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October 3, 2007

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**EX PARTE**

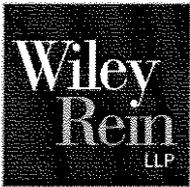
Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

Re: *Petition for Waiver by Iowa Telecommunications Services, Inc.*, WC  
Docket No. 05-337

Dear Ms. Dortch:

This letter is to inform you that on September 28, 2007, Greg Vogt and the undersigned, on behalf of Iowa Telecommunications Services, Inc. ("Iowa Telecom"), met with Dana Schaffer, Don Stockdale, Jeremy Marcus, Amy Bender, Katie King, and Jennifer McKee of the Wireline Competition Bureau in the above-referenced docket. The meeting addressed Iowa Telecom's petition for waiver of the universal service high-cost mechanisms, and the parties discussed policies concerning universal service funding and different methodologies for granting Iowa Telecom relief from the current universal service rules.

Iowa Telecom reiterated its need for high-cost support, which is underscored by the unique situation the company occupies. First, the assumptions upon which the universal service rules were formulated -- using a national average investment in loops -- are inapplicable to Iowa Telecom. Iowa Telecom was formed solely through the purchase of substantially underinvested properties from GTE in 2000 that it needed to upgrade to provide adequate voice telecommunications services. (Only Iowa Telecom and Valor fall into this category, however Valor is now part of much larger Windstream). This makes Iowa Telecom demonstrably unlike other rural telephone companies that have been investing in their networks from day one. Second, Iowa Telecom is the only carrier regulated under price caps at both the federal and state levels for all of its study areas. Indeed, the FCC relied on the uniqueness of Iowa Telecom's operational and financial situation when it granted it forbearance to adjust its switching rates in *Petition for Forbearance of Iowa Telecommunications Service, Inc.*, Order, 17 FCC Rcd 24319, ¶ 16 (2002).



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The parties discussed several approaches for Iowa Telecom to receive high-cost support that involve a waiver of the Commission's safety valve rules. Attached as Exhibit A are documents reflecting the support that Iowa Telecom would receive, if any, under these various approaches as well as a listing of the waivers apparently implicated by each approach.

The parties also discussed the materials that Iowa Telecom had provided to the Commission on September 5, 2007 in response to staff's request, some of which staff has asked be updated. In addition, although Iowa Telecom had requested that all of the materials provided be treated as confidential pursuant to Section 0.459(a) of the Commission's rules, the staff expressed the view that only some of the information in question constituted proprietary commercial and financial information so as to warrant confidential treatment. Consistent with the staff's views, the information in Exhibit A as well as this letter is being filed publicly.

In response to staff's request, Iowa Telecom had attempted to develop a methodology for allocating its study area average loop costs to individual wire centers and determining the extent that such wire centers would be eligible, if evaluated on an individual basis, for high-cost loop funding. Iowa Telecom has thus far been unable to do so. Iowa Telecom does not maintain plant records which include applicable depreciation for all investment figures by wire center, and it is impractical to conduct a comprehensive inventory of all plant facilities by wire center. Because it does not have these detailed property records, it cannot perform normal allocations of costs, such as overhead costs, to individual wire centers. This is precisely why Iowa Telecom sought to use the HCPM model for high cost loop support since it has already developed a model for such a wire-center based evaluation.

Iowa Telecom also attempted to create a model for allocating its study area average embedded loop costs to individual wire centers based on the basis of teledensity, using the relationship of teledensities and published costs of other rural Iowa telephone companies whose study areas comprise a single wire center as a proxy. In the end, Iowa Telecom abandoned this effort because it was subject to too many assumptions and thus criticisms. For example, it is highly unlikely that these other rural Iowa company embedded costs were representative of Iowa Telecom's embedded costs. In addition, there was no way of correlating the density figures derived from such an evaluation to the density characteristics of Iowa Telecom network wire centers, in order to determine whether this represented accurately differences in Iowa Telecom costs by wire center.



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Also at the request of staff, Iowa Telecom attempted to allocate its study area loop costs to individual wire centers based on values derived from the HCPM and using data as of December 31, 2006. The information resulting from this exercise is attached as Exhibit B, and the following is an overview of the methodology utilized by Iowa Telecom in developing this information.

First, a Study Area Allocator ("SA Alloc.") for each wire-center-by-wire needed to be calculated using HCPM results for the purpose of distributing each study area's Total Unseparated Revenue Requirement. As discussed above, Iowa Telecom has HCPM output for its wire centers. These allocators were calculated by dividing the "Total Cost for Switched Lines" HCPM output for each wire center (repeated as "HCPM Tot. Cost" in the spreadsheet included in Exhibit A) by the sum of Total Cost for Switched Lines HCPM output for all wire centers in that study area (see "HCPM Result (Monthly) to Allocate" on the summary page in Exhibit B).

The next step was to allocate the Total Unseparated Revenue Requirement for each study area by wire center by computing the product of the wire center's Study Area Allocator and the Total Unseparated Revenue Requirement. This yields the Wire Center Unseparated Revenue Requirement ("Alloc. Book Cost"). Wire Center Average Cost Per Loop ("WC Cost/Loop") can then be calculated by dividing the Wire Center Unseparated Revenue Requirement by the number of DL060 lines for that wire center.

The remainder of the methodology applies the Commission's current rules (\$356.07 as the NACPL for 2006 based on a NECA estimate provided in NECA's 2008 Modification of the Average Schedule Universal Service High Cost Loop Support Formula filed in CC Docket No. 96-45 on August 28, 2006, at 24) on a wire center basis. Separate calculations are made for support based on the increment between 115% and 150% of the National Average Cost Per Loop and for greater than 150% of the National Average Cost Per loop, which were then added together for total per-loop support ("Support/Loop") by wire center. This number was then multiplied by the number of NECA Data Line 070 loops ("Category 1.3 Message Telephone Loops") in each wire center to derive total support by wire center ("Total WC Support"). These were then summed by study area and in total on the summary page in Exhibit B.

While this information is being submitted in response to staff request, Iowa Telecom does not believe that it results in a methodology that appropriately reflects Iowa Telecom's costs of providing and improving service. Iowa Telecom's



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dilemma is that it purchased a network with very low levels of historical investment covering a relatively homogenous territory. Because this territory includes no large communities (the largest community served has a population of approximately 15,000), Iowa Telecom has very few, if any, particularly low-cost wire centers to “carve out” using a wire-center-by-wire-center allocation. Therefore, a wire center allocation does not more accurately reflect its need for high-cost support.

Pursuant to Section 0.459(a) of the Commission’s rules,<sup>1</sup> Iowa Telecom requests confidential treatment of Exhibit B because it contains proprietary commercial and financial information. If the Commission cannot maintain the confidentiality of the information in the attached, Iowa Telecom requests that the Commission return it to Iowa Telecom, pursuant to Section 0.459(e) of the Commission’s rules, because Iowa Telecom voluntarily provided the information.<sup>2</sup>

The information contained in the attached is proprietary commercial and financial information that is routinely withheld from public disclosure. Under Section 0.459 of the Commission’s rules, parties who submit confidential information to the Commission may file a request that the FCC not disclose the information to the public. If that information is withholdable by the agency pursuant to an exemption of the Freedom of Information Act (“FOIA”),<sup>3</sup> the Commission’s rules require that the information remain confidential unless the Commission identifies a “compelling public interest in disclosure.”<sup>4</sup>

In this case, the information in Iowa Telecom’s Exhibit B fits into Exemption 4 of FOIA, which exempts “commercial or financial information obtained from a person” that is “confidential” from public disclosure under FOIA.<sup>5</sup> Where the information is provided to the Government voluntarily, as is the case here, Exemption 4 protects as confidential any commercial or financial information that is

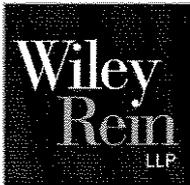
<sup>1</sup> 47 C.F.R. § 0.459(a).

<sup>2</sup> *Id.* § 0.459(e).

<sup>3</sup> 5 U.S.C. § 522(b)(4).

<sup>4</sup> Examination of Current Policy Concerning the Treatment of Confidential Information Submitted to the Commission, Report and Order, 13 FCC Rcd 24816 ¶ 8 (1998) (“*Confidential Treatment Order*”). Before authorizing release of information, the Commission “insists upon a showing that the information is a necessary link in a chain of evidence’ that will resolve an issue before the Commission.” *Id.* (quoting *Classical Radio for Connecticut, Inc.*, 69 FCC Rcd 1517, 1520 n.4 (1978)).

<sup>5</sup> 5 U.S.C. § 552(b)(4).



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“of a kind that would not customarily be released to the public by the person from whom it was obtained.”<sup>6</sup>

Here, Exhibit B contains commercial information regarding Iowa Telecom’s loop costs and quantity of loops by wire center, which is commercially sensitive information customarily not released to the public, and therefore falls under FOIA Exemption 4. The information for which Iowa Telecom is seeking confidential treatment would be extremely beneficial to Iowa Telecom’s actual and potential competitors. More than twenty competitive local exchange carriers (“CLECs”) have commenced operation within the company’s service territory and are presently competing against Iowa Telecom. Iowa Telecom would therefore suffer substantial competitive harm if the confidential commercial and financial information contained in Exhibit B were released to the public. Furthermore, Commission precedent has found this type of information to be competitively sensitive and withholdable under Exemption 4.<sup>7</sup>

For all the foregoing reasons, Iowa Telecom requests that the Commission withhold from public disclosure the proprietary commercial and financial information contained in Exhibit B, pursuant to Section 0.459 of the Commission’s rules. Pursuant to 47 C.F.R. § 1.1206, please include this ex parte filing in the above-referenced docket.

Sincerely,

*/s/ Mimi W. Dawson*

Mimi W. Dawson  
Sr. Public Policy Consultant

Cc: Dana Shaffer  
Amy Bender  
Katie King  
Jeremy Marcus  
Jennifer McKee  
Don Stockdale

<sup>6</sup> *Critical Mass Energy Project v. Nuclear Regulatory Comm’n*, 975 F.2d 871, 879 (D.C. Cir. 1992) (“Critical Mass”); see also *Confidential Treatment Order*, 13 FCC Rcd 24816 ¶ 4.

<sup>7</sup> See, e.g., *Center for Public Integrity v. FCC*, 2007 WL 2411811 (D.D.C. Aug. 27, 2007).

# EXHIBIT A

### Safety Valve Formulas

	Per Loop	Total
<b>Iowa Telecom-ITN</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.00	\$0.00
Alternative Approach**	\$38.17	\$3,844,673
<b>Iowa Telecom-ITS</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.00	\$0.00
Alternative Approach**	\$25.09	\$1,628,265
<b>Iowa Telecom-IT</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.83	\$62,598
Alternative Approach**	\$56.33	\$4,117,666
<b>Total</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.25	\$62,598
Alternative Approach**	\$40.17	\$9,590,605

\* Same as with no waivers, except using a \$240 national average cost per loop. The waivers that are apparently implicated by this proposal are outlined on the following page.

\*\* Support = Current period study area loop cost (2006 final) – 2005 loop cost. (SAC 351167=240.16, 351178=278.54, 351170=210.41). The waivers that are apparently implicated by this proposal are outlined on the following page.

- The Safety Valve approach would require the following waivers.
  - Relief would be granted by multiplying the difference between current period loop cost expense adjustment and \$240 (the FCC's frozen, unindexed average loop cost expense adjustment) times 0.50. This proposal involves four waivers of the safety valve rule.
  - First, it waives rule § 54.305(d) that requires Iowa Telecom to qualify for support under current rural high cost loop rules.
  - Second, it waives the requirement in § 54.305(d)(3) that the safety valve support be capped at what would have been received utilizing the current rural high cost loop formula.
  - Third, it waives the requirement in § 54.305(d) that current period loop cost expense adjustment be computed based on the indexed average loop cost (to reflect the rural high cost loop fund cap), rather than the \$240, unindexed, average loop cost for each year in which safety valve relief would be computed.
  - Fourth, it waives the definition of loop cost expense adjustment in 54.305 (which utilizes the definition in § 36.631) that would only provide support for 65% of the amount over 115% of average loop cost and 75% of the amount over 150% of average loop cost.
  - Fifth, it waives the 0.50 multiplier in § 54.305(d)(3).
- The only difference between the Safety Valve approach and the Alternative proposal, would be to use actual study area loop costs for 2005 for each Iowa Telecom study area instead of \$240 for the base year in each calculation of safety valve relief, which would involve a waiver of § 54.305(d), as specified above.

### Safety Valve Formulas

	Per Loop	Total
<b>Iowa Telecom-ITN</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.00	\$0.00
Alternative Approach**	\$24.81	\$2,499,038
<b>Iowa Telecom-ITS</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.00	\$0.00
Alternative Approach**	\$16.31	\$1,058,373
<b>Iowa Telecom-IT</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.83	\$62,598
Alternative Approach**	\$36.61	\$2,676,483
<b>Total</b>		
No Waivers	\$0.00	\$0.00
Safety Valve Approach*	\$0.25	\$62,598
Alternative Approach**	\$26.11	\$6,233,894

\* Same as with no waivers, except using a \$240 national average cost per loop. The waivers that are apparently implicated by this proposal are outlined on the following page.

\*\* Support = (Current period study area loop cost (2006 final) – 2005 loop cost) x .65. (SAC 351167=240.16, 351178=278.54, 351170=210.41). The waivers that are apparently implicated by this proposal are outlined on the following page.

- The Safety Valve approach would require the following waivers.
  - Relief would be granted by multiplying the difference between current period loop cost expense adjustment and \$240 (the FCC's frozen, unindexed average loop cost expense adjustment) times 0.50. This proposal involves four waivers of the safety valve rule.
  - First, it waives rule § 54.305(d) that requires Iowa Telecom to qualify for support under current rural high cost loop rules.
  - Second, it waives the requirement in § 54.305(d)(3) that the safety valve support be capped at what would have been received utilizing the current rural high cost loop formula.
  - Third, it waives the requirement in § 54.305(d) that current period loop cost expense adjustment be computed based on the indexed average loop cost (to reflect the rural high cost loop fund cap), rather than the \$240, unindexed, average loop cost for each year in which safety valve relief would be computed.
  - Fourth, it waives the definition of loop cost expense adjustment in 54.305 (which utilizes the definition in § 36.631) that would only provide support for 65% of the amount over 115% of average loop cost and 75% of the amount over 150% of average loop cost.
  - Fifth, it waives the 0.50 multiplier in § 54.305(d)(3).
- The only difference between the Safety Valve approach and the Alternative proposal, would be to use actual study area loop costs for 2005 for each Iowa Telecom study area instead of \$240 for the base year in each calculation of safety valve relief, which would involve a waiver of § 54.305(d), as specified above. However, the 65% factor contained in Section 36.631(c)(1) of the rules would be applied.

# EXHIBIT B

(Confidential Content Redacted)