

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

In the Matter of)	
)	
High-Cost Universal Service Support)	WC Docket No. 05-337
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	

COMMENTS OF IOWA TELECOMMUNICATIONS SERVICES, INC.

Iowa Telecommunications Services, Inc. (“Iowa Telecom”) hereby files these comments in the above captioned proceeding in response to the three *USF Notices* adopted by the Federal Communications Commission (“Commission” or “FCC”) regarding global reform of federal universal service policy.¹ Such reform should ensure that customers in rural areas enjoy the same quality voice and broadband services that are available elsewhere in the United States. Unfortunately, at least in Iowa Telecom’s experience, that is not the case in Iowa. As the incumbent local exchange carrier (“ILEC”) in three rural study areas in Iowa, Iowa Telecom is very concerned that existing Universal Service Fund (“USF”) rules do not adequately “preserve and advance” universal service, as required by 47 U.S.C. § 254. Specifically, Iowa Telecom

¹ *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, FCC 08-22 (rel. Jan. 29, 2008 (“*Joint Board Comprehensive High-Cost Recommended Decision Notice*”)); *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, FCC 08-4 (rel. Jan. 29, 2008)(“*Identical Support Rule Notice*”); *High-Cost Universal Service Support; Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, WC Docket No. 05-337; CC Docket No. 96-45, FCC 08-5 (rel. Jan. 29, 2008) (“*Reverse Auctions Notice*”)(collectively “*USF Notices*”).

urges the Commission to immediately allow price cap carriers to make a one-time election to use the High Cost Proxy Model (“HCPM”) for federal universal service funding. This fundamental change also should be part of any permanent solutions to ensure that Americans living in rural areas of the country receive sufficient funding from the USF mechanisms to enable them to have access to modern communications services at affordable prices.

I. INTRODUCTION

Iowa Telecom is a diversified communications company serving 286 exchanges in the rural and small town areas of Iowa.² Iowa Telecom currently has approximately 213,000 access lines. Its average number of subscribers per square mile is only 10.5, which places it in a similar position to that of many smaller ILECs that provide service to rural areas in Iowa and other parts of America.

Iowa Telecom was formed in 2000 as the result of purchasing three study areas from then GTE Midwest Incorporated (“GTE”). Like many ILECs whose service areas included large urban and suburban areas, GTE did not invest in its infrastructure in rural America. Rather, it chose to sell off more rural exchanges so that it could focus on servicing more urban territories in the country. Iowa Telecom operates entirely as a price cap carrier with the exception of small average-schedule subsidiary serving two exchanges. However, Iowa Telecom currently receives no high-cost loop support,³ despite the rural nature of its subscribership and the costly nature of investments necessary to modernize its plant to bring modern and advanced services to its subscribers.

² For the purpose of these Comments, Iowa Telecom will not refer to its subsidiary Montezuma Mutual Telephone Company, an average schedule company serving two rural Iowa exchanges.

³ This is with the small exception of Montezuma Mutual Telephone Company.

Iowa Telecom is dedicated to providing excellent service to its rural and small town customers. Since 2000, it has invested more than \$170 million to modernize its infrastructure and make it capable of providing technologically advanced voice and broadband services. Although this investment has produced excellent results for Iowans, the company has not been able to invest at levels which would accelerate broadband use in many of its rural exchanges. Although broadband service is available in every Iowa Telecom exchange, roughly one quarter of Iowa Telecom's access lines are not DSL qualified due to their copper loop lengths. Further, many of the customers who are DSL qualified are limited to maximum download speeds of well below 1.0 Mbps.⁴ These conditions are likely to remain for some time in the future absent federal universal service support.

II. GLOBAL REFORM SHOULD ENSURE THAT HIGH-COST LOOP SUPPORT BE PROVIDED TO TELEPHONE COMPANIES TO PRESERVE AND ADVANCE AFFORDABLE TELECOMMUNICATIONS AND BROADBAND SERVICES TO RURAL AMERICANS.

Iowa Telecom congratulates the Federal-State Joint Board on Universal Service ("Joint Board") for creating a plan to reform the high-cost universal service mechanism.⁵ Section 254 of the Communications Act of 1934, as amended ("Act"), was enacted to bring basic reforms to the Commission-established high-cost fund to clarify its purpose, to expand the contribution to the fund to all interstate telecommunications services providers, to eliminate implicit subsidies, and to provide support to schools, libraries, and rural health care providers. Section 254 requires that

Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high-cost areas, should

⁴ In fact, large portions of Iowa Telecom's distribution network require improvement, whether or not broadband is provided over such facilities.

⁵ *High-Cost Universal Service Support*, WC Docket No. 05-337, 22 FCC Rcd 20477 (Fed.-St. Jt. Bd. USF, 2007)(*"USF Reform Recommended Decision"*).

have access to telecommunications and information services, including interexchange services and advanced telecommunications and information service, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charges for similar service in urban areas.⁶

Any contribution mechanism must be equitable and nondiscriminatory,⁷ and the support mechanisms must be “specific, predictable and sufficient . . . to preserve and advance universal service.”⁸

Although the FCC implemented a number of the Section 254 requirements, it also vastly expanded the size and the scope of the fund. In particular, it created an additional goal of the fund, “competitive neutrality”, a goal not on the original list.⁹ This FCC-developed goal was implemented by allowing any eligible telecommunications carrier (“ETC”) to receive the same per-line amount of support as the ILEC in the market.¹⁰ The FCC refused to impose carrier-of-last resort requirements on these competitive ETCs.¹¹

A. The USF has provided significant benefits to rural Americans by ensuring broad availability of voice communications, even in rural and high-cost areas.

Universal service high-cost support has been essential to ensuring that rural Americans receive modern and advanced telecommunications. Telephone companies serving rural America have utilized high-cost funds to modernize their networks, to extend their reach into expensive areas, and to install and maintain network infrastructure to provide both voice and broadband

⁶ 47 U.S.C. § 254(b)(3).

⁷ 47 U.S.C. § 254(b)(4).

⁸ 47 U.S.C. § 254(b)(5).

⁹ *Federal-State Joint Board on Universal Service*, First Report & Order, 12 FCC Rcd 8776, 8801, ¶ 47 (1997)(“*USF First Report & Order*”).

¹⁰ *Id.* at 8847, ¶ 127, 8858, ¶ 144.

¹¹ *Id.* at 8933, ¶ 288, 8944-45, ¶ 312-13.

services. A study by Balhoff, Rowe & Williams established this close nexus between existence of the funds and telecommunications development.¹² The FCC should continue this policy mechanism that is so important to building vital network infrastructure. This infrastructure is essential so that Americans living in rural, high-cost, and insular areas have the opportunity to purchase at affordable prices the modern communications services that are vital to our country's social and economic development.

B. The USF needs to be refocused to ensure that ILECs that are providing service to rural and high-cost areas are treated similarly.

Notwithstanding these positive developments, the USF has fallen off its tracks and must be redirected to achieve its original core goals. First, the FCC's competitive neutrality principle, although a laudable goal in other contexts, becomes distorted in the USF area, where companies not actually serving high-cost and rural areas nevertheless receive USF monies. Finally, the contribution mechanism is unstable because it is assessed on an ever-decreasing revenue base while using an ever-increasing factor, to the detriment of all consumers of telecommunications services.

C. The FCC should permit price cap carriers to make a one-time election to use the HCPM model in order to ensure that adequate support flows to rural territories.

Iowa Telecom focuses its comments on the second problem enunciated in the last section, leaving it to other ILECs to address the other two areas of concern. Over the last decade, a number of smaller, mostly mid-size, telephone companies have been purchasing rural telephone exchanges of larger companies. These large urban companies that are selling the exchanges have indicated that the more rural areas they are selling are inconsistent with their core business

¹² M. Balhoff, R. Rowe, & B. Williams, *Universal Service Funding: Realities of Serving Telecom Customers in High-Cost Regions* (Summer 2007).

operations. In sharp contrast, the acquiring companies have committed themselves to serving the Americans who reside in these rural and high-cost areas. Because of the high-cost of providing services to these areas, it is economically untenable to support the services through customer rate charges alone, even when these companies charge rates at or slightly above the national average local exchange service level. Section 254 was enacted specifically to ensure that even those Americans residing in rural, high-cost, and insular areas receive the same services as those in urban areas at affordable prices.

Notwithstanding this reality, some FCC rules stand in the way of supporting and encouraging investment in rural network infrastructure. For instance, a rural telephone company may only receive universal service support if its net investment exceeds the “national average,” a figure that is indexed to a much higher level to fund support only below a certain cap.¹³ If investment in network infrastructure has been inadequate for years, such as has been the case with exchanges sold by large, urbanized companies, the purchased operations would not be eligible to receive high-cost loop support because their loop costs are far below the national average. Even millions of dollars of investment often is insufficient to bring the carrier’s average costs above the national average and the safety valve rules reimburse companies for new investment at a small fraction of needed investment.¹⁴ Therefore, the purchasing carrier is likely investing as much if not more in its network infrastructure on a current basis than does its

¹³ See 47 C.F.R. §§ 36.601-04 & 36.621-31. In light of this, the national average loop cost figure used as a threshold for gaining support increases dramatically from year to year pursuant to 47 C.F.R. §§ 36.622 & 36.601(c). For funding in calendar year 2008, this average loop cost, including the indexed threshold, was over \$350 dollars, whereas the uncapped cost per loop is only \$240.

¹⁴ Section 34.305(d) makes a carrier eligible to receive Safety Valve Support only if it is eligible for USF in the first place, regardless of the level of added investment it makes after the purchase. And even if the carrier is initially eligible, it only receives a small percentage of its actual investment. 47 C.F.R. § 34.305(d).

neighboring ILEC. Because of the way the rural mechanism formula works, the company operating in a high cost area which has invested on an annual basis for a number of years would exceed the national average loop cost. However, the purchasing carrier's loop costs would not, even though its current investment is much higher. This is so because its average costs per loop, such as depreciation, have not had time to accumulate, and thus its average costs would still be far below the national average.

Although the investors in the mid-size purchasing companies should be expected to make reasonable investments in these companies' infrastructure, they cannot rationally do so at the levels necessary to bring modern infrastructure and services to their customers. The nature of rural properties, given their small subscriber base and low density, make it impossible for subscribers to fund all of these investment costs on a self-sufficient basis, even if they charge local exchange service rates at or slightly above the national average level.¹⁵

One way that universal service policy could be revised to enable purchasing companies to expand their networks both in terms of reach and capabilities on a timely basis, is to permit them to receive universal service support like other companies in their circumstances. Increasing the flexibility of these companies to join a universal service mechanism that provides the needed relief would accomplish that goal. Therefore, rural carriers should be allowed to make a one-

¹⁵ Although some have argued that a purchasing company should simply forego making its purchase if it is not willing to make the required investments in the purchased property, this answer is blind to the policy realities. Such a "lift-yourself-up-by-your-bootstraps" argument is cold comfort to rural Americans in these areas which would inevitably have to live with the lack of infrastructure investment from the large urban carriers, who are never going to invest in these areas to the extent it is not in their corporate self-interest to do so. We submit that such an approach is inconsistent with the intent of Section 254 and should not be followed. Indeed, the Commission itself has rejected this argument in the past. *See Petition for Forbearance of Iowa Telecommunications Service, 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*, Order, 17 FCC Rcd 24319, 24322, ¶ 8 n. 28 & 24325, ¶ 17 (2002).

time election to obtain high cost loop support using the HCPM under the non-rural mechanism.¹⁶ This election is necessary to ensure that similarly situated carriers are not artificially cut off from support because the rural USF mechanisms do not address under-invested properties. This approach is more consistent with the fundamental goals and policies behind Section 254 because it would ensure adequate funding while properly aligning the regulatory incentives of model-based support and price cap regulation¹⁷ This change should be made immediately, but also should be part of any more permanent solutions to address the needs of rural Americans.¹⁸

Making such an adjustment would not require wholesale changes to the current mechanisms. The current non-rural model does not need to be adjusted because it would take inordinate resources to do so. Even after those resources were expended, there would still be a number of contested issues that could take years to resolve. The proposed change would have only a modest effect on the size of the fund and should be adopted as part of the global reform being considered by the FCC. Other changes, such as a substantial modification of the “parent trap” rule, which limits an acquiring company to the seller’s universal service money, would also ameliorate such adverse consequences in the current rules.¹⁹ Iowa Telecom believes that the

¹⁶ Strikingly, the FCC has addressed under-invested properties for non-rural carriers since its HCPM model would fund the forward-looking costs of an efficient network, rather than only focusing on embedded costs. *See* 54 C.F.R. § 309; *Federal State Joint Board on Universal Service*, Ninth Report & Order, 14 FCC Rcd 20432 (1999); *Federal State Joint Board on Universal Service*, Tenth Report & Order, 14 FCC Rcd 20156 (1999).

¹⁷ Iowa Telecom has requested just such an approach in its waiver petition. Iowa Telecom Petition for Interim Waiver of the Commission’s Universal Service High-Cost Loop Support Mechanisms, WC Docket No. 05-337 (filed May 8, 2006).

¹⁸ Interim procedures have been suggested in other contexts in order to address immediate universal service issues. *See High Cost Universal Service Support*, WC Docket No. 05-337, Recommended Decision, 22 FCC Rcd 9009, 9000, ¶ 4 (Fed.-St. Jt. Bd., 2007)(“*CETC Freeze Recommended Decision*”).

¹⁹ 47 C.F.R. § 54.305.

provision of insufficient funding to rural and high-cost areas is inconsistent with the mandate of Section 254 of the Act and should be rectified.

III. IOWA TELECOM SUPPORTS THE COMMENTS OF USTA AND ITTA.

Although Iowa Telecom has chosen to limit its comments to the insufficient universal service support provided to an ILEC with under-invested properties in the context of the provider of last resort high-cost funding, Iowa Telecom agrees in principle with the comments set forth by Independent Telephone and Telecommunications Alliance (“ITTA”) and USTelecom in this docket.²⁰ Utilizing both the instant proposal and the further proposals of ITTA and USTelecom, the FCC would go along way to refocusing the currently out-of-control and misdirected USF back to the original intention of the architects of Section 254 of the Act.

IV. CONCLUSION

For the foregoing reasons, Iowa Telecom urges the Commission to increase the flexibility of providers of last resort to allow them to elect into the high-cost support mechanisms that provide support at the same levels as similarly-situated carriers. In particular, the FCC should

²⁰ See Comments of ITTA, WC Docket No. 05-337 (filed Apr. 17, 2007); Comments of USTelecom, WC Docket No. 05-337 (filed Apr. 17, 2007).

address the universal service needs of the customers in territories of companies acquiring rural or high-cost exchanges from large, more urbanized carriers.

Respectfully submitted,

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Certificate of Service

I, Gregory J. Vogt, do hereby certify that I have on this 17th day of April 2008 caused a copy of the foregoing "Comments Of Iowa Telecommunications Services, Inc." to be served by electronic mail upon the following:

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