

PUBLIC VERSION

**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, 2024 ANNUAL ACCESS CHARGE TARIFF FILING

JUNE 17, 2024

IOWA NETWORK ACCESS DIVISION

INTERSTATE ACCESS TARIFF FILING

**PROSPECTIVE PERIOD
JULY 1, 2024 – JUNE 30, 2025**

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IOWA NETWORK ACCESS DIVISION

FCC Tariff Filing

June 17, 2024

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, 2024 Annual Access Charge Tariff Filings*, Order, DA 24-294, WC Docket No. 24-41 (rel. March 27, 2024). That Order establishes procedures for the 2024 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 61.38, Section 61.39, and Section 61.50, 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 are presented in the Commission’s Order, *In the Matter of July 1, 2024 Annual Access Charge Tariff Filings*, Order, DA 24-434, WC Docket No. 24-41 (rel. May 10, 2024). Aureon also submits materials consistent with the Commission’s *Second Rate Order*, 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).¹

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 contain proprietary and confidential information that is not generally available to the public, that information is being filed confidentially pursuant to the *Protective Order*.²

¹ *In the Matter of Iowa Network Access Division Tariff F.C.C. No. 1*, 34 FCC Rcd. 1510, 1515, 1517, 1523 ¶¶ 13, 18, 35 (2019) (“*Second Rate Order*”).

² *In the Matter of July 1, 2024 Annual Access Charge Tariff Filings*. Protective Order, DA 24-509, WC Docket No. 24-41 (rel. May 31, 2024) (“*Protective Order*”).

The accompanying supporting material contains the introduction, overview, rate development narrative, access rate development, and corresponding cost support material filed with the Commission on June 17, 2024.

II. OVERVIEW

Section III presents a summary of the proposed supported rate. The cost study supports a rate of \$0.02189 per minute-of-use (“MOU”), and Aureon’s supported switched transport rate of \$0.02189 per MOU is projected to generate annual switched transport revenues of \$2,171,833. When combined with nonrecurring revenues of \$5,000, and \$57,276 of originating 8YY revenue at the FCC mandated rate of \$0.001 for toll free traffic, total test period revenues are projected in the amount of \$2,234,110, resulting in a return of 9.75% on interstate investments for the projected twelve-month period ending June 30, 2025. The cost supported rate of \$0.02189 per MOU is just and reasonable because it complies with the rate of return of 9.75 percent prescribed by the Commission and section 205 of the Communications Act, 47 U.S.C. § 205, requires a rate of return prescribed by the Commission to be just and reasonable.

However, in order to avoid the cost of litigation that may be required to defend a rate increase, 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 only \$407,765 ($\$0.00411 \times 99,212,995 \text{ MOUs} = \$407,765$). When combined with nonrecurring revenues of \$5,000, and \$57,276 of originating 8YY revenue, total test period revenues are projected in the amount of only \$470,041, resulting in a return of -92.98% on interstate investments for the projected twelve-month period ending June 30, 2025. Therefore, when applied to the test year, the existing switched transport rate of \$0.00411 per MOU will fail to provide the minimum rate of return of 9.75 percent prescribed by the Commission as just and reasonable under section 205 of the Communications Act.

Interstate CEA MOUs decreased at a rate of -1.92% during 2023 to 643,056,416 from 655,655,166 in 2022. For the 12 month test period ending June 30, 2025, i.e., from July 1, 2024 to June 30, 2025, Aureon is projecting interstate CEA minutes of 99,212,995 MOUs. The change in interstate traffic MOUs for the projected test period results from a review of the actual monthly traffic volumes from October 2023 to April 2024, which showed that Aureon experienced a substantial decrease in MOUs, and the decrease is expected to carry forward into the test period. This reduction in MOUs was both substantial and likely permanent, as it is assumed the major access-stimulating competitive exchange carriers (“CLECs”) have disconnected from the CEA network and are either no longer engaged in access stimulation or are transporting their traffic over other routes. Actual monthly interstate MOU for the period January 2023 to September 2023 averaged 66.4 million MOUs, while the period from October 2023 to April 2024 showed an average of 14.3 million MOUs. 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”.³ Thus, using a 12-month test period from July 1, 2024 to June 30, 2025 complies with the requirement to use a 12 month projection of costs.

³ 47 C.F.R. § 61.38(b)(1)(ii).

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:

- 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 service 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 CLEC.⁴ Accordingly, if Aureon was regulated as an ILEC and not a CLEC, ILEC accounting 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.⁵ 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 are being filed under seal and submitted directly to staff.

⁴ *Second Rate Order*, 34 FCC Red. at 1513 ¶ 9.

⁵ 47 C.F.R. § 32.27.

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 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 04012024.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 04-2024”. The data contained in the “Aureon (Confidential) Database of DS-3 Pricing 04012024.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 “un-channelized” 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, consisting of 28 DS-1 channels transported inside the channelized DS-3 circuit. 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 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. Un-channelized circuits do not have an Aureon-

⁶ *Second Rate Order*, 34 FCC Rcd. at 1515-16 ¶ 16.

⁷ *Id.*

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. The channelization costs are contained in the COE Transmission Account (Account No. 2232), which are included in the intracompany lease rate. [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] using both the un-channelized DS-3 leased circuits with appropriate adjustments and the channelized DS-3 leased circuits to determine the baseline fair market rate is a better proxy due to the greater number of exemplars. In order to make the un-channelized 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 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 (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 04012024.xlsx” submitted with this filing. The first tab of the spreadsheet titled “Complete List 04-2024” is the actual database itself, and is current as of April 2024. The second tab titled “Non-Channelized Only” contains only un-channelized DS-3 circuits, i.e., the channelized DS-3 leased circuits have been removed, leaving [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] un-channelized DS-3 circuit leases. This was done so that the average price (or revenue per circuit) for only un-channelized DS-3 circuits could be determined. The average revenue per un-channelized DS-3 circuit is [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL], and the average amount billed per mile is [BEGIN CONFIDENTIAL] [REDACTED] [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-Chan w_Transport Cost,” and this third tab contains the same [BEGIN CONFIDENTIAL] [REDACTED] [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] [REDACTED] [END CONFIDENTIAL], and average transport-only amounts

billed per-mile of [BEGIN CONFIDENTIAL] [REDACTED] [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-1 circuits, which comprise the channelized DS3 circuit. 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] [REDACTED] [END CONFIDENTIAL], and average transport-only 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 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] [REDACTED] [END CONFIDENTIAL], and average transport-only amounts billed per-mile of [BEGIN CONFIDENTIAL] [REDACTED] [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] [REDACTED] [END CONFIDENTIAL] and adjusted average transport-only amounts billed per-mile of [BEGIN CONFIDENTIAL] [REDACTED] [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] [REDACTED] [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] [REDACTED] [END CONFIDENTIAL].

[REDACTED] [END CONFIDENTIAL], and average transport-only amounts billed per-mile of [REDACTED] [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 [REDACTED] [END CONFIDENTIAL], and adjusted average transport-only amounts billed per-mile of [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.

Finally, on the sixth tab of the workbook titled “Channelized DS3s,” this worksheet contains an analysis of only the channelized DS-3 leased circuits. [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 [REDACTED] [END CONFIDENTIAL], and average transport-only amounts billed per-mile of [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 [REDACTED] [END CONFIDENTIAL], and average amounts billed per-mile of [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.

The attached Excel spreadsheet titled “JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx” provides the two approaches, Approach A and Approach B, for calculating fair market value for CEA transport under the “Network Lease – Cost Market Comp” tab. 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 [REDACTED] [END CONFIDENTIAL]. 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 revenue per circuit for unregulated DS-3 circuits [BEGIN CONFIDENTIAL] [REDACTED]

[END CONFIDENTIAL] 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 [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL], as the basis for the fair market value calculation. That amount was multiplied by average weighted CEA transport miles 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 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 attached Excel spreadsheet titled “JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx” on the tabs labeled “Network Lease Devel – TYCOS” and “Network Lease Devel – PYCOS”, respectively. The results are summarized below:

[BEGIN CONFIDENTIAL]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[END CONFIDENTIAL]

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. 11.⁸ As the CLEC rate benchmark in FCC Rule 61.26 applies solely to non-dominant carriers, Aureon disputes the application of the CLEC rate benchmark to dominant carriers like Aureon, and consequently previously 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 [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL]

⁸ Iowa Network Access Division, *Tariff F.C.C. No. 1*, 33 FCC Red. 7517, 7532 (2018) (“*First Rate Order*”).

miles, which is based on data from April, 2024⁹ Aureon now updates that calculation below:¹⁰
[BEGIN CONFIDENTIAL]

[END CONFIDENTIAL]

Aureon's cost supported rate of \$0.02189 is above the composite benchmark. However, Aureon proposes to maintain its current tariff rate of \$0.00411, which is below the composite benchmark rate of \$0.005125 calculated above. Accordingly, Aureon's current CEA tariff rate complies with the *First Rate Order* requirement to be at or below the CenturyLink composite benchmark rate.

C. Traffic Demand

For the relevant test period, i.e., July 1, 2024 through June 30, 2025, Aureon developed a traffic demand projection based on recently observed traffic volumes. Traffic volumes were extremely variable in 2023 on a month over month basis from January through September, but volumes beginning October, 2023 reflected a major change in volume. Aureon believes that one or more of its subtending LECs has either discontinued service or shifted transport away from the Aureon network. Post, October, the newly reduced volumes continued to fluctuate, while remaining at the relatively reduced levels.

⁹ A spreadsheet containing Aureon's average weighted mileage calculation is being submitted confidentially in an Excel file called "Aureon (Confidential) 2023 Weighted Mile Average.xlsx".

¹⁰ The rate elements are from CenturyLink Operating Companies Tariff F.C.C. No. 11, § 6.8.1(C)(1), 6th Revised Page 6-318, 4th Revised Page 6-318.1. Those rate elements were used by the FCC to calculate the composite benchmark rate in the *First Rate Order*.

| | Interstate | Monthly Chg |
|---------|------------|-------------|
| Jan-23 | 73,084,824 | |
| Feb-23 | 66,277,288 | -9.3146% |
| Mar-23 | 83,518,938 | 26.0144% |
| Apr-23 | 66,407,357 | -20.4883% |
| May-23 | 70,465,964 | 6.1117% |
| June-23 | 65,692,400 | -6.7743% |
| July-23 | 57,992,466 | -11.7212% |
| Aug-23 | 60,468,486 | 4.2696% |
| Sep-23 | 53,524,160 | -11.4842% |
| Oct-23 | 15,779,641 | -70.5187% |
| Nov-23 | 14,007,782 | -11.2288% |
| Dec-23 | 15,837,110 | 13.0594% |
| Jan-24 | 14,874,087 | -6.0808% |
| Feb-24 | 13,322,436 | -10.4319% |
| Mar-24 | 10,916,145 | -18.0619% |
| Apr-24 | 15,373,163 | 40.8296% |

The wide swings in traffic volumes make traffic demand projections difficult to determine for the test period. In projecting for the test year ending 6/30/2025, Aureon determined the average monthly value of the newly reduced MOU from October 2023 through April 2024, and then applied a consistent monthly reduction of -1.23%. This reduction is consistent with prior projections and industry expectations. Aureon has no reason to believe that the drastic reduction seen in the fourth quarter 2023 will be reversed or otherwise expect to see a return to the monthly levels that were seen prior to the substantial change. A similar monthly reduction was applied to other categories of MOU.

The data for total interstate and intrastate MOUs for CEA service is shown below:

| | | Interstate | Monthly Chg | State Access | Monthly Chg | Local | Monthly Chg | Inter Orig 800 |
|--------------------------------------|-----------------|------------|-------------|--------------|-------------|-----------|-------------|----------------|
| Actual MOU Per Above: | Jan-23 | 73,084,824 | | 15,746,652 | | 4,760,421 | | 0 |
| | Feb-23 | 66,277,288 | -9.3146% | 13,685,918 | | 4,156,194 | | 0 |
| | Mar-23 | 83,518,938 | 26.0144% | 17,146,946 | | 5,312,657 | | 0 |
| | Apr-23 | 66,407,357 | -20.4883% | 14,798,656 | | 5,302,245 | | 0 |
| | May-23 | 70,465,964 | 6.1117% | 15,619,150 | | 4,837,134 | | 0 |
| | June-23 | 65,692,400 | -6.7743% | 15,439,405 | | 4,811,851 | | 0 |
| | July-23 | 57,992,466 | -11.7212% | 13,772,605 | | 4,270,634 | | 5,438,099 |
| | Aug-23 | 60,468,486 | 4.2696% | 15,434,601 | | 4,663,525 | | 5,558,701 |
| | Sep-23 | 53,524,160 | -11.4842% | 14,032,311 | | 4,126,241 | | 5,386,345 |
| | Oct-23 | 15,779,641 | -70.5187% | 14,742,766 | | 3,930,150 | | 5,319,955 |
| | Nov-23 | 14,007,782 | -11.2288% | 12,835,194 | | 3,419,225 | | 5,227,812 |
| | Dec-23 | 15,837,110 | 13.0594% | 13,103,428 | | 3,590,690 | | 5,363,554 |
| | Jan-24 | 14,874,087 | -6.0808% | 13,294,100 | | 3,704,519 | | 5,622,128 |
| | Feb-24 | 13,322,436 | -10.4319% | 11,703,917 | | 3,116,878 | | 4,892,493 |
| | Mar-24 | 10,916,145 | -18.0619% | 9,237,193 | | 2,535,034 | | 5,629,757 |
| | Apr-24 | 15,373,163 | 40.8296% | 10,712,816 | | 2,929,895 | | 4,585,496 |
| | Per Spreadsheet | | -1.2350% | | -1.2350% | | -1.2350% | |
| Projected Using Average Monthly Chg: | May-24 | 14,301,481 | -6.9711% | 12,232,773 | 14.1882% | 3,318,056 | -1.2350% | 5,234,456 |
| | June-24 | 14,124,857 | -1.2350% | 12,081,699 | -1.2350% | 3,277,078 | -1.2350% | 5,169,811 |
| | July-24 | 13,950,415 | -1.2350% | 11,932,490 | -1.2350% | 3,236,606 | -1.2350% | 5,105,964 |
| | Aug-24 | 13,778,128 | -1.2350% | 11,785,123 | -1.2350% | 3,196,634 | -1.2350% | 5,042,905 |
| | Sep-24 | 13,607,968 | -1.2350% | 11,639,577 | -1.2350% | 3,157,155 | -1.2350% | 4,980,625 |
| | Oct-24 | 13,439,909 | -1.2350% | 11,495,828 | -1.2350% | 3,118,165 | -1.2350% | 4,919,115 |
| | Nov-24 | 13,273,927 | -1.2350% | 11,353,855 | -1.2350% | 3,079,655 | -1.2350% | 4,858,363 |
| | Dec-24 | 13,109,994 | -1.2350% | 11,213,635 | -1.2350% | 3,041,621 | -1.2350% | 4,798,363 |
| | Jan-25 | 12,948,085 | -1.2350% | 11,075,146 | -1.2350% | 3,004,057 | -1.2350% | 4,739,103 |
| | Feb-25 | 12,788,176 | -1.2350% | 10,938,368 | -1.2350% | 2,966,957 | -1.2350% | 4,680,575 |
| | Mar-25 | 12,630,242 | -1.2350% | 10,803,280 | -1.2350% | 2,930,315 | -1.2350% | 4,622,770 |
| | Apr-25 | 12,474,259 | -1.2350% | 10,669,859 | -1.2350% | 2,894,126 | -1.2350% | 4,565,679 |
| | May-25 | 12,320,202 | -1.2350% | 10,538,086 | -1.2350% | 2,858,384 | -1.2350% | 4,509,293 |
| | Jun-25 | 12,168,047 | -1.2350% | 10,407,941 | -1.2350% | 2,823,083 | -1.2350% | 4,453,603 |

D. 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.¹¹ Aureon used an updated methodology in its 2020 and 2022 tariff filings, 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.

E. Circuit Inventory

Aureon’s DS3 circuit inventory is included in this filing in the Excel file labeled “Aureon (Confidential) Cct Inventory 2024 FCC Filing.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 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

¹¹ *Second Rate Order* ¶ 35.

transport) and other non-CEA circuits were included in the overall count of circuits in this inventory.

[BEGIN CONFIDENTIAL]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[END CONFIDENTIAL]

F. 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 2023 and 2024 year-to-date operating results and 2024 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, 2025 were included in the revenue requirement development using an "average investment" methodology as shown on the tab labeled "Section 9 PYCOS and TYCOS Financials" on the attached Excel spreadsheet titled "JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx". For CWF, GSF, and other investments, a simple average of beginning and end-of-period was utilized.
- 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 in the attached Excel spreadsheet titled "JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx":

| <u>Spreadsheet Tab</u> | <u>Description</u> |
|------------------------|----------------------------|
| Section 2 | Rate Development |
| Section 3 | Part 69 – TYCOS 2025 |
| Section 4 | Part 36 – TYCOS 2025 |
| Section 5 | Part 64 – TYCOS 2025 |
| Section 6 | Part 69 – PYCOS 2023 |
| Section 7 | Part 36 – PYCOS 2023 |
| Section 8 | Part 64 – PYCOS 2023 |
| Section 9 | PYCOS and TYCOS Financials |

- 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 9.75%, which reflects the rate of return currently authorized by the Commission for ILEC interstate ratemaking purposes, effective July 1, 2022. The summary Part 36 and Part 69 revenue requirements are contained on tabs labeled sections 3 and 4 of the attached Excel spreadsheet titled "JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx".
- 5) Actual interstate CEA minutes for 2023 decreased to 597,302,779 from 655,655,166 in 2022. Projected CEA minutes for the test period ending June 30, 2025 are presented in the tab labeled section 2 of the Excel spreadsheet titled "JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx". The

projection for the test period was conducted by extrapolating the actual results from 2023 to April 2024, using projections based on the average from October 2023 to April 2024 and applying a -1.23% monthly decrease. Further, intrastate CEA minutes for the period ending June 30, 2025 were also projected and included using the actual results from 2023 to April 2024, 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*. In addition, the Originating 8YY MOU were projected based on 2023 and 2024 actuals

- 6) Aureon's interstate CEA revenue requirement for the projected period ending June 30, 2025 amounts to \$2,234,110 and is presented in the tab labeled section 3 of the Excel spreadsheet titled "JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx". In the tab labeled section 2 of the same excel spreadsheet, the interstate revenue requirement was reduced by the amount of projected interstate revenues from nonrecurring charges of \$5,000 and originating 8YY revenue to arrive at the amount of \$2,171,833, 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 June 30, 2023 in Aureon's June 2022 tariff filing.
- 7) The projected switched transport charge supported by Aureon's projected costs is determined by dividing the remaining interstate revenue requirement of \$2,171,833 determined in (6) above by projected interstate CEA minutes of 99,212,995 determined in (5) above resulting in a cost of \$0.02189 per CEA minute. An analysis of the development of the interstate switched transport rate is presented in the tab labeled section 2 of the same excel spreadsheet. 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

The tab labeled section 2 of the Excel spreadsheet titled "JSI (Confidential) INS 2024 FCC Filing – TYCOS YE 6-2025 – v3.xlsx" presents a summary of the cost supported rate for the test period ending June 30, 2025, which is projected to generate annual switched transport revenues of \$2,171,833 according to the Commission's prescribed just and reasonable rate of return of 9.75 percent. When combined with nonrecurring revenues of \$5,000, and \$57,276 in originating 8YY revenue, total test period revenues are projected in the amount of \$2,234,110 using the cost supported rate and the just and reasonable rate of return prescribed by the Commission of 9.75 percent.

However, in order to avoid the cost of litigation that may be required to defend a rate increase, 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 only \$407,765. When combined with nonrecurring revenues of \$5,000, and \$57,276 in originating 8YY revenue, total test period revenues are projected in the amount of \$470,041, resulting in an unreasonably low rate of return of -92.98% on interstate investments for the projected twelve-month period ending June 30, 2025. Therefore, when applied to the test year, the existing switched transport rate of \$0.00411 per MOU will fail to provide the minimum rate of return of 9.75 percent prescribed by the Commission as just and reasonable under section 205 of the Communications Act.

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, 2025. Cost and revenue data for the historical period from January 1 through December 31, 2023 is contained in the Company's Tariff Review Plan (TRP) attached as the Excel spreadsheet titled "INS – 2024 Annual Filing RoR Fixed Support.xls".

This filing is presented to comply with the Commission's orders *In the Matter of July 1, 2024 Annual Access Charge Tariff Filings*, Order, DA 24-294, WC Docket No. 24-41 (rel. March 27, 2024) and *In the Matter of July 1, 2024 Annual Access Charge Tariff Filings*, Order, DA 24-434, WC Docket No. 24-41 (rel. May 10, 2024). With this filing, Aureon proposes to maintain its existing switched transport rate of \$0.00411 for centralized equal access service.

TARIFF REVIEW PLAN

2024 Annual Filing ROR TRP shown in the Excel spreadsheet titled “INS – 2024 Annual Filing RoR Fixed Support.xls”.

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

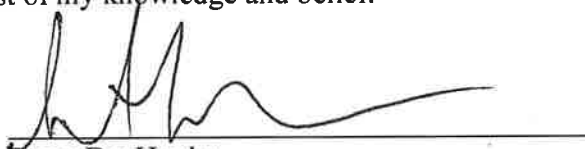
| | |
|------------------------------------|----------------|
| 2024 ROR ILEC ICC Data | Not Applicable |
| 2024 ROR ILEC 2023-24 Summary TRP | Not Applicable |
| 2024 Rate Ceiling CAF Final | Not Applicable |
| 2024 Rate Ceiling No CAF Final | Not Applicable |
| 2024 Tariff Rate Comp CAF Final | Not Applicable |
| 2024 Tariff Rate Comp No CAF Final | Not Applicable |
| 2024 True Up Final BRI-RES | Not Applicable |
| 2024 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 2024 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 17, 2024

Date

A handwritten signature in black ink, appearing to read 'Steve DenHerder', is written over a horizontal line.

Steve DenHerder
Chief Financial Officer
Iowa Network Services, Inc. d/b/a
Aureon Network Services