

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

TARIFF TRANSMITTAL NO. 39

September 3, 2003

ATS TARGET 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 a downward revision to its forward-looking average traffic sensitive (“ATS”) target rate to replace the \$0.014876 ATS target rate that is currently in effect, and subject to Commission investigation. 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 to allow Iowa Telecom to set its rate at forward-looking economic cost (“FLEC”) is 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 an ATS target rate set at FLEC would be just and reasonable, and not unjustly or unreasonably discriminatory, because the Commission has stated its goal is for interstate access charges to reflect the FLEC of providing interstate access services. 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*, on March 25, 2003 Iowa Telecom filed Transmittal No. 31 supported by an Affidavit of Howard Shelanski together with associated attachments (collectively the “March 25 Cost Study”). Professor Shelanski’s affidavit explains that the methodology employed in the March 25 Cost Study complies with the Total Element Long Range Incremental Cost (“TELRIC”) principles adopted by the Commission. Based on the March 25 Cost Study, Transmittal No. 31 proposed a FLEC ATS target rate of \$0.014876. The Commission suspended Transmittal No. 31 for one day and then allowed the proposed rates to take effect subject to an investigation, which is ongoing.¹ On April 10, 2003, Iowa Telecom filed Transmittal No. 32, which suspended for one day the effectiveness of tariff revisions filed under Transmittal No. 31 and corrected rates for DS1 Dedicated Trunk Ports submitted in Transmittal No. 31.

The purpose of Transmittal No. 39 is to reduce Iowa Telecom’s forward-looking ATS target rate to \$0.012015. The forward-looking rates for interstate access services contained in the current filing are submitted in response to issues raised in the record since March 25, 2003. The \$0.012015 ATS rate is thus well below the rate calculated by a FLEC cost study that is economically sound and consistent with the Commission’s TELRIC rules, as demonstrated by Iowa Telecom’s March 25 Cost Study. Iowa Telecom is filing tariff rates to achieve this lower \$0.012015 ATS rate to resolve the issues that have been raised. This filing does not indicate that the company believes these lower rates are the maximum permissible under the Commission’s TELRIC rules or the *Forbearance Order*.

As required by the Commission’s rules and the *Forbearance Order*, Iowa Telecom is submitting a forward-looking cost study to support the \$0.012015 ATS target rate in this filing. A description of the ATS Cost Study dated September 3, 2003 (“September 3 Cost Study”) is attached in its entirety as Confidential Exhibit A. The September 3 Cost Study includes various adjustments to the March 25 Cost Study that are offered to resolve issues raised regarding the March 25 Cost Study. Nevertheless, Iowa Telecom continues to believe that the March 25 Cost Study provides an appropriate calculation of the company’s forward-looking ATS target rate that is consistent with the Commission’s TELRIC principles and rules.

Iowa Telecom commits to refunding amounts collected under Transmittal No. 31 that are in excess of the amounts that it would have collected if the rates contained in this Transmittal No. 39 filing had been in effect.

¹ Iowa Telecommunications Service, Inc. Tariff FCC No. 1, Transmittal No. 31, WC Docket No. 03-135, Protective Order, DA 03-1953, 18 FCC Rcd 11571 (rel. June 13, 2003).

ITIT and ITNO Company Study Areas

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 Target Rate

The forward-looking ATS target rate was calculated in accordance with the Commission’s TELRIC rules. The ATS target rate calculation is set forth on page 31 of the September 3 Cost Study. As explained in the September 3 Cost Study, the FLEC ATS 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 today 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 September 3 Cost Study calculates a forward-looking ATS target rate of \$0.012015. This forward-looking ATS rate is incorporated into revised “SUM-1” Tariff Review Plan spreadsheets that reflect the calculation to achieve the reduced ATS rate. The SUM-1 Excel spreadsheets for the ITIT and ITNO COSAs are attached as Exhibit B. Iowa Telecom has set individual rate elements in accordance with the Commission’s rules and the *Forbearance Order*. The rates are designed to recover the \$0.012015 ATS target rate as permitted by the rules. The company has reduced its local switching rates from those in its March 25, 2003 filing. Further adjustments in these rates, in particular between price cap baskets, would potentially have a severe rate shock impact. Therefore, these rates as proposed are reasonable.

The changed rates are reflected on the revised tariff pages for F.C.C. Tariff No. 1 that are included with this tariff filing. Exhibit C details the current and proposed rates for the ITIT and ITNO COSAs for the tariff elements that are utilized to calculate the \$0.012015 ATS target rate.

Request for Confidential Treatment of Cost Support Data

Because the September 3 Cost Study contains proprietary and competitively sensitive commercial and financial information, Iowa Telecom is requesting confidential treatment of Confidential Exhibit A, the unredacted September 3 Cost Study, pursuant to section 0.459 of the Commission’s rules and the Protective Order issued by the Commission in WC Docket No. 03-135.² Consistent with the Protective Order, Iowa Telecom is submitting a redacted version of the September 3 Cost Study that is suitable for public inspection.

² Iowa Telecommunications Service, Inc. Tariff FCC No. 1, Transmittal No. 31, Order, DA 03-1103, 18 FCC Rcd 6495 (rel. Apr. 8, 2003).