

IOWA NETWORK SERVICES, INC.

IOWA NETWORK ACCESS DIVISION

DESCRIPTION AND JUSTIFICATION

COST SUPPORT MATERIAL

TARIFF REVIEW PLAN

JULY 1, 2010 ANNUAL ACCESS CHARGE TARIFF FILING

JUNE 16, 2010

IOWA NETWORK ACCESS DIVISION

INTERSTATE ACCESS TARIFF FILING

**PROSPECTIVE PERIOD
JULY 1, 2010 - JUNE 30, 2011**

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IOWA NETWORK ACCESS DIVISION

INTRODUCTION, OVERVIEW AND RATE DEVELOPMENT

INTRODUCTION

This filing supports the Iowa Network Access Division Tariff F.C.C. No. 1 in accordance with , July 1, 2010 Annual Access Charge Tariff Filings, Order, 25 FCC Rcd 2867 (released Mar. 31, 2010). That Order establishes procedures for the 2010 filing of annual access charge tariffs and Tariff Review Plans (TRPs) for local exchange carriers (LECs) subject to price caps and those carriers subject to Section 61.38 of the Commission's rules. The requirements for summary cost support material to support the annual access charge filings to be submitted on or before June 16, 2010 are presented in Material to be Filed in Support of 2010 Annual Access Tariff Filings, Tariff Review Plans, 25 FCC Rcd 2872 (released Mar. 31, 2010).

This 2010 Annual Access Charge Tariff Filing covers the scheduled effective period from July 1, 2010 through June 30, 2012. This documentation volume contains the introduction, overview, rate development narrative, access rate development and corresponding cost support material to be filed with the FCC on June 16, 2010.

OVERVIEW

Schedule A of Section 2 presents a summary of the proposed rate to be effective July 1, 2010. Iowa Network Access Division ("INAD") proposes to maintain its existing switched transport rate of \$0.00819 per minute of use effective July 1, 2010 even though its costs support a higher rate of \$0.00822 per minute of use. The Company's proposed switched transport rate of \$0.00819 per access minute is projected to generate switched transport revenues of \$28,516,102. When combined with nonrecurring revenues of \$41,058, total revenues are projected in the amount of \$28,557,160 resulting in a return of 10.25% on interstate investments for the projected twelve-month period ending June 30, 2011.

For the year 2009, INAD's interstate access revenues amounted to \$24,465,095 which resulted in a negative return of 10.78% on its interstate investment. For the 2007/2008 monitoring period, INAD experienced a return of negative 5.75%. During this period, the FCC authorized a maximum rate of return for interstate access operations of 11.50% with a target of 11.25%.

Interstate access minutes grew at a rate of 37.37% during 2009 to 2,982,269,940 from 2,171,054,422 in 2008. During the year 2008, INAD recorded interstate traffic growth of 17.69% over the year 2007. For the test period ending June 30, 2011, INAD is projecting

interstate access minutes of 3,481,819,561, representing an increase of 17.21% over projected access minutes of 2,970,603,151 for the projected period ending June 30, 2010 and an increase of 16.75% compared with actual interstate access minutes for the year 2009. INAD changed its procedures for identifying Percent Interstate Use ("PIU") ratios during the year 2008 using enhanced switching and billing software. INAD's procedures for identifying interstate traffic terminating over its equal access network employ methods and procedures that conform with industry standards.

Since 2000, Iowa Network Services, Inc. ("INS") has implemented a state of the art fiber network throughout the state of Iowa that is being used to provide equal access services to interexchange carriers serving nearly all rural Independent Local Exchange Carriers (ILECs) in the state. This state of the art network provides full switching and transport redundancy for interexchange carriers serving rural Iowa. As this network ages, INS has plans to upgrade its fiber routes and electronics to bring newer technologies and increased capacity in areas where needed. Approximately \$20 million has been expended since 2006 and an additional \$4.5 million is planned for 2010.

During 2007, INAD began to experience an increase in its uncollectible revenues from an Interexchange Carrier ("IXC") as a result of billing disputes over the classification and quantification of interstate access minutes related to traffic terminated by the IXC to ILEC customer locations in Iowa. The disputed traffic is being terminated by the IXC to ILEC customer locations in Iowa using the equal access network of INAD. During the year 2009, INAD recorded a provision for uncollectibles relating to the interstate billing for this traffic in the amount of \$3,467,168. INAD continues to bill the IXC for all traffic terminated over its network and has included this disputed traffic in its minute of use and revenue projections for the twelve month period ending June 30, 2011. The interstate provision for uncollectibles related to this traffic is estimated to be \$2,893,575 and is reflected in INAD's cost of operations for the projected period ending June 30, 2011.

INAD's proposed tariff rate of \$0.00819 is targeted to generate a return of 10.25% on investment for the projected test period ended June 30, 2011. INAD's cost support material has been developed using procedures prescribed by the Federal Communications Commission as follows:

- A) Financial reporting is in accordance with the Uniform Systems of Accounts and Financial Reporting Requirements of Class A and Class B Telephone Companies, CC Docket 78-196 (Part 32 Order) and all subsequent revisions to the rules adopted through the period June 15, 2010.
- B) Jurisdictional allocation is in accordance with Federal Communications Commission's Rules adopted in CC Docket Nos. 78-72, 80-286, 86-297 and FCC Docket 87-134 released August 18, 1987 (Part 36 Order) and all subsequent revisions to the rules adopted through the period June 15, 2010.

- C) Access rate development is performed in accordance with CC Docket No. 87-113 released August 18, 1987 (Part 69 Conformance Notice) and subsequent modifications including CC Docket No. 00-256, Second Report and Order and Notice of Proposed Rulemaking, 16 FCC Rcd 19613 (2001), ("Rate-of-Return Access Charge Reform Order").

The proposed access service tariff maintains the method of charging for interstate access by major rate element. INAD proposes to maintain its current centralized equal access switched transport rate of \$0.00819 and anticipates this rate will remain in effect through June 30, 2012.

RATE DEVELOPMENT

Development of cost support as contained in the tariff filing was accomplished as follows:

- 1) Projection of test period investment, revenue and expense was determined based on the best estimates of management using fixed, known and measurable amounts from INAD's 2010 and 2011 operating budgets. Anticipated changes in investments and reserves were reflected in conjunction with INAD's ongoing construction and modernization programs. Revenues were increased to reflect the projected increase in access minutes during the test period over the year 2009.
- 2) Projection of the test period INAD revenue requirement was accomplished using FCC Part 64 cost allocation procedures applied to total company projected investment and expense amounts determined in (1) above. INAD's revenue requirement summary data is contained in Section 5 of the cost support material.
- 3) Projection of the test period interstate access revenue requirement was accomplished using Parts 36/69 separation procedures applied to projected total INAD investment and expense amounts determined in (2) above. INAD's interstate access revenue requirement was determined using a return on investment of 11.25% which reflects the rate of return currently authorized by the FCC for interstate ratemaking purposes. The summary Part 36 and Part 69 revenue requirements are contained in Sections 3 and 4 of the cost support material.
- 4) Projected interstate access minutes for the period ending June 30, 2010 reflect an increase of 16.75% over interstate access minutes for the historical period January 1, 2009 through December 31, 2009. Interstate access minutes for the period ending June 30, 2011 are projected to be 3,481,819,561 compared to 2,970,603,151 for the projected period ending June 30, 2010 and 2,982,269,940 for the actual period ended December 31, 2009. Projected access minutes for the test period ending June 30, 2011 are presented on Schedule B following. The

increase in projected access minutes for the test period ending June 30, 2011 appears to be consistent with increases in prior years.

- 5) INAD's interstate access revenue requirement determined in (3) above for the projected period ending June 30, 2011 amounts to \$28,671,481 and is presented in Section 3 of the cost support material. The interstate revenue requirement was reduced by the amount of projected interstate revenues from nonrecurring charges of \$41,058 to arrive at the amount of \$28,630,423 representing the target revenue requirement to be recovered from the recurring centralized equal access switched transport rate.
- 6) The allowable projected switched transport charge supported by the projected costs of INAD is determined by dividing the remaining interstate revenue requirement of \$28,630,423 determined in (5) above by projected access minutes of 3,481,819,561 determined in (4) above resulting in a cost of \$0.00822 per access minute. An analysis of the development of the allowable interstate switched transport rate is presented on Schedule A in Section 2. In lieu of implementing its supported rate of \$0.00822, INAD proposes to maintain its existing interstate switched transport rate of \$0.00819.

SUMMARY

The 2010 annual access tariff filing is supplemented by the enclosed cost support material. Schedule A reflects INAD's existing switched transport charge of \$0.00819 compared with the supported rate of \$0.00822. Through this filing, INAD proposes to maintain its existing switched transport charge of \$0.00819 until June 30, 2012. The proposed switched transport charge will produce revenues that will generate a rate of return on investment of 10.25 % for the test period ended June 30, 2011.

Included in the cost support material are schedules depicting projected investment and expense data, demand quantities, jurisdictional cost allocations and rate calculations for the twelve-month period ending June 30, 2011. Cost and revenue data for the historical period from January 1 through December 31, 2009 is contained in the Company's Tariff Review Plan (TRP) which has been filed under separate cover.

This filing is presented to comply with the Commission's Orders in July 1, 2010 Annual Access Tariff Filings, 25 FCC Rcd 2867 (Mar. 31, 2010) and Material to be Filed in Support of 2010 Annual Access Tariff Filings, 25 FCC Rcd 2872 (Mar. 31, 2010) establishing the TRP schedules to be filed in support of the annual access charge tariff filing. With this filing, INAD proposes to maintain its switched transport charge of \$0.00819 effective July 1, 2010 through June 30, 2012.

TARIFF REVIEW PLAN

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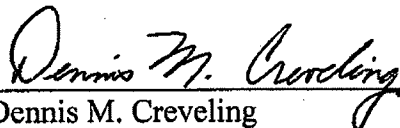
Certification

CERTIFICATION

I certify that I am the Vice President Finance of Iowa Network Services, Inc. and am authorized to deal with matters involving the interstate access tariff filing of Iowa Network Access Division; that I have examined the foregoing Tariff Review Plan; statements of fact contained in this Tariff Review Plan are true and this report is a correct statement of the business and affairs of the above named respondent in respect to each and every matter set forth therein during the period from July 1, 2010 to June 30, 2011.

June 16, 2010

Date



Dennis M. Creveling
IOWA NETWORK SERVICES, INC.

¹ The term call aggregator refers to businesses that generate high-volume traffic, such as conference call companies, chat line providers, and fax broadcasters.