VERIZON
ILLINOIS

Depreciation Rate Study
Submitted: September 15, 2006
Using 2005 Year-end Account Balances

Proposed Effective Date for New Depreciation Rates: January 1, 2006

Rate Order applicable to Currently Prescribed Intrastate Depreciation Rates:

Docket 97-0355 Dated 09/11/98 Effective: 01/01/98

Questions / correspondence concerning this study should be directed to:

Lou Walters
Sr. Staff Manager-Capital Recovery

Verizon
600 Hidden Ridge
MC: HQE01J56
Irving, TX 75038

Phone (972) 718-7350
Fax (972) 719-7460

2006 DEPRECIATION RATE REPORT

TABLE OF CONTENTS

ACCOUNT	CONTENTS	# OF PAGES
--------	Introduction	9
--------	Statements	3
--------	TFI Introduction	1
--------	TFI Study	27
2112.00	Motor Vehicles	11
2114.00	Tools & Other Work Eq	11
2121.00	Buildings	11
2122.00	Furniture	11
2123.10	Office Support Eq	11
2123.20	Company Communications Eq	11
2124.00	General Purpose Computers	11
2212.00	Digital Electronic Sw	11
2231.00	Radio Systems	11
2232.00	Circuit Eq	11
2362.00	Other Terminal Eq	11

2006 DEPRECIATION RATE REPORT

TABLE OF CONTENTS

ACCOUNT	CONTENTS	# OF PAGES
2411.00	Poles	11
2421.10	Aerial Cable Metallic	11
2421.20	Aerial Cable Nonmetal	11
2422.10	Underground Cable Metallic	11
2422.20	Underground Cable Nonmetal	11
2423.10	Buried Cable Metallic	11
2423.20	Buried Cable Nonmetal	11
2424.00	Submarine Cable	11
2441.00	Conduit Systems	11

CURRENT STUDY INFORMATION

This study is being submitted on September 15, 2006 and utilizes year-end 2005 accounting data. Data from Verizon North – Illinois and Verizon South – Illinois have been combined to produce a single Illinois study. This study is being submitted to the Illinois Commerce Commission requesting represcription of depreciation rates effective January 1, 2006.

The depreciation rates proposed in this study were developed using the same traditional remaining life depreciation methodology as in the previous depreciation study.

Verizon is proposing to continue using the curve shapes and ELG currently prescribed for Verizon North - Illinois.

Verizon believes its proposed parameters more accurately reflect today's operating environment than traditional historical based mortality parameters. As we enter a competitive market environment, Verizon should be allowed to implement depreciation parameters that reflect technological innovation and competitive impacts. These issues are discussed, on an industry basis, further in the General section of this study.

PREVIOUS STUDY INFORMATION

The currently prescribed depreciation rates for the Illinois operations of Verizon North (dba GTE North Incorporated) and Verizon South (dba GTE South Incorporated) were ordered in Docket 97-0355, dated 9/11/1998, and were effective 01/01/1998. The Commission-Prescribed depreciation rates were developed using the traditional Remaining Life / ELG depreciation methodology.

ACCOUNTS NOT STUDIED

The following account has no investment and was not studied:

Account 2426	Intrabuilding Cable

FULLY ACCRUED ACCOUNTS

Accounts become fully accrued when they reach full service value. Full service value occurs when the original cost of the asset, less the estimated Future Net Salvage (FNS) percent, is recovered. FNS is the net of expected salvage and cost of removal. For example, if the FNS is –10%, then full service value would be 110% (100% of original cost minus the anticipated FNS of –10%). When an account reaches full service value, the depreciation rate is turned off to prevent over accrual of the account. Two accounts have reached full service value based on the currently prescribed FNS:

Account 2231	Radio
Account 2424	Submarine Cable

Additionally, there is one account that is approaching full service value based on the currently prescribed FNS:

Account 2123.2	Co Communications Eq

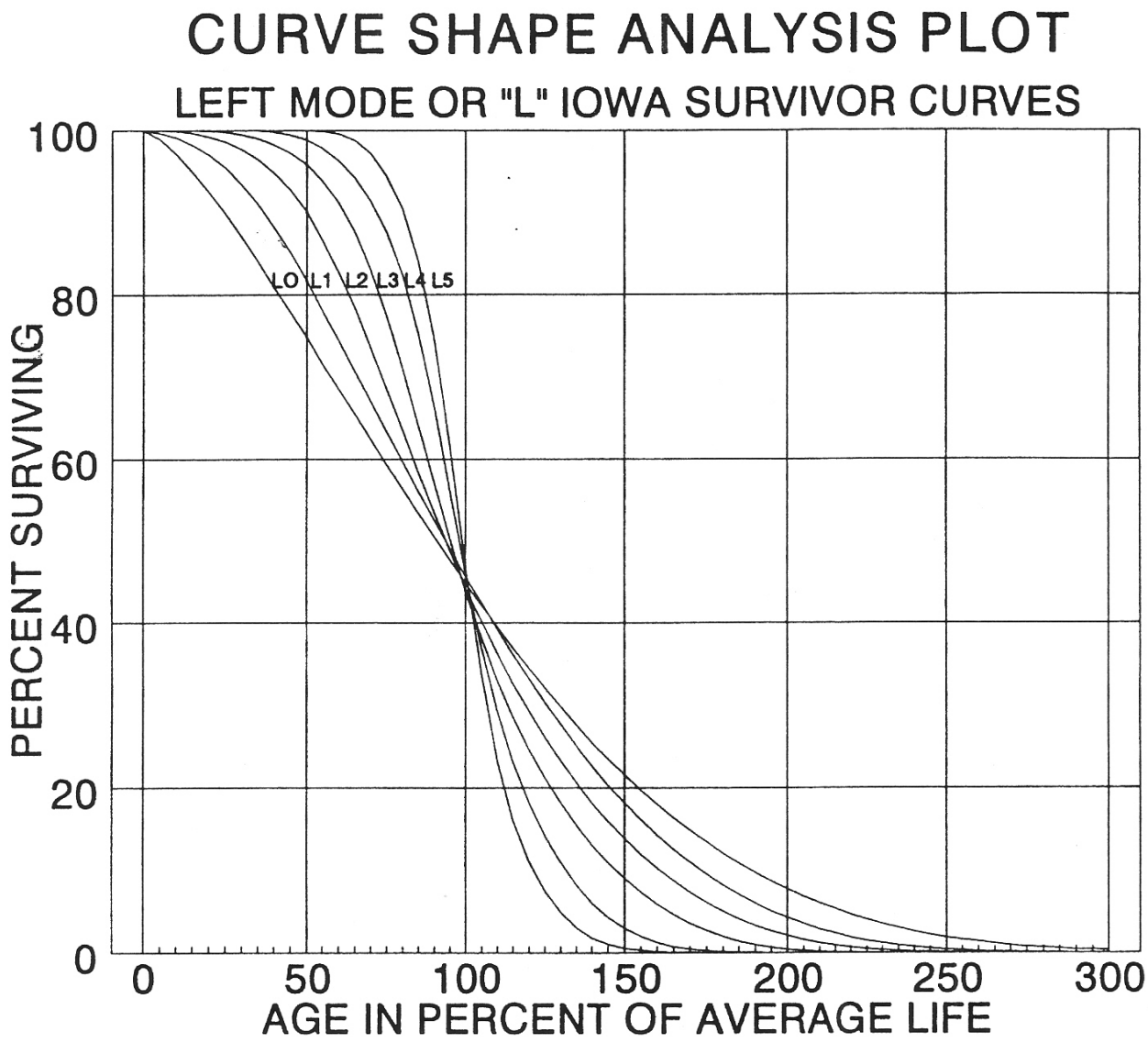
These accounts contain relatively small investment amounts. Verizon is requesting that this Commission approve a 3% depreciation rate for use on these accounts if they drop / remain below full service value before the next depreciation proceeding. This eliminates the need to seek a depreciation rate on these accounts between represcriptions if the account drops below full service value.

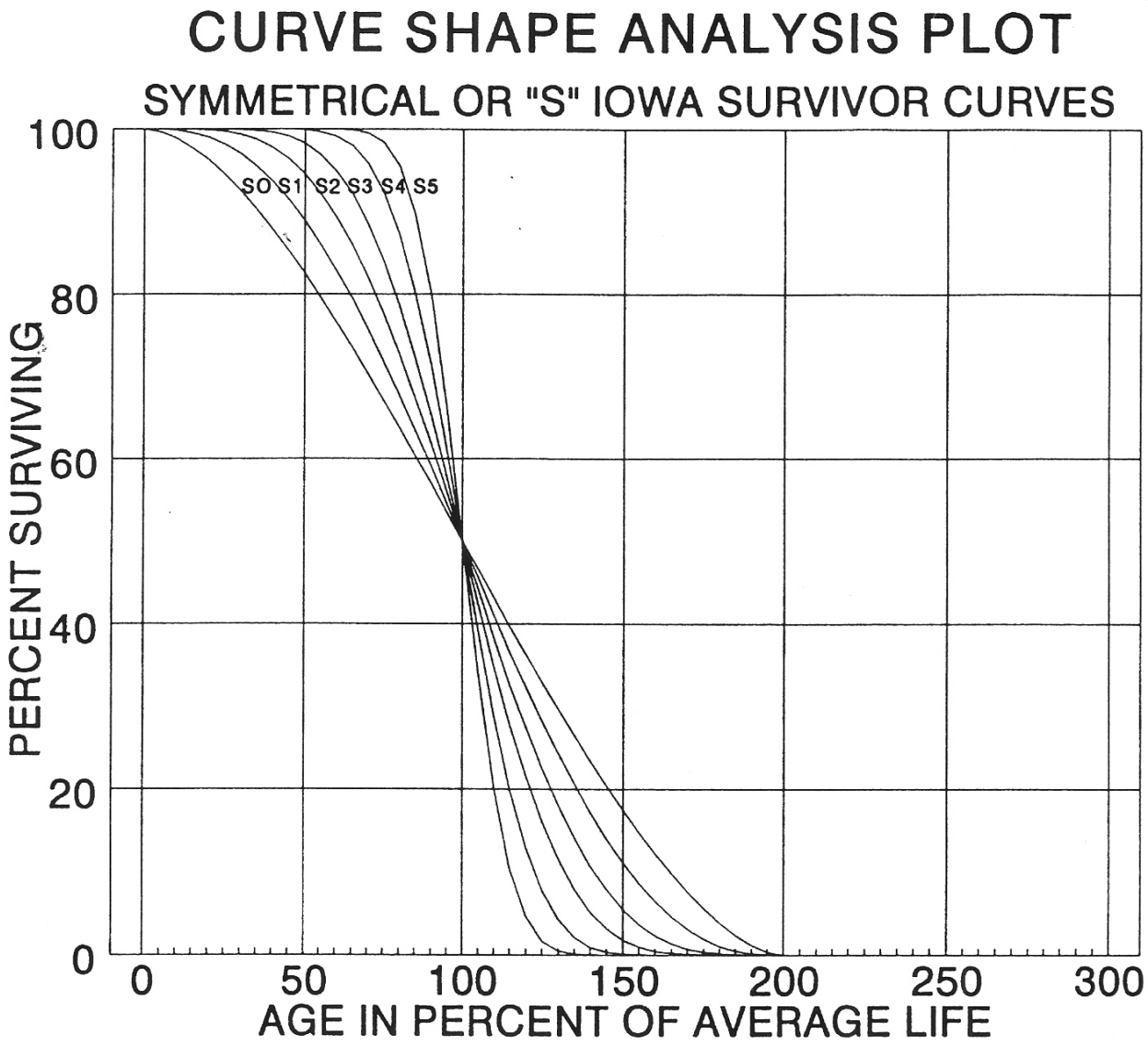
IOWA CURVE SHAPES

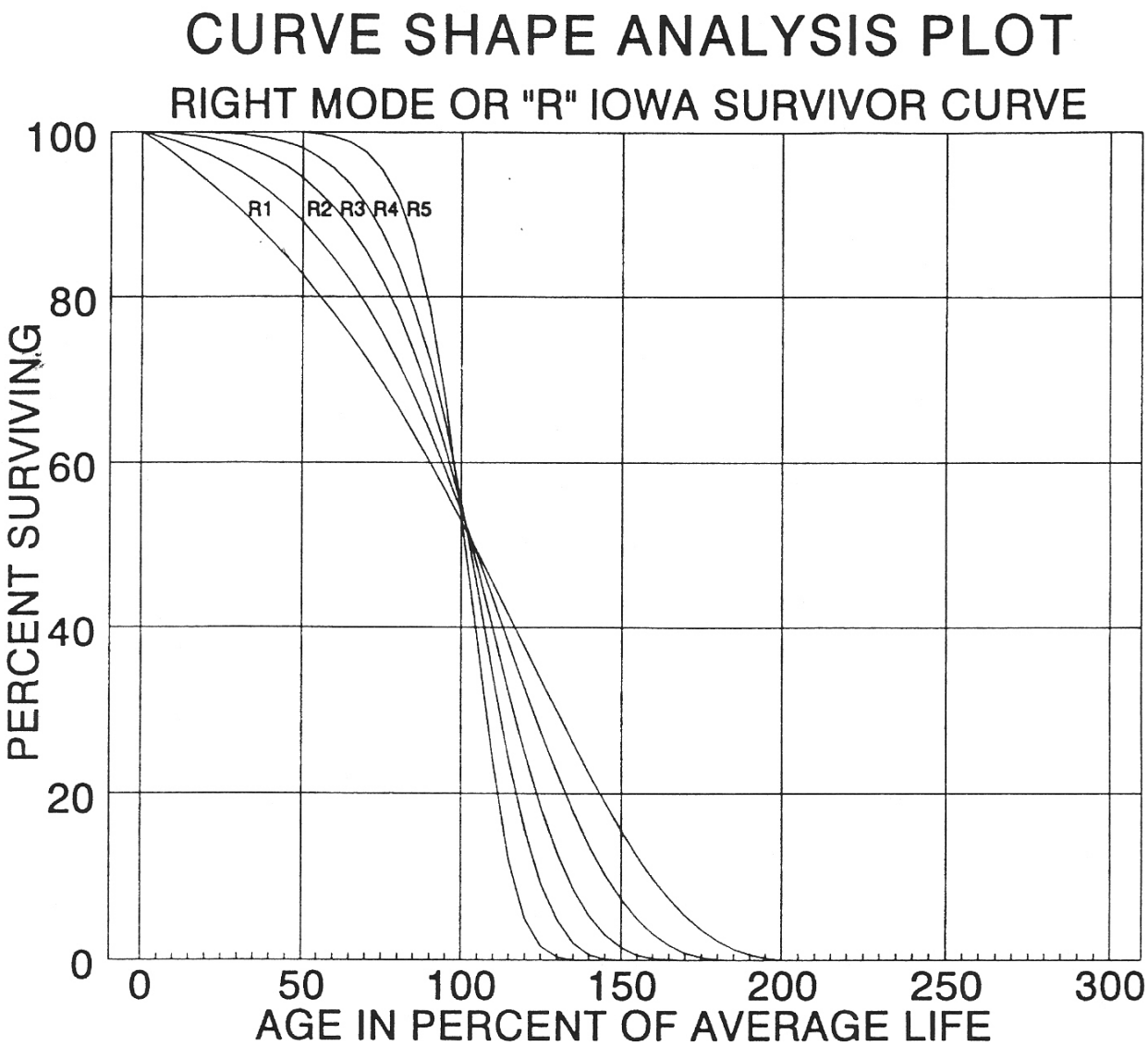
The Iowa Curve Shape Analysis Plots are contained on the following pages of this Introduction Section (Curve Shape Analysis Plot: “L”, “S”, “R”, “O”) rather than in each account section. Iowa Curves are grouped in four categories, Left Modal “L”, Symmetrical Modal “S”, Right Modal “R”, and Origin Modal “O”.

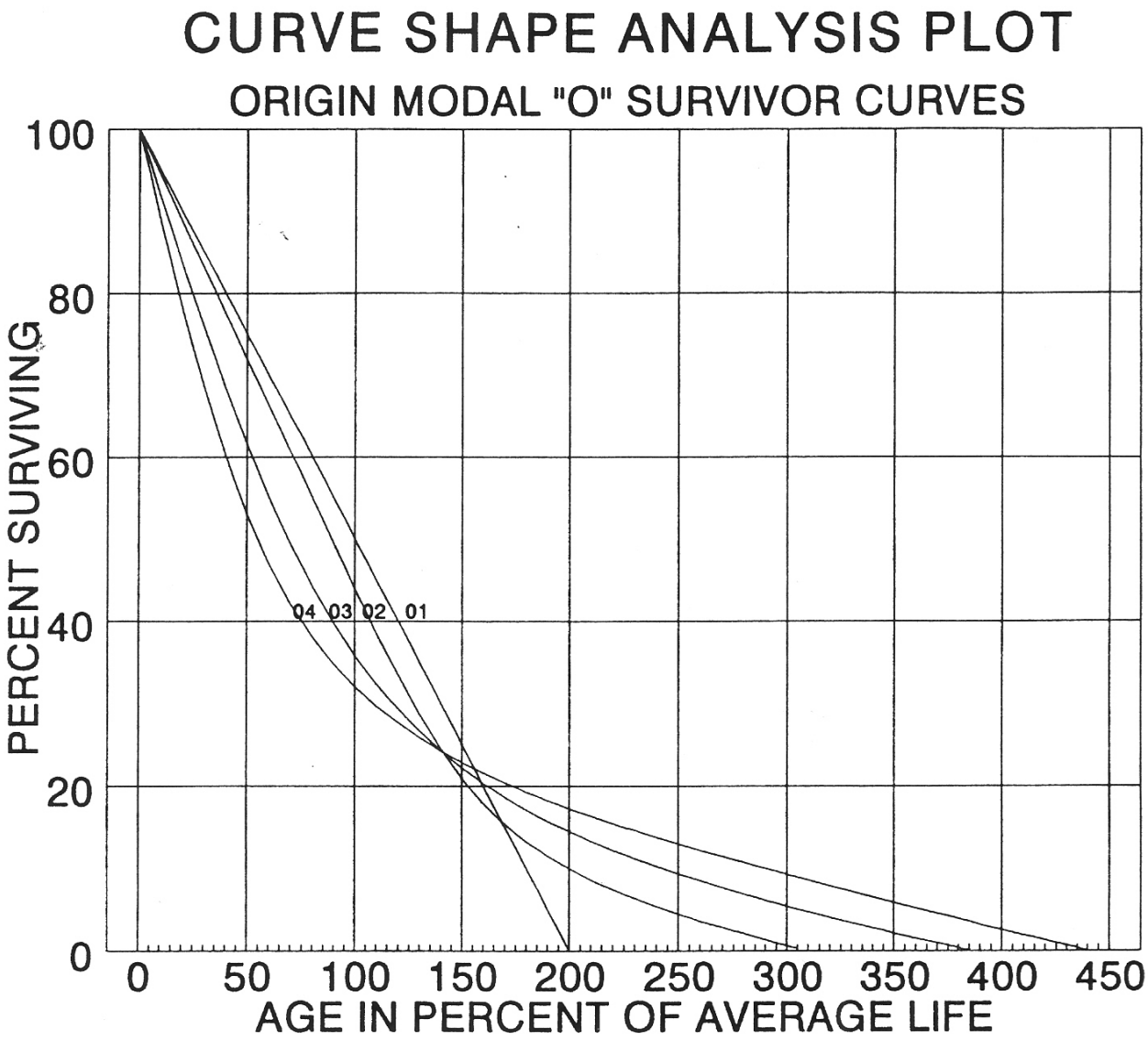
ADDITIONAL NOTE

Some Illinois properties were sold in 2000. The inclusion of retirement, salvage, and COR data from this sale would distort the Future Net Salvage needed for the remaining plant. Therefore, data from the year 2000 has been excluded from the totals in each account’s “Average Net Salvage” and “Table A” exhibits.


CURVE SHAPE ANALYSIS PLOT
LEFT MODE OR "L" IOWA SURVIVOR CURVES
PERCENT SURVIVING
100
80
60
40
20
0
L0 L1 L2 L3 L4 L5
0
50
100
150
200
250
300
AGE IN PERCENT OF AVERAGE LIFE


CURVE SHAPE ANALYSIS PLOT
SYMMETRICAL OR "S" IOWA SURVIVOR CURVES
SO S1 S2 S3 S4 S5
PERCENT SURVIVING
100
80
60
40
20
0
0
50
100
150
200
250
300
AGE IN PERCENT OF AVERAGE LIFE


CURVE SHAPE ANALYSIS PLOT
RIGHT MODE OR "R" IOWA SURVIVOR CURVE
PERCENT SURVIVING
100
80
60
40
20
0
R1
R2
R3
R4
R5
0
50
100
150
200
250
300
AGE IN PERCENT OF AVERAGE LIFE


CURVE SHAPE ANALYSIS PLOT
ORIGIN MODAL "O" SURVIVOR CURVES
PERCENT SURVIVING
100
80
60
40
20
0
04
03
02
01
0
50
100
150
200
250
300
350
400
450
AGE IN PERCENT OF AVERAGE LIFE

Entity: ILLINOIS
Juris: IL, I5, W4, I7

Verizon Illinois

CHANGES IN INTRASTATE DEPRECIATION RATES - EFFECTIVE 1 / 1 / 2006

ACCT	DESCRIPTION	1/1/2006 INVESTMENT	1/1/2006 RESERVE	2005 RATE	CURRENT ANNUAL DEPR ACCRUAL	2006 DEPRECIATION RATE PARAMETERS LIFE	CURVE	RL	RR	FNS	2006 RATE	ANNUAL DEPR ACCRUAL	CHANGE IN ACCRUAL
		a	b	c	d=a*c	e	f	g	h=b/a	i	j	k=a*j	l=k-d
2112	Motor Vehicles	17,151,197	8,141,205	4.6	787,952	8	R3	3.6	47.5	15	10.4	1,783,724	995,772
2114	Tools & Other Work Eq	14,707,870	10,000,052	4.4	646,689	12	S1	5.0	68.0	0	6.4	941,304	294,615
2121	Buildings	155,477,395	46,212,680	2.8	4,322,230	35	R2	18.4	29.7	0	3.8	5,908,141	1,585,911
2122	Furniture	558,130	505,148	6.8	38,219	15	S1	3.3	90.5	0	2.9	16,186	(22,033)
2123.1	Office Support Eq	365,657	171,470	9.1	33,280	8	L1	2.8	46.9	0	19.0	69,475	36,195
2123.2	Co Communications Eq	2,190,580	2,174,368	3.0	66,542	8	L1	3.0	99.3	0	3.0	0	(66,542)
2124	Gen Purpose Computers	7,399,133	7,021,468	22.1	1,638,437	5	S1	1.2	94.9	0	4.3	318,163	(1,320,274)
2212	Digital Electronic Switch	421,779,165	266,615,158	6.9	28,978,140	11	L1.5	4.5	63.2	0	8.2	34,585,892	5,607,752
2220	Operator Systems	189,315	115,786	6.8	12,873	10	R2	6.4	61.2	0	6.1	11,548	(1,325)
2231	Radio Systems	630,934	632,319	0.0	0	5	R2	0.5	100.2	0	3.0	0	0
2232	Circuit Eq	334,535,056	227,295,470	9.2	30,752,403	8	R2	3.3	67.9	2	9.1	30,442,690	(309,713)
2362	Other Term Eq	20,401,291	10,173,570	5.0	1,018,095	8	R2	3.1	49.9	0	16.2	3,305,009	2,286,914
2411	Poles	34,694,541	39,319,425	7.7	2,669,675	30	L1	14.4	113.3	(80)	4.6	1,595,949	(1,073,726)
2421.1	Aerial Cable Metallic	117,956,638	169,544,494	11.3	13,336,005	16	R1	4.7	143.7	(50)	1.3	1,533,436	(11,802,569)
2421.2	Aerial Cable Non-Metallic	5,365,410	4,006,149	5.9	317,057	20	R1	9.6	74.7	(10)	3.7	198,520	(118,537)
2422.1	Undergrd Cable Metallic	51,264,474	56,966,873	11.3	5,782,077	17	R2	5.5	111.1	(35)	4.3	2,204,372	(3,577,705)
2422.2	Undergrd Cable Non-Metallic	9,852,318	5,954,061	6.1	600,136	20	R2	9.8	60.4	(10)	5.1	502,468	(97,668)
2423.1	Buried Cable Metallic	644,344,451	511,978,598	7.1	45,966,196	18	R2	7.2	79.5	(10)	4.2	27,062,467	(18,903,729)
2423.2	Buried Cable Non-Metallic	81,001,711	39,772,233	5.2	4,242,116	20	R2	9.9	49.1	(3)	5.4	4,374,092	131,976
2424	Submarine Cable	68,162	68,267	0.0	0	16	R2	0.6	100.2	(5)	3.0	2,045	2,045
2441	Conduit Systems	34,708,341	15,527,417	2.1	731,642	50	R3	21.0	44.7	(10)	3.1	1,075,959	344,317
	TOTAL	1,954,641,769	1,422,196,211	7.3	141,939,764				72.8		5.9	115,931,440	(26,008,324)

Notes:

2123.2	Co Communications Eq	Approaching Full Accrual - rate set to 3%
2231	Radio Systems	Fully Accrued - rate set to 3%
2424	Submarine Cable	Fully Accrued - current FNS = 0% - rate set to 3%

Current Annual Depr Accrual is the sum of IL, I5, W4 and I7
2005 Rates are composite rates of IL, I5, W4 and I7

PARAMETER SUMMARY REPORT

		VERIZON NORTH - ILLINOIS CURRENT				VERIZON SOUTH - ILLINOIS CURRENT				VERIZON ILLINOIS PROPOSED			
ACCT	DESCRIPTION	CURVE	ELG	PL	FNS	CURVE	ELG	PL	FNS	CURVE	ELG	PL	FNS
		a	b	c	d	e	f	g	h	i	j	k	l
2112	Motor Vehicles	R3	1983	8.0	15	R1	1983	7.0	15	R3	1983	8.0	15
2114	Tools & Other Work Eq	S1	1983	14.0	0	R1	1983	15.0	15	S1	1983	12.0	0
2121	Buildings	R2	1983	39.0	0	R0.5	1983	32.0	2	R2	1983	35.0	0
2122	Furniture	S1	1983	15.0	5	L0	1983	20.0	5	S1	1983	15.0	0
2123.1	Office Support Eq	L1	1983	10.0	1	L0	1983	10.0	5	L1	1983	8.0	0
2123.2	Co Communications Eq	L1	1983	10.0	1	L0	1983	10.0	5	L1	1983	8.0	0
2124	Gen Purpose Computers	S1	1983	6.0	5	L0	1983	10.0	5	S1	1983	5.0	0
2212	Digital Electronic Switch	L1.5	1983	17.0	0	R2	1983	14.0	3	L1.5	1983	11.0	0
2220	Operator Systems	R2	1983	15.0	(2)	NA	NA	NA	NA	R2	1983	10.0	0
2231	Radio Systems	R2	1983	10.0	0	NA	NA	NA	NA	R2	1983	5.0	0
2232	Circuit Eq	R2	1983	9.0	0	R2	1983	9.0	0	R2	1983	8.0	2
2362	Other Term Eq	R2	NA	8.0	1	R0.5	1983	4.0	NA	R2	NA	8.0	0
2411	Poles	L1	1983	25.0	(80)	L0	1983	23.0	(35)	L1	1983	30.0	(80)
2421.1	Aerial Cable Metallic	R1	1983	18.0	(60)	R1	1983	18.0	(60)	R1	1983	16.0	(50)
2421.2	Aerial Cable Non-Metallic	R1	1983	25.0	(30)	R1	1983	25.0	(30)	R1	1983	20.0	(10)
2422.1	Undergrd Cable Metallic	R2	1983	18.0	(35)	R2	1983	18.0	(35)	R2	1983	17.0	(35)
2422.2	Undergrd Cable Non-Metallic	R2	1983	25.0	(25)	R2	1983	25.0	(25)	R2	1983	20.0	(10)
2423.1	Buried Cable Metallic	R2	1983	18.0	(10)	R2	1983	18.0	(10)	R2	1983	18.0	(10)
2423.2	Buried Cable Non-Metallic	R2	1983	25.0	(10)	R2	1983	25.0	(10)	R2	1983	20.0	(3)
2424	Submarine Cable	R2	1983	25.0	0	NA	NA	NA	NA	R2	1983	16.0	(5)
2441	Conduit Systems	R3	1983	50.0	0	R0.5	1983	50.0	0	R3	1983	50.0	(10)

DEVELOPMENT OF COMPOSITE RATES

		VERIZON NORTH - ILLINOIS				VERIZON SOUTH - ILLINOIS				VERIZON ILLINOIS			
ACCT	DESCRIPTION	1/1/2006 INVESTMENT a	1/1/2006 RESERVE b	2005 RATE c	DEPR ACCRUAL d	1/1/2006 INVESTMENT e	1/1/2006 RESERVE f	2005 RATE g	DEPR ACCRUAL h	1/1/2006 INVESTMENT i=a+e	1/1/2006 RESERVE j=b+f	2005 RATE k=l/i	DEPR ACCRUAL l=d+h
2112	Motor Vehicles	16,550,597	7,658,006	4.3	711,676	600,600	483,199	12.7	76,276	17,151,197	8,141,205	4.6	787,952
2114	Tools & Other Work Eq	14,159,766	9,532,144	4.3	608,870	548,104	467,908	6.9	37,819	14,707,870	10,000,052	4.4	646,689
2121	Buildings	148,569,617	41,953,637	2.7	4,011,380	6,907,778	4,259,043	4.5	310,850	155,477,395	46,212,680	2.8	4,322,230
2122	Furniture	486,252	436,791	6.5	31,606	71,878	68,357	9.2	6,613	558,130	505,148	6.8	38,219
2123.1	Office Support Eq	360,726	168,110	9.1	32,826	4,931	3,360	9.2	454	365,657	171,470	9.1	33,280
2123.2	Co Communications Eq	2,177,283	2,165,848	3.0	65,318	13,297	8,520	9.2	1,223	2,190,580	2,174,368	3.0	66,542
2124	Gen Purpose Computers	6,990,631	6,693,238	22.9	1,600,854	408,502	328,230	9.2	37,582	7,399,133	7,021,468	22.1	1,638,437
2212	Digital Electronic Switch	401,008,767	254,592,198	6.9	27,669,605	20,770,398	12,022,960	6.3	1,308,535	421,779,165	266,615,158	6.9	28,978,140
2220	Operator Systems	189,315	115,786	6.8	12,873	0	0	0.0	0	189,315	115,786	6.8	12,873
2231	Radio Systems	630,934	632,319	2.8	0	0	0	0.0	0	630,934	632,319	0.0	0
2232	Circuit Eq	322,124,013	218,703,796	9.2	29,635,409	12,411,043	8,591,674	9.0	1,116,994	334,535,056	227,295,470	9.2	30,752,403
2362	Other Term Eq	19,416,434	9,940,162	5.0	970,822	984,857	233,408	4.8	47,273	20,401,291	10,173,570	5.0	1,018,095
2411	Poles	34,093,061	38,969,202	7.7	2,625,166	601,480	350,223	7.4	44,510	34,694,541	39,319,425	7.7	2,669,675
2421.1	Aerial Cable Metallic	114,504,099	164,057,449	11.3	12,938,963	3,452,539	5,487,045	11.5	397,042	117,956,638	169,544,494	11.3	13,336,005
2421.2	Aerial Cable Non-Metallic	5,294,326	3,944,504	5.9	312,365	71,084	61,645	6.6	4,692	5,365,410	4,006,149	5.9	317,057
2422.1	Undergrd Cable Metallic	49,102,832	54,956,129	11.3	5,548,620	2,161,642	2,010,744	10.8	233,457	51,264,474	56,966,873	11.3	5,782,077
2422.2	Undergrd Cable Non-Metallic	9,424,464	5,752,358	6.1	574,892	427,854	201,703	5.9	25,243	9,852,318	5,954,061	6.1	600,136
2423.1	Buried Cable Metallic	605,562,244	480,629,292	7.2	43,600,482	38,782,207	31,349,306	6.1	2,365,715	644,344,451	511,978,598	7.1	45,966,196
2423.2	Buried Cable Non-Metallic	74,996,212	36,950,711	5.2	3,899,803	6,005,499	2,821,522	5.7	342,313	81,001,711	39,772,233	5.2	4,242,116
2424	Submarine Cable	68,162	68,267	5.0	0	0	0	0.0	0	68,162	68,267	0.0	0
2441	Conduit Systems	33,324,935	14,948,283	2.1	699,824	1,383,406	579,134	2.3	31,818	34,708,341	15,527,417	2.1	731,642
		1,859,034,670	1,352,868,230	7.3	135,551,355	95,607,099	69,327,981	6.7	6,388,410	1,954,641,769	1,422,196,211	7.3	141,939,764

TFI INTRODUCTION

This section introduces a study performed by Technology Futures Inc, ("TFI") of Austin, Texas. This study is titled: "The Local Exchange Network in 2015" and consists of 27 total pages. This Study is also available on the TFI web site at www.TFI.com.

This TFI Study is being provided as a view of the evolution of the telecommunications network from an independent research organization.

This latest TFI study forecasts that the local exchange network will continue to modernize and evolve and, that by 2015, only about 10% of the equipment in the local exchange network that was in place at the turn of the century will still be in use.

Established in 1978, TFI provides its clients with technology and market forecasts, as well as advice on strategic planning, market development, technology roadmaps, and technology management. It provides research and consulting to equipment suppliers, including Corning and Intel; telecommunications users, including Rice University and a major East coast medical center; entrepreneurial startups and venture capital firms, including several based in Europe; and U.S. Government agencies, including the General Accounting Office, the Department of Defense, the National Security Agency, and the National Image and Mapping Agency. This work, along with the work for telecommunications carriers both large and small, provides TFI with a very broad perspective on the communications and information technology industries. TFI's views and the research results are regularly cited by general business and industry publications.