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August 18, 2003

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

Re: Ex Parte Presentation in WC Docket No. 03-135

Dear Ms. Dortch:

Pursuant to Sections 1.1206 and 1.1204(a)(10) of the Commission's rules, Iowa Telecommunications Services, Inc. ("Iowa Telecom") hereby files this letter to provide additional information in support of its Direct Case in this proceeding. On August 6, 2003, Mike Anderson, Vice President of External Affairs for Iowa Telecom, David Porter, Director of External Affairs for Iowa Telecom, Harold Ware, Vice President of National Economic Research Associates ("NERA"), Howard Shelanski, Professor of Law, University of California at Berkeley, Derek Yeo and I held a meeting with William Maher, Jeffrey Carlisle, Tamara Preiss, Aaron Goldschmidt, Robert Tanner, and Michael Goldstein of the Commission's Wireline Competition Bureau ("Bureau") to discuss issues relating to Iowa Telecom's Direct Case in the above-captioned proceeding. Professor Shelanski and I participated in the meeting via telephone.

This letter provides information regarding issues discussed during the meeting. Because this letter contains Iowa Telecom confidential information that is subject to protection under the terms and conditions of the Commission's Protective Order in this proceeding,¹ this letter should not be made available for public inspection. Iowa Telecom is filing a redacted version of this letter on the Commission's Electronic Comment Filing System for public review.

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

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During this proceeding, concerns have been raised regarding several issues relating to Iowa Telecom's forward-looking cost study. Iowa Telecom is therefore submitting with this letter a sensitivity analysis that shows the impact of changes to a number of calculations and inputs to the cost study. The results of this sensitivity analysis show that even if all of the various changes discussed in this letter were to be employed – which Iowa Telecom does not believe is appropriate or required by the Commission's TELRIC rules – the resulting Average Traffic Sensitive ("ATS") target rate would decrease by only a small amount, to 1.3328 cents per minute. *See* Confidential Exhibits 16a and 16b.²

This letter describes the numerous changed calculations and inputs that are included in Iowa Telecom's sensitivity analysis. Specifically, this letter provides individual sensitivity analyses for the following changes: (1) 2010 host/remote configuration with current Nortel switch price data, separate remote switch regressions, use of Remote Line Concentrating Modules ("RLCMs") for smaller remote offices, a revised trunk port cost calculation, revised circuit and trunk port counts for the 2010 network, and revised operation and maintenance ("O&M") costs that are proportional to the forward-looking total switch investment; (2) revised data for non-switched circuits; and (3) the use of OC-12 fiber capacity for six fiber rings. These various sensitivity analysis rates are summarized in the table on the following page and discussed in sections A-H of this letter *infra*.

Iowa Telecom wishes to emphasize that this filing does not present any revision to the 1.4297 cents per minute ATS target rate it has submitted in this proceeding.³

² Confidential Exhibit 16a is a modified "Cost Calculator.xls" file; Confidential Exhibit 16b is a modified "Cost Calculator – Usage.xls" file. Iowa Telecom will submit separately the confidential exhibits to this filing on a CD-ROM, except for Confidential Exhibit 18, which is attached to this letter.

³ *See* Iowa Telecom Rebuttal, July 21, 2003, at 5 ("Iowa Telecom Rebuttal"); *see also* Confidential Exhibit 15a.

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Section(s)	Sensitivity Adjustment [Exhibit]	ATS Rate	Change
A-F	2010 host/remote configuration (includes current Nortel switch price data, separate remote switch regressions, use of RLCMs for smaller remote offices, a revised trunk port cost calculation, and revised circuit and trunk port counts) [Exhibits 17a and 17b]	1.4808	+0.0511
G	Revised non-switched circuit count data [Exhibit 20]	1.2970	-0.1327
H	OC-12 fiber capacity for six rings [Exhibit 21]	1.4288	-0.0009
	Combined run including all sensitivity analyses [Exhibits 16a and 16b]	1.3328	-0.0969

A. 2010 Host/Remote Configuration

Iowa Telecom’s cost study appropriately is based on the host/remote configuration that the company expects to have in place in July 2005 and which thus represents the configuration that would be in place throughout the remainder of the five-year CALLS period. For the purposes of this sensitivity analysis, however, Iowa Telecom has revised the cost calculator to reflect the host/remote configuration that it plans to have in place in 2010.⁴ With this revision, Iowa Telecom’s planned

⁴ As required in a TELRIC study, these network designs are based on current expectations given the transmission and switching equipment generally available at this time and based on year-end 2002 demand. Iowa Telecom makes no commitment that its actual network configuration in 2010 will match the network planned here. Actual

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network would have ten host and 284 remote switches. The ten host exchanges would be: Audubon, Creston, Fairfield, Grinnell, Knoxville, Manchester, Mount Pleasant, Newton, Rockwell City and Washington. Four of the ten host switches would be DMS-100/200 host/tandem switches (at Grinnell, Knoxville, Mount Pleasant and Rockwell City); the remaining six would be DMS-100 host switches. The planned 2010 network would not include any DMS-10 host switches.

The 2010 host/remote configuration also would require adjustments to the circuit counts for common switched and dedicated switched circuits, and an adjustment to the switch trunk port counts. The sensitivity analysis therefore includes the following revised circuit counts: [REDACTED] common switched circuits and [REDACTED] dedicated switched circuits. See Confidential Exhibit 17a, "Circuits" tab, cells W6, and V6, respectively.⁵ The sensitivity analysis also includes revised trunk port counts for each switch. See Confidential Exhibit 17a, "Switch Inv" tab, column K.

B. Current Nortel Host Switch Price Quotations

AT&T has expressed concern that the switch cost regression used in Iowa Telecom's cost study to calculate host switch investment is based on data from price quotations obtained by Iowa Telecom for one host/tandem and thirty-eight remote switches. Iowa Telecom believes that its method of calculation of switch costs is reasonable, given the lack of data from switch purchases by the company – Iowa Telecom has not purchased a new host or host/tandem switch during the course of its three-year history. Iowa Telecom's cost study utilizes a price quotation for a host/tandem switch and makes appropriate adjustments to recognize that the quotation excluded host-remote trunk ports (and thus understated the actual cost of the host switch).

Iowa Telecom is submitting with this letter new host and remote switch price data that it has obtained recently from Nortel Networks Inc. ("Nortel"). The Nortel price data are included as attachments A and B to an attestation by Scott Burwell,

(Continued . . .)

construction will be determined by the ever-changing mix of technologies, demand and net income available over the next seven years.

⁵ Confidential Exhibits 17a and 17b include the various sensitivity analyses described in section A and sections B-F *infra*.

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Nortel's Vice President of Sales for North America. *See* Confidential Exhibit 18.⁶ Attachment A provides Nortel's price quotations for four DMS-100/200 host/tandem switches and six DMS-100 host switches that are configured for Iowa Telecom's ten planned host exchanges in 2010. The price quotations are based upon specific configurations of host lines, remote lines, host/remote DS-1 links, trunks, and GR303 DS-1 links for these ten exchanges, as set forth in Attachment B to Confidential Exhibit 18. The prices include hardware, software, engineering and installation for each of the ten switches.⁷ *See* Confidential Exhibit 18, Attach. A. Nortel's price quotations are based on the assumption [REDACTED]. *See* Confidential Exhibit 18 at 2.

For this sensitivity analysis, Iowa Telecom has incorporated these specific and current DMS-100 and DMS-100/200 price quotations directly into the cost calculator in lieu of the use of regression equations in the filed cost study. *See* Confidential Exhibit 17a, "hostdata" tab, column F.⁸ These current Nortel host switch price quotations show that the regression-based switch investments utilized in the cost study are somewhat understated.

C. Revised Switch Cost Regressions for Remote Switches Based on Current Nortel Remote Switch Price Data

As noted above, Confidential Exhibit 18 also includes current Nortel price data for remote switches. Specifically, Iowa Telecom is providing price quotations from Nortel for three different remote switch products: the Remote Switching Center-S ("RSC-S"), the Star Hub remote ("Star Hub"), and the RLCM. Nortel provided

⁶ Iowa Telecom is filing the original of the Nortel attestation with the Commission.

⁷ The input data for the host price quotations and regressions include between [REDACTED]% and [REDACTED]% spare capacity per location for maintenance and churn. *See* Confidential Exhibit 17a, "hostsparefactor" tab, column E.

⁸ Iowa Telecom's cost study uses regression equations to generate switch investment for DMS-100 and DMS-10 host switches. *See* Iowa Telecom ATS Cost Study, Mar. 25, 2003, at 5-7 ("Cost Study"). Because the planned 2010 network does not include any DMS-10 host switches, the sensitivity analysis does not include a regression equation to calculate DMS-10 switch investments.

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Iowa Telecom with price quotations for various representative line sizes for each of these three switch types. For this sensitivity analysis, Iowa Telecom has used these Nortel price quotations to generate separate regression equations for each of the three remote switch types. All of the remote switch regressions follow the following model specification:

$$\text{Remote switch investment} = \alpha + \beta_1 \text{ access lines.}^9$$

Utilizing the Nortel price quotation data, the regression analysis yielded the following results:

RLCM		
	Coefficient	t Statistic
Intercept	\$ [REDACTED]	[REDACTED]
Access lines	\$ [REDACTED]	[REDACTED]
N=6 R ² = 0.99		

⁹ A trunk port variable is not included as an explanatory variable in the specification because it was not significant for any of the remote switch regressions.

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Star Hub		
	Coefficient	t Statistic
Intercept	\$ [REDACTED]	[REDACTED]
Access lines	\$ [REDACTED]	[REDACTED]
N=11 R ² = 0.99		

RSC-S		
	Coefficient	t Statistic
Intercept	\$ [REDACTED]	[REDACTED]
Access lines	\$ [REDACTED]	[REDACTED]
N=17 R ² = 0.96		

See Confidential Exhibit 19 (text file with regression data).

The input data for the remote regressions include between [REDACTED]% and [REDACTED]% spare capacity per location for maintenance and churn. See Confidential Exhibit 17a, "remsparefactor" tab, column E.

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D. Use of RLCM Remotes for Smaller Remote Offices

Although Iowa Telecom plans to utilize Star Hub remote switches for all smaller remote offices because the Star Hub is a newer product than the RLCM and provides a number of advantages [REDACTED],¹⁰ for purposes of this sensitivity analysis Iowa Telecom has replaced Star Hub remote switches with RLCMs for all offices with fewer than [REDACTED] lines, *i.e.*, for all remote exchanges that [REDACTED]. The Nortel price quotations included in Confidential Exhibit 18 indicate that prices for RLCM remotes are [REDACTED] for exchanges with fewer than [REDACTED] lines.

The cost calculator thus uses the following line-dependent remote switch schedule:

Remote Switch Implementation Schedule		
Switch Type	Access Line Threshold	Number of Locations Equipped with Switch
RLCM	[REDACTED]	[REDACTED]
Star Hub	[REDACTED]	[REDACTED]
RSC-S	[REDACTED]	[REDACTED]

Using the three regression equations stated in section C above and this implementation schedule, the sensitivity analysis includes revised switch investment data for all 284 remote switches in the planned 2010 network. *See* Confidential Exhibit 17a, “Switch Inv” tab, column P.

¹⁰ These advantages include the abilities to provide extended reach from a host switch and to support higher traffic capacities and line growth up to 1,152 access lines. *See* http://www.nortelnetworks.com/products/01/dms100/remotes/star_benefits.html.

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The net result of incorporating the new Nortel host and remote switch investment data for the 2010 host/remote configuration, as described in sections B, C and D above, is to decrease the total switch investment from \$ [REDACTED] to \$ [REDACTED]. Compare Confidential Exhibit 17a, “Switch Inv” tab, sum of columns V-AA, with Confidential Exhibit 15a, “Switch Inv” tab, sum of columns V-AA.

E. Revised Trunk Port Cost

Iowa Telecom has calculated a new unit trunk port cost using the new Nortel host switch data. Although, the sensitivity analysis utilizes host switch investment data obtained directly from Nortel price quotations, it is still necessary to calculate a unit trunk port cost so that the cost calculator can allocate costs among the various elements of the ATS target rate (e.g., the shared port element).¹¹ Therefore, Iowa Telecom conducted a regression on the new host switch price quotations to determine the unit trunk port cost. The regression follows the following model specification:

$$\text{Host switch investment} = \alpha + \beta_1 \text{ host access lines} + \beta_2 \text{ trunk ports} + \beta_3 \text{ GR303 cost} + \beta_4 \text{ tandem dummy}$$

Host Switch Regression Results		
	Coefficient	t Statistic
Intercept	[REDACTED]	[REDACTED]
Access lines	[REDACTED]	[REDACTED]
Trunk ports	[REDACTED]	[REDACTED]
GR303 cost	[REDACTED]	[REDACTED]
Tandem dummy	[REDACTED]	[REDACTED]

¹¹ Nortel did not provide a unit trunk port cost with its price quotations.

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N=10
 $R^2 = 0.98$

Based on the above regression, the sensitivity analysis utilizes a trunk port cost of \$[REDACTED] to allocate costs among the various elements of the ATS target rate.

F. Switch O&M Expenses

Because this sensitivity analysis is based on a 2010 host/remote configuration, which includes only ten host switches, Iowa Telecom is revising the O&M expense calculation for switches accordingly. Instead of using Iowa Telecom's actual 2002 O&M expenses, the sensitivity analysis calculates switch O&M expenses as a percentage of total switch investment for the switches that would be in place in 2010, using the percentage derived from Iowa Telecom's 2002 data. This adjustment would make the forward-looking switch O&M expenses proportional to the forward-looking switch investment and thus would lower the annual switch O&M expense to approximately \$[REDACTED] million. *See* Confidential Exhibit 17a, "other inputs" tab, cell D79.

The sensitivity analyses described above in sections A-F collectively yield an ATS target rate of 1.4808 cents per minute. *See* Confidential Exhibit 17a, "ATS Calc" tab, cell K50.

G. Revised Non-Switched Circuit Data

Iowa Telecom has revised its non-switched circuit counts to include all DS-0 and DS-3 circuits. As revised, the cost calculator includes [REDACTED] DS-1 equivalent non-switched circuits.¹² *See* Confidential Exhibit 20, "Circuits" tab, cell X6. This change would result in an ATS target rate of 1.2970 cents per minute. *See* Confidential Exhibit 20, "ATS Calc" tab, cell K50.

¹² This number includes both DS-1 and DS-3 HiCap circuits (the latter converted to DS-1 equivalents).

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H. OC-12 Fiber Rings

Although Iowa Telecom plans to deploy OC-48 capacity for each of its nineteen planned fiber rings, for purposes of this sensitivity analysis Iowa Telecom has utilized OC-12 capacity for six of the fiber rings that are expected to have lower volumes of interoffice traffic. These six rings are the Clarinda, Mount Ayr, Centerville, De Witt, New Hampton, and Washington South rings.¹³ For each of these six rings, Iowa Telecom has replaced each of the OC-48 fiber terminals included in the cost study at each of the ring nodes with an OC-12 terminal. This substitution affects [REDACTED] terminals located on these six fiber rings and thus results in a lower fiber terminal investment of \$ [REDACTED]. This adjustment is reflected in the cost calculator. *See* Confidential Exhibit 21, “other inputs” tab, cell C36 (“Terminal Investment”). This change would result in an ATS target rate of 1.4288 cents per minute. *See* Confidential Exhibit 21, “ATS Calc” tab, cell K50.

¹³ The Clarinda and Mount Ayr rings are located in the southwestern corner of Iowa; the Centerville ring is in southern Iowa, south of Grinnell; the De Witt ring is in eastern part of the state, near Davenport; the New Hampton ring is in northern Iowa; and the Washington South ring is located in the southeastern part of the state. Iowa Telecom notes that the Clarinda, De Witt and New Hampton, as well as the Manchester ring in northeastern Iowa, are connected to Iowa Telecom’s transport network via the fiber transport network of [REDACTED]. Because these [REDACTED] facilities are not depicted on Iowa Telecom’s fiber ring map, these rings appear to be unconnected. They are connected, however, via [REDACTED] facilities: traffic from these rings is delivered to one of [REDACTED] points of presence (“POPs”) and then brought back onto Iowa Telecom’s transport network at another [REDACTED] POP. *See* Direct Case at 34 (“Iowa Telecom will continue to use [REDACTED] fiber to complete and connect several of its rings”). For example, traffic from the New Hampton ring is transferred to [REDACTED]. Likewise, traffic from the Manchester ring is delivered to [REDACTED] POPs via a fiber connection between the Fayette and Sumner exchanges (this fiber connection was inadvertently omitted from the fiber rings map, but it is included in Iowa Telecom’s cost study). Because the cost study calculates minute miles based on airline miles, not route miles, all minute miles from offices on the Clarinda, De Witt, New Hampton and Manchester rings are included in the cost study, even though the [REDACTED] connections are not shown on the fiber rings map. More specifically, the minute miles for the offices on these rings are included in the total minute miles used to determine fiber and terminal unit costs.

Wiley Rein & Fielding LLP

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If you have any questions regarding this letter, please contact me by telephone at (202) 719-3240.

Sincerely,

_____/s/_____
Gregory J. Vogt
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