

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of:)	
)	
Iowa Telecommunications Services, Inc.)	Transmittal No. 22
Tariff FCC No. 1)	

Reply

Iowa Telecommunications Services, Inc. ("Iowa Telecom"), pursuant to Section 1.773 of the Commission's rules, replies as follows to the petition filed by WorldCom, Inc. ("WorldCom") seeking rejection or suspension of Iowa Telecom Transmittal No. 22.¹ This Transmittal amends Iowa Telecom's interstate access tariff to better protect Iowa Telecom and its ratepayers from the risk of non-payment for exchange access service.

The first of Iowa Telecom's tariff amendments challenged by WorldCom reduces from 60 days to 45 days the minimum time period between the issuance date of a bill and the date on which a defaulting customer can be disconnected for non-payment. The second tariff amendment confirms that Iowa Telecom may require a customer to post a deposit to secure payment for services where, under objective financial standards (including Moore's, Standard & Poor's, and regional credit rating agencies), Iowa Telecom is exposed to significant financial loss if it continues service without such a deposit. As shown below, the amendments are a reasonable response to the financial

¹ See WorldCom Petition to Reject or, in the Alternative to Suspend and Investigation (filed July 10, 2002).

expense that Iowa Telecom faces as a result of increasing incidence of non-payment by interexchange carriers (“IXCs”).

(1) Length of the Cure Period Between Default and Disconnection.

Under the current Iowa Telecom tariff, a customer that fails to pay its bill for exchange access service by the due date – which is 30 days after the rendering of the bill – may continue to obtain service and incur charges during an additional 30 day period (the “cure period”). This cure period begins to run when Iowa Telecom sends the customer a certified letter warning that disconnection will take place if the default in payment is not cured (“disconnection notice”).

Iowa Telecom’s proposed tariff amendment will shorten the cure period from 30 days to 15 days, so that where a customer fails to pay a bill on time, disconnection can take place 15 days after Iowa Telecom sends the disconnection notice. As a result, Iowa Telecom’s amended tariff still provides a customer with at least 45 days to pay a bill from the time when the bill is issued to the time when disconnection for non-payment could occur. In the current environment, this 45-day period is all that can prudently be allowed to nonpaying customers. Collection losses have been increasing as the telecommunications sector has been in a deep recession exacerbated by the questionable accounting techniques of some companies. In the worst recent case, Global Crossing filed for bankruptcy on January 28, 2002, at a time when it owed Iowa Telecom \$531,263 for exchange access services, of which at least \$492,000 was for service provided in the

last 60 days before the bankruptcy filing.² By disconnecting service 45 days from issuance of the bill rather than 60 days, Iowa Telecom can avoid or contain even larger losses in future bankruptcies. A defaulting company will have less time to incur charges for additional services for which it cannot pay.

In an attempt to shore up its argument that more time than this should be required before a defaulting customer is disconnected, WorldCom makes vague suggestions that Iowa Telecom might be slow in sending out bills. See WorldCom Petition at 5. WorldCom does not support this claim. Though Iowa Telecom has billed WorldCom every month since beginning service in June of 2000, WorldCom provides not one single example of Iowa Telecom actually being slow to provide it with a bill. In short, WorldCom provides no evidence whatsoever to support its arguments for rejection or suspension of the reduced cure period.³

² Iowa Telecom filed an initial proof of claim in the Global Crossing bankruptcy for \$500,000, which will be amended to more precisely reflect the full amount of unpaid pre-bankruptcy services, which is \$531,263. The debts of Global Crossing are non-confidential given its bankruptcy filing. Iowa Telecom may recover a small fraction of this debt by receiving a pro-rata share of any eventual distribution to unsecured creditors from the bankruptcy estate.

³ In 1986, the Commission permitted a similar BellSouth tariff revision reducing the cure period before disconnection from 30 days to 15 days to go into effect as scheduled. See In the Matter of 1987 Annual Access Filings, 2 FCC Rcd. 280, 304-305, Appendix A (1986) (discussing BellSouth Tariff Sec. 2.1.8). Because BellSouth had not submitted any information regarding actual losses resulting from an IXC bankruptcy and there was evidence that BellSouth had been slow in issuing bills, the Commission in that 1986 Order directed that BellSouth file an amendment clarifying that the new rule would only apply where the customer received the bill within three (3) days of issuance. Id. Apparently, BellSouth did not file the clarifying amendment and withdrew the proposed change entirely. Here, Iowa Telecom has submitted information regarding actual losses due to IXC bankruptcy and WorldCom has submitted no evidence of delays in billing.

Finally, Transmittal 22 specifies that the previous 30-day cure period will remain in place for the remaining term of any such Term Agreements.⁴

(2) Deposits.

Transmittal No. 22 clarifies that Iowa Telecom may request a deposit from existing customers that present “a significant financial risk based upon objective financial standards such as but not limited to Moody’s Investor Services, Standard and Poor’s, D & B, and ratings issued by independent and non-affiliated regional analysts of financial information.” See Iowa Telecom Transmittal No. 22, Tariff F.C.C. No. 1, 3rd Revised Page 2-12.

This provision addresses in detail the rules applicable where a customer once was financially stable, but has deteriorated in financial condition to the point that it no longer presents a reasonable credit risk. Indeed, this was precisely Iowa Telecom’s experience with Global Crossing: there was a long record of timely payment, followed by a well publicized decline in financial viability, and finally a period of non-payment just before the company’s bankruptcy filing.

WorldCom’s charges that this amendment is unduly vague and/or discriminatory are baseless. The amendment required that Iowa Telecom ground a decision to require a deposit on objective information. The information is to be obtained from independent third parties in the business of rating, evaluating, or providing information about

⁴ See Iowa Telecom Transmittal No. 22, Tariff F.C.C. No. 1, proposed Original Page 2-5.1

company credit. The tariff amendment does not permit Iowa Telecom to require a deposit on the basis of a subjective or unsupported analysis.⁵

In fact, the tariff amendment challenged by WorldCom provides Iowa Telecom with considerably less discretion than the standard Commission-approved tariff language permitting a local exchange carrier to require a deposit where a customer lacks “established credit.” Such “established credit” tariff language does not require that companies utilize an objective rather than subjective standard in evaluating customer credit, does not limit the right to require a deposit to cases presenting significant financial risk, and does not describe the sources of information useable in determining whether a given customer has sufficient credit standing.⁶ Yet, it appears that no exchange access customer has ever filed a complaint challenging a decision by a local exchange carrier to require a deposit in the 18 years since the Commission approved the “established credit” language in the original Exchange Carrier Association tariff.

Contrary to WorldCom’s claims, it would be impossible to state an exact and unvarying methodology to be used in evaluating credit in every situation. Every customer is different. Some of Iowa Telecom’s customers have issued publicly traded bonds that have a nationally recognized (good or bad) credit rating. Other customers have no such publicly traded debt at all. Some customers are followed by national credit agencies, others by regional credit rating agencies. Some customers may not be formally rated by any agency, yet still be the subject of reports that provide useful information on

⁵ Iowa Telecom believes its proposed tariff language is tighter in this respect than that proposed by any other local exchange carrier.

⁶ See Iowa Telecom Tariff No. 1, Sec. 2.4.1 (prior to Transmittal No. 22).

credit status. If they are in financial trouble, some customers may experience a gradual financial decline that will be picked up by credit ratings that are revised quarterly or at other regular intervals; others may experience a speedier Enron-like collapse that can be predicted, if at all, only by information sources specializing in evaluating very recent events.

Nor are Iowa Telecom's tariff amendments unjust, unreasonable, or in violation of a Commission prescription. It is hardly unreasonable to require a deposit from a customer whose declining financial conditions exposes Iowa Telecom to significant financial risks that did not exist at earlier times when the customer was financially sound.

Iowa Telecom did not exist in 1984, and so could not be a "carrier" whose terms of service were prescribed by the 1984 Order that WorldCom alleges constitutes a prescription of the terms and conditions of Iowa Telecom's services.⁷ See 47 U.S.C. § 205(a). Moreover, in the 1984 Order the Commission did not bar the filing of future tariff amendments addressing deposits. To the contrary, in the Order, which addressed the initial tariff filings in the aftermath of Divestiture, the Commission explained that "actual operational experience and the rapid changes in technology and market forces may also reveal new issues over time."⁸ The recent spate of bankruptcies is precisely the type of "actual operational experience" the Commission recognized might require tariff

⁷ See In the Matter of Investigation of Access and Divestiture Related Tariffs, 97 FCC.2d 1082, 1168-1170, Appendix D (1984) (discussing Exchange Carrier Association Tariff Section 2.4.1). ("1984 Order").

⁸ 1984 Order, 97 FCC.2d. 1082, at ¶ 8.

modifications.⁹ Iowa Telecom's tariff amendment is a proper and reasonable response to current conditions, and also is in no way contrary to the Commission's ruling on specific issues contested in the 1984 tariff case.¹⁰

Conclusion

As shown in this Reply, Iowa Telecom's Transmittal No. 22 makes reasonable and prudent tariff modifications to reduce the exposure of the company and its ratepayers to collection losses. The Commission should therefore allow Transmittal No. 22 to go into effect as scheduled.

Respectfully submitted this 16th day of July, 2002

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⁹ Even if the 1984 Order somehow constituted a prescription of the terms and conditions of Iowa Telecom's service, the Commission has discretion to accept tariff filings as a vehicle to modify a prescription. See Pacific Northwest Bell Tel. Co. Revisions to FCC Tariff No. 9, Transmittal No. 159, 1985 FCC Lexis 2446, para. 8 (rel. Oct. 11, 1985).

¹⁰ The specific contested issues concerned (1) the length of time a deposit could be held before being returned, (2) whether deposits could be required to secure payment of early termination charges, (3) whether a payment record with another telephone company could be used to show "established credit," and (4) the interest to be paid on deposits. See 1984 Order, 97 FCC.2d 1082, at 1168-1170.

Certificate of Service

I, LaChonda A. Mackall, a secretary with the law firm of McGuireWoods LLP, certify that on this 16th day of July 2002, a true and correct copy of the foregoing Reply was served on WorldCom by fax and mail to the following:

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