

IOWA TELECOMMUNICATIONS SERVICES, INC. D/B/A IOWA TELECOM

TARIFF TRANSMITTAL NO. 31

March 25, 2003

ATS RATE REVISION

Description and Justification

Introduction

Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom ("Iowa Telecom") submits the following information in support of changes to its FCC Tariff No. 1 to reflect introduction of a forward-looking average traffic sensitive ("ATS") target rate to replace the \$0.0095 ATS target rate that is currently in effect. The Commission's November 25, 2002 Order in CC Docket No. 01-331, 17 FCC Rcd 24319 ("Forbearance Order") granted forbearance from application of the \$0.0095 per minute ATS target rate set forth in section 61.3(qq) of the Commission's rules. The Commission found that forbearance is warranted and serves the public interest. In particular, the Commission found that the company had insufficient opportunity to assess whether the CALLS ATS target rate adequately reflected the company's cost of providing services because it was a newly formed company at the time of CALLS and thus did not actively participate in the CALLS negotiations.

As explained in Iowa Telecom's Petition and the company's subsequent filings, forbearance from the CALLS ATS target rate would be consistent with the public interest for a number of reasons. First, as noted above, the company did not have a meaningful opportunity to make an informed election in the summer of 2000. Second, forbearance would allow Iowa Telecom to upgrade its network to provide its rural customers with improved quality access services. Third, it would foster the deployment of advanced services in rural Iowa and thus further the objectives of Section 706 of the Communications Act. Fourth, it would allow Iowa Telecom to compete with its many facilities-based competitors on a more even footing, thus creating the possibility of sustained competition in rural Iowa.

The Commission determined that each of the three prongs of the statutory forbearance test is satisfied. First, it found that Iowa Telecom's rates would remain just and reasonable because rates should approach forward-looking cost levels. Second, the Commission acknowledged that maintaining the CALLS target ATS rate is not necessary to protect consumers because an increase in Iowa Telecom's ATS rate would have only a *de minimis* impact on rates charged to individual consumers. Finally, the Commission determined that forbearance is in the public interest because it would not impede the promotion of competitive market conditions in Iowa. Accordingly, the Commission granted forbearance from application of the CALLS ATS target rate.

The Forbearance Order requires Iowa Telecom to make a tariff filing to reset its ATS target rate at forward-looking cost levels, supported by a forward-looking cost study. In compliance with the Forbearance Order, Iowa Telecom is submitting an Affidavit of Howard Shelanski together with associated attachments (collectively the “Cost Study”). The Cost Study is attached in its entirety as Confidential Exhibit A, and in redacted form (suitable for public inspection) as Exhibit B. Professor Shelanski’s affidavit explains that the methodology employed in the Cost Study complies with the Total Element Long Range Incremental Cost (“TELRIC”) principles adopted by the Commission.

Iowa Telecom is comprised of two separate and distinct service groups. The Iowa Telecom Service Group includes the exchanges located in the Iowa Telecom North Study Area 351167 and is identified by the Company Study Area (“COSA”) code ITNO (formerly GTIA). The Iowa Telecom Systems Service Group includes the exchanges located in the Iowa Telecom Study Area 351178 (COSA ITIA) and the Iowa Telecom Systems Study Area 351170 (COSA ITSI), and is identified by the COSA ITIT (formerly COIT). Information in this filing is provided for both the ITNO and ITIT COSAs.

Forward-Looking ATS Rate

The forward-looking ATS rate was calculated in accordance with the Commission’s TELRIC rules. The ATS rate calculation is set forth on pages 22 and 23 of the NERA Iowa Telecom ATS Cost Study (“ATS Cost Study”) (attachment 2 to Professor Shelanski’s affidavit). As explained by Professor Shelanski, the calculation involves the following steps:

1. Using cost data supplied by Iowa Telecom’s engineering staff, NERA estimated the forward-looking cost of replacing the company’s network with an efficient network design utilizing the types of technology that the company installs or would install for new and replacement plant, as described in the cost study.
2. These investment costs were converted to annual costs using a forward-looking cost of capital, depreciation schedules based on the assets’ GAAP lives, and applicable taxes.
3. Direct operation and maintenance expenses were added to the annualized capital expenses to obtain total annual expenses for each major network component involved in interstate access service (*e.g.*, end-office switching, tandem switching, and common transport).
4. The total annual expenses were converted to the “total economic cost” by adding a reasonable allocation of forward-looking common costs.
5. Unit costs were then obtained by dividing the total economic cost for each component by the total annual number of minutes, minute-miles or circuits that the component is used. The ATS rate is the sum of

- (a) (the revenues that would be generated by charging the unit costs times the corresponding local switching volumes for 2002) divided by the number of local switching minutes; and
- (b) (the transport revenues that would be generated by charging the unit costs times the corresponding transport volumes for 2002 switching minutes minus the estimated charges carriers paid to Qwest for tandem transport) divided by total transport minutes.

The Cost Study demonstrates that Iowa Telecom's forward-looking ATS rate is \$0.014876. *See* ATS Cost Study at 23. This forward-looking ATS rate is incorporated into an illustrative mid-year Tariff Review Plan ("TRP"), which is attached as Exhibit C. The TRP model was revised to allow the manual selection of an ATS rate other than the \$0.0055, \$0.0065 and \$0.0095 rates prescribed in the CALLS Order. The revisions to the TRP are highlighted in tan and magenta. (Tan highlighted cells indicate where either text or formula changes have been made; rows highlighted in magenta show where rows needed to be moved because of space limitations in the rows before them). Individual rate elements were adjusted to achieve the forward-looking ATS target rate. Where a specific forward-looking cost was developed for a tariff element and the current rate exceeds the cost, no adjustment in the rate element was made. For those elements that are currently priced under the developed forward-looking cost, the element was increased to cover the cost and achieve the ATS target rate.

The changed rates are reflected on the revised tariff pages for FCC Tariff No. 1 that are included with this tariff filing. Exhibit D details the current and proposed rates for the tariff elements that are utilized to calculate the ATS target rate. Exhibit E details the Impact Analysis for the Industry.

Request for Confidential Treatment of Cost Support Data

Because the Cost Study includes proprietary and competitively sensitive commercial and financial information, Iowa Telecom is requesting confidential treatment of Exhibit A, the unredacted Cost Study, pursuant to section 0.459 of the Commission's rules. The request for confidential information, dated March 25, 2003, is submitted as part of this tariff filing. As noted above, Iowa Telecom is submitting a public version of the Cost Study from which proprietary and competitively sensitive information has been redacted. *See* Exhibit B.