

***IOWA NETWORK SERVICES, INC.  
dba AUREON NETWORK SERVICES***

***IOWA NETWORK ACCESS DIVISION***

***DESCRIPTION AND JUSTIFICATION***

***COST SUPPORT MATERIAL***

***TARIFF REVIEW PLAN***

***JULY 1, 2016 ANNUAL ACCESS CHARGE TARIFF FILING***

***JUNE 16, 2016***

# IOWA NETWORK ACCESS DIVISION

## INTERSTATE ACCESS TARIFF FILING

**PROSPECTIVE PERIOD  
JULY 1, 2016 - JUNE 30, 2017**

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## IOWA NETWORK ACCESS DIVISION

### INTRODUCTION, OVERVIEW AND RATE DEVELOPMENT

#### INTRODUCTION

This filing supports Iowa Network Access Division Tariff F.C.C. No. 1, which is subject to Section 61.38 of the Commission's rules. Set forth in Subpart E of Part 61, entitled "General Rules for Dominant Carriers," Section 61.38 applies to all dominant carriers even those, like Iowa Network Access Division ("INAD"), which are neither incumbent local exchange carriers ("ILECs") nor competitive local exchange carriers ("CLECs").

When granting Section 214 authority to INAD, the Commission classified INAD as a dominant carrier providing centralized equal access ("CEA") service. Application of Iowa Network Access Division for Authority Pursuant to Section 214 of the Communications Act of 1934 and Section 63.01 of the Commission's Rules and Regulations, 3 FCC Rcd 1468, 1469 ¶ 10 (1988). However, INAD is neither an ILEC nor a CLEC. INAD is not a Rate-of-Return Carrier (as defined by Section 51.903(g) of the Commission's rules), and INAD is not an ILEC (as defined by 47 U.S.C. § 251(h)), because INAD has never been a member of NECA and does not provide telephone exchange service. Furthermore, INAD is not a CLEC because INAD is a dominant carrier. CLEC rates are regulated under Section 61.26 of the Commission's rules, which is contained in Subpart C of Part 61, entitled "General Rules for Nondominant Carriers." Rather than CLEC rate benchmarking, INAD has always calculated its CEA tariff rates on the basis of cost studies and call volume data, as INAD is doing today, in compliance with Section 61.38 of the Commission's rules.

Although INAD is not an ILEC or CLEC, INAD has strived to file its cost support today in a format that is familiar to the Commission in order to facilitate the Commission's review. Accordingly, INAD is providing data as consistent as possible with the Commission's Order, In the Matter of July 1, 2016 Annual Access Charge Tariff Filings, DA 16-274, WC Docket No. 16-71 (released March 16, 2016). That Order established procedures for the 2016 filing of annual access charge tariffs and Tariff Review Plans (TRPs) for ILECs subject to price cap regulation, as well as rate of return ILECs subject to Section 61.39, and dominant carriers (like INAD) 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, 2016 are presented in the Commission's Order, In the Matter of Material to be Filed in Support of 2016 Annual Access Tariff Filings, DA 16-399, WC Docket No. 16-71 (released April 13, 2016).

This 2016 Annual Access Charge Tariff Filing covers the scheduled effective period from July 1, 2016 through June 30, 2017. 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, 2016.

## **OVERVIEW**

Schedule A of Section 2 presents a summary of the proposed rate to be effective July 1, 2016. INAD proposes to maintain its existing switched transport rate of \$0.00896 per minute of use effective July 1, 2016. The Company's proposed switched transport rate of \$0.00896 per access minute is projected to generate switched transport revenues of \$22,475,651. When combined with nonrecurring revenues of \$20,731, total test period revenues are projected in the amount of \$22,496,381 resulting in a return of -171.69% on interstate investments for the projected twelve-month period ending June 30, 2017.

For the year 2015, INAD's regulated revenue from interstate CEA services amounted to \$20,115,957 which resulted in a return of -343.36% on its interstate investment. For the 2014/2015 monitoring period, INAD experienced a return of -219.08%. 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 CEA minutes-of-use ("MOUs") declined at a rate of 16.90% during 2015 to 2,242,892,301 from 2,699,087,868 in 2014. During the year 2014, INAD interstate traffic declined at the rate of 3.15% from the year 2013. For the year 2015, INAD experienced reductions in MOUs for interexchange carrier ("IXC") traffic connecting with ILECs and CLECs, including LECs providing service to call aggregators,<sup>1</sup> when compared with historical MOUs reflected during 2014. For the test period ending June 30, 2015, INAD projected interstate CEA minutes of 2,019,322,322, reflecting a decrease of 25.19% from actual CEA minutes for the year 2014. For the test period ending June 30, 2016, INAD projected interstate CEA minutes of 2,399,948,978, reflecting an increase of 7.00% from actual CEA minutes for the year 2015. For the test period ending June 30, 2017, INAD is projecting interstate CEA minutes of 2,508,443,160, representing an increase of 4.52% over projected CEA minutes of 2,399,948,978 for the projected period ending June 30, 2016. The change in interstate traffic for the projected test period results from slight fluctuations in interstate CEA minutes by IXCs routing traffic over the CEA network between the IXCs' facilities and the networks of independent local exchange carriers. IXC traffic exchanged with LECs that do not provide service to call aggregators is projected to decrease approximately 2.90% during this time frame, while IXC traffic delivered to LECs providing service to call aggregators is projected to increase 6.53%.

Beginning in the year 2007, INAD began to experience uncollectible revenues from IXCs as a result of billing disputes over the classification and quantification of interstate CEA minutes related to call aggregator traffic terminated by the IXCs to LEC locations in Iowa. The disputed traffic is being terminated by multiple IXCs to LEC locations in Iowa using the CEA network of

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

INAD. During each of the years 2010 through 2015, INAD recorded a provision for uncollectibles relating to the interstate billing for this traffic in the total amount of \$52,869,683. INAD continues to bill the IXC's for all traffic terminated over its network and includes this disputed traffic in its MOU and revenue projections for the twelve month period ending June 30, 2017. The interstate provision for uncollectibles related to this traffic is estimated to be \$16,525,230 for the projected period ending June 30, 2017 and is reflected in INAD's cost of operations and rate development calculations.

INAD's proposed tariff rate of \$0.00896 is targeted to generate a return of negative 171.69% on investment for the projected test period ended June 30, 2017.

Because the Commission has not adopted procedures specifically for the preparation of cost support material filed by CEA service providers, INAD has tailored the procedures for other dominant carriers to reflect the unique characteristics of a CEA network. Therefore, despite the fact that INAD is not an ILEC, INAD has developed its cost support consistent with the following procedures in order to help the Commission follow the methodology that was used to calculate the tariff rate for CEA service:

- 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 ending June 15, 2016.
- 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 ending June 15, 2016.
- C) CEA 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 CEA tariff maintains the method of charging for interstate CEA by major rate element. INAD proposes a CEA switched transport rate of \$0.00896 and anticipates this rate will remain in effect through June 30, 2017.

## **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 2016 and 2017 operating budgets. Anticipated changes in investments and reserves were reflected in conjunction with INAD's ongoing plant modernization and upgrade programs. Revenues were adjusted to reflect the projected increase in CEA minutes during the test period from the year 2015.

- 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 CEA 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 CEA revenue requirement was determined using a return on investment of 11.00% 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 CEA minutes for the period ending June 30, 2017 reflect an increase of 11.84% from the historical period ending December 31, 2015. Interstate CEA minutes for the period ending June 30, 2017 are projected to be 2,508,443,160 compared to 2,399,948,978 for the projected period ending June 30, 2016 and 2,242,892,301 for the actual period ended December 31, 2015. Projected CEA minutes for the test period ending June 30, 2017 are presented in Section 2, Schedule B following. The increase in projected test period interstate CEA minutes from actual interstate CEA minutes for the year 2015 results primarily from anticipated increases in IXC traffic exchanged with independent LECs, including LECs with call aggregator end user customers, carried over the CEA network.
- 5) INAD's interstate CEA revenue requirement determined in (3) above for the projected period ending June 30, 2017 amounts to \$33,428,539 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 \$20,731 to arrive at the amount of \$33,407,808 representing the target revenue requirement to be recovered from the recurring CEA 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 \$33,407,808 determined in (5) above by projected CEA minutes of 2,508,443,160 determined in (4) above resulting in a cost of \$0.01332 per CEA minute. An analysis of the development of the allowable interstate switched transport rate is presented on Schedule A in Section 2. However, rather than increase its switched transport rate based on its cost support, INAD proposes to maintain its existing interstate switched transport rate of \$0.00896 effective for CEA billings on July 1, 2016. INAD projects it will forgo revenues of

\$10,936,812 by maintaining its existing switched transport rate of \$0.00896 in lieu of its supported rate of \$0.01332 for the projected test period ending June 30, 2017.

## **SUMMARY**

The 2016 annual CEA tariff filing is supplemented by the enclosed cost support material. Schedule A reflects INAD's existing switched transport charge of \$0.00896 compared with its supported rate of \$0.01332. Through this filing, INAD proposes to maintain its existing switched transport charge of \$0.00896 and forgo the supported rate of \$0.01332 based on the cost support for the projected test period ending June 30, 2017. The existing rate of \$0.00896 will remain in effect for CEA billings on July 1, 2016. The proposed switched transport charge will produce revenues that will generate a rate of return on investment of negative 171.69% for the projected test period ended June 30, 2017.

Included in the cost support material are schedules depicting projected investment and expense data, demand quantities, jurisdictional cost allocations and rate calculations for the projected twelve-month period ending June 30, 2017. Cost and revenue data for the historical period from January 1 through December 31, 2015 is contained in the Company's Tariff Review Plan ("TRP") which has been filed under separate cover.

Even though INAD is neither an ILEC nor a CLEC, INAD is making this filing as a dominant CEA carrier in a format familiar to the Commission that is consistent with the Commission's orders In the Matter of July 1, 2016 Annual Access Tariff Filings, DA 16-274, and In the Matter of Material to be Filed in Support of 2016 Annual Access Tariff Filings, DA 16-399, establishing the TRP schedules. With this filing, INAD proposes to maintain its existing switched transport rate of \$0.00896 effective July 1, 2016 through June 30, 2017.