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**IOWA NETWORK SERVICES, INC.
d/b/a AUREON NETWORK SERVICES**

IOWA NETWORK ACCESS DIVISION

DESCRIPTION AND JUSTIFICATION

COST SUPPORT MATERIAL

TARIFF REVIEW PLAN

JULY 1, 2020 ANNUAL ACCESS CHARGE TARIFF FILING

JUNE 16, 2020

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IOWA NETWORK ACCESS DIVISION

INTERSTATE ACCESS TARIFF FILING

**PROSPECTIVE PERIOD
JULY 1, 2020 – JUNE 30, 2021**

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IOWA NETWORK ACCESS DIVISION

FCC Tariff Filing

June 16, 2020

INTRODUCTION, OVERVIEW, AND RATE DEVELOPMENT

I. INTRODUCTION

This filing supports Iowa Network Access Division d/b/a Aureon (“Aureon” or the “Company”) Tariff F.C.C. No. 1 submitted in accordance with the Federal Communications Commission’s (“FCC”) Order, *In the Matter of July 1, 2020 Annual Access Charge Tariff Filings*, DA 20-413, WC Docket No. 20-55 (rel. Apr. 15, 2020). That Order establishes procedures for the 2020 filing of annual access charge tariffs and Tariff Review Plans (“TRPs”) for incumbent local exchange carriers (“ILECs”) subject to price cap regulation, as well as rate of return ILECs subject to Section 61.39, and dominant carriers (like Iowa Network Access Division) 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 24, 2020 are presented in the Commission’s Order, *In the Matter of Material to be Filed in Support of 2020 Annual Access Tariff Filings*, DA 20-502, WC Docket No. 20-55 (rel. May 12, 2020). Aureon also submits materials consistent with the Commission’s *Second Rate Order* issued on February 28, 2019,¹ which directed Aureon to, among other things, (1) include complete cost support and explanatory materials; (2) provide a comprehensive and well-defined database of third-party sales for DS-3 transport service (including the customer, detailed service description including identifying the rate elements that comprise the service, service dates, number of circuits, mileage, and per-circuit rate), and to provide an explanation regarding how this information should inform the calculation of fair market value in evaluating the Filed Lease Expense; and (3) apply a reasonable methodology to convert its inventory of Ethernet circuits to physical rings so that ring-miles can be allocated to the Ethernet circuits (and, thus, to nonregulated activity).²

Consistent with the *Second Rate Order*, Aureon is providing cost support that includes justification for the allocation of cable and wire facilities (“CWF”) between centralized equal access (“CEA”) service and other services, (i.e., between regulated and nonregulated activities) based on Part 64 allocation principles as detailed in the *Second Rate Order*. Specifically, the use of DS-3 circuit counts is being used as the primary allocation factor as required by the FCC. In conjunction with this process, an updated complete circuit inventory was conducted by Aureon and included with this tariff filing. Because Aureon’s circuit and lease data contains proprietary and confidential information that is not generally available to the public, that information is

¹ *In re Iowa Network Access Division Tariff F.C.C. No. 1*, Memorandum Opinion and Order, WC Docket No. 18-60, Transmittal No. 38, FCC 19-14 (rel. Feb. 28, 2019) (“*Second Rate Order*”).

² *Id.* at ¶¶ 13, 18, 35.

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being filed confidentially pursuant to the *Protective Order*³ issued in the tariff investigation proceeding leading to the adoption of the *Second Rate Order*.

The accompanying supporting material contains the introduction, overview, rate development narrative, access rate development, and corresponding cost support material to be filed with the Commission on June 16, 2020.

II. OVERVIEW

Section 2 presents a summary of the proposed supported rate. The cost study supports a rate of \$0.00455 per minute-of-use (“MOU”), and Aureon’s supported switched transport rate of \$0.00455 per MOU is projected to generate annual switched transport revenues of \$3,384,260. When combined with nonrecurring revenues of \$28,175, total test period revenues are projected in the amount of \$3,412,435, resulting in a return of 10% on interstate investments for the projected twelve-month period ending June 31, 2021.

However, Aureon proposes to maintain its existing switched transport rate of \$0.00411 per MOU. Aureon’s existing switched transport rate of \$0.00411 per MOU is projected to generate annual switched transport revenues in the amount of \$3,059,493 (\$0.00411 x 744,402,207 MOUs = \$3,059,493). When combined with nonrecurring revenues of \$28,175, total test period revenues are projected in the amount of \$3,087,668, resulting in a return of -7.26% on interstate investments for the projected twelve-month period ending June 30, 2021.

Interstate CEA MOUs decreased at a rate of -49.52% during 2019 to 1,118,493,713 from 2,215,578,423 in 2018. For the 12 month test period ending June 30, 2021, i.e., from July 1, 2020 to June 30, 2021, Aureon is projecting interstate CEA minutes of 744,402,207 MOUs. The change in interstate traffic MOUs for the projected test period results from a review of the monthly traffic volumes from January 2019 to April 2020, which showed that Aureon experienced a material decrease in minutes, and a decrease is expected to carry forward into the test period. Section 61.38(b)(1)(ii) requires carriers filing a tariff change pursuant to the ILEC rules to submit a “study containing a projection of costs for a representative 12 month period”.⁴ Thus, using a 12 month test period from July 1, 2020 to June 30, 2021 complies with the requirement to use a 12 month projection of costs.

Because the Commission has not adopted procedures specifically for the preparation of cost support material filed by CEA service providers, Aureon has tailored the procedures for ILECs to reflect the unique characteristics of a CEA network. Aureon has developed its cost support consistent with the following ILEC rate regulations:

³ *In re Iowa Network Access Division Tariff F.C.C. No. 1*, Protective Order, WC Docket No. 18-60, Transmittal No. 36, DA 18-294 (rel. Mar. 26, 2018) (“*Protective Order*”).

⁴ 47 C.F.R. § 61.38(b)(1)(ii).

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- 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 subsequent revisions to the Part 32 rules.
- 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 Part 36 rules.
- 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 Red 19613 (2001) (“*Rate-of-Return Access Charge Reform Order*”).

The proposed CEA tariff rate maintains the method of charging for interstate CEA by a single non-distance-sensitive rate element. Aureon proposes to maintain its CEA switched transport rate of \$0.00411 per minute.

III. RATE DEVELOPMENT

A. Affiliate Transaction Rule

In the *Second Rate Order*, the FCC determined that Aureon’s Filed Lease Expense was an affiliate transaction in which a nonregulated division (Aureon’s Network Division) is providing a service leasing facilities to a regulated division (Aureon’s Access Division), even though the two divisions are part of a single legal entity that is a dominant carrier.⁵ Accordingly, if Aureon was regulated as an ILEC and not a competitive local exchange carrier (“CLEC”), ILEC FCC rule 32.27 would require Aureon to evaluate its Filed Lease Expense against a ceiling determined by the lower of fair market value of the lease or the fully-distributed costs of the facilities. Those calculations are explained and summarized below, and show that the Filed Lease Expense is both less than the estimated baseline for the market value of the lease (based upon the prices for non-regulated DS-3 transport service that Aureon has sold to third parties) and less than the fully-distributed costs of the facilities. The details of those calculations are contained in Excel spreadsheets. To the extent those spreadsheets contain proprietary, confidential information, they will be filed under seal and submitted directly to staff.

1. Fair Market Value

In the *Second Rate Order*, the FCC determined that the sales and pricing of unregulated DS-3 transport services would be useful for determining a “baseline” for the fair market rate for

⁵ *Second Rate Order* ¶ 9.

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regulated CEA transport service.⁶ The Commission further stated that the fair market value might need to be adjusted upwards to account for the superior features of CEA transport service.⁷ Consistent with the FCC's order, Aureon compiled a list of customers that currently purchase DS-3 circuits from Aureon, along with the rates paid and the mileage of each DS-3 circuit. Unregulated DS-3 circuits are sold on a flat-rate, monthly basis, and therefore, there are no minutes-of-use associated with those lines. Although the unregulated DS-3 circuits do not all have the robust features that are typically provided with CEA service, Aureon did not make an upward adjustment to its fair market value calculation in Approaches A and B below to reflect the value of the more robust features provided by CEA.

a. Aureon's Unregulated DS-3 Leases

Aureon is submitting a confidential Excel spreadsheet with this filing titled "Aureon (Confidential) Database of DS-3 Pricing 4-2020 with Analysis.xlsx" containing third party DS-3 sales consistent with the FCC's *Second Rate Order* directing Aureon to submit a "database of third-party sales for DS-3 transport service." The database is contained in the first tab titled "Complete List 04-2020". The data contained in the "Aureon (Confidential) Database of DS-3 Pricing 4-2020 with Analysis.xlsx" spreadsheet was obtained from Aureon's billing system. Those records contained the price for each rate element for the circuits in the leases, i.e., the rate charged for transport, entrance facilities, multiplexing ("MUX"), ports, and cross-connects. Some of the DS-3 leases contained charges for transport only, while others contained additional rate elements. When Aureon determined the baseline fair market rate for unregulated DS-3 transport (see methodologies below), Aureon used the entire cost of each of the DS-3 leases to determine the average rate for DS-3 transport. Some of those leases were bare transport leases, and some leases contained other rate elements, such as entrance facilities, MUX/port, or cross-connect charges, depending on the needs of the customers.

One of the most significant differences between CEA transport service and unregulated DS-3 leases is that CEA transport service is provided using "channelized" DS-3 circuits, whereas unregulated DS-3 leases are generally provided using "unchannelized" DS-3 circuits. A channelized DS-3 circuit is one that is created using a portion of the total bandwidth of an optical carrier circuit, per DS-3 channel. In order to create each channelized DS-3 circuit, a MUX or a port is required on either end of the channel. The MUX or port is used to "partition" a portion of the optical circuit's total bandwidth to create a single "channel" for use by an individual DS-1 circuit. The rate charged by Aureon for a single MUX or a port is the same – **[[BEGIN CONFIDENTIAL]]** [REDACTED] **[[END CONFIDENTIAL]]** per MUX or port. An unchannelized DS-3 circuit is a single standalone "pipe" of bandwidth that may not necessarily require a MUX or port on either end of the circuit. With the exception of **[[BEGIN CONFIDENTIAL]]** [REDACTED] **[[END CONFIDENTIAL]]** of the DS-3 leases, all of the other circuit leases in the DS-3 database are unchannelized DS-3 circuits.

⁶ *Id.* ¶ 16.

⁷ *Id.*

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The unregulated DS-3 leases that are most comparable to CEA transport service are the channelized DS-3 leases because they are provided using the same type of channelized circuits as those used for CEA transport service. Those circuits do not have an Aureon provided MUX/port on one or both ends of the circuit, and therefore, additional MUX/port charges would need to be added in order to make them comparable to CEA transport service. This is because the channelized DS-3 circuits used for CEA transport service include the cost of channelization functionality, but not the cost of MUX/ports. The channelization costs are contained in the COE Transmission Account (Account No. 2232), which are included in the intracompany lease rate.⁸ **[[BEGIN CONFIDENTIAL]]** [REDACTED]

[[END CONFIDENTIAL]] [REDACTED] using the unchannelized DS-3 circuits with appropriate adjustments and the channelized DS-3 circuits with appropriate adjustments to determine the baseline fair market rate is a better proxy due to the greater number of exemplars. In order to make the unchannelized and channelized DS-3 circuits comparable to channelized CEA transport service, at a minimum, a MUX/port would need to be added to each end of the circuits because channelized DS-3 circuits for CEA transport service require MUX/ports on each end of those circuits. Accordingly, when using unregulated DS-3 lease rates to determine a baseline for the fair market value of CEA transport service, additional MUX/port charges must be included for unregulated DS-3 circuit leases for those unregulated lease rates to be comparable to CEA transport service.

Aureon has performed a supplemental analysis of the leases contained in its DS-3 lease database to provide the Commission with a better “apples-to-apples” comparison of the unregulated DS-3 leases to CEA transport service to validate the methodologies set forth below

⁸ Although the **[[BEGIN CONFIDENTIAL]]** [REDACTED] **[[END CONFIDENTIAL]]** unregulated channelized leased DS-3 circuits are of the type that is used for CEA transport service, they are not completely analogous to CEA transport service because they do not have two MUX/port charges. This is because the unregulated channelized leased DS-3 circuits generally fall into three groups based on the customer’s intended use:

1. The customer orders a channelized DS-3 circuit, which the customer will use to carry child DS-1s. The customer provides the MUX or DACS function on their end of the circuit, and the connecting company (other than Aureon) provides the MUX/DACS function on the other end of the circuit. Because of the intended use of the circuit as ordered by the customer, the circuit is built as a channelized T3 facility. Aureon does not provide any channelization function on either end. Therefore, there are no MUX or port charges for this type of circuit design.
2. The customer orders a channelized DS-3 circuit, which will be used to carry child DS-1s, and the customer requires a MUX or DACS termination in the Aureon network. The intended use is for Aureon to connect child DS-1s to various locations or other connecting companies. Aureon does provide the channelization function on one end of the leased DS-3. Therefore, there is only one MUX/port charge.
3. The customer orders a channelized DS-3 circuit, which will be used to carry child DS-1s and the customer’s intended use is to terminate the full DS-3 to an Aureon switch. A DS-3 switch port provides the required channelization. Therefore, no MUX or port charges apply.

In contrast, the DS-3 circuits used in Aureon’s CEA transport service are provisioned POI-to-POI across the network, and require channelization hardware on both ends of the circuits. Even when a CEA DS-3 circuit ID originates at a non-POI CLLI (i.e., at a LEC), the DS-3 circuit utilizes channelization equipment at both of Aureon’s POI locations, and therefore has additional costs at both POIs. Thus, every channelized DS-3 circuit used for CEA transport service includes channelization hardware, i.e., a MUX or a port, on both ends of the circuit.

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(Approach A and Approach B). The supplemental analysis confirms that the Approach A and Approach B methodologies are conservative because they result in a lower baseline fair market value for the intracompany lease rate than Aureon's supplemental analysis.

Aureon's supplemental analysis is also contained in the Excel file "Aureon (CONFIDENTIAL) Database of DS-3 Pricing 4-2020 with Analysis.xlsx" submitted with this filing. The first tab of the spreadsheet titled "Complete List 04-2020" is the actual database itself, and updates the initial DS-3 lease database previously filed in April 2019. The second tab titled "Non-Channelized Only" only contains unchannelized DS-3 circuits, i.e., the **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]** channelized DS-3 circuits have been removed, leaving **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]** unchannelized DS-3 circuit leases. This was done so that the average price (or revenue per circuit) for only unchannelized DS-3 circuits could be determined. The average revenues per unchannelized DS-3 circuit is **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and the average amount billed per mile is **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. Those amounts are similar to the average revenue-per-circuit and average amount billed per-mile calculated using methodologies discussed below. However, because this methodology incorporates all rate elements charged for the DS-3 leases, they may include charges for rate elements that are not part of CEA transport service, or exclude charges for rate elements that are part of CEA transport service. MUX and ports are part of CEA transport service, whereas entrance facilities and cross-connects are not. Accordingly additional refinement of the analysis is required.

The next step of the refinement process is contained in the third tab titled "Non-Channelized Transport Cost", and this third tab contains the same **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]** records as the second tab. However, the third tab only contains the transport charges for those circuits, i.e., charges other than transport were excluded in the average revenue-per-circuit calculation. This results in average transport-only revenue-per-circuit of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and average transport-only amounts billed per-mile of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. It is important to note that because MUX/port charges were stripped out of the calculation (and some of the leases did originally include MUX/port charges, and some did not), two MUX/port charges needed to be added back in to each circuit as an adjustment to make the circuits comparable to CEA transport service. As discussed above, CEA transport service requires the use of a MUX or a port on both ends of the circuit because the DS-3 circuits for CEA transport service are channelized DS-3 circuits. Without the use of MUX/ports, the bandwidth of the optical carrier circuit cannot be channelized into distinct DS-3 circuits, thus it is appropriate to include two MUX/port charges for each circuit. This results in an adjusted average transport-only revenue-per-circuit of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and average transport-only amounts billed per-mile of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. Both of these amounts are greater than those calculated using Approach A and Approach B, confirming that those methodologies are more conservative and result in a lower fair market value for the intracompany lease rate than if the supplemental analysis were used.

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In order to validate that the transport rates are not skewed due to unregulated DS-3 leases that include additional rate elements, Aureon conducted another analysis in the fourth tab titled “Non-Chan No Other Rate Elements.” This worksheet includes leased DS-3 circuits that only charge for transport, and excludes leases that have charges for other rate elements. The calculations on this worksheet show that the average revenue-per-circuit for transport-only DS-3 leases is **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and average transport-only amounts billed per-mile of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. Those amounts are similar to the averages shown in the third tab of the workbook, and demonstrate that Aureon has not improperly skewed the transport charges due to DS-3 leases that also have other rate elements. Because these DS-3 circuits do not have MUX/port charges, those charges need to be added to the calculation of the averages to compare those rates to those for CEA transport service. This results in an adjusted average transport-only revenue-per-circuit of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and adjusted average transport-only amounts billed per-mile of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. Both of these amounts are also greater than those calculated using Approach A and Approach B, confirming that those methodologies are more conservative and result in a lower fair market value for the intracompany lease rate than if the supplemental analysis were used.

The fifth tab titled “DS3 List w_Transport” is similar to the third tab (“Non-Chan w_Transport Cost”), except that the spreadsheet in the fifth tab includes all **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]** of the leased DS-3 circuits (the third tab excluded the channelized DS-3 circuit leases). All rate elements, including MUX/ports, were removed from the initial calculation, and an adjustment to add MUX/ports to make the leased circuits comparable to the DS-3 circuits used for CEA transport service was performed. Aureon included this tab so that the average revenue-per-circuit and average amounts billed per-mile could be determined using all of the leased circuit data. The calculations on this worksheet show that the average revenue-per-circuit for all DS-3 leases is **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and average transport-only amounts billed per-mile of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. Those amounts are substantially similar to the averages found in tab three. Adjustments to add two MUX/port charges for each DS-3 leased circuit results in an adjusted average revenue-per-circuit amount of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**, and adjusted average transport-only amounts billed per-mile of **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**. Both of these amounts are greater than those calculated using Approach A and Approach B, confirming that those methodologies are more conservative and result in a lower fair market value for the intracompany lease rate than if the supplemental analysis were used.

Finally, on the sixth tab of the workbook titled “Channelized DS3s,” this worksheet contains an analysis of only the channelized DS-3 leased circuits. **[[BEGIN CONFIDENTIAL]]** **[[END CONFIDENTIAL]]**

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[[REDACTED]] [[END CONFIDENTIAL]]. However, Aureon includes this analysis for the purpose of completeness. The calculations on this worksheet show that the average revenue-per-circuit for channelized DS-3 leases (with all rate elements removed other than transport) is [[BEGIN CONFIDENTIAL]] [[REDACTED]] [[END CONFIDENTIAL]], and average transport-only amounts billed per-mile of [[BEGIN CONFIDENTIAL]] [[REDACTED]] [[END CONFIDENTIAL]]. As before, MUX/port charges must be added back in to result in an average rate that is comparable to CEA transport service. This results in an adjusted average revenue-per-circuit of [[BEGIN CONFIDENTIAL]] [[REDACTED]] [[REDACTED]] [[END CONFIDENTIAL]], and average amounts billed per-mile of [[BEGIN CONFIDENTIAL]] [[REDACTED]] [[END CONFIDENTIAL]]. Both of these amounts are greater than those calculated using Approach A and Approach B, confirming that those methodologies are more conservative and result in a lower fair market value for the intracompany lease rate than if the supplemental analysis were used.

In summary, all of the supplemental analyses of the rates charged by Aureon for unregulated DS-3 circuit leases result in average amounts that are greater than those used in Approaches A and B below. If Aureon had used the averages calculated in its supplemental analyses to determine the baseline fair market value for the intracompany lease rate, a higher intracompany lease charge would have resulted, confirming the methodologies used by Aureon are reasonable.

b. Calculation of Baseline Fair Market Value of CEA Transport Service Using Two Different Approaches.

In order to determine the baseline for the fair market value of CEA transport service based on unregulated DS-3 circuit rates, Aureon determined the average mileage of those circuits (92.49 miles), the total annual revenue derived from those circuits (\$213,690.92), the average amount billed per mile (\$15.33), and the average revenue per circuit (\$1,418.07). Aureon then calculated the baseline for the estimated fair market value for CEA transport service using two different methodologies, which are shown on the “Network Lease – Cost Market Comp” tab of the spreadsheet filed with this submission. A summary of the fair market value calculations is as follows:

The first methodology – Approach A – used the average monthly rate for unregulated DS-3 circuits (\$1,418.07) as the basis for the fair market value calculation. That amount was multiplied by the total number of CEA DS-3 circuits to calculate the baseline for the monthly lease cost for CEA transport service priced at the unregulated DS-3 rate. That result was then multiplied by 12 to calculate the annual fair market value. Pursuant to the FCC’s rules for ILECs, the lower of fair market value and fully distributed cost was included in the revenue requirement(s) for the PYCOS and TYCOS periods.

The second methodology – Approach B – used the average per-mile cost for unregulated DS-3 circuits (\$15.33), as the basis for the fair market value calculation. That amount was multiplied by average weighted CEA transport miles previously accepted by the FCC to determine the baseline for the monthly lease cost for CEA transport service priced at the unregulated DS-3 rate. That result was then multiplied by 12 to determine the annual fair

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market value. The calculated fair market value of the annual lease cost was higher than the total lease amount assigned to CEA service. Pursuant to the FCC's rules for ILECs, the lower of fair market value and fully distributed cost was included in the revenue requirement(s) for the PYCOS and TYCOS periods.

2. Fully Distributed Costs

In order to determine the fully distributed costs attributed to CEA transport service, Aureon performed an analysis of the underlying central office equipment ("COE") and cable and wire facilities ("CWF") that are leased by the Access Division to provide CEA service. The cost of these assets – which is sourced from the financial information also provided, are allocated using the same allocation factors developed in the circuit inventory. The revenue requirement that is calculated is then used as the proposed lease charge in the cost study (subject to final comparison with market value, as detailed previously).

3. Calculation of the Lease Charge

In order to determine the interdivisional lease rate associated with network transport facilities used to provide CEA service, Aureon calculated the fully distributed costs as well as the market rates for CEA service using Approach A and Approach B described above. The lowest of those values is included in the cost study. In this filing, for both the TYCOS and PYCOS periods, the fair market value is lower than the fully distributed costs, and as a result, the lowest market price is used in the revenue requirement. The calculation of fair market value under Approach A and Approach B, and the comparison with fully distributed costs can be found on the tab labeled "Network Lease – Cost Market Comp", Line Number 16 and Line Number 21. As seen on this tab, the fair market value calculated in Approach A is used in the respective revenue requirement development.

The calculation of the lease charge and the application of the CEA allocation factors can be found on the Tabs labeled "Network Lease Devel – TYCOS" and "Network Lease Devel – PYCOS", respectively. The results are summarized below:

TYCOS: YE 6/30/2021	
Fully Distributed Costs for COE:	\$11,902,533
Allocation to CEA Service:	3.39%
Potential COE Lease Charge:	\$403,363
Fully Distributed Costs for CWF:	\$25,347,258
Allocation to CEA Service:	8.26%
CWF Lease Charge:	\$2,094,246
Fully Distributed Costs Total:	\$2,497,609
Fair Market Value – Approach A:	\$2,040,621
Fair Market Value – Approach B:	\$2,217,721
Lower of Cost/Market:	\$2,040,621

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The amount shown as “Lower of Cost/Market” is assigned to the CEA revenue requirement. This methodology for calculating the lease charge is fully compliant with the FCC’s affiliate transaction rules for ILECs, and is fully documented in the cost support materials provided with this filing.

B. CLEC Benchmark Rate

In the FCC’s *First Rate Order*, the FCC determined that Aureon must benchmark its CEA tariff rate to a composite rate calculated using rate elements from CenturyLink Operating Companies Tariff F.C.C. No. 11.⁹ As the CLEC rate benchmark in FCC Rules 51.911(c) and 61.26 apply solely to non-dominant carriers, Aureon disputes the application of the CLEC rate benchmark to dominant carriers like Aureon, and consequently has filed an appeal of the *First Rate Order*. In that order, the FCC determined that the average weighted miles of transport provided by Aureon in 2017 was 103.519 miles based on data submitted by Aureon, and applied that mileage to the per-mile transport element from CenturyLink’s tariff to calculate a composite benchmark rate of \$0.005634 per MOU for Aureon’s CEA rate. Aureon’s updated average weighted miles of transport is 100.498 miles, which is based on data from October 1, 2018 to September 30, 2019.¹⁰ Aureon now updates that calculation below:¹¹

Tandem-Switched Transport		
fixed per MOU	\$0.000240	\$0.000240
per mile	\$0.000030 x 100.498 miles	\$0.003015
Tandem Switching	\$0.002252	\$0.002252
Common Transport Multiplexing	\$0.000036	\$0.000036
Total per MOU		\$0.005543

Because Aureon’s cost supported rate of \$0.00455 and its current effective rate of \$0.00411, which Aureon proposes to maintain with this tariff filing, are below the composite benchmark rate of \$0.005543 calculated above, Aureon’s CEA tariff rate complies with the *First Rate Order* requirement to be at or below the CenturyLink composite benchmark rate.

C. Central Office Equipment

Aureon’s rate development includes that portion of the \$1.38 million in new central office switching investment permitted to be included in the test period, which is necessary for Aureon to continue to be able to provide CEA service to rural areas in Iowa. Aureon’s switches

⁹ *Iowa Network Access Division, Tariff F.C.C. No. 1*, Memorandum Opinion and Order, 33 FCC Rcd. 7517, 7532 (2018) (“*First Rate Order*”).

¹⁰ A spreadsheet containing Aureon’s average weighted mileage calculation is being submitted confidentially in an Excel file called “Aureon (CONFIDENTIAL) Average Weighted Miles 10-01-2018 to 9-30-2019.xlsx”.

¹¹ The rate elements are from CenturyLink Operating Companies Tariff F.C.C. No. 11, § 6.8.1(c)(1), 5th Revised Page 6-318, 3rd Revised Page 6-318.1. Those rate elements were used by the FCC to calculate the composite benchmark rate in the *First Rate Order*.

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were originally manufactured in 1988 and 1989, and they are difficult and expensive to manage and maintain due to their vintage. Aureon's switches were manufacturer discontinued in 2016 with limited technical support available, and no new hardware is available from the vendor. Given that Aureon's central office equipment is three decades old and using outdated 1980's technology, it is prudent and necessary for Aureon to replace its central office switching equipment before there is a catastrophic failure resulting in widespread service outages to more than 300,000 rural Iowa residents. Aureon had previously submitted information in its September 2019 tariff filing demonstrating that its switch investment met the FCC's "used and useful" standard to evaluate whether particular investments can be included in an ILEC's revenue requirement. Property is considered "used and useful" for regulatory ratemaking if it is "necessary to the efficient conduct of a utility's business, presently or within a reasonable future period."¹² The FCC accepted Aureon's explanation that its switch investment and cost allocation in its rate development was proper by allowing Aureon's rate to become deemed lawful and go into effect on October 16, 2019.

Aureon has previously reported to the FCC that it had accomplished the following steps towards purchasing its new switch:

- April 2015 – Started process of selecting new switch location
- August 2017 – Finalized development of site requirements for the new switch location.
- November 2017 – Identified building of new switch
- January 2018 – Made initial offer for building to house the new switch
- August 2018 – Closed on purchase of the building
- September 2019 – Completed the process to build out the switch site, and installation of the switch was underway

Pursuant to the quote provided by Aureon's vendor, Aureon purchased the new switch on November 14, 2019. The switching equipment installation began on February 11, 2020, and all hardware and all software installation was completed on April 10, 2020. Data table loading and equipment testing followed, and the new switch is currently operating alongside Aureon's legacy switch. The new switch is currently processing billable toll calls. Aureon's legacy switches and the new switch are all operational and interconnected. All legacy TDM circuits remain on Aureon's old tandems. The sequence of circuit migration and duration of the circuit migration project is highly dependent on the subtending LECs. Aureon will request and prioritize TDM to IP conversions for LECs that are currently IP-capable and able to move circuits to the new switch. The overall circuit migration project could easily take 24 months or more.

The FCC has previously found that it is appropriate for a carrier to include the cost of spare capacity in the rate base if it provides customers with greater assurance of continuity of

¹² *American Telephone and Telegraph Company, the Associated Bell System Companies, Charges for Interstate Telephone Service, AT&T Transmittal Nos. 10989, 11027, 11657*, Phase II Final Decision and Order, 64 FCC 2d 1, 38, ¶ 111 (1977) ("AT&T Phase II Order").

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service in the event of a malfunction of on-line equipment.¹³ The allowable amount of depreciation and investment cost for the new switch is set forth in Aureon's cost study, and the new switch will be in service for the entire test period ending June 30, 2021. Because the new switch is currently operating and processing billable toll calls, and will provide spare, redundant capacity during the legacy switch transition period, it is appropriate for Aureon to include the cost of the new central office equipment facilities in its rate base.

D. Traffic Demand

For the relevant test period, i.e., July 1, 2020 through June 30, 2021, Aureon developed a traffic demand projection based on recently observed traffic volumes. Traffic volumes have declined precipitously since the beginning of 2018, though the drop in traffic appears to be moderating somewhat, though still declining, in recent months. In its September 30, 2019 tariff filing, Aureon decided not to use linear trend lines or regression analyses because those projections resulted in traffic volumes becoming negative during the relevant test period. Aureon also weighed whether to use a simple average percentage calculation over a certain time period to determine the monthly percentage decline in traffic for the projection period. However, that methodology did not capture the moderation in the decline in traffic volumes in the most recent months for which actual data was available.

For its September 2019 tariff filing, Aureon decided to use a "weighted average" calculation to give more emphasis to the most recent monthly percentage changes in actual traffic volumes as that data is a better indicator of future traffic trends based on recent changes in traffic volumes, and Aureon continues to use that calculation in this submission to determine whether its projected future traffic volumes are reasonable. A linearly weighted average ("LWA") of the traffic volume percent change is an average calculation that more heavily weights recent data. An LWA calculation is a method of determining the average value of an item being evaluated over a given period of time. This method weights recent data more heavily than older data, and is used to analyze trends in the data. The most recent percent change data has the highest weighting, and each prior data point is given progressively less weight. The weights drop in a linear manner when applied to older data.

The equation to calculate the LWA for the percent change in CEA traffic volumes is as follows:

$$\text{LWA} = \frac{(\text{PVC}_n * W_1) + (\text{PVC}_{n-1} * W_2) + (\text{PVC}_{n-2} * W_3) \dots}{\sum W}$$

Where: PVC = Percent traffic volume change for the period
n = The most recent period, n-1 is the prior period, n-2 is two periods prior, etc.

¹³ See *Communications Satellite Corporation, Investigation Into Charges, Practices, Classifications, Rates, and Regulations*, Decision, 57 FCC 2d 1101 ¶ 93 (1975) ("Comsat").

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W = The assigned weight to each period, with the highest weight applied first, and then decreasing linearly based on the number of periods used. The number of weights used corresponds to the number of periods being analyzed.

For example, if there are four periods of traffic volume data being analyzed, the percent change for the most recent period would be given a weight of four, the prior period would be given a weight of three, the period before that would be given a weight of two, and the final period would be given a weight of one. The calculation for a hypothetical data set where the change in month-over-month traffic volumes (from most recent to oldest) are -1%, -2%, -5%, and -7%, is as follows: $LWA = ((-1 * 4) + (-2 * 3) + (-5 * 2) + (-7 * 1)) / (4 + 3 + 2 + 1) = -2.7\%$. In contrast, a simple average $((-1 + -2 + -5 + -7) / 4)$ results in a monthly average decline in traffic volume of -3.75%. The LWA calculation results in a lower percent-change in average month-over-month traffic volumes than the simple average calculation, and the LWA result is more consistent with the lower traffic volume percentage changes shown in the most recent periods for the hypothetical dataset. The LWA calculation is a better methodology for capturing recent traffic percentage changes than the simple average due to the weighting methodology.

For the subject tariff filing, Aureon performed several LWA calculations on the month-over-month percent change of actual CEA traffic volumes to determine an appropriate range for the percentage decline in traffic for the relevant test period. Aureon performed an LWA calculation for interstate CEA traffic volumes for the period from December 2019 to April 2020.¹⁴ As of the date of this filing, April 2020 is the most recent month for which traffic volume data is available. The LWA calculation shows that there is a -1.198% decline in the month-over-month average weighted percent change in traffic volumes. Aureon also performed an LWA calculation for interstate CEA traffic volumes over an even longer period – from February 2018 to April 2020. The second LWA calculation shows a -2.523% decline in the month-over-month average weighted percent change in traffic volumes. The table below summarizes the data used for the LWA calculation, the month-over-month percent volume changes, and the resulting average weighted percentage decline in interstate traffic.

¹⁴ Although there are seventeen months of traffic volumes for this period, there are only sixteen months of percent-change data, or sixteen “periods,” because the first percent change is for December 2018 to January 2019. Thus, there is no percent-change in traffic for the initial month (December 2018) in the dataset. There is no percent-change entry for the initial month in the datasets for all of the other LWA calculations performed for the same reason. The formula to calculate the month-to-month percent-change in traffic volume is as follows: $((\text{Volume Month 2} - \text{Volume Month 1}) / \text{Volume Month 1} * 100)$.

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	Total Interstate MOU			Monthly Traffic Decline	Weighted Average Decline
Jan-18	233,088,696				
Feb-18	229,017,605			-1.747%	
Mar-18	218,059,092			-4.785%	
Apr-18	209,221,765			-4.053%	
May-18	206,581,997			-1.262%	
Jun-18	177,623,352			-14.018%	
Jul-18	176,128,801			-0.841%	
Aug-18	177,536,156			0.799%	
Sep-18	158,926,709			-10.482%	
Oct-18	186,198,995			17.160%	
Nov-18	129,198,694	Monthly	Weighted	-30.613%	
Dec-18	113,996,561	Traffic Decline	Average Decline	-11.766%	
Jan-19	140,767,962	23.484%		23.484%	
Feb-19	124,117,950	-11.828%		-11.828%	
Mar-19	122,970,681	-0.924%		-0.924%	
Apr-19	96,823,209	-21.263%		-21.263%	
May-19	79,091,486	-18.314%		-18.314%	
Jun-19	76,438,852	-3.354%		-3.354%	
Jul-19	80,841,190	5.759%		5.759%	
Aug-19	78,193,172	-3.276%		-3.276%	
Sep-19	81,372,028	4.065%		4.065%	
Oct-19	94,649,908	16.317%		16.317%	
Nov-19	75,672,151	-20.050%		-20.050%	
Dec-19	67,555,124	-10.727%		-10.727%	
Jan-20	65,470,058	-3.086%		-3.086%	
Feb-20	51,913,445	-20.707%		-20.707%	
Mar-20	74,436,391	43.386%		43.386%	
Apr-20	67,525,204	-9.285%	-1.198%	-9.285%	-2.523%

Aureon also performed an LWA analysis of intrastate CEA traffic similar to that performed for interstate CEA traffic. That analysis shows an increase in the month-over-month average weighted percentage of intrastate traffic volumes as shown in the table below:

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	Total Intrastate MOU			Monthly	Weighted
				Traffic Decline	Average Decline
Jan-18	15,462,724				
Feb-18	13,997,547			-9.476%	
Mar-18	16,059,924			14.734%	
Apr-18	18,870,164			17.498%	
May-18	15,650,906			-17.060%	
Jun-18	14,707,024			-6.031%	
Jul-18	14,696,518			-0.071%	
Aug-18	15,324,328			4.272%	
Sep-18	13,492,026			-11.957%	
Oct-18	15,863,818			17.579%	
Nov-18	14,867,250	Monthly	Weighted	-6.282%	
Dec-18	13,788,526	Traffic Decline	Average Decline	-7.256%	
Jan-19	15,566,317	12.893%		12.893%	
Feb-19	14,140,161	-9.162%		-9.162%	
Mar-19	14,440,252	2.122%		2.122%	
Apr-19	13,931,706	-3.522%		-3.522%	
May-19	13,825,442	-0.763%		-0.763%	
Jun-19	12,799,978	-7.417%		-7.417%	
Jul-19	16,979,349	32.651%		32.651%	
Aug-19	17,200,137	1.300%		1.300%	
Sep-19	16,618,195	-3.383%		-3.383%	
Oct-19	18,303,470	10.141%		10.141%	
Nov-19	16,448,985	-10.132%		-10.132%	
Dec-19	16,879,645	2.618%		2.618%	
Jan-20	18,276,018	8.273%		8.273%	
Feb-20	16,195,584	-11.383%		-11.383%	
Mar-20	20,866,393	28.840%		28.840%	
Apr-20	21,749,303	4.231%	4.536%	4.231%	3.097%

Aureon performed an LWA calculation to determine if there was an overall downward trend in traffic volumes for all CEA traffic (both interstate and intrastate). The results of that calculation is set forth below.

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	Total Interstate and Intrastate MOU			Monthly Traffic Decline	Weighted Average Decline
Jan-18	248,551,420				
Feb-18	243,015,152			-2.227%	
Mar-18	234,119,016			-3.661%	
Apr-18	228,091,929			-2.574%	
May-18	222,232,903			-2.569%	
Jun-18	192,330,376			-13.455%	
Jul-18	190,825,319			-0.783%	
Aug-18	192,860,484			1.067%	
Sep-18	172,418,735			-10.599%	
Oct-18	202,062,813			17.193%	
Nov-18	144,065,944	Monthly	Weighted	-28.702%	
Dec-18	127,785,087	Traffic Decline	Average Decline	-11.301%	
Jan-19	156,334,279	22.342%		22.342%	
Feb-19	138,258,111	-11.563%		-11.563%	
Mar-19	137,410,933	-0.613%		-0.613%	
Apr-19	110,754,915	-19.399%		-19.399%	
May-19	92,916,928	-16.106%		-16.106%	
Jun-19	89,238,830	-3.958%		-3.958%	
Jul-19	97,820,539	9.617%		9.617%	
Aug-19	95,393,309	-2.481%		-2.481%	
Sep-19	97,990,223	2.722%		2.722%	
Oct-19	112,953,378	15.270%		15.270%	
Nov-19	92,121,136	-18.443%		-18.443%	
Dec-19	84,434,769	-8.344%		-8.344%	
Jan-20	83,746,076	-0.816%		-0.816%	
Feb-20	68,109,029	-18.672%		-18.672%	
Mar-20	95,302,784	39.927%		39.927%	
Apr-20	89,274,507	-6.325%	-0.273%	-6.325%	-1.735%

The January 2019 to April 2020 combined CEA traffic data shows a month-over-month average weighted percentage decline in traffic of -0.273%, and the February 2018 to April 2020 data shows an average weighted percentage decline in traffic of -1.735%. The LWA analysis of interstate-only CEA traffic indicates that the month-over-month LWA percentage decline for interstate CEA traffic for the relevant test period is in the range of -1.198% to -2.523%. The LWA analysis of all CEA traffic indicates that the percentage decline for all CEA traffic for the relevant test period is in the range of -0.273% to -1.735%.

It is important to note that although overall CEA traffic volumes are decreasing, Aureon experienced an unexpected increase in interstate and intrastate traffic volumes in March 2020. If the outlier data for March 2020 was removed from the interstate and intrastate CEA MOU LWA calculation (i.e., only the March 2020 weighted data was removed from the calculation, and all other weighted data was used), the LWA calculation would range from -5.257% to -4.481%. Based on the foregoing LWA analyses, Aureon is justified in applying a -0.273%

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to -1.735% month-over-month decline in traffic volumes during the relevant test period. The average percentage decline is -1.2325% $(-0.273\% + -1.735\% \text{ divided by } 2 = -1.2325\%)$. Aureon determined that it should use a more conservative percentage (i.e., a lower percentage decline in traffic even though that would result in higher traffic volume projections, and a lower CEA rate for purposes of the cost study) for its traffic projections than that indicated by the foregoing LWA analyses and average LWA percentage decline in traffic, and used a 1.0% rate of decline in month-over-month traffic volumes for the relevant test period.

Aureon submits that its traffic demand forecasts are reasonable, and the accuracy of its projections was borne out by its September 2019 tariff filing. In its September 2019 tariff filing, Aureon projected that it would have 802,701,094 total MOUs for the September 2019 to April 2020 period. The actual traffic demand data for that time period shows that there were 799,731,261 MOUs. As shown in the chart below, Aureon was more than 99% accurate in projecting its traffic demand for the September 2019 to April 2020 time period.

	Total Projected MOU			Total Actual MOU		
	Interstate	Intrastate Total	Total	Interstate	Intrastate Total	Total
2019						
Sep-19	76,908,275	28,457,716	105,365,991	81,372,028	26,601,943	107,973,971
Oct-19	75,689,231	28,189,563	103,878,794	94,649,908	27,455,499	122,105,407
Nov-19	74,491,377	27,926,071	102,417,448	75,672,151	25,345,245	101,017,396
Dec-19	73,314,320	27,667,154	100,981,474	67,555,124	25,775,905	93,331,029
Total 4 Months Ending December 2019	300,403,203	112,240,504	412,643,707	319,249,211	105,178,592	424,427,803
2020						
Jan-20	72,157,677	27,412,727	99,570,404	65,470,058	27,416,635	92,886,693
Feb-20	71,021,070	27,162,708	98,183,778	51,913,445	24,223,996	76,137,441
Mar-20	69,904,130	26,917,015	96,821,145	74,436,391	32,104,678	106,541,069
Apr-20	68,806,493	26,675,568	95,482,061	67,525,204	32,213,051	99,738,255
Total 4 Months ending April 2020	281,889,369	108,168,018	390,057,387	259,345,098	115,958,360	375,303,458
Total traffic Sept 2019 - April 2020	582,292,572	220,408,522	802,701,094	578,594,309	221,136,952	799,731,261
	Percent Difference Actual vs. Projected (Actual minus Projected divided by Projected)					
Interstate MOUs	-0.635%	Accuracy = 99.365%				
Intrastate Mous	0.330%	Accuracy = 99.670%				
Total MOUs	-0.370%	Accuracy = 99.630%				

Aureon's projections show that traffic demand for CEA service continues to decline, with total projected interstate and intrastate MOUs of 744,402,207 and 355,118,758 for the relevant test period, respectively, for a total of 1,099,520,964 MOUs. A table summarizing the data for total interstate and intrastate MOUs for CEA service is shown below:

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Projected 2020		Interstate	Intrastate	Total
Jan-20	Actual	65,470,058	27,416,635	92,886,693
Feb-20	Actual	51,913,445	24,223,996	76,137,441
Mar-20	Actual	74,436,391	32,104,678	106,541,069
Apr-20	Actual	67,525,204	32,213,051	99,738,255
May-20	Projected-Aureon	66,849,952	31,890,921	98,740,873
Jun-20	Projected-Aureon	66,181,452	31,572,012	97,753,464
Jul-20	Projected-Aureon	65,519,638	31,256,292	96,775,929
Aug-20	Projected-Aureon	64,864,442	30,943,729	95,808,170
Sep-20	Projected-Aureon	64,215,797	30,634,291	94,850,088
Oct-20	Projected-Aureon	63,573,639	30,327,948	93,901,588
Nov-20	Projected-Aureon	62,937,903	30,024,669	92,962,572
Dec-20	Projected-Aureon	62,308,524	29,724,422	92,032,946
Total 12 Months ending December 2020		775,796,445	362,332,644	1,138,129,089
Total 6 Months ending Decemer 2020		383,419,942	182,911,351	566,331,294
Jan-21	Projected-Aureon	61,685,438	29,427,178	91,112,617
Feb-21	Projected-Aureon	61,068,584	29,132,906	90,201,490
Mar-21	Projected-Aureon	60,457,898	28,841,577	89,299,475
Apr-21	Projected-Aureon	59,853,319	28,553,161	88,406,481
May -21	Projected-Aureon	59,254,786	28,267,630	87,522,416
Jun-21	Projected-Aureon	58,662,238	27,984,954	86,647,192
Total 6 Months Ending June 2021		360,982,264	172,207,406	533,189,671
TOTAL TYCOS YE 6/30/2021		744,402,207	355,118,758	1,099,520,964

E. Allocation Methodology for Ethernet Rings

The FCC's *Second Rate Order* indicated that a change should be made in the allocation methodology for CWF, in particular with regard to the treatment of Ethernet circuits.¹⁵ Aureon used an updated methodology in its September 2019 tariff filing, and continues to use the same methodology for its current filing. In particular, all rings are essentially treated equally – there is no “weighting” being done with regard to DS-3 or other circuit quantities. Further down the allocation methodology, DS-3 miles (i.e., circuit miles) are used to allocate joint and common rings. This is appropriate because none of these joint and common rings contain Ethernet circuits – they are all TDM based and contain various quantities of DS-3s, and ultimately, DS-1s.

F. Circuit Inventory

Aureon has updated its circuit inventory from its September 2019 tariff filing. The updated information is included in this filing in the Excel file labeled “Aureon (CONFIDENTIAL) Circuit Inventory – June 2020 Update.xlsx”. This information includes data about Aureon’s unregulated services, is proprietary and confidential, and therefore, it is being filed under seal. Aureon’s fiber ring records showing DS3 circuits transported within all rings over Aureon’s fiber network were reviewed and summarized per ring. The channelized DS3 circuits found within those rings were itemized from those records and separated into CEA

¹⁵ *Second Rate Order* ¶ 35.

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and non-CEA categories. The counts found on the final ring summary were cross-checked back to the full ring record inventory to assure all circuits were accounted for in each ring. All Ethernet (BDS /data transport) and other non-CEA circuits were included in the overall count of circuits in this inventory.

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G. Cost and Traffic Studies

Development of cost and traffic studies supporting this 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 Aureon's 2019 and 2020 year-to-date operating results and 2020 budget. Anticipated changes in investments and reserves were reflected in conjunction with Aureon's ongoing plant modernization and upgrade programs.
- 2) All investments used in the projected period ending June 30, 2021 were included in the revenue requirement development using an "average investment" methodology as shown on the tab labeled Section 9 PYCOS and TYCOS financials. For CWF, GSF, and other investments, a simple average of beginning and end-of-period was utilized. For COE Switching, the entire allowable depreciated amount for the new switch was used as it will be in operation for the entire TYCOS period.
- 3) Projection of the test period Aureon revenue requirement was accomplished using FCC Part 64 cost allocation procedures applied to total company projected investment and expense amounts determined in (1) above. Aureon's revenue requirement summary data is contained in Section 2 of the cost support material. The following cost and traffic studies are provided:

<u>Section</u>	<u>Description</u>
Section 2	Rate Development
Section 3	Part 69 – TYCOS 2021
Section 4	Part 36 – TYCOS 2021
Section 5	Part 64 – TYCOS 2021
Section 6	Part 69 – PYCOS 2019
Section 7	Part 36 – PYCOS 2019
Section 8	Part 64 – PYCOS 2019
Section 9	Development of Inputs

- 4) Projection of the test period interstate CEA revenue requirement was accomplished using Parts 36/69 separation procedures applied to projected total Aureon investment and expense amounts. Aureon's interstate CEA revenue requirement was determined using a return on investment of 10%, which reflects the rate of return currently authorized by the Commission for ILEC interstate ratemaking purposes, effective July 1, 2020. The summary Part 36 and Part 69 revenue requirements are contained in Sections 3 and 4 of the cost support material.

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- 5) Actual interstate CEA minutes for 2019 decreased to 1,118,493,713 from 2,215,578,423 in 2018. Projected CEA minutes for the test period ending June 30, 2021 are presented in Section 2 following. The projection for the test period was conducted by extrapolating the actual results from 2019 to April 2020. Further, intrastate CEA minutes for the period ending June 30, 2021 were also projected and included using the actual results from 2019 to April 2020, as well as local intraMTA land-to-mobile minutes, which are included as a result of the revised allocation methodology required by the *Second Rate Order*.
- 6) Aureon's interstate CEA revenue requirement for the projected period ending June 30, 2020 amounts to \$3,412,435 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 \$28,175 to arrive at the amount of \$3,384,260, representing the target 12 month revenue requirement to be recovered from the recurring CEA switched transport rate. This revenue requirement is below the previously projected revenue requirement for the test period ending August 31, 2020 in Aureon's September 2019 tariff filing.
- 7) The projected switched transport charge supported by Aureon's projected costs is determined by dividing the remaining interstate revenue requirement of \$3,384,260 determined in (6) above by projected interstate CEA minutes of 744,402,207 determined in (5) above resulting in a cost of \$0.00455 per CEA minute. An analysis of the development of the interstate switched transport rate is presented in Section 2. Although this represents an increase from Aureon's current tariff rate, Aureon will not implement this increase, and instead proposes to maintain its current tariff rate of \$0.00411.

IV. SUMMARY

Section 2 presents a summary of the cost supported rate for the test period ending June 30, 2021, which is projected to generate annual switched transport revenues of \$3,384,260. When combined with nonrecurring revenues of \$28,175, total test period revenues are projected in the amount of \$3,412,435 using the cost supported rate. Aureon proposes to maintain its existing switched transport rate of \$0.00411 per MOU. The Company's proposed switched transport rate of \$0.00411 is projected to generate switched transport revenues of \$3,059,493. When combined with nonrecurring revenues of \$28,175, total test period revenues are projected in the amount of \$3,087,668, resulting in a return of -7.26% on interstate investments for the projected twelve-month period ending June 30, 2021.

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, 2021. Cost and revenue data for the historical period from January 1 through December 31, 2019 is contained in the Company's Tariff Review Plan (TRP) which has been filed under separate cover.

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This filing is presented to comply with the Commission's Order, *July 1, 2020 Annual Access Charge Tariff Filings*, DA 20-413, WC Docket No. 20-55₂, and *Material to be Filed in Support of 2020 Annual Access Tariff Filings*, DA 20-502, WC Docket No. 20-55₂, establishing the Tariff Review Plan (TRP) schedules to be filed in support of the annual access charge tariff filings. With this filing, Aureon proposes to maintain its existing switched transport rate of \$0.00411.

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TARIFF REVIEW PLAN

INDEX

2020 Annual Filing ROR TRP

RORCOS-1(P)
RORCOS-1(H)
RORCOS-2
RORMAG-1
RORREV-1
RORREV-2
RORRTE-1
RORRTE-2
RORRTE-3
RORDMD-2
RORDMD-3
RORERN-1

2020 ROR ILEC ICC Data

Not Applicable

2020 ROR ILEC 2020-21 Summary TRP

Not Applicable

2020 Rate Ceiling CAF Final

Not Applicable

2020 Rate Ceiling No CAF Final

Not Applicable

2020 Tariff Rate Comp CAF Final

Not Applicable

2020 Tariff Rate Comp No CAF Final

Not Applicable

2020 True Up Final BRI-RES

Not Applicable

2020 True Up Final BRI-SLB

Not Applicable

Certification

CERTIFICATION

I certify that I am the Chief Financial Officer of Iowa Network Services, Inc. d/b/a Aureon Network Services, have overall responsibility for the preparation of the 2020 Annual Access Charge Tariff Filing, and am authorized to execute this certification. Based upon information provided to me by employees or outside accountants responsible for the preparation of, or for supervision of the preparation of, the data submitted in support of the rates contained in the proposed tariff, I hereby certify that the data have been examined and reviewed and are true, correct and complete to the best of my knowledge and belief.

June 16, 2020

Date



Melissa Ness

Chief Financial Officer

Iowa Network Services, Inc. d/b/a

Aureon Network Services