Iowa Telecommunications Association

***Notice of Ex Parte Presentation***

December 9, 2008

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Portals II, Room TW-A325
Washington, DC 20554

Re: High Cost Universal Service Support, WC Docket 05-337; In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Intercarrier Compensation for ISP-Bound Traffic, CC Docket No. 99-68

Dear Ms. Dortch:

On December 8, 2008, Terry Wegener, Winnebago Cooperative Telecom Association, Doug Boone, Premier Communications and I met with Commissioner Kevin Martin's legal counsel Amy Bender.

During this meeting, Wegener and Boone presented information showing the impact of the proposed intercarrier compensation reform proposals found in Appendix A and C of the FCC's Order on Remand and Report and Order and Further Notice of Proposed Rulemaking (released November 5, 2008) in the above-captioned dockets. Wegener and Boone discussed the revenue impacts on their company if Phase I, II, and III of the proposed reductions in originating and terminating access charges were implemented, and also discussed the impact on local ratepayers if the revenue reductions were passed on to rural consumers in the form of higher local rates. In addition, the undersigned presented data showing the estimated statewide impact of the proposed intercarrier compensation reform on rural Iowa consumers at the end of Phase III could be $27.73 per customer per month.

Attached, please find a copy of the presentation materials used during these meetings. Please feel free to contact me if you have any questions.

Sincerely,

Dave Duncan

David C. Duncan
President, Iowa Telecommunications Association

cc: Chairman Kevin Martin, Amy Bender

# FCC's ICC and USF Reform Proposal—Iowa Impact Data

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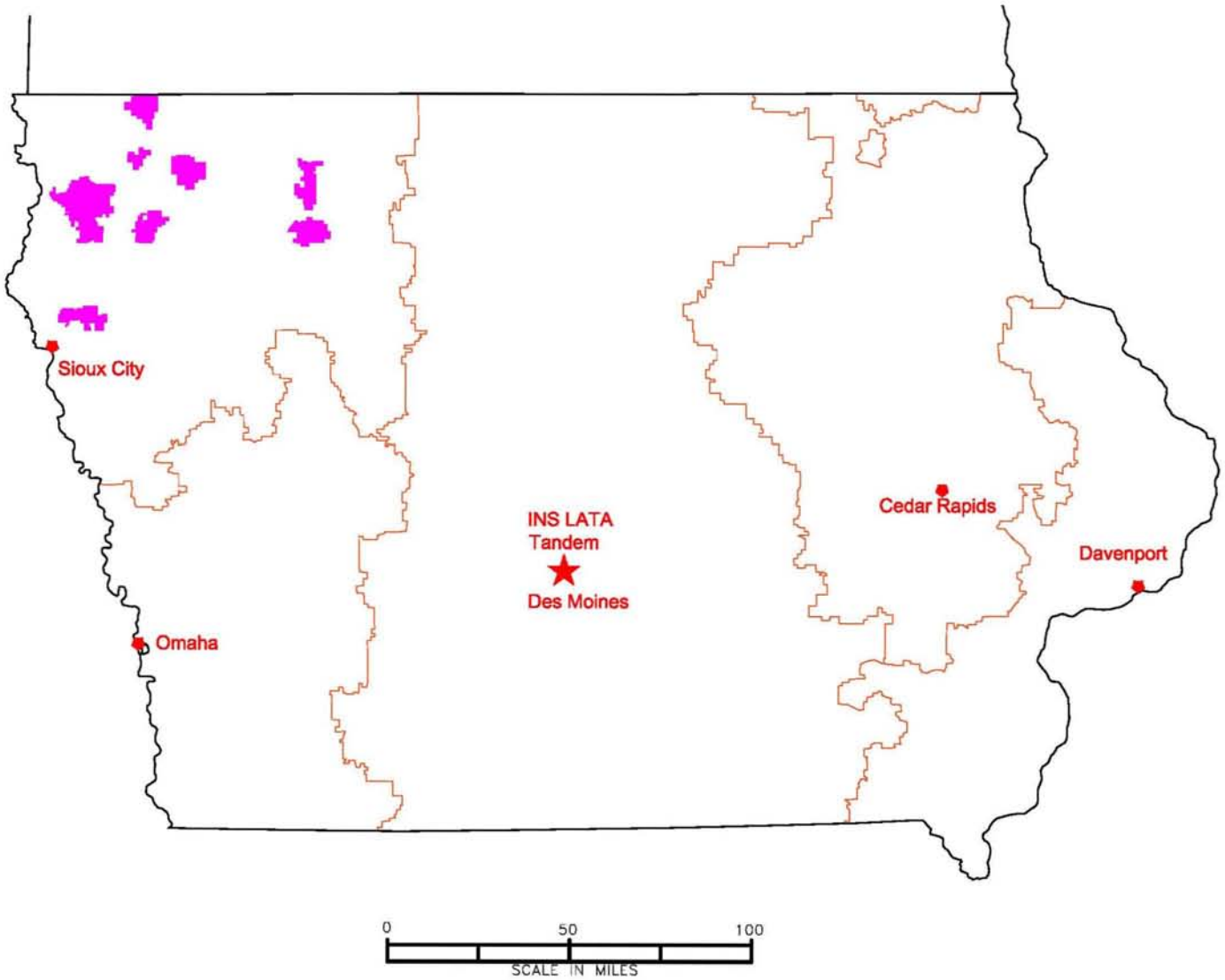
PREMIER COMMUNICATIONS

*Looking Ahead*

- Headquartered in Sioux Center, Iowa
- Serve 9 exchanges in Northwest Iowa
- Total access lines – 6,977
- Largest exchange 4,413 access lines
  - Remaining 8 exchanges average 320 access lines

# Iowa Map – Highlighted Service Areas



# Historical Capital Expenditures

| Year | CapEx | CapEx Per Access Line | USF Received | USF Per Access Line |
|---|---|---|---|---|
| 2005 | $2,369,777 | $ 296 | $1,811,039 | $226 |
| 2006 | $4,986,587 | $ 625 | $1,964,280 | $246 |
| 2007 | $2,282,138 | $ 322 | $1,856,316 | $261 |
| 2008 (Est.) | $2,700,000 | $ 387 | $2,134,068 | $306 |

*USF-supported expenditures are much larger when facility provision, maintenance, and depreciation expenses are added to the capital expenditures shown above. (Just the 2008 depreciation expense alone is approximately $244/AL)

# Forecasted Capital Expenditures

| Year | CapEx – Budgeted* (Pending) | Per Access Line** |
|---|---|---|
| 2009 | $6,300,000 | $ 903 |
| 2010 | $5,800,000 | $ 831 |
| 2011 | $4,300,000 | $ 616 |
| 2012 | $5,500,000 | $ 788 |
| 2013 | $6,500,000 | $ 932 |

*Approximately 70% of budgeted amount is to replace aging OSP

**Based on current access lines

# ICC Access Reform

| Intrastate Access Rate | Interstate Access Rate (Average) |
|---|---|
| $0.113/min. | $0.047/min. |

**Current Annual Access Revenue Per Access Line**

| 2008 Est. | Intrastate | Interstate | Total |
|---|---|---|---|
| Billed | $1,719,988 | $888,927 | $2,608,915 |
| Per Access Line | $ 247 | $ 127 | $ 374 |

# Unreasonable Burden Would Shift to Customers

## Assumptions:

Year 2:

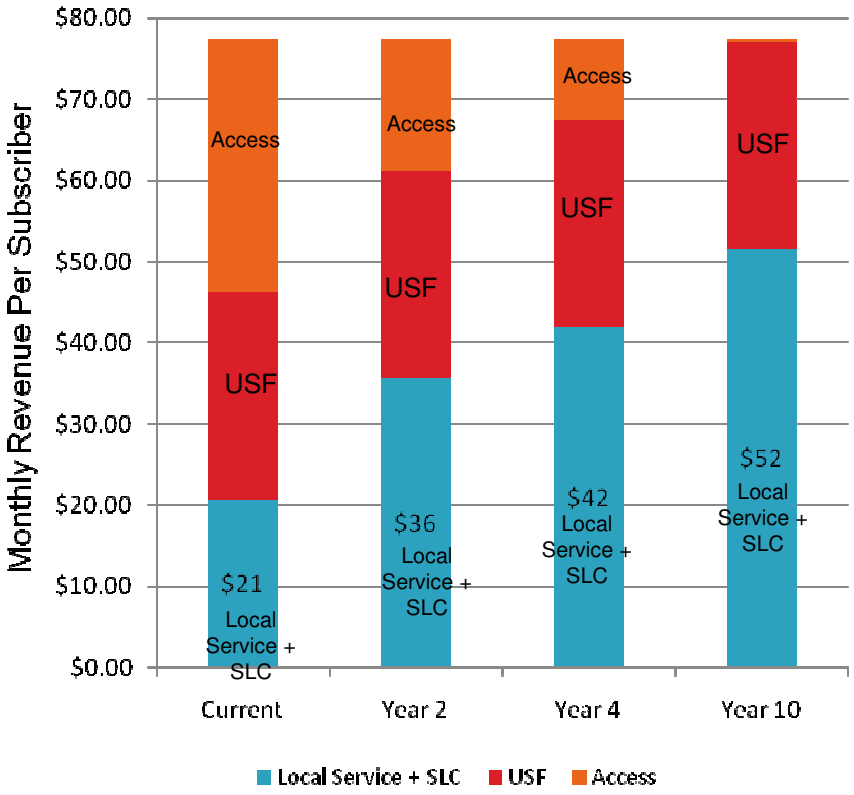
Intrastate Rate Reduced to Interstate Rate

Year 4:

Interstate and Intrastate Rates Reduced to Assumed Recip. Comp. Rate of $0.0244/min.

Year 10:

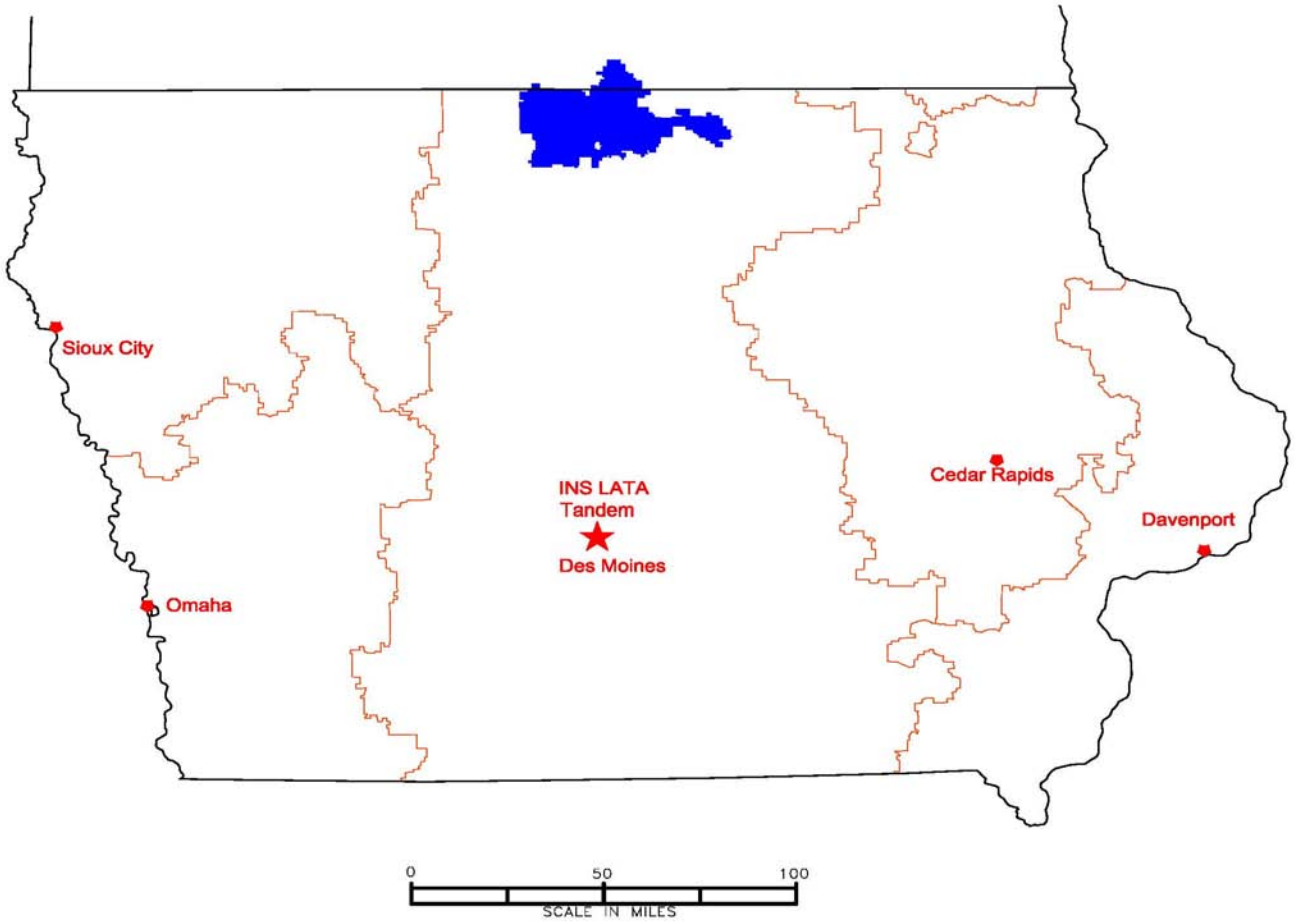
Interstate and Intrastate Rates Reduced to Rate of $0.0007/min.




Loss of access lines, access minutes, or USF reductions could add significantly more costs to local service rate, which is not reflected in the above graph.

Local service rates would need to be 2.5 times their current rate.

# Iowa Map – Highlighted Service Areas



# Demographics

- WCTA Service Area: 17 exchanges (14-Iowa; 3-Minnesota)
  - Square Miles: 865
  - Access Lines: Total switch ILEC access lines 6,625
  - Access Lines Per Route Mile: 3.92
- Communities Served:
  - Average 390 access lines per exchange served
  - Median Family Income: ranges from $32,500 to $50,699
    - Average of $41,020 is approximately 20% less than the national average
  - Winnebago Industries (Winnebago motor home manufacturer) was largest employer in the area until economic downturn. Massive layoffs.
  - Agricultural Industry: Ethanol plants struggling

# Proposed USF CAP

- Average yearly plant investments for fiber, copper, electronics during past 5 years – $2,775,391
  - 5-Year Average Per Access Line: $480/AL/yr.
- 2009 outside plant construction plans
  - Fiber to the home estimated cost – $6,611,000
    - 3 exchanges
    - Average cost per access line approximately $6,100
    - Plant needs upgrade due to age and condition
- USF received (2008 Est.) = $373/AL
- USF cap would severely limit or eliminate investment

# USF–Example of High Costs

- West and South view of wind farm electrical substation under construction
  - To be finished in 2009
- 4 miles of fiber construction to get service to location
- Included fiber to the home of 2 farm houses
- Construction costs: $46,191
- Services requested: 9 POTS, 1 T1, 1 DSL, 1 Video

# USF–Example of High Costs

- East and West view of hog confinement operation
- Due to odor they are built in the most remote areas of an exchange
- Last 3 built required 1 – 1.25 miles of construction
- Average Construction costs: $4,600 each
- Services requested for last 3: 1 POTS, 2 POTS, 1 POTS

# ICC Access Reform

| Intrastate Access Rate | Interstate Access Rate (Average) |
|---|---|
| $0.109/min. | $0.043/min. |

## Current Annual Access Revenue Per Access Line

| 7/1/07-6/30/08 | Intrastate | Interstate | Total |
|---|---|---|---|
| Billed | $987,968 | $688,476 | $1,676,444 |
| Per Access Line | $ 149 | $ 104 | $ 253 |

# Unreasonable Burden Would Shift to Customers

## Assumptions:

Year 2:

Intrastate Rate Reduced to Interstate Rate

Year 4:

Interstate and Intrastate Rates Reduced to Assumed Recip. Comp. Rate of $0.0244/min.

Year 10:

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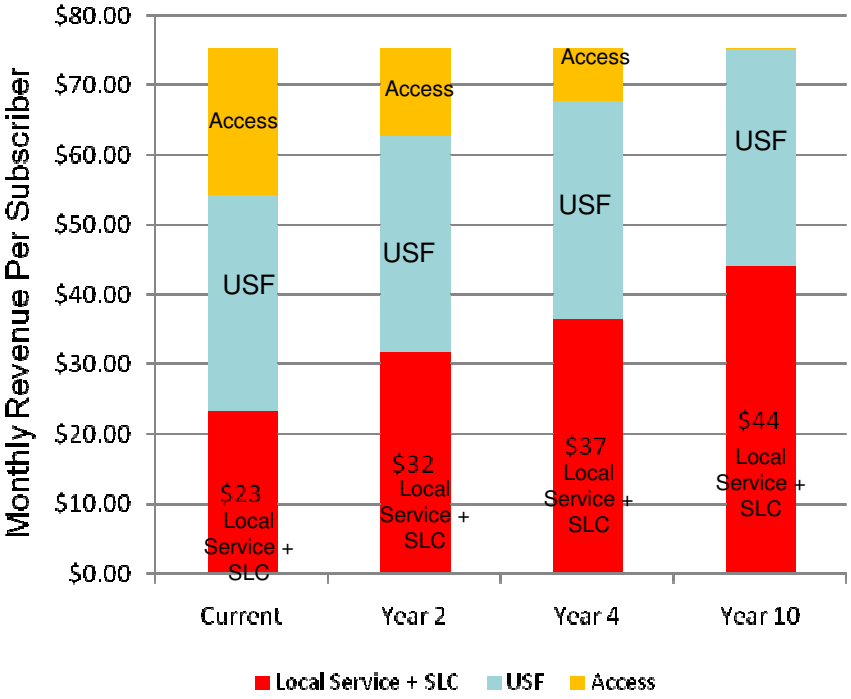


**Loss of access lines, access minutes, or USF reductions could add significantly more costs to local service rate, which is not reflected in the above graph.**

Local service rates would need to be almost 2 times their current rate.

Iowa
Telecommunications
Association

- USA's largest & 2nd oldest state telecom association
  - 148 Rural ILECs, 5 CLECs, and 1 CEA Provider
  - Not Qwest or Iowa Telecom
- Nearly all ITA members receive high-cost USF funding

# Iowa Access and USF Update

- Most (140+) ITA member ILECs concur in ITA Intrastate Access Tariff #1
- Iowa Utilities Board has open docket on ITA Tariff
  - May 30, 2008 Order reduced intrastate access rates by 3.1 cents per minute
  - ITA's Request for Rehearing/Reconsideration Granted – Final order not yet issued
- Iowa Utilities Board opened docket on 9/12/08 to study possible State USF (NOI-08-2)

# Calculating Statewide Iowa Impact of FCC's Plan A

- Data was measured by Iowa Network Services' (INS) Centralized Equal Access (CEA) Minutes of Use (MOU) for 154 ILECs and 21 CLECs
  - All ITA members except Frontier & Hickory Tech
  - Some non-ITA CLECs
  - Excludes high volume conferencing
- 232,818 switched access lines
- CEA minutes billed by INS 11/07 to 10/08

# "Plan A"
# Impact Data Assumptions

- Intrastate access rate is $0.092773/min (Statewide weighted)
- Interstate access rate is $0.037155/min (Statewide weighted)
- Interstate/Intrastate jurisdiction determined by INS CEA billings
- Originating and terminating access decrease on same glide path
- 55 miles of transport
- Reciprocal compensation rate for Phase II uses Iowa Utilities Board arbitrated rate of $0.0244/min
- Assumes no loss of access lines and MOU

# Iowa MOU Data

(11/07 to 10/08 -- rounded to nearest million)

| Traffic Type | Interstate | Intrastate | Total |
|---|---|---|---|
| Originating | 241,000,000 (43%) | 319,000,000 (57%) | 560,000,000 |
| Terminating | 329,000,000 (53%) | 287,000,000 (47%) | 616,000,000 |
| Total | 570,000,000 (48%) | 607,000,000 (52%) | 1,177,000,000 |

# Statewide Iowa Impact of Access Reductions

| | Est. Intrastate Rate | Access Reductions Per Line Per Month: Originating | Terminating | Total | Total R1 Rate | % Increase |
|---|---|---|---|---|---|---|
| Prior to Phase I | $ 0.0927730 | | | | $ 18.14 | |
| End of Phase I | $ 0.0371550 | $ 6.36 | $ 5.72 | $ 12.08 | $ 30.22 | 66.6% |
| End of Phase II | $ 0.0244000 | $ 2.56 | $ 2.81 | $ 5.37 | $ 35.59 | 96.2% |
| End of Phase III | $ - | $ 4.90 | $ 5.38 | $ 10.28 | $ 45.87 | 152.9% |
| Total of all Phases | | $ 13.81 | $ 13.92 | $ 27.73 | | |

# Conclusion

- Access (or similar) required to continue to adequately serve customers
- Access reductions range from $21 to $31 per customer per month, or higher as MOU and lines decrease
- Some access avoidance problems could be resolved by confirming VoIP services are subject to intercarrier compensation like other voice telephone services
- Premier, Winnebago and other ITA members are upgrading their networks to provide voice and advanced services using most efficient and cost effective technologies known
  - Capping USF will prohibit network improvements
  - Access revenue reductions will also prohibit network improvements