

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20054

In the Matter of)	
)	
Iowa Telecommunications Services, Inc.)	WC Docket No. 03-135
Tariff FCC No., 1, Transmittal No. 31)	

**OPPOSITION OF SPRINT CORPORATION
TO DIRECT CASE**

Sprint Corporation hereby opposes the direct case filed by Iowa Telecommunications Service, Inc. (Iowa Telecom) on July 2, 2003, in response to the *Order Designating Issues for Investigation* (“*Designation Order*”) (DA 03-1919) of the Wireline Competition Bureau’s Pricing Policy Division (Division), released June 11, 2003, in the above-captioned docket.

In its November 26, 2002 *Forbearance Order*,¹ the Commission granted Iowa Telecom’s request that it forbear from applying the 0.95 cents per minute average traffic sensitive (ATS) target rate established in the *CALLS Order*² so that Iowa Telecom could reset its ATS rates at forward-looking economic cost (FLEC) levels. In its Transmittal No. 31 filed on March 25, 2003, Iowa Telecom proposed an ATS target rate of 1.4876

¹ *Petition for Forbearance of Iowa Telecommunications Services, Inc. d/b/a/ Iowa Telecom Pursuant to 47 U.S.C. § 160(c) from the Deadline for Price Cap Carriers to Elect Interstate Access Rates Based on the CALLS Order or a Forward Looking Cost Study*, CC Docket No. 01-331, Order, 17 FCC Rcd 24327 (“*Forbearance Order*”).

² *Access Charge Reform*, CC Docket No. 96-262, Sixth Report and Order, 15 FCC Rcd 12962 (2002)(“*CALLS Order*”), *aff’d in part, rev’d in part, Texas Office of Public Utility Counsel v. FCC*, 265 F.3d 313 (5th Cir. 2001).

cents per minute. The Division suspended that transmittal for one day, imposed an accounting order, and initiated an investigation. In the *Designation Order* (at 2), the Division set several issues for investigation “to ensure that Iowa Telecom’s proposed new ATS target rate is based on FLEC.” Sprint addresses below only the fourth issue identified by the Division concerning “Rate Structure” and Iowa Telecom’s use of FLEC model to selectively increase certain switched access rate elements.

Regarding the “Rate Structure” issue (para. 28), the Division quotes Iowa Telecom’s Transmittal No. 31 Description and Justification statement that it was proposing to increase only those rate elements which were priced less than the forward-looking cost. Thus, Iowa Telecom selectively raised certain switched access rates based on the FLEC study, while retaining other rates which were established when Iowa Telecom was using the CALLS proposal 0.95 cent per minute target rate and which according to its FLEC study should have been lowered.

Iowa Telecom responds in its Direct Case that it was allowed to reset its rates pursuant to the *Forbearance Order* and that “[t]he *Forbearance Order* does not specify a mandatory methodology for setting individual rate elements that make up the ATS target rate.” Direct Case, p. 57. Sprint disagrees. As the Commission states in its *Forbearance Order*, Iowa Telecom sought “forbearance from the \$0.0095 per minute average traffic sensitive (ATS) rate set in the *CALLS Order*, so that it may reset its ATS rate at forward-looking cost levels.” *Forbearance Order*, para. 1. This request was consistent with the *CALLS Order* in which the Commission set forth two options for setting the rate levels between which price cap LECs could choose:

Specifically, price cap LECs may elect CALLS for the full five-year period. Alternatively, price cap LECs may elect to submit a cost study based on forward-looking economic cost that will be the basis for reinitializing rates to the appropriate level.

CALLS Order, para. 57.³ Further, in the *Forbearance Order* (para. 3), the Commission explicitly discussed its interpretation of the *CALLS Order* and the use of the FLEC study to establish new rates:

Any LEC that elects to submit a cost study based on FLEC would have its rates reinitialized to the appropriate level indicated by the FLEC study and would be made subject to a price cap plan and X-factor that the Commission would determine.

Thus, the Commission clearly contemplated that a carrier would make a choice between having its switched access rates set at the \$0.0095 per minute rate of the CALLS proposal or based on a forward-looking economic cost study. Carriers were not afforded the opportunity to select both methods, nor did they have the flexibility to pick the CALLS proposal for certain rates and the forward-looking economic cost study for others – which is what Iowa Telecom is proposing here. Thus, Iowa Telecom’s methodology is contrary to the structure the Commission established in the *CALLS Order*.

The Division also directs Iowa Telecom to “recalculate its tariffed rates, allowing all rates to achieve their full, cost-supported levels, and provide the results and underlying analysis of that calculation.” *Designation Order*, para. 28. Iowa Telecom objected to this request, stating that such recalculation is unnecessary because its proposed rate revisions “are not inconsistent with any Commission rules or orders” and because they “produce an

³ Again explaining the choice available to price cap LECs, the Commission stated that “we provide price cap LECs the opportunity to choose between the rate levels that are part of the CALLS Proposal...or to elect to submit to a cost study based on forward-

ATS target rate that is below the FLEC ATS target rate derived in the cost study.” Direct Case, at 58. As discussed, Sprint believes that Iowa Telecom’s selective rate increases violate the *CALLS Order* and the *Forbearance Order*. Therefore, Sprint has calculated the financial impact of Iowa Telecom’s pick and choose approach to ratemaking using demand data from its annual filing, submitted June 16, 2003 and its Direct Case cost study. See Attachment 1. The amount of revenue that Iowa Telecom will collect as a result of its proposed rates exceeding its cost study rates is calculated by multiplying Iowa Telecom’s 2002 demand by the difference between the FLEC study rates and Iowa Telecom’s proposed rates. As shown in the Attachment, the difference is approximately \$3.391 million. Clearly, there is no basis for Iowa Telecom’s revenue exceeding its FLEC costs by this amount.

The analysis in Attachment 1 also shows the switched access rates which Iowa Telecom has proposed and the rates produced by its FLEC study. As can be seen there, the rates which Iowa Telecom has proposed to increase do not match the FLEC study rates. For example, the proposed rates for Local Transport - Termination are ***

[REDACTED]***, while the cost study rate is lower,***

[REDACTED]*** Iowa Telecom should be required to explain such deviations from the FLEC study rates.

Thus, the ratemaking approach used by Iowa Telecom does not comply with the options and methodology identified in the *CALLS Order* and will result in Iowa Telecom

looking economic cost that would be the basis for reinitializing rates to the appropriate level.” *Id.*, para. 197.

charging its customers significantly more than warranted under the FLEC methodology.

Sprint therefore urges the Division to reject Iowa Telecom's proposed rates.

Respectfully submitted,

Sprint Corporation

A handwritten signature in cursive script that reads "Marybeth M. Banks". The signature is written in black ink and is positioned above a horizontal line.

Marybeth M. Banks

Richard Juhnke

401 9th Street, N.W., Suite 400

Washington, D.C. 20004

(202) 585-1908

July 14, 2003

PUBLIC

Comparison of Revenues Generated with the Proposed Access Rates
Instead of the Filed Unit Costs

	<u>ITNO 2002 Demand</u>	<u>COIT 2003 Demand</u>	<u>ITNO Current Rate</u>	<u>COIT Current Rate</u>	<u>ITNO Proposed Rate</u>	<u>COIT Proposed Rate</u>	<u>Cost Study</u>	<u>ITNO Revenue Difference</u>	<u>COIT Revenue Difference</u>	<u>TOTAL Revenue Difference</u>
Local Switching	307,959,148	421,754,874	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Shared Trunk Port	259,941,925	356,326,522	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Local Transport - Termination	521,596,219	624,258,179	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Local Transport - Facility	4,270,024,433	4,899,078,245	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Tandem Switching	208,872,517	265,101,637	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Common Mux	207,309,919	265,101,637	REDACTED				Note 3	\$ -	\$ -	\$ -
Total								\$ -	\$ -	\$ 3,390,840
	Note 1	Note 1	Note 2	Note 2	Note 2	Note 2	Note 2			

Notes:
 Note 1 - From the Iowa Telecommunications 6-16-03 2003 annual filing
 Note 2 - From the Iowa Telecommunications 7-5-03 cost study filing in their direct case - Confidential Exhibit 2:
 Note 3 - A cost for common multiplexing is missing from Confidential Exhibit 2a yet the proposed rate for ITNO has increased

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Opposition of Sprint Corporation In the Matter of Iowa Telecommunications Services, Inc., Transmittal No. 31, WC Docket No. 03-135), was sent by electronic mail or United States First Class Mail, postage prepaid, and/or facsimile on this 14th day of July 2003 to the following parties.


Sharon Kirby

PUBLIC VERSION VIA ECFS

Secretary of the Commission
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

CONFIDENTIAL VERSION
VIA HAND DELIVERY

Secretary of the Commission
Federal Communications Commission
445 12th Street, SW, Rm. TW-B204
Washington, DC 20554

CONFIDENTIAL AND PUBLIC VERSIONS
VIA E-MAIL ONLY

Tamara Preiss, Division Chief
Pricing Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554
tpreiss@fcc.gov
jsaulnie@fcc.gov

Judy Nitsche, Assistant Division Chief
Pricing Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554
jnitsche@fcc.gov

Vienna Jordan
Pricing Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554
vjordan@fcc.gov

CONFIDENTIAL AND PUBLIC VERSIONS
VIA E-MAIL AND FIRST CLASS MAIL

Ms. Barbara Bouley
Manager of Regulatory Affairs
Iowa Telecom
11 Eleventh Avenue
P.O. Box 330
Grinnell, IA 50112
barbarab@iowatelecom.com

Gregory J. Vogt
Derek A. Yeo
Wiley Rein & Fielding LLP
1776 K Street, NW
Washington, DC 20006
gvogh@wrf.com
dyeo@wrf.com
Counsel for Iowa Telecom

PUBLIC VERSION VIA E-MAIL

Qualex International
445 12th Street SW
Room CY-B402
Washington, DC 20554