

IOWA NETWORK SERVICES, INC.

IOWA NETWORK ACCESS DIVISION

DESCRIPTION AND JUSTIFICATION

COST SUPPORT MATERIAL

TARIFF REVIEW PLAN

JULY 1, 2004 ANNUAL ACCESS CHARGE TARIFF FILING

JUNE 24, 2004

IOWA NETWORK ACCESS DIVISION

INTERSTATE ACCESS TARIFF FILING

**PROSPECTIVE PERIOD
JULY 1, 2004 - JUNE 30, 2005**

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IOWA NETWORK ACCESS DIVISION

INTRODUCTION, OVERVIEW AND RATE DEVELOPMENT

INTRODUCTION

This filing supports revisions to Iowa Network Access Division Tariff F.C.C. No. 1 in accordance with the Federal Communications Commission's (FCC) Order, July 1, 2004 Annual Access Charge Tariff Filings, 19 FCC Rcd 7047 (2004). This Order establishes procedures for the 2004 filing of annual access charge tariffs and Tariff Review Plans (TRPs). The requirements for summary cost support material to support the annual access charge filings to be submitted on or before June 24, 2004 are presented in the Commission's Order, In the Matter of Material to be Filed in Support of 2004 Annual Access Tariff Filings, 19 FCC Rcd 7038 (2004).

This 2004 Annual Access Charge Tariff Filing covers the scheduled effective period from July 1, 2004 through June 30, 2006. This documentation volume contains the introduction, overview, rate development narrative, access rate development and corresponding cost support material to be filed with the FCC on June 24, 2004.

OVERVIEW

Schedule A of Section 2 presents a summary of the proposed rate to be effective July 1, 2004. The Company proposes to implement a switched transport rate of \$0.01031 effective July 1, 2004 representing a reduction of \$0.00014 from its existing switched transport rate. The Company's proposed switched transport rate of \$0.01031 per access minute is projected to generate a return of 11.25% on interstate investments for the projected twelve-month period ending June 30, 2005.

For the year 2003, Iowa Network Access Division (INAD) earned a return of 4.21% on interstate investment. INAD experienced a return of 3.69% for the 2001/2002 monitoring period. During this period, the FCC authorized a maximum rate of return for interstate access operations of 11.50% with a target of 11.25%.

Interstate access minutes grew at a rate of 7.83% during 2003 to 831,287,417 from 770,906,630 in 2002. During the year 2002, INAD recorded interstate traffic growth of 1.45% over the year 2001. For the test period ending June 30, 2005, INAD is projecting interstate access minutes of 876,231,538, representing an increase of 2.32% over projected access minutes of 856,381,84 for the period ending June 30, 2004 and an increase of 5.41% compared with actual interstate access minutes for the year 2003. The lower than normal increase in interstate

traffic for the projected test period results primarily from the reduction of wireless minutes terminated by interexchange carriers over Feature Group D toll trunks. Several wireless carriers have requested direct interconnection with INS that effectively removes interstate traffic from the network and replaces it with interconnection traffic to be billed in accordance with interconnection agreements.

Since 2000, INS has implemented a network modernization program that provides full redundancy and protection for its equal access network to interexchange carriers serving rural Iowa. During the years 2003 and 2004, the Company completed upgrades to its fiber ring network that connects all major traffic routes throughout Iowa and expanded the capacity of its existing equal access switches to handle greater peak traffic loads. During 2004, INAD will update its equal access switch to comply with the FCC's requirements for Local Number Portability (LNP). INAD is also planning significant modifications to its accounting and billing applications and its computer systems and software for improved network monitoring and security. To date, INAD's efforts to construct and operate an efficient equal access network coupled with increases in interstate access minutes have enabled the Company to maintain or lower its centralized equal access rate, while greatly improving services to interexchange carriers.

The proposed tariff rate of Iowa Network Access Division is targeted to generate a return of 11.25% on investment for the test period ended June 30, 2005. The cost support material of Iowa Network Access Division has been developed using procedures prescribed by the Federal Communications Commission as follows:

- 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).
- 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 rules adopted through the period June 16, 2004.
- C) Access 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 Rcd 19613 (2001), ("Rate-of-Return Access Charge Reform Order").

The proposed access service tariff maintains the method of charging for interstate access by major rate element. Iowa Network Access Division proposes to reduce its current equal access switched transport rate from \$0.01045 to \$0.01031 which is to remain in effect through June 30, 2006.

RATE DEVELOPMENT

Development of cost support as contained in the 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 the Company's 2004 and 2005 operating budgets. Anticipated changes in investments and reserves were reflected in conjunction with the Company's ongoing construction and modernization programs. Revenues were increased to reflect the projected increase in access minutes during the test period over the year 2003.
- 2) Projection of the test period Access Division revenue requirement was accomplished using FCC Part 64 cost allocation procedures applied to total company projected investment and expense amounts determined in (1) above. The Access Division revenue requirement summary data is contained in Section 5 of the cost support material.
- 3) Projection of the test period interstate access revenue requirement was accomplished using Parts 36/69 separation procedures applied to projected total Access Division investment and expense amounts determined in (2) above. The summary Part 36 and Part 69 revenue requirements are contained in Sections 3 and 4 of the cost support material.
- 4) Projection of access minutes for the period from July 1, 2004 through June 30, 2005 was accomplished by applying an interstate annual growth rate of 2.32% to projected interstate access minutes for the period ending June 30, 2004. Projected access minutes for the period ending June 30, 2005 represent a 5.41% over interstate access minutes for the historical period January 1, 2003 through December 31, 2003. Access minutes for the period ending June 30, 2005 are projected to be 876,231,538 compared to 856,381,984 for the projected period ending June 30, 2004 and 831,287,417 for the actual period ended December 31, 2003. Projected access minutes for the test period ending June 30, 2005 are presented on Schedule B following.
- 5) The interstate access revenue requirement determined in (3) above of \$9,065,913 was reduced by projected nonrecurring service revenues of \$31,966. Projected revenues from nonrecurring charges of \$31,966 represent service order and labor charges for engineering, overtime repair, stand by repair, testing and maintenance provided to other telephone companies other than when in conjunction with acceptance testing.
- 6) The projected switched transport charge was determined by dividing the residual interstate revenue requirement of \$9,033,947 determined in (5) above by projected

access minutes of 876,231,538 determined in (4) above resulting in a cost of \$0.01031 per access minute. An analysis of the development of the interstate switched transport rate is presented on Schedule A in Section 2.

SUMMARY

The 2004 annual access tariff filing is supplemented by the enclosed cost support material. Schedule A reflects the Company's existing switched transport charge of \$0.01045 compared with the authorized rate of \$0.01031. Through this filing, the Company proposes to reduce its switched transport charge from \$0.01045 to \$0.01031 for the test period ending June 30, 2005 resulting in a reduction of switched transport revenue of \$122,672 for the period ending June 30, 2005. The proposed switched transport charge will produce revenues that will generate a rate of return on investment of 11.25% for the test period ended June 30, 2005.

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, 2005. Cost and revenue data for the historical period from January 1 through December 31, 2003 is contained in the Company's Tariff Review Plan (TRP) which has been filed under separate cover.

This filing is presented to comply with the Commission's July 1, 2004 annual access tariff filing requirements in Order, 19 FCC Rcd 7047 and subsequent Order, 19 FCC Rcd 7038 establishing the Tariff Review Plan (TRP) schedules to be filed in support of the annual access charge tariff filing. The Company proposes a switched transport charge of \$0.01031 through June 30, 2006.

TARIFF REVIEW PLAN

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