltel is moving to parity for small LECs as defined in the statute. Alltel's basic local services, 1R and 1B, receive support from Alltel's intrastate switched access and other services. Alltel's rebalancing plan proposes to reduce Alltel's intrastate switched access rates to parity (as defined by section 364.164(5) of the Florida Statute) and offset that revenue reduction by increasing the price of basic local residential service closer to average cost which will remove some of the support for basic local residential telecommunications service. Moving the price of Alltel's basic local residential services closer to average cost will make Alltel's territory a more attractive market and will increase the incentive for new competitors (cable telephony, VoIP, wireless, and others) to enter Alltel's territory to provide competing local residential telephone service as well as increase the incentive for existing wireless, VoIP, and cable telephony competitors to compete more aggressively. As new competitors enter Alltel's territory and existing competitors compete more aggressively, Alltel's residential customers will have the benefit of additional competitively-priced choices of providers for local phone service.

Issue 1(A): What is a reasonable estimate of the level of support provided for basic local telecommunications services?

Position: The reasonable estimate of support is in excess of \$6.0 million; however, Alltel's rate rebalancing plan does not propose to remove all support for basic local telecommunications services. Rather, it seeks to remove \$6.0 million of support from basic local telecommunications services by reducing Alltel's intrastate switched network access rate to parity as defined by the Florida Statute for ILECs that serve fewer than one million access lines.

Issue 1(B): Does the current level of support prevent the creation of a more attractive competitive local exchange market for the benefit of residential consumers?

Position: Yes. Alltel's current level of support is holding residential basic monthly rates well below average cost, and therefore, preventing the creation of a more attractive competitive local exchange market. The availability of Alltel's basic local residential telephone service at supported prices limits the prices that competitive local providers can charge despite the fact that they may have lower costs of providing local service. However, if the level of support is reduced and Alltel's price of basic residential local service is increased, competitor's will be incited to enter Alltel's local market (or compete more aggressively if they have already entered) if Alltel's new price for basic local service is greater than the competitor's cost of providing local service (including a reasonable profit). Alltel agrees with the Commission's finding in Order No. PSC-03-1469-FOF-TL that rate rebalancing "will make the residential market more economically attractive for CLECs, which should lead to an increase in choice of providers." (See Order at p.23.)

Issue 1(C): Will Alltel's rebalancing proposal benefit residential consumers as contemplated by Section 364.164, Florida Statutes? If so, how?

Position: Yes. As stated above, by moving Alltel's basic local residential rates toward average cost, Alltel's rate rebalancing plan will promote competition for the benefit of residential customers. The new prices for residential local service will increase the ability of competitors to enter Alltel's service territory and serve those customers which will increase consumer's choice of local service providers, services and bundles of services. Alltel has presented evidence that will allow the Commission to make the finding in this case that it made in the Large LEC case, that: "we find that Florida consumers as a whole will reap the benefits of increased competition ... Increased competition will lead not only to a wider choice of providers, but also to technological innovation, new service offerings, and increase quality of service to the customer." (See Order at p. 24.)

Issue 2: Will the effects of Alltel's rebalancing proposal induce enhanced market entry? If so, how?

Position: Yes. Alltel's rate rebalancing plan will move the prices of Alltel's basic local services closer to average cost. As Alltel's prices for residential basic local service move closer to average cost, more competitors will have an ability to offer competing local service at a price equal to or lower than that offered by Alltel, and still remain profitable which will increase their incentive to enter Alltel's local market. As a result, the prices proposed in Alltel's rate rebalancing plan will make the residential local exchange market more attractive to competitors and induce enhanced market entry. Enhanced market entry will in turn introduce more providers, more services and bundles of services.

While the Act does not require Alltel to guarantee that its rate rebalancing proposal will increase competition, Alltel has submitted evidence to allow the Commission to make the finding

in this case that it made in Order No. PSC-03-1469-FOF-TL that rate rebalancing “will make the residential market more economically attractive for CLECs, which should lead to an increase in choice of providers.” (See Order at p.23.) Wireless carriers, VoIP-based CLECs, and cable telephony providers are already competing (or have announced that they will soon be competing) in Alltel’s territory proving that competition can and does occur in rural exchanges. This competition will be enhanced by rate rebalancing. Wyoming’s actions to rebalance R1 rates has shown that rebalancing rates will increase competition in rural exchanges. As the Wyoming PSC noted in its 2005 Annual Telecom Report,

“The Wyoming Act and the federal Act have had a profound effect on the development of the telecommunications industry in Wyoming. They have encouraged the development of competitive alternatives for business and residential. Competition and communications infrastructure development are increasing.... **As companies came into compliance with the TSLRIC provisions of the Act (i.e., rebalancing), more competition developed,...**” (See Wyoming Public Service Commission, *Wyoming PSC 2005 Annual Telecom Report*, prepared by the Wyoming Public Service Commission, January 10, 2005. p. 54)

The Florida Commission found that the rate rebalancing proposals of Sprint, BellSouth and Verizon would induce enhanced competition in their exchanges (both urban and rural). Sprint serves 2,063,198 access lines in Florida and is classified as a rural company by the Universal Service Administrative Company. Sprint serves 523,616 access lines (five times as many access lines as Alltel) in 62 exchanges that have the same population density of 50.6 people per square mile as does Alltel’s average exchange. By approving Sprint’s rebalancing plan, the Commission found that rate rebalancing will enhance competitive entry in Sprint’s rural exchanges. That being the case, the Commission should find that Alltel’s rate rebalancing proposal will enhance competitive entry in Alltel’s exchanges.

Issue 3: Will Alltel's rebalancing proposal reduce intrastate switched network access rates to interstate parity over a period of not less than two years or more than four years?

Position: Yes. Alltel's rebalancing plan will reduce the Company's intrastate switched network access rates to parity as defined in Section 364.164 (5) for a company that has 1 million or fewer access lines in service, in three increments over a period of two years. Alltel's plan will reduce intrastate switched network access revenue by \$6 million and offset that reduction with a corresponding increase in rates for basic local residential service, single-line business service, and associated non-recurring residential and business service connection charges. Alltel's plan will be accomplished in three increments over a two-year period and is revenue neutral each year and in total. The first installment will reduce the intrastate carrier common line charge to approximately \$0.028819 and eliminate the interconnection surcharge. In the second installment, Alltel will reduce the intrastate carrier common line charge to approximately \$0.019437. In the final installment, Alltel will reduce the intrastate carrier common line charge to approximately \$0.010056. The exact resulting rate will depend on the revenue expected to be generated by the local rate increases. This proposal brings Alltel's intrastate switched network access rates below the required 8 cents per minute parity rate specified in Section 364.164 to an estimated 6 cents per minute at the end of the two-year period.

Issue 4: Is Alltel's rebalancing proposal revenue neutral, as defined in Section 364.164(2), Florida Statutes?

Position: Yes. Alltel's rate rebalancing plan is revenue neutral, as defined in the statute. The plan will reduce Alltel's intrastate switched network access rates by \$6.0 million and offset that increase with a corresponding increase in rates for basic local residential service, single-line business service, and associated non-recurring residential and business service connection

charges. Alltel's rate rebalancing plan will be accomplished in three relatively equal increments over a two-year period and is revenue neutral each year and in total.

Issue 5: Should Alltel's rebalancing proposal be granted or denied?

Position: The proposal should be granted. For all of the reasons discussed in this Prehearing Statement, Alltel's rate rebalancing plan should be granted. Alltel's rate rebalancing plan satisfies all of the criteria set forth in Section 364.164, and will, in a revenue-neutral manner, result in prices for residential basic local service that are closer to average cost. This, in turn, will induce enhanced market entry in Alltel's territory for residential local telephone service which will benefit consumers.

Issue 6: Should the IXC flow through procedure addressed in Docket No. 030961-TI and ordered in PSC-03-1469-FOF-TL, be applied to Alltel's rebalancing proposal?

Position: Yes. As discussed and ordered in PSC-03-1469-FOF-TL, the IXCs should flow through Alltel's \$6 million annual intrastate switched access rate reduction in the manner determined by the Commission in that order.

Issue 7: Would the Commission's approval of Alltel's rebalancing proposal be consistent with section 364.01(4)(a), Florida Statute?

Position: Yes. Alltel's proposed R1 rates are consistent with section 364.01(4)(a) of the Florida Statutes that requires the Commission to "ensure basic local telecommunications services are available to all consumers in the state at reasonable and affordable prices." Alltel's proposed R1 rates are comparable to the R1 rates that the Commission found were affordable in the rate rebalancing proceeding for Verizon, BellSouth, and Sprint in Docket No. 030961-TI. These rates are compared in the following table.

COMPARISON OF REBALANCED LOCAL RATES

	Verizon	BellSouth	Sprint	ALLTEL
Former Rates				
Lowest	\$ 9.72	\$ 7.57	\$ 7.63	\$9.64
Highest	\$ 12.06	\$ 11.04	\$ 11.48	\$12.67
Average	\$ 10.89	\$ 9.31	\$ 9.56	\$10.49
Rate Increase	\$ 4.73	\$ 3.86	\$ 6.86	\$6.00
New Rates				
Lowest	\$ 14.45	\$ 11.43	\$ 14.49	\$15.64
Highest	\$ 16.79	\$ 14.90	\$ 18.34	\$18.67
Average	\$ 15.62	\$ 13.17	\$ 16.42	\$16.49

The Commission stated in its findings in Order No. PSC-03-1469-FOF-TL, that, “Experience from other states that have rebalanced local and toll rates shows that approval of the ILECs’ proposals will have little, if any, negative impact on the availability of universal service.” (See Order at p. 15.) Thus, if universal service is not negatively impacted, then rates are affordable.

Alltel’s proposed basic local service rates should also be deemed affordable because the price increase is a very small percentage of the average household’s budget – less than the cost of a movie ticket for one adult. Additionally, the majority of Florida consumers are currently paying more than twice as much for cellular phone service, cable TV, and internet service; plus, other states have determined that \$20.00 is an affordable rate for basic residential local service. As the Commission determined in the large LEC rate rebalancing proceeding, support for basic local service rates should be targeted only to low-income families needing financial assistance and Lifeline will ensure that basic local service will remain affordable for low-income families.

Issue 8: **Should this docket be closed?**

Position: Yes.

G. **STIPULATIONS:** Alltel is not aware of any pending stipulations at this time.

H. **PENDING MOTIONS:** Other than motions and requests regarding confidentiality, Alltel is not aware of any pending motions at this time.

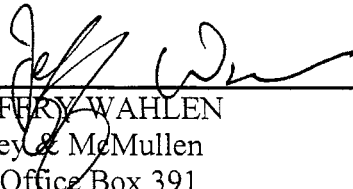
I. **PENDING REQUESTS FOR CONFIDENTIALITY:** Alltel has filed the following requests for confidential classification that are pending: Amended First Request for Confidential Classification and Protective Order (DN 10066-05), Second Request for Confidential Classification (DN 10759-05), and Third Request for Confidential Classification (DN 10806-05). In addition, the following motions for temporary protective order are pending: First (DN 09997-05), Second (DN 0148-05), Third (DN 10316-05), and Fourth (DN 10518-05).

J. **COMPLIANCE WITH ORDER ON PREHEARING PROCEDURE:** Alltel does not know of any requirement of the Order on Prehearing Procedure with which it cannot comply.

K. **PENDING FCC OR COURT ACTIONS:** Alltel is unaware of any pending FCC or Court actions that may preempt Commission action in this docket or that may affect the Commission's ability to resolve any of the issues presented in this docket. Alltel cannot, however, definitively speak to this issue without knowing what action the Commission may eventually take in this proceeding.

L. **OBJECTIONS TO WITNESS QUALIFICATIONS:** None of the other parties have prefiled testimony of witnesses, expert or otherwise.

RESPECTFULLY SUBMITTED this 14th of November, 2005.



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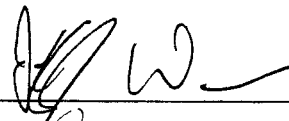
ATTORNEYS FOR
ALLTEL FLORIDA, INC.

Certificate of Service

I hereby certify that a true and correct of the foregoing (without Attachment C and with only one copy of attachment B) was served by hand delivery and electronic mail this 14th day of November, 2005, to the following:

Jason Rojas
Florida Public Service Commission
Division of Legal Services
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Charles J. Beck, Deputy Public Counsel
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