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OFFICIAL FILE

ILLINOIS COMMERCE COMMISSION

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April 1, 2009

Ms. Elizabeth A. Rolando  
Chief Clerk  
Illinois Commerce Commission  
527 E. Capitol Avenue  
Springfield, Illinois 62701

*Annual Alt  
Reg Report  
98-0252  
98-0335  
00-0764*

COMMUNICATIONS DIVISION  
2009 APR - 1 P 3:08  
ILLINOIS  
COMMERCE COMMISSION

Re: Illinois Bell Telephone Company Alternative Regulation Annual Report for Calendar Year 2008

Dear Ms. Rolando:

Illinois Bell Telephone Company ("AT&T Illinois" or "the Company"), with this letter, submits the annual report for calendar year 2008 in accordance with the Illinois Commerce Commission's (ICC) requirements adopting alternative regulation (See Alternative Form of Regulation, Order, Docket No. 92-0448/93-0239, released October 11, 1994, Appendix A (II) (E) and Order, Docket 98-0252/98-0335 and 00-0764, released December 30, 2002 at pages 138-141).

The report contains the following exhibits:

- Exhibit A - Total Company and Illinois Jurisdictional Rate Base.
- Exhibit A1 - Intrastate Depreciation, Amortization, and Deferred Tax Reserve.
- Exhibit B - Total Company and Illinois jurisdictional operating revenue, operating expenses, balance available for return and return calculations.
- Exhibit B1 - Intrastate Depreciation and Amortization Expense.
- Exhibit C - Other income and deductions, interest charges, and extraordinary items.
- Exhibit D - Capital Structure.
- Exhibit E - Statement of Sources and Applications of Funds.
- Exhibit G - Calculation of current price cap indices.
- Exhibit H - Description of new services offered in 2008.
- Exhibit I - Demand growth by revenue basket during 2008.
- Exhibit J - Summary of price changes in the 2008 annual rate filing.
- Exhibit K - Demonstration of compliance with Section 13-507; Proprietary.
- Exhibit L - Summary of quality of service results for 2008.
- Exhibit M - Summary report of exogenous events.

Exhibit K, Demonstration of Compliance with Section 13-507 has been placed in a separate, proprietary envelope. A Petition requesting protection of Exhibit K from disclosure is included with this filing. Also enclosed is an additional copy to be date-stamped and returned to the undersigned

Sincerely,

James E. Deignan  
Enclosures

**Illinois Bell Telephone Company**  
**Total Company and Illinois Jurisdictional Rate Base (\$ 000s)**  
**December 31, 2008**

**Exhibit A**

	<b>Total Company</b>	<b>Non- Regulated</b>	<b>Subject to Separations</b>	<b>Intrastate Ratios</b>	<b>Intrastate Amount</b>	<b>Intrastate Disallowances</b>	<b>Adjusted Intrastate Amount **</b>
	<i>(a)</i>	<i>(b)</i>	<i>(c) = (a)-(b)</i>	<i>(d)</i>	<i>(e) = (c) * (d)</i>	<i>(f)</i>	<i>(g) = (e)+(f)</i>
<b>Class of Property</b>							
Plant in Service	14,599,848	257,956	14,341,892	0.77821	11,161,003	(92,912)	11,068,091
Plant Under Construction	69,159	7,281	61,878	0.76280	47,201	0	47,201
Plant Held for Future Use	0	0	0	0	0	0	0
Material & Supplies	2,540	73	2,468	0.76528	1,889	(138)	1,751
Unamortized Force Reduction						0	0
<b>Total Original Cost</b>	<b>14,671,548</b>	<b>265,310</b>	<b>14,406,238</b>		<b>11,210,093</b>	<b>(93,050)</b>	<b>11,117,043</b>
<b>Reserves</b>							
Depreciation Reserve	11,587,148	90,274	11,496,874	0*	7,692,840	(39,977)	7,652,863
Amortization Reserve	1,501	74	1,427	0*	1,108	0	1,108
Customer Deposits	8,269	0	8,269	0.76281	6,308	0	6,308
Accumulated Deferred Taxes	766,991	90,796	676,196	0*	971,920	(32,386)	939,534
Net Unfunded Liability						(314,466)	(314,466)
<b>Total Reserves</b>	<b>12,363,910</b>	<b>181,145</b>	<b>12,182,765</b>		<b>8,672,176</b>	<b>(386,829)</b>	<b>8,285,347</b>
<b>Total Net Original Cost</b>	<b>2,307,638</b>	<b>84,166</b>	<b>2,223,472</b>		<b>2,537,917</b>	<b>293,779</b>	<b>2,831,696</b>

\* Depreciation Reserve and Accumulated Deferred Income Taxes are computed based on depreciation rates and amortization amounts used in External reporting. See supporting Exhibit A.1.

\*\* Rounding difference.

**Illinois Bell Telephone Company**  
**Total Company and Illinois Jurisdictional Rate Base**  
**Intrastate Depreciation, Amortization, and Deferred Tax Reserve**  
**December 31, 2008**  
**(\$ 000s)**

**Exhibit A1**

Depreciation/Amortization by Plant Category	Primary USOA Account	Total Company	Nonregulated Factors	Nonregulated Amount	Subject to Separations	Intrastate Factors	Intrastate Depreciation
		(a)	(b)	(c)=(a*b)	(d)=(a-c)	(e)	(f)=(d*e)
General Support Facilities	2110	808,763	0.056660	45,825	762,939	0.777900	594,890
Central Office Equipment	2210,20,30	5,136,178	0.022113	113,577	5,022,601	0.793329	3,993,975
Origination/Termination Regulated	2310	28,026	0.000000	-	28,026	0.750008	21,069
Origination/Termination Nonregulated	2310	5,685	1.000000	5,685	-	0.000000	-
Cable and Wire Facilities	2410	4,018,558	0.000000	-	4,018,558	0.765362	3,082,907
		<u>9,997,210</u>		<u>165,087</u>	<u>9,832,124</u>		<u>7,692,840</u>
Capital Leases	3410	1,501	0.049670	75	1426	0.776800	1,108
Leasehold Improvements	3420	0	0.060309	-	-	0.776800	-
Amortization-Other	3600	0	0.000000	-	-	0.000000	-
		<u>1,501</u>		<u>75</u>	<u>1,426</u>		<u>1,108</u>
<b>TOTAL</b>		<u><u>9,998,711</u></u>		<u><u>165,161</u></u>	<u><u>9,833,550</u></u>		<u><u>7,693,948</u></u>

Deferred Tax Category	Primary USOA Account	Total Company	Nonregulated Factors	Nonregulated Amount	Subject to Separations	Intrastate Factors	Intrastate Depreciation
		(a)	(b)	(c)=(a*b)	(d)=(a-c)	(e)	(f)=(d*e)
Net Current Deferred Oper Income Taxes	4100	85,642	0.118287	10,130	75,511	0.762808	57,601
Non-Current Deferred Oper Income Taxes	4340	1,307,496	0.083267	108,872	1,198,624	0.762808	914,320
		<u>1,393,138</u>		<u>119,002</u>	<u>1,274,136</u>		<u>971,920</u>

**Illinois Bell Telephone Company**  
**Calculation of Balance Available for Return (\$ 000s)**  
**December 31, 2008**

**Exhibit B**

	Total Company	Non-Reg	Subject to Separ	Intra Ratios	Intrastate Amount	Intra Disallow	Adjusted Intra Amount **
	(a)	(b)	(c) = (a)-(b)	(d)	(e)	(f)	(g) = (e) + (f)
<b>Revenues</b>							
Local Service	1,430,961		1,430,961		1,430,961		1,430,961
Interstate Access	989,000		989,000		0		0
Intrastate Access	106,624		106,624		106,624		106,624
Long Distance Network Service	223,669		223,669		217,031		217,031
Miscellaneous	1,016,579	211,697	804,882		780,864		780,864
Less: Uncollectibles	27,235	2,242	24,993		26,056	3,149	29,206
<b>Total Operating Revenue</b>	<b>3,739,598</b>	<b>209,455</b>	<b>3,530,143</b>		<b>2,509,424</b>	<b>(3,149)</b>	<b>2,506,275</b>
<b>Operating Expenses</b>							
Depreciation & Amortization	989,403	12,553	976,850	0*	473,010	2,137	475,147
Plant Specific Operations	786,710	137,679	649,031	0.766695	497,609		497,609
Plant Non-Specific Operations	428,939	33,570	395,369	0.760923	300,845		300,845
Customer Operations-Marketing	198,693	22,675	176,018	0.782851	137,796		137,796
Customer Operations-Services	308,450	44,576	263,875	0.829000	218,752		218,752
Corporate Operations	332,022	53,863	278,160	0.777902	216,381	1,830	218,211
Interest on Customer Deposits	(1,131)	0	(1,132)	0.777902	(880)		(880)
<b>Total Operating Expenses</b>	<b>3,043,086</b>	<b>304,916</b>	<b>2,738,170</b>		<b>1,843,512</b>	<b>3,967</b>	<b>1,847,479</b>
Other Operating Taxes	38,958	1,032	37,925	0.764175	28,982		28,982
<b>Total Costs &amp; Expenses</b>	<b>3,082,044</b>	<b>305,949</b>	<b>2,776,095</b>		<b>1,872,494</b>	<b>3,967</b>	<b>1,876,461</b>
Other Expenses	3,295	(42)	3,337	0.764175	2,550	829	3,379
Balance Before Income Taxes	654,260	(96,451)	750,711		634,381	(7,945)	626,435
Federal Income Taxes	213,827	(31,334)	245,161		207,171	(2,581)	204,590
State Income Taxes	55,042	(6,925)	61,967		52,365	(570)	51,794
<b>Total Income Taxes</b>	<b>268,869</b>	<b>(38,259)</b>	<b>307,128</b>		<b>259,536</b>	<b>(3,152)</b>	<b>256,384</b>
Balance Available for Return	385,390	(58,192)	443,582		374,845	(4,794)	370,051
Net Original Cost (Exhibit A)	2,307,638		2,223,472		2,537,917	293,779	2,831,696
<b>Return on Net Original Cost</b>	<b>16.70%</b>		<b>19.95%</b>		<b>14.77%</b>		<b>13.07% ***</b>

**Restated Normalized Returns \*\*\***

Year	2007	18.33%
	2006	17.26%
	2005	14.22%
	2004	14.52%
	2003	15.34%
	2002	14.63%
	2001	18.97%
	2000	25.68%

\* Depreciation expense for the Illinois jurisdiction is computed based on depreciation rates and amortization amounts used in External Reporting.

\*\* Difference due to rounding.

\*\*\* Reflects normalizations for (1) \$98M and \$197M customer credits for business competitive declaration and SBC/Ameritech merger savings credit in 2000 and 2002, respectively; (2) 2003 through 2007 depreciation expense and reserve adjustments; (3) Automated Reporting and Management Information System (ARMIS) refiles for years 2002 through 2006 for nonoperating accounting changes.

**Illinois Bell Telephone Company**  
**Total Company and Illinois Jurisdictional Rate Base**  
**Intrastate Depreciation and Amortization**  
**December 31, 2008**  
**(\$ 000s)**

**Exhibit B1**

Depreciation/Amortization by Plant Category	Primary USOA Account	Total Company	Nonregulated Factors	Nonregulated Amount	Subject to Separations	Intrastate Factors	Intrastate Depreciation
		<i>(a)</i>	<i>(b)</i>	<i>(c)=(a*b)</i>	<i>(d)=(a-c)</i>	<i>(e)</i>	<i>(f)=(d*e)</i>
General Support Facilities	2110	59,868	0.076631	4,588	55,280	0.777900	43,003
Central Office Equipment	2210,20,30	337,990	0.000353	119	337,870	0.830611	280,639
Origination/Termination Regulated	2310	1,647	1.000000	1,647	-	0.750008	-
Origination/Termination Nonregulated	2310	402	1.000000	402	-	0.000000	-
Cable and Wire Facilities	2410	194,043	0.000000	-	194,043	0.765362	148,513
		<b>593,950</b>		<b>6,756</b>	<b>587,194</b>		<b>472,155</b>
Amortization-Tangible *	2110	1,162	0.054737	64	1,099	0.778285	855
Amortization-Other **	2001	0	0.000000	-	-	0.778285	-
		<b>1,162</b>		<b>64</b>	<b>1,099</b>		<b>855</b>
<b>TOTAL</b>		<b>595,112</b>		<b>6,820</b>	<b>588,292</b>		<b>473,010</b>

\* Capital Leases/Leasehold improvements

\*\* Telecommunications Plant Adjustments

**Illinois Bell Telephone Company**  
**Remainder of Income Statement (\$ 000s)**  
**December 31, 2008**

**Exhibit C**

Balance Available for Return (Exhibit B)		385,390
Other Income		
Interest Income	1,158	
Interest During Construction	3,598	
Other Nonoperating Income	(183,739)	
Equity Earnings from Affiliates	<u>23,450</u>	(155,534)
Miscellaneous Deductions		
Memberships	97	
Entertainment	13	
Lobbying	2,032	
Other	5,751	
Non-operating Taxes	<u>(75,909)</u>	(68,017)
Interest Charges		
Funded Debt	0	
Capital Leases	322	
Amortization of Debt Issue Expense	0	
Short-Term Debt	5,706	
Other	<u>2,157</u>	8,185
Income Effect of Jurisdictional Ratemaking Differences - Net		(167,472)
Extraordinary Items		<u>0</u>
<b>Net Income</b>		<b><u>457,160</u></b>

**Illinois Bell Telephone Company  
Capital Structure  
As December 31, 2008**

**Exhibit D**

	Amount (Thousands)	Weighted Ratio
Common Equity	2,348,217	86.24%
Short-Term Debt	371,457	13.64%
Long-Term Debt	3,157	0.12%
Total	2,722,832	100.00%
Net Income (Exhibit C)	457,160	
<b>Return on Equity</b>	<b>19.47% *</b>	

**Restated Normalized Returns \***

<b>Year 2007</b>	<b>20.40%</b>
<b>2006</b>	<b>22.86%</b>
<b>2005</b>	<b>21.82%</b>
<b>2004</b>	<b>17.83%</b>
<b>2003</b>	<b>14.10%</b>
<b>2002</b>	<b>12.84%</b>
<b>2001</b>	<b>25.29%</b>
<b>2000</b>	<b>33.44%</b>

\* Reflects normalizations for (1) \$98M and \$197M customer credits for business competitive declaration and SBC/Ameritech merger savings credit in 2000 and 2002, respectively; (2) 2003 through 2007 depreciation expense and reserve adjustments; (3) Automated Reporting and Management Information System (ARMIS) refilings for years 2002 through 2006 for nonoperating accounting changes.

Illinois Bell Telephone Company  
Year Ended December 31, 2008  
Exhibit E  
Sources and Applications of Funds

Line No.	Description of Item (a)	Amount (b)	Lines: 1,13, 14,20,21, 34,35,36, Only (c)
	Increase (Decrease) in Cash and Cash Equivalents	1,026	
	<b>Cash Flows from Operating Activities:</b>		
1	Net Income		457,160
	Adj. to Rec. Net Income to Net Cash Provided by Oper. Activities:		
2	Depreciation and Amortization	989,403	
3	Provision for Losses for Accounts Receivable	27,235	
4	Deferred Income Taxes - Net	(149,568)	
5	Unamortized ITC - Net	(2,851)	
6	Allowance for Funds Used During Construction	(3,598)	
7	Net Change in Operating Receivables	(72,338)	
8	Net Change in Material, Supplies and Inventories	233	
9	Net Change in Operating Payables and Accrued Liabilities	346,830	
10	Net Change in Other Assets and Deferred Charges	(321,167)	
11	Net Change in Other Liabilities and Deferred Credits	239,961	
12	Other (explained) Prepaids, Other Current & NonCurrent Assets	(1,168)	
13	Total Adjustments		1,052,972
14	Net Cash Provided by (Used In) Operating Activities:		1,510,132
	<b>Cash Inflows (Outflows) from Investing Activities:</b>		
15	Construction/Acquisition of Property, Plant & Equipment (Net of Allowance of Funds Used During Construction & Capital Lease Related Acquisitions)	(803,791)	
16	Proceeds from Disposals of Property, Plant and Equipment	10,876	
17	Investments in and Advances to Affiliates	0	
18	Proceeds from Repayment of Advances	0	
19	Other Investing Activities (explained)	(213)	
20	Total Adjustments		(793,128)
21	Net Cash Provided by (Used In) Investing Activities		717,004
	<b>Cash Flows from Financing Activities:</b>		
22	Net Increase/Decrease in Short-Term Debt with Original Maturities of Three Months or Less	0	
23	Advances from Affiliates	0	
24	Repayment of Advances from Affiliates	(156,590)	
25	Proceeds from Long-Term Debt	0	
26	Repayment of Long-Term Debt	0	
27	Payment of Capital Lease Obligations	0	
28	Proceeds from issuing Common Stock/Equity Investment from Parent	0	
29	Repurchase of Treasury Shares	0	
30	Dividends Paid	(559,388)	
31	Other Financing Activities (explained)		
32	Net Cash Provided by Financing Activities	(715,978)	
33	Effect of Exchange Rate Changes on Cash	0	
34	Net Increase/(Decrease) in Cash and Cash Equivalents		1,026
35	Cash and Cash Equivalents at Beginning of Period		0
36	Cash and Cash Equivalents at End of Period		1,026

**Price Cap Index (PCI) for the current year =**

PCI of Prior Year x [1 + (% Change in the GDPPI) - .043 +/- Exogenous (Z) - Service Quality  
(Q)]

100

$$\text{PCI} = 88.2849 \times (1 + .0203 - .043 + (-.0025))$$

$$\text{PCI} = 88.2849 \times (.9748)$$

$$\text{PCI} = 86.0640$$

Source of Gross Domestic Producer Price Index (GDPPI) is Bureau of Economic Analysis, Table 1.1.4, Price Index for Gross Domestic Product, February 27, 2009.

**Illinois Bell Telephone Company  
New Services Offered in 2008**

Service Description	Type of Rate	Retail Rate	Resale Rate
<p>Complete Choice Enhanced – Complete Choice Enhanced offers residence customers a combination of Custom Calling and Advanced Custom Calling features with network access line and unlimited local calling at a package rate. The package includes a Network Access Line, Saver Pack Unlimited, Caller ID, Caller ID with Name, Call Waiting, Three-Way Calling, Call Forwarding, Speed Calling 8, Automatic Callback, Call Screening and a selection of additional optional features: Alternate Answering, Busy Line Transfer, Message Waiting and Star Code Access to Voice Mail.</p>	Monthly Price:		
	Access Area C	\$26.00	
	Access Area C - where Caller ID and Caller ID with Name cannot be provisioned	\$25.00	
	Non-Recurring Charge	\$3.95	

**Illinois Bell Telephone Company**  
**Demand Growth by Revenue Basket 2009**  
**Exhibit I**

<u>Description</u>	<u>Residence Basket</u>	<u>Packages Basket</u>	<u>Carrier Basket</u>	<u>Other Basket</u>
Proposed Revenue 7/8/2008	\$ 36,531,892	\$ 71,210,905	\$ 78,879,193	\$ 28,315,145
Current Revenue 4/01/2009	\$ 19,194,083	\$ 15,965,219	\$ 66,607,694	\$ 28,508,027

**Illinois Bell Telephone Company**  
**Summary of 2008 Annual Filing Price Changes**  
**Exhibit J**

<b>Service Basket</b>	<b>Services</b>	<b>Total Price Changes</b>
Residence	Flat Rate Service	(0.271)
Packages	Consumer Choice Plus	(0.289)
Carrier	Cellular Access Local Switching Resale reduction related to retail services Switched Access Services	(1.420)
Other	Residence Calling Features	<u>(0.338)</u>
<b>Total</b>		<b>(2.318)</b>

Exhibit K

**Section 13-507 Compliance  
PROPRIETARY**

Aggregate Revenue Test

**RECEIVED**  
APR 01 2009

**ILLINOIS COMMERCE COMMISSION  
CHIEF CLERK'S OFFICE**

Illinois Bell Telephone Company  
Exhibit L  
Service Quality

	<u>2008 Results</u>	<u>Benchmark</u>
<b><u>Measure #1:</u></b> Installation within 5 Business Days	<b>94.02%</b>	<i>90.00%</i>
<b><u>Measure #2:</u></b> Trouble Reports per 100 Access Lines	<b>1.67</b>	<i>2.66</i>
<b><u>Measure #3:</u></b> Out-of-Service over 24 Hours	<b>4.70%</b>	<i>5.0%</i>
<b><u>Measure #4:</u></b> Operator Speed of Answer- Toll, Assistance and Information	<b>4.36</b>	<i>5.65 secs</i>
<b><u>Measure #5:</u></b> Repeat Trouble Rate Installation	<b>13.75%</b>	<i>16.90%</i>
<b><u>Measure #6:</u></b> Repeat Trouble Rate Repair	<b>6.70%</b>	<i>13.92%</i>
<b><u>Measure #7:</u></b> Missed Installation Commitments	<b>4.40%</b>	<i>10.00%</i>
<b><u>Measure #8:</u></b> Missed Repair Commitment	<b>3.58%</b>	<i>9.58%</i>
<b><u>Measure #9:</u></b> Average Speed of Answer-Repair	<b>59.51</b>	<i>60 secs</i>
<b><u>Measure #10:</u></b> Average Speed of Answer- Customer Calling Centers	<b>73.57</b>	<i>60 secs</i>

**Exogenous Change**

Illinois Bell Telephone Company is not proposing an exogenous change with its 2009 annual rate filing.