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Via Electronic Filing

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W., Room TW-B204
Washington, DC 20554

Re: *Notice Of Ex Parte Communication*: Petition for Forbearance of Iowa
Telecommunications Services, Inc. d/b/a Iowa Telecom Pursuant to 47 U.S.C.
§ 160 (c), CC Docket No. 01-331

Dear Ms. Dortch:

AT&T submits this *ex parte* in opposition to the petition for forbearance submitted by Iowa Telecommunications Services, Inc. d/b/a Iowa Telecom (“Iowa Telecom”), in which Iowa Telecom seeks to be relieved of its election to choose the CALLS pricing plan, and instead be permitted to set its interstate access rates at forward-looking cost levels.

The Commission should deny Iowa Telecom’s petition. Iowa Telecom had the same information and opportunity as any other carrier making the CALLS election decision in 2000. While Iowa Telecom complains its situation is unique and justifies forbearance, the facts do not support its contention. In addition, despite numerous revisions, the cost study relied upon by Iowa Telecom has numerous flaws, and thus could not reasonably be the basis for setting interstate access rates even if it could belatedly opt-out of CALLS. For these reasons (described in more detail below), the Commission should deny the Iowa Telecom petition.

Iowa Telecom had ample opportunity to making a knowing CALLS election.

While Iowa Telecom would have the Commission believe that it did not have a meaningful opportunity to make an informed choice whether to elect CALLS, the facts are in direct conflict with its assertion. In its petition, Iowa Telecom states that they did not begin actual operations until July 1, 2000 giving it only 31 days to make the election. However, Iowa Telecom admits to forming its business sometime in 1999, and the CALLS Order was not released until May 31, 2000, at least five full months after Iowa Telecom claims its company was formed. Once the CALLS Order was released, *all* parties had 60 days to make a decision on whether to choose the CALLS rates or submit a cost study consistent with the FCC’s order. Iowa Telecom chose the former, like other companies in its position.

Iowa Telecom also had the same information as other price cap carriers. Iowa Telecom is one of the largest independent phone companies in the country, serving close to 500,000 customers and is comprised of the former GTE properties (296 exchanges) as well as 128 independent telephone companies who operated in Iowa for many years. According to its web site, Iowa Telecom's top management includes a Vice President of Operations and a Vice President of External Affairs, who between them have 51 years of service for GTE in Iowa and surrounding states. Iowa Telecom's CEO is a former telecommunications consultant and has spent a considerable amount of time in telecommunications industry in positions both at the Illinois and Texas public utilities commissions. Given the vast experience and knowledge of its top management, along with the experience in the many piece parts of what now is a large conglomerate of smaller companies, it is ludicrous for Iowa Telecom to suggest that it did not have the same information as other carriers who made the same election. Indeed, Iowa Telecom stepped into GTE's shoes, and GTE was one of the CALLS signatories!

Iowa Telecom has shown no valid basis for reversing its CALLS election.

Iowa Telecom also complains that it has high per line costs, that its lines are geographically dispersed and that the network it inherited from GTE requires further investment to for modernization so that it can compete against CLECs who are overbuilding their networks. Iowa Telecom's harping on the range of difficulties it confronts—the outmoded nature of the plant acquired from GTE, the high costs of upgrades, insufficient rate levels, competition and the like are all facts that Iowa Telecom knew or should have know before its acquisition of GTE's exchanges. As shown in AT&T's Opposition to Iowa Telecom's petition (copy attached), the fact is that Iowa Telecom paid three times the book value of the acquired plant and it now simply wants the FCC to allow it to gouge the last remaining captive customer, the interexchange carrier. Clearly, access charges should *not* be increased to account for Iowa Telecom's acquisition premium.

One of the reasons Iowa Telecom provides as rationale for its petition is that it has somehow been disadvantaged by CALLS. Again, the facts do not bear out this contention. Iowa Telecom has not provided any information on the record to refute the analysis in AT&T's Opposition indicating that Iowa Telecom would benefit from the CALLS election as opposed to remaining under the Commission's past price cap regime. It is now the height of arrogance on Iowa Telecom's part to claim a disadvantage. Indeed, Iowa Telecom does not indicate anywhere in its filing that its local rates are below cost or that it is not profiting from its current rates.¹ Iowa Telecom is simply looking for additional profit for its investors by seeking to charge interexchange carriers exorbitant access rates.

Grant of Iowa Telecom's petition would pave the way for anticompetitive conduct. While Iowa Telecom originally requested per minute access rates of over 3 cents per minute, it offers a 6 cent per minute rate to its end user customers who sign up for both its local and long distance services. Therefore, if allowed its originally petitioned access rates for a call originating and terminating in Iowa Telecom's service area, the access changes alone would be in excess of the rate that Iowa Telecom charges end user customers.

Iowa Telecom's forward-looking cost model is not appropriate to calculate access rates.

Iowa Telecom asks the Commission to allow it to almost double (the original request was to more than triple current interstate access rates) its interstate access rates based upon a model that was not intended to be used for such a purpose. The FCC expressly held that the Synthesis Model

¹ Any rate increase by Iowa Telecom under price cap regulation would require some showing or demonstration that its return is inadequate. Iowa Telecom makes no such claim in this proceeding.

may not be used to set access rates, even for the non-rural carriers to whom the model applies.² In addition, despite repeated revisions since its original filing, Iowa Telecom has not addressed the fundamental deficiencies outlined in AT&T's March 27, 2002 *ex parte* letter (See Attached). As AT&T indicated in its *ex parte*, if Iowa Telecom is serious about proposing the Synthesis Model for the calculation of access costs, it should request the Commission to initiate a general rulemaking to consider the modifications necessary to the model to properly determine the appropriate forward-looking costs for Iowa Telecom. AT&T would gladly actively participate in such an investigation and proceeding.

* * * *

In the final analysis, Iowa Telecom is simply requesting that the Commission to allow it to charge the one remaining captive customer, the interexchange carrier, an inflated and anticompetitive rate to make up for its poor business decisions and lower than expected return. The Commission should not countenance this request and should require Iowa Telecom to abide by its CALLS election and thus give all consumers the benefits of the CALLS rates.

Sincerely,



Attachments

cc: Matthew Brill
Aaron Goldschmidt
Jordan Goldstein
Daniel Gonzalez
Christopher Libertelli
Tamara Preiss

² *Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High-Cost Support for Non-Rural LECs*, 14 FCC Rcd 20156, ¶ 32 (1999) (“*Inputs Order*”); *Federal-State Joint Board on Universal Service*, 14 FCC Rcd 20432, ¶ 41 (1999) (“the federal cost model...may not be appropriate...[for] determining prices for unbundled network elements”); *Joint Application by SBC Communications, Inc., et al. for Provision of In-Region, InterLATA Services in Kansas and Oklahoma*, Memorandum Opinion and Order, (FCC 01-29, ¶ 84 (released January 22, 2001) (“the USF model should not be relied upon to set rates for UNES”).