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July 18, 1996

EX PARTE OR LATE FILED

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
Room 222, 1919 M Street, N.W.
MS 1170
Washington, D.C. 20554

RE: Implementation of Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98

Dear Mr. Caton:

The Iowa Utilities Board ("IUB") requests permission to file the enclosed late comments in the subject proceeding. An original and twelve copies of the "Supplemental Comments of the Iowa Utilities Board" are enclosed; two copies are annotated as "Extra Public Copy."

This filing is subject to disclosure and the IUB requests that it be included in the public record pursuant to the Federal Communication Commission's *ex parte* communication procedures, 47 C.F.R. §1.1200, *et seq.*

Sincerely,

Richard A. Drom

Richard A. Drom
Counsel for the Iowa Utilities Board

cc: International Transcription Service
Common Carrier Bureau
Iowa Congressional Delegation
Phil Smith

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EX PARTE OR LATE FILED

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

In the Matter of	)	
	)	
Implementation of the Local Competition Provisions of the Telecommunications Act of 1996	)))	CC Docket No. 96-98

SUPPLEMENTAL COMMENTS OF THE IOWA UTILITIES BOARD

Paragraph 33 of the subject Notice of Proposed Rulemaking ("NPRM") specifically sought comments on whether states should be permitted to experiment with different pro-competitive regimes to implement the requirements of sections 251, 252, 253 and 254 of Telecommunications Act of 1996.[1] The May 16, 1996 comments filed by the Iowa Utilities Board ("IUB") in the captioned proceeding described the benefits of permitting appropriate state jurisdictional agencies to implement these requirements due to, *inter alia*, the many different economic environments faced by local exchange carriers ("LEC").[2]

The IUB continues to encourage the Federal Communications Commission ("FCC") to establish appropriate rules that support the goals of the 1996 Act and also to

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[1]Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat 56 ("1996 Act"), See, 47 U.S.C.A. § 251, et al.

[2]See, IUB Comments, pp. 5-7.

allow the states to work out the necessary details.

However, if the FCC concludes that prescriptive federal rules governing interconnection fees are necessary, the IUB strongly recommends that the FCC recognize that Total Service Long Run Incremental Costs ("TSLRIC") should be broadly defined based upon a **least cost** analysis, instead of narrowly focusing on **forward looking** economic costs. A basic tenant of TSLRIC methodology is the use of long-run economic costs. The long-run is defined as a period of time sufficient to change all levels of inputs and outputs such that all inputs and outputs can be produced at least cost.

In many states, defining the floor rate for TSLRIC through the use of forward looking economic costs may result in designing proper LEC interconnection rates. However, studies filed by the incumbent LEC in Iowa have demonstrated that use of embedded investment methodology for TSLRIC will actually result in lower costs than designing TSLRIC using forward looking investment.[3] For example, the IUB recently compared a forward looking investment to an embedded investment analysis in determining the proper least cost rates for the unbundled local loop service in Iowa. If the costs for this service had been based solely upon forward looking investment, the rates for this service would have been close to $4.00 per month higher - - - implying illogically that, in the long-run, the carrier, U S West, would change all levels of inputs and outputs, such that the inputs and outputs can be produced at **highest cost**. This

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[3]See, TSLRIC results in Iowa Docket No. RPU-95-10.

assumption obviously makes no sense for unbundled local loop service and would make no sense for the design of proper interconnection rates. In fact, in Iowa, it appears that an embedded plant analysis may actually produce U S West's inputs and outputs at least cost, compared with a forward looking analysis. We believe that a similar result would occur in other low-cost states.

The best incentive the states and the FCC could provide to encourage incumbent LECs to modernize their local loop and distribution facilities is to price those facilities assuming utilization of the most efficient, least cost, technology currently available. Under least cost pricing, an incumbent LEC would fail to recover the full costs of providing interconnection services if it provided those services using inefficient, high-cost technology. This failure would provide a strong incentive for the LEC to replace its inefficient network with a least cost network. In a competitive market for interconnection services, an inefficient LEC would be priced out of the market by competitors employing least cost technology. The states and the FCC should attempt to emulate the competitive market outcome when pricing interconnection services by employing a least cost standard.

If the FCC's final rules narrowly define TSLRIC to require the use of forward looking investment, rather than by providing flexibility in designing these rates, interconnection rates in Iowa: (i) will be unnecessarily high; (ii) will not achieve the "least cost" goals of the 1996 Act; and (iii) will not create an incentive for the LEC to provide interconnection services using the least cost technology.

Therefore, the IUB respectfully recommends that if the FCC determines that prescriptive federal rules regarding the TSLRIC floor rate are required, the following flexible definition for TSLRIC be utilized:

> *Floor rate* to be set based on Total Service Long Run Incremental Costs ("TSLRIC"). The key element is the use of long-run economic costs; the long run implying a period of time sufficient to change all levels of inputs and outputs, such that the inputs and outputs can be produced at least cost. TSLRIC includes cost of capital which equates to a "reasonable profit."

The suggested language replaces the improperly restrictive focus on "forward looking economic costs" with the flexible analysis of "least cost" economics in defining TSLRIC. The suggested language thus is more consistent with the intent and language of the 1996 Act than total reliance upon a flawed concept such as "forward looking economic costs."

At a minimum, if TSLRIC is defined in FCC rules without reference to least cost, the IUB urges the inclusion of a footnote commenting with favor upon the IUB's decisions adopting the results of a study which produced the least cost in comparison with a forward looking study.

CONCLUSION

The IUB respectfully requests that the FCC establish interconnection rules in the captioned proceeding that support the goals of the 1996 Act and that also allow the states to work out the necessary details. In the alternative, the IUB requests that a flexible definition of TSLRIC be adopted that relies upon, or at a minimum allows, least cost

analysis rather than requiring a forward looking economic approach.

Respectfully submitted,

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