SECOND STATEWIDE

TELECOMMUNICATIONS COMPETITION SURVEY

FOR RETAIL LOCAL VOICE SERVICES IN IOWA

A Report of the

Iowa Utilities Board

John Norris, Chair
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March 2006

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EXECUTIVE SUMMARY

In September 2005, the Iowa Utilities Board (Board) began a second statewide inquiry into the competitive nature of local telecommunications voice services. The purpose of the inquiry was to obtain information on the level of competition at the community level for local voice services that would provide a snapshot view of the status of telecommunications competition in Iowa.

The current evaluation (2005 survey) reviews the level of competition to determine what has changed since the Board's July 2003 survey and to evaluate the impact of regulatory changes related to local voice services at both the state and federal level. The results of the Board's 2003 survey were released in a January 2004 report (2003 survey report).

REGULATORY CHANGES

State

Since the 2003 survey report was issued, the Iowa legislature passed HF 277, which will eventually deregulate local exchange service retail rates offered by incumbent local exchange carriers (ILECs). In addition, the Board initiated two deregulation proceedings resulting in the deregulation of local retail service rates in 40 Iowa exchanges.[1]

In 2003, three of Iowa's largest ILECs, Frontier, Iowa Telecom, and Qwest, operated under price plan regulation, which set price caps for basic communications services. These plans were supervised by the Board and were periodically updated to meet current economic conditions.

In May 2004, the Board initiated a proceeding to consider whether to deregulate local exchange service rates in 24 Iowa communities and residential second line service throughout Iowa. At the conclusion of the proceeding, the Board determined that competitive local exchange carriers (CLECs) in 20 of those communities were providing service to a substantial number of customers through the use of their own facilities; i.e., they had overbuilt the ILEC's facilities in those exchanges. The record demonstrated that due to the overbuilt nature of those exchanges and the fact that the competitors had obtained more than 50 percent of the market share in those exchanges, effective competition existed and the Board deregulated all local exchange services in 20 of the 24 proposed exchanges. The Board did not find, however, that the record demonstrated the presence of effective competition to warrant the deregulation of residential second line service.

[1] See, Docket No. INU-04-1, *In Re: Deregulation of Local Exchange Services in Competitive Markets*; Docket No. INU-05-2, *In Re: Deregulation of Single Line Flat-Rate Local Exchange Service in Competitive Markets*.

In March 2005, Governor Vilsack signed HF 277 into law, which amended the statute relating to price regulation and essentially eliminated price cap regulation. Specifically, the amended statute deregulates retail rates for most local exchange communications services provided by rate regulated ILECs, with the exception of single line flat-rate residential and business rates. Rates for these services were initially set at the corresponding rates charged by each rate-regulated utility as of January 31, 2005, and these monthly rates may be increased by up to $1 per year for residential service, or $2 per year for business service, beginning July 1, 2005, until June 30, 2008. However, the residential rate cannot exceed $19 per month and the rate for single line business service cannot exceed $38 per month during that time period. According to the amended statute, all rates may be deregulated as of June 30, 2008, unless the Board determines that competition has not sufficiently developed during this time, in which case the Board may extend the basic service rate regulation for two more years.

In May 2005, after HF 277 was enacted, the Board initiated a second deregulation proceeding to consider whether single line flat-rate residential and business service should be deregulated in 31 Iowa communities. At the conclusion of the proceeding, the Board determined that the CLECs in 20 of those exchanges were providing service to a substantial number of customers through the use of their own facilities. The record in that proceeding demonstrated that 20 of the 31 proposed exchanges had been overbuilt by the CLECs and effective competition existed. Therefore, the Board deregulated single line flat-rate local exchange service in the 20 overbuilt exchanges.

Federal

At the time the 2003 survey was conducted, the FCC was reviewing the system it had established for determining ILEC wholesale prices.[2] In addition, the FCC had issued its Triennial Review Order (TRO)[3] wherein the FCC found that if an ILEC can demonstrate that three or more CLECs are using their own facilities, then the ILEC should no longer be required to offer an unbundled network element platform (UNE-P)[4] to its competitors in that market as was previously required by Section 251 of the Telecommunications Act of 1996 (Act). The FCC

[2] *In the Matter of Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers*, WC Docket No. 03-173, "Notice of Proposed Rulemaking," (Rel. September 15, 2003).

[3] *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98, and 98-147, "Report and Order" and "Order on Remand" and "Further Notice of Proposed Rulemaking," (Rel. August 21, 2003).

[4] Unbundled network elements (UNEs) refer to each of the various services and facilities that go into providing local service, including the wire loop that serves the customer and switching services. UNE-P is the combination of all of the UNEs necessary to provide local service.

did not make any changes regarding the system to determine ILEC wholesale prices, but the TRO went through some additional scrutiny.

On appeal in 2004, a three-judge panel of the D.C. Circuit Court of Appeals found that the FCC erred in maintaining competitors' mass-market access to unbundled switching and inter-office transport, and remanded this portion of the TRO to the FCC for the development of new rules regarding unbundling.[5] On February 4, 2005, the FCC released its newly-adopted rules for the network unbundling obligations of ILECs. The new rules eliminated unbundled access to mass market circuit switching and UNE-P while retaining unbundled access to high-capacity loops and transports. The new rules essentially eliminated the availability of UNE-P to CLECs which forces them to negotiate new interconnection agreements with the incumbent, build their own facilities, or a combination of both.

VOICE SERVICE MEDIUMS

Wireline and Local Number Portability

All ILECs and some CLECs are facilities-based, meaning they provide service over their own wireline networks. Cable companies providing voice services over their own networks are facilities-based CLECs. CLECs that are not facilities-based provide wireline service through resale agreements or by leasing unbundled network elements (UNEs) from other carriers.

Both national and Iowa data show a steady decline in ILEC connections since the 2003 survey report. The number of CLEC connections has increased steadily over the same period, but not enough to offset the loss of ILEC connections. The declining ILEC connection counts may be related to consumers changing from ILEC to CLEC service providers, substituting wireless service for wireline service, the use of high-speed Internet facilities negating the need for second lines, and declining rural populations. The table below compares ILEC and CLEC connections in Iowa at the time of the 2003 and 2005 surveys.

	ILEC	CLEC	Total
2003	1,435,138	212,584	1,647,722
2005	1,325,312	252,295	1,577,607

Competition for traditional ILEC customers is aided by the deployment of local number portability (LNP). LNP allows consumers to retain, at the same location, their existing telephone numbers when switching from one telecommunications

[5] *U.S. Telecom Ass'n v. FCC*, 359 F.3d 554 (D.C. Cir. 2004).

carrier to another. Without LNP, customers would need to change their telephone numbers if they change service providers.

Since the previous survey, the Board conducted two LNP proceedings. In the first proceeding, identified as Docket No. SPU-04-8, the Board ordered Iowa Telecom to complete its LNP deployment, as initially directed by the FCC, by 2008.[6] As of the date of the current survey, Iowa Telecom had deployed LNP in over 90 percent of its territory.

In the second proceeding, identified as consolidated Docket Nos. SPU-04-3, SPU-04-5, and SPU-04-6, the Board ordered a LNP deployment schedule for the independent telephone companies in Iowa. However, in March 2005, upon review of the FCC's 2003 LNP order, the U.S. Court of Appeals for the D.C. Circuit held that the FCC failed to prepare a final regulatory flexibility analysis regarding the impact of LNP on small entities. Until the FCC completes the required regulatory analysis, both the FCC's LNP order and the Board's order are stayed. As a result of the stay, most of the independent telephone companies in Iowa have delayed plans to implement LNP.

Because Qwest, Iowa Telecom, and Frontier are LNP capable in most serving areas, this presents better opportunities for competitors who wish to compete for traditional ILEC customers. However, because LNP is not yet deployed in most independent ILEC territories, CLECs and wireless carriers would face a competitive barrier when competing for traditional ILEC customers.

Wireless and E911 Requirements

The growth of the wireless industry in Iowa has been robust since the 2003 report was issued. The FCC states that between the end of 2003 and the end of 2004, wireless subscribership increased by nearly 25 million to just less than 185 million nationally.[7]

For this report, wireless carriers provided the greatest challenge for obtaining information as several of the wireless companies refused to respond to the survey indicating they believed it was beyond the Board's jurisdiction to request the information. Several wireless carriers suggested the Board obtain the requested information using the North American Numbering Plan Administrator's (NANPA's) Numbering Resource Utilization Forecast (NRUF) reports. The Board has utilized the information to determine current levels of telephone number utilization and changes of number resources since the 2003 survey report. Unfortunately, the information in the NRUF reports is at the wire center level of detail and does not provide the specificity needed to determine levels of

[6] See, 47 U.S.C. § 251(b)(2). See also, *In re: Telephone Number Portability*, "Order," CC Docket No. 95-116, ¶ 22 (2003).
[7] FCC's *Tenth Annual Report on the State of Competition in the Wireless Industry*, September 30, 2005, ¶ 161.

competition among carriers at the community level. The Board continues to develop methods to monitor this segment of the market and to work with wireless carriers to obtain the needed information.

In Iowa, total wireless subscribership appears to be approaching total wireline subscribership levels based on NANPA data. NANPA's NRUF data shows there are currently over 1.7 million telephone numbers assigned to Iowa's wireless carriers. Wireline companies reported 1.8 million access lines for the 2004 IUB Annual Report and 1.6 million connections in the 2005 survey. At the time of the 2003 survey, NRUF data showed there were about 1.3 million telephone numbers assigned to Iowa's wireless carriers.

One of the features distinguishing wireline from wireless service in Iowa is enhanced 911 (E911) capability. E911 provides emergency call center personnel with the name, telephone number, and location of a caller. In 1986, the Iowa General Assembly passed legislation to begin the process of implementing wireline E911 in Iowa. The state's wireline networks became fully E911-capable in 2004.

Providing E911 capability over wireless networks is more complicated and, in Iowa, wireless E911 capability is not fully deployed. Yet in 1996, the FCC mandated a phased implementation of wireless E911 that would function similarly to wireline E911.[8] As of December 31, 2002, all counties in Iowa have "Phase 1" E911 service. This means that a callback number and the location of the tower receiving the emergency call are displayed for emergency call center personnel. "Phase 2" capability provides emergency personnel latitude/longitude coordinates so they can more easily locate callers who place E911 calls over wireless telephones. "Phase 2" E911 requires consumers to own "Phase 2" capable handsets. Currently 65 counties in Iowa can process "Phase 2" emergency calls.

From a local voice service competition standpoint, the overarching question is to what extent wireless service is substituting for wireline service. A 2004 survey conducted by the Centers for Disease Control (CDC) indicates that 5.5 percent of adults in the United States live in households with only wireless telephones. The 5.5 percent number had increased from 2.8 percent in the first half of 2003. Wireless substitution may be much higher for younger adults as the CDC survey indicates that roughly 14 percent of 18-24 year olds live in wireless-only households.

[8] FCC Docket No. 94-102.

Cable Telephony

In the 2003 survey, the only cable television provider offering telecommunications services in the state was Cox Communications, whose cable/voice network reached into four Qwest exchanges in western Iowa. Different today is the existence of MCC Telephony of Iowa (Mediacom), which began rollout of its telecommunications service on its cable network in the fall of 2005. Mediacom offers packaged discounted rates to customers using its cable video and cable Internet service when telephone service is added. The Mediacom cable network extends over a much greater portion of Iowa than the Cox network and includes portions of Qwest, Iowa Telecom, Frontier, and several independent service areas.

Since the rollout of Mediacom's local voice service was after the reporting date for the 2005 survey responses, this report does not contain market share data for Mediacom. The Board will continue to monitor the impact of this technology on local voice service markets.

Voice over Internet Protocol

The use of Voice over Internet Protocol (VoIP) technology to transmit telephone calls over a data network is slowly becoming a reality in Iowa. There was little activity in Iowa at the time the 2003 survey report was issued, but today there are several providers, including Qwest and AT&T, offering VoIP services. Current levels of VoIP presence in Iowa are difficult to determine for a number of reasons. First, most VoIP providers obtain their numbers through partnering with another carrier. Numbers used by the VoIP provider are included with the partnering carrier's NRUF data and are not directly assigned to the VoIP provider. Reported connections in our survey include only retail revenue producing connections and the VoIP connections would be wholesale for the partnering carrier. Second, an Iowa customer may subscribe using a telephone number assigned to another state. There is not an industry agreement as to how this number is to be classified, as an Iowa number or another state's number. Third, there is no state or national registration or certification requirement for the VoIP provider. Thus, there is no record of who the provider is, what services are being offered, or where these services are offered.

VoIP technology offers new features to its users, such as programming the telephone not to ring certain hours and viewing a log of missed, incoming, or outgoing calls. Users may also be able to avoid various fees and charges that the FCC has said are not applicable to VoIP calls.

However, there are drawbacks to VoIP service. Customers must have a broadband connection to use VoIP – a connection that may not be available in rural areas and can be costly. Also, not all VoIP providers have been able to provide E911 capabilities to their customers at this time, despite the FCC's

requirement to do so. And, there remain questions at the federal level regarding how VoIP figures into intercarrier compensation schemes, whether VoIP should support the Universal Service Fund, and how VoIP figures into the Communications Assistance for Law Enforcement Act (CALEA). The answers to these questions may impact the economic viability of VoIP.

Broadband Over Power Line

Broadband Over Power Line (BPL) is a high-speed data transmission system over power lines that may provide an alternative platform for data and voice telecommunications services in Iowa in the future. As was described in the Board's 2003 survey report, BPL remains in the experimental stages. In Iowa, Alliant Energy began a six-month pilot project in March 2005. The pilot project was halted after three months due to complaints filed with the FCC concerning interference with amateur radio signals. The pilot project has not resumed.

Besides the various technical hurdles, issues such as state and federal jurisdiction, cross subsidization, affiliate transaction policies, and service standards have yet to be addressed. When these issues are settled, the ubiquitous nature of the power line network could potentially make BPL an alternative network to cable, VoIP, wireline, and wireless for data and telecommunications.

STATUS OF TELECOMMUNICATIONS COMPETITION IN IOWA

The Board requested survey responses from 153 CLECs. In response, 72 CLECs reported providing local retail voice services in the state. Another 63 CLECs reported providing no service as of July 1, 2005, and 18 did not respond to the survey.

Closer examination of the survey results shows that of the 72 CLECs providing service, 43 of them serve four or fewer communities. This compares with 39 CLECs that served four or fewer communities in the 2003 survey. Based on the 2005 survey information, out of 962 communities, 312 communities have at least one competitor providing service. Therefore, it appears that most CLECs continue to serve a small number of communities and that many customers have few competitive choices for telephone service.

CLEC service is being provisioned in various ways. Thirty of the responding CLECs identified themselves as being facilities-based; that is, they use their own facilities to offer service. Eleven more CLECs offer service via the purchase of UNEs, such as local loops and switching, from an ILEC, and nine provide service via resale of ILEC services. The remaining 22 CLECs provide service using various combinations of owned facilities, leased network and resale.

Market Shares

When comparing ILEC connections for retail voice service from 2003 to 2005, the statistics from the Board surveys show that ILECs connections have decreased by almost 110,000 or by 7.7 percent. Based on information furnished by CLECs responding in both surveys, the CLEC market has gained about 40,000 connections or increased by 18.7 percent. The overall combined impact of loss or gains in total connections for both ILECs and CLECs appears to be a decrease of about 70,000 connections or a 4.3 percent decline in total connections. Total statewide market share by the ILECs has decreased from 87.1 percent in 2003 to 84.0 percent in 2005 and the total statewide market share by CLECs has increased from 12.9 percent in 2003 to 16.0 percent in 2005.

The wireless segment of retail local voice services seems to hold the greatest change since the 2003 survey. While the Board has little data from the wireless carriers themselves, based on NANPA NRUF data, wireless assigned numbers from 2003 to 2005 for the State of Iowa have increased by 431,000 or 31 percent. This represents a 6 percent increase in total assigned numbers for the state.

It is difficult to know what has specifically caused the change in the number of connections and market share shifts between the various groups of service providers. On the surface it may appear as if customers are moving from ILEC service to CLEC service and from ILEC service to wireless service. Beyond the apparent increase in the number of consumers using wireless service, other events may have impacted the changes. The change in ILEC connections could include the elimination of second lines for wireless service, the elimination of second lines when dial-up Internet has been replaced with high-speed Internet connections, and population shifts.

In Iowa, CLECs have roughly 252,000 connections. The competitor with the largest market share continues to be McLeodUSA. In 2005, McLeod's overall market share was about 6 percent of the total. However, due to financial difficulties, addressed later, McLeod lost almost 17 percent of its market share from 2003 to 2005. Two other competitors had approximately 1 percent and all remaining CLECs had less than 1 percent of the total market share for 2005. This is not to say that there is insignificant competition in the state, as there are certain areas or communities that do have considerable competition, but there is no single CLEC making a competitive impact on the entire state.

Limitations to Competitive Choice

In Iowa, the sheer number of telephone service providers, by itself, may create the impression that Iowans have a choice of basic local voice service providers. However, the raw number of providers does not automatically mean customers

have a real choice. For example, in Iowa there are 160 ILECs, three of which are large rate-regulated companies while the other 157 are relatively small independent companies. These companies generally do not compete against each other. Instead, they serve their own separate service territories.

There are other limitations to competitive choice in Iowa. One is that some competitors, especially municipals, are generally limited by geographical boundaries. Because of the nature of how they provision service, municipals do not tend to offer service outside their boundaries. Survey responses show that 12 of the 13 reporting municipals provide service to only one community.

Some competitors market to specific groups of customers. For example, some CLECs offer only prepaid services, which tend to be higher-priced and are targeted toward residential customers who have credit issues and are unable to obtain traditional service. Other CLECs offer service exclusively to business customers. There are several CLECs that only offer service in one or two communities.

Additionally, some CLECs offer only bundled services and not basic stand-alone local service. The bundles are comprised of combinations of local exchange service with other telecommunications-related services, such as long distance, custom calling features (i.e., caller ID), Internet access, or cable television for a flat monthly rate. The bundle is typically less expensive than purchasing all of the same services separately and appeals to customers who desire to purchase services included within the bundles rather than obtaining the services individually.

The survey shows that most Iowa exchanges, and especially the rural exchanges, have little or no competitive choice while some customers in urban exchanges may have multiple choices. Overall, the incumbent providers continue to dominate the market as shown by their substantial market shares. There are some exceptions, but many competitors are only making offerings to market niches, such as business customers or high-use customers, and are not offering basic voice communications to residential customers.

Mergers, Acquisitions, and Bankruptcies

Since the previous survey, three competitive local exchange carriers providing service in Iowa have been involved in national mergers. Sprint was acquired by Nextel, AT&T became part of SBC Communications, and MCI was acquired by Verizon. Sprint, whose merger occurred earlier than the other two, has notified the Board that it will no longer provide retail competitive local exchange services in Iowa. AT&T and MCI both increased their market shares from the 2003 survey. At this time it is not clear how the mergers will affect AT&T and MCI's presence in Iowa. The FCC approved the MCI/Verizon and AT&T/SBC mergers

in December 2005, so the effects of these mergers on competition in Iowa will need to be monitored.

Another corporate change that occurred since the 2003 survey report involves McLeodUSA. McLeodUSA, a large, Iowa-based competitive telecommunications provider filed its second Chapter 11 reorganization on October 28, 2005. McLeodUSA stated that the recent restructuring would increase McLeodUSA's ability to execute the VoIP product growth it began this year, while continuing to provide voice and data services.[9] McLeodUSA operates in 25 states and currently has 1,725 employees, down from 8,600 employees in 2002. As McLeodUSA has attempted to restructure itself, its connection count dropped almost 17 percent in Iowa from the 2003 Board survey. McLeodUSA emerged from bankruptcy on January 6, 2006, and the overall effect of their reorganization on competition in Iowa is not known at this time.

Impact of the Loss of Unbundled Network Elements

As previously stated, the FCC released new rules eliminating access to unbundled switching and UNE-P. In response to the FCC's new rules, Qwest developed a replacement offering, Qwest Platform Plus (QPP), to provide loop, switching, and vertical features to CLECs that had once purchased UNE-P. In a July 2004 press announcement, Qwest stated that QPP would be equivalent to UNE-P in price through December 31, 2004, at which point the price would rise incrementally during a transition period from January 2005 to January 2007.

QPP pricing is geographically sensitive by zones that mirror Qwest's retail community groupings or zones. QPP recurring monthly rates include residential and business price splits with discounts to competitors utilizing Qwest's QPP service offerings for a significant portion of its customers. QPP monthly rates in the three zones were $17.66, $20.11, and $31.36 through December 31, 2004. Total transitional rate increases through January 1, 2007, range from $4.21 to $12.42 based on the chacteristics and the quantity of services purchased by each carrier.

The Board has seen numerous adoptions of the QPP agreement by CLECs. Ultimately, Iowa CLECs will have to decide whether to utilize QPP, make alternative arrangements for switching, or drop out of the market altogether due to the increased wholesale costs of providing service. To date, only two CLECs have notified the Board of their intent to withdraw from the Iowa market because of the loss of UNE-P.

[9] http://www.ee.gazetteonline *McLeodUSA Bankrupt Again; Shareholders Lose Equity Under Plan*, Oct. 20, 2005.

Single Line Flat-Rated Local Service

As part of the information gathered for this inquiry, the incumbent price regulated companies (Qwest, Iowa Telecom, and Frontier) were requested to provide a count on the number of single line flat-rated residential and business connections being furnished in each of their serving areas. Single line flat-rated residential and business services are commonly referred to as being basic service or "plain old telephone service" (POTS) and are the only remaining services that are rate regulated since the enactment of HF 277. These connections are only rate regulated if they are not included as part of a bundled service offering. The connection counts for the single line flat-rated services will provide a baseline to help determine the level of customer migration to other services as well as consumer impact as services are considered for continued rate regulation under the provisions of HF 277 in June 2008.

Qwest implemented price increases for single line flat-rated residential and business rates on August 1, 2005, pursuant to HF 277. HF 277 allows for an annual increase in residential rates by $1 per month and business rates by $2 per month. Further, HF 277 allows for an adjustment to these same rates by the most recent annual percentage change in the gross domestic product price index.

The inflation index change for single line flat-rated residential service was $0.32 at that time. Therefore, Qwest's statewide single line flat-rated residential rate increased by a total of $1.32 and is now $14.12. The inflation index change for single line flat-rated business service was $0.64 at that time. As a result, Qwest's single line flat-rated business rates increased by $2.64 and now range from $28.24 to $34.46 for the three rate groups.

Effective with the January 2006 billing cycle, Iowa Telecom is increasing the single line flat-rated business rate from $32.98 to $35.79 per month for its Rate Group 1 customers. Rate Group 1 includes all customers with the exception of those in exchanges where Iowa Telecom is facing competition or exchanges that are no longer rate regulated. The increase is comprised of two parts: the maximum annual $2 increase allowed under HF 277 and an $0.81 inflation increase allowed under Iowa Telecom's price plan.

Additionally, Iowa Telecom filed a notice to increase the single line flat-rated residential service by $1.41 to be effective February 1, 2006. One dollar of the increase is related to the maximum allowed under HF 277 with an inflationary adjustment of $0.41. Monthly rates for Rate Group 1 customers will increase to $18.39.

Frontier has not yet filed a notice to increase its single line flat-rated service rates.

LOOKING AHEAD

There are numerous new factors impacting the state of local voice competition in Iowa since the 2003 survey. These factors have the potential to shift current market shares of established incumbent and competitive local voice carriers. As part of its market monitoring function, the Board will need to remain cognizant of the following factors that may affect the competitive balance in the retail voice market.

First, the deregulation of local exchange services under HF 277 and the deregulation of individual communities by the Board will likely impact market shares of established companies. In the 2003 and 2005 surveys it was evident that facilities-based local competitors had taken sizable market shares from incumbents such as Qwest, Iowa Telecom, and Frontier. With the deregulatory changes implemented over the past two years, incumbents may be poised to regain lost market share from the competitive carriers. In recent months, several facilities-based competitors, noting lower incumbent prices and their own market share losses, have contacted the Board with concerns of predatory pricing. This is an area the Board will need to monitor to insure there are no abuses of the deregulatory process.

Second, Mediacom has the potential to significantly impact competition in numerous communities across Iowa. Mediacom will provide facilities-based service over its cable network. Because Mediacom began offering service after the date of the survey's data collection, it is too early to gauge its market share impact. However, in the past two years the Board deregulated 40 communities with established facilities-based competition. If Mediacom is successful in its service rollout, the Board may need to consider deregulation in additional communities.

Third, HF 277 charges the Board with considering the presence of wireless services when considering the deregulation of markets. As discussed earlier, only a small portion of the wireless industry in Iowa responded to the current market monitoring survey. Based on other available data, quantitatively it appears wireless subscribership in Iowa is outpacing wireline subscribership. Yet HF 277 appears to require more than just a quantitative assessment to trigger deregulation. The Board must also consider qualitative factors in its determination of whether alternative services are "comparable." One of these factors is the degree to which wireless service is a true substitute for wireline service. In other words, to what degree do wireless subscribers go without wireline service? Another factor to be considered may be the differences between wireless and wireline E911 service. On a going forward basis, the Board will continue to work closely with the wireless industry to obtain more complete data on coverage, market shares, substitutability, and service quality issues.

Fourth, under HF 277 the Board is also charged with assessing the presence of VoIP services when considering the deregulation of markets. Currently, there is little regulation of the VoIP industry and VoIP providers are not required to register before providing service. Additionally, most VoIP providers partner with other carriers to obtain telephone numbers and provide service. This situation makes it very difficult to track VoIP providers that may be providing service in Iowa. Additionally, the nature of VoIP service allows carriers to provide service to out-of-state consumers using Iowa telephone numbers – complicating the evaluation of the actual competitive impact of VoIP availability. Finally, only one VoIP provider responded to the market monitoring survey, although it is clear that other VoIP companies are providing service in the state. The Board will need to develop better ways to monitor and assess the competitive impact of VoIP in Iowa.

Finally, the national mergers of Sprint, AT&T, and MCI as well as the bankruptcy of McLeodUSA have the potential to impact competition in Iowa. Sprint has already notified the Board that it will discontinue providing retail voice service in Iowa. It is possible the competitive offerings of AT&T and MCI could change if new corporate business plans result from the mergers. Similarly, the bankruptcy of McLeodUSA may force the company to seek a different business plan as the company reorganizes. The Board will continue to monitor the structural changes in the industry as it considers additional markets for deregulation.

List of Acronyms and Definitions

1996 Act – The Telecommunications Act of 1996. Federal legislation that opened the local exchange telecommunications marketplace to competition on a nationwide basis.

CLEC – Competitive Local Exchange Carrier. A company that offers local exchange services in competition with the ILEC, or incumbent local exchange carrier, in a particular area or telephone exchange.

DSL – Digital Subscriber Line. A broadband data service provided using the existing telephone wires.

EAS – Extended Area Service. An expansion of the local calling area for a community to include one or more adjoining exchanges, usually for an additional charge.

FCC – Federal Communications Commission.

HF 277 – House File 277. The 2005 statutory amendments to Iowa Code § 476.1D. HF 277 deregulates retail rates for most local exchange communications services provided by ILECs except for single line flat-rated residential and business rates. Among other things, the amended statute also requires that when markets are considered for deregulation, the Board must weigh factors that include the presence or absence of: wireless communications services, cable telephony services, Voice-over Internet Protocol (VoIP) services, and economic barriers to the entry of competitors or potential competitors in that market.

ILEC – Incumbent Local Exchange Carrier. The telecommunications company that offered local exchange service in a particular community prior to passage of the 1996 Act.

IUB – Iowa Utilities Board.

LEC – Local Exchange Carrier. Any telecommunications company that offers local telephone service.

NANP - North American Numbering Plan. The NANP is the numbering plan for the Public Switched Telephone Network for Canada, the U.S. and its territories, and the Caribbean.

NANPA – North American Numbering Plan Administrator. NANPA holds overall responsibility for the neutral administration of NANP numbering resources, subject to directives from various regulatory authorities. NANPA's responsibilities include the assignment of full codes (10,000 numbers) of telephone numbers, the coordination of area code relief planning, and collection of utilization and forecast data. Currently, Neustar, Inc. serves as the NANPA.

NPA – Numbering Plan Area. The term is synonymous with “area code.” In Iowa there are currently five NPAs: 319, 515, 563, 641, and 712.

NRUF – Number Resource Utilization/Forecast. Twice per year the NANPA requires ILECs, CLECs, paging companies, and wireless carriers to submit detailed information on telephone number usage for each block of telephone numbers previously assigned. NRUF data is used to develop forecasts for the exhaust dates for each NPA as well as the exhaust date for the entire NANP.

PA – Pooling Administration. The PA is responsible for the assignment of thousands-blocks (1,000 numbers) of telephone numbers in areas where pooling occurs. Currently, Neustar, Inc. serves as the Pooling Administrator.

RBOC – Regional Bell Operating Company. The former Bell System telephone companies and their successors and assigns. In Iowa, Qwest is the RBOC.

ROR – Rate of return. The percentage of net profit which a telephone company is authorized to earn on its rate base.

TRO – Triennial Review Order. Orders issued by the FCC which may affect the continued availability of UNE-P.

UNE – Unbundled Network Element. Each of the various services and facilities that goes into providing local telephone service, including the wire loop that serves the customer and switching services.

UNE-P – Unbundled Network Element-Platform. The combination of all of the UNEs necessary to provide local telephone service. This typically includes the loop, port, switching, and local transport.

VoIP – Voice over Internet Protocol. A method of changing voice calls into data packets and sending them on the Internet or a similar network. Near the destination, they are reassembled and delivered like traditional calls.

I. INTRODUCTION

A. Purpose and Design of the Study

On September 21, 2005, the Iowa Utilities Board (Board) initiated a Notice of Inquiry, In re: Telecommunications Market Monitoring Survey for Local Voice Services in Iowa, Docket No. NOI-05-3, for the purpose of collecting connection counts and pricing information on local voice services from service providers throughout Iowa.

This is the second time the Board has undertaken an effort to gather information on the competitive nature of local services on a statewide basis. The first statewide survey was conducted in the later part of 2003, on data collected from local service providers as of July 1, 2003. The results of the first telecommunications competition survey were released in the January 2004 report entitled "Telecommunications Competition Survey for Retail Local Voice Services in Iowa" (2003 survey report). This report includes numerous comparisons to information gathered in the 2003 survey, as a portion of the information obtained in this proceeding is similar to the information gathered in the first survey process.

The September 21, 2005, Notice of Inquiry (NOI-05-3) contained two survey instruments. One survey was for all local service providers and the second was only for price-regulated companies.

The survey for all local service providers in Iowa was identified as the "2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services." This survey instrument was used to obtain a snapshot, as of July 1, 2005, to provide an overview of the status of local service competition in Iowa. The survey was sent to all known local service providers utilizing wireline, wireless, cable telephony, and VoIP for the provision of service. Organizations or service providers with a potential of providing retail local voice services were also included in the data collection process.

The "2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services" survey instrument is divided into two sections: (1) a section to obtain the count of retail local voice service customer connections being provided by each carrier to consumers in each community served for obtaining the relative market shares of the various carriers in each community; and (2) a section to obtain the monthly pricing and other recurring charges for the top three services or plans for both residential and business local voice services for an evaluation of the pricing of the most popular services offered by each carrier. A copy of the survey instrument is contained in Attachment A of this report.

The second survey included in the Notice of Inquiry was identified as the "2005 Single Line Flat-Rated Residential and Business Retail Connection Count Survey

for Price Regulated Companies." This survey instrument was directed to the incumbent price-regulated companies: Qwest Corporation (Qwest), Iowa Telecommunications Services, Inc. (Iowa Telecom), and Frontier Communications of Iowa (Frontier). The purpose of this survey instrument was to obtain counts on flat-rated residential and business retail connections and to obtain a chronological listing of rates and rate changes for these services from July 1, 2004, through September 5, 2005. The information gathered provides a baseline on customer counts and rates for single line flat-rated residential and business retail services as these services evolve through regulations set under HF 277. HF 277 is discussed later in this report. A copy of the second survey instrument is contained in Attachment A of this report.

1. Retail Local Services Connections

For the purpose of this survey, the definition of retail local voice service connections (connections) or the functional equivalent facilities that are revenue producing and provide voice grade access to the public switched network. The connections also utilize telephone numbers included in Number Plan Areas (NPAs) assigned to Iowa and monitored by the North American Numbering Plan Administrator (NANPA).

This information was requested for two reasons. First, these responses allowed the Board to calculate each carrier's market share in each community, showing areas where competition has been more effective. Second, these responses will be included in the analysis for measuring trends when combined with past and future survey results.

2. Retail Pricing Information

The second part of the survey asked for retail local voice service pricing information on the top three services or plans utilized by consumers for both residential and business services. Information on the percentage of customers utilizing each of the most popular services or plans was also sought. This information will help to evaluate the pricing of the services or plans in relationship to the percentage of customers electing to utilize each offering.

In the past, this request might have only included pricing for basic local service. However, many competitors now offer bundled services that include basic local voice service as one component. For this reason, the responses to the pricing request included service offerings that ranged from the simplest local service to bundled packages that may include such services as local calling, minutes of use for long distance calling, and custom features such as call waiting, caller identification, call forwarding, and three-way calling, among other features.

The survey also requested information on some of the other monthly recurring charges that the consumer would be required to pay when obtaining retail local

voice services. It focused on charges that are likely to vary from one carrier to the next, in order to allow a comparison of the total bills a customer might experience with each carrier. These charges included the federal subscriber line charge for single line business, residential, and multi-line business accounts. Emergency dial 911 fees are included because they can vary from one county to the next. The survey did not request amounts for the Federal Universal Service Fund charges or state and federal taxes since these amounts are relatively uniform percentages that can be applied to the pricing of the services from any company.[10]

3. Confidential Information

In this Notice of Inquiry (NOI-05-3), the Board requested survey responses from all local voice service providers in Iowa. These responses included information that many carriers consider to be trade secrets or otherwise entitled to confidential treatment. Therefore, the Board granted confidential treatment for the individual company information submitted in the updated survey responses pursuant to Iowa Code §§ 22.7(3) and 22.7(6).

Iowa Code § 22.7(3) provides confidential treatment for trade secrets, which are recognized and protected as such by law. The material requested of the carriers includes specific line count information. The Board found that line count information constituted a trade secret under Iowa Code § 550.2(4) as it derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, by a person able to obtain economic value from its disclosure. The Board found that this information, if released, would provide an advantage to competitors.

Iowa Code § 22.7(6) provides confidential treatment to public records that are reports to government agencies and which, if released, would give advantage to competitors and serve no public purpose. The Board found that the responses to the updated survey constitute a report to a government agency and the release of the information would serve no public purpose.

As a result, the final report does not discuss or include confidential information from individual companies. It includes only publicly available information, aggregated information, and other information in a format such that it would not be possible to reconstruct company-specific confidential information.

[10] Federal Universal Service Fund charges have ranged from 8 to 11 percent and are adjusted quarterly to reflect total fund requirements. This charge is only applied to billed interstate charges. The federal excise tax is 3 percent and is applied to all toll and local service charges. Iowa sales tax rate is 5 percent. Some locations may also have a local option sales tax of 1 percent. Additionally, billings to consumers may also contain city or county taxes, school infrastructure taxes, and a charge for service provider number portability.

4. The Survey Process

The Board made every effort to contact companies to obtain responses to the survey. It was determined that 359 organizations could potentially respond to the survey. On October 17, 2005, the requested return date, only 38 percent of the companies had provided responses. Through multiple follow-up contacts with the non-responders, a response rate of 90 percent was achieved.

Of the 359 entities identified as potential responders, 326 responded to the Board's request for information. The remaining 33 organizations, identified in Attachment C, indicated that they would not provide information or otherwise failed to respond. The service providers not responding or refusing to provide information consisted of 9 wireless companies, 1 cable company, 18 Competitive Local Exchange Carriers (CLECs), and 5 Incumbent Local Exchange Carriers (ILECs).

Wireless carriers provided the greatest challenge for obtaining information as several of the wireless companies refused to respond, indicating they felt it was beyond the Board's jurisdiction to request the information. The Board received survey responses from 20 wireless carriers believed to be representative of roughly 23 percent of the total wireless market in Iowa. Wireless carriers not providing responses to the survey are listed in Attachment C.

5. Verification of Survey Responses

Once data was received from the responding service providers, the line counts or customer connection counts were verified for reasonableness. Several sources were used to accomplish this, including reports generated by the Universal Service Administration Company (USAC), information provided by carriers for the Board's Telephone Utility Annual Report, confidential information compiled by the NANPA in its Number Resource Utilization/Forecast (NRUF) reports, the 2003 survey report, and various filings made by service providers in recent dockets before the Board, e.g., recent Board action in rate deregulation of local voice services in various communities under Docket Nos. INU-04-2 and INU-05-2. These comparisons indicated the survey responses were reasonable and reliable, especially considering the timing differences of the various reports.

Based on the information from the verification sources, it appears the percentage of telephone numbers being utilized by the non-responding wireless companies amounts to approximately 88 percent of the wireless telephone numbers assigned and roughly 31 percent of the total of all telephone numbers assigned for use within the state. Wireless communication services represent a sizable portion of the local service market and need to be included in the determination of market forces.

Several of the non-responding wireless service providers have suggested that the Board use NANPA's NRUF data for determination of the impact of wireless services on the local service markets. NRUF data has been a valuable source of information for this survey. However, wireless number utilization at the rate center, as reported by the carriers, does not provide the granularity needed to evaluate the level of service provided at the community level through customer billing addresses. Additionally, ported numbers are also included in NRUF data without knowing which providers are using the numbers or whether these numbers are used within the state.

B. Background of Telecommunications Regulation in Iowa

1. Different Carriers Are Subject to Different Regulation

There are several types of telephone companies that provide local service in Iowa today. These include large ILECs, small ILECs, CLECs, and wireless carriers. ILECs are telephone companies that were providing local exchange service when the Telecommunications Act of 1996 (1996 Act) was enacted. Generally speaking, ILECs do not compete in each other's service territory, although there are exceptions.

Iowa has more ILECs than any other state.[11] In the 2005 survey, there are 160 different ILECs providing local exchange service. Of these, 157 are comparatively small, independent carriers. The remaining three are the large incumbent carriers: Qwest, Iowa Telecom, and Frontier.

Large ILECs, small ILECs, and CLECs are subject to different forms of regulation. All incumbent and competitive carriers are subject to service quality regulations, but only the large ILECs are subject to rate regulation by the Board. Wireless telephone companies are not subject to rate or service quality regulation, as the Board deregulated that market in 1986.

The regulation of an incumbent carrier's local service rates is determined by its size, as measured in access lines. Telephone companies serving 15,000 or more access lines are subject to rate regulation under the authority granted to the Board. Only Qwest, Iowa Telecom, and Frontier currently exceed this threshold and are subject to rate regulation. Until 1995, the Board established the rates for these companies using the traditional "rate of return" (ROR) form of regulation setting rates based on each company's cost of providing regulated services, including an opportunity to earn a reasonable return on the company's investment in Iowa.

In 1995, the Iowa General Assembly passed legislation to allow large ILECs to base their rates on general economic conditions rather than costs. This form of regulation, known as price regulation, sets price caps for basic communications

[11] The next state is Minnesota, with slightly more than 100 total telephone companies.

services. Those prices are periodically adjusted based on an inflation index and, originally, a productivity factor. The productivity factor was repealed in two steps in 2002 and 2003. In Iowa, two different price regulation plans were established, with application based on the size of the company. In 1995, Frontier and GTE (now known as Iowa Telecom) opted into price regulation. In 1998, U S West (now known as Qwest) also opted into price regulation. The price regulation plans are supervised by the Board and are updated periodically to meet current economic conditions. For example, in the last few years each of the price regulation plans has been modified by the Board to include a provision that allows the carrier to reduce its rates in selected communities in order to meet competition.

On March 15, 2005, Governor Vilsack signed HF 277 into law, which amended the statute relating to price regulation. The amended statute deregulates retail rates for most local exchange communications services provided by ILECs in Iowa except for single line flat-rated residential and business rates. Rates for these services are initially set at the corresponding rates charged by each rate-regulated utility as of January 31, 2005.

While HF 277 effectively deregulates most local exchange service retail rates offered by ILECs, it continues rate regulation of two significant services: flat-rated residential and business lines. If the Board determines that these services are subject to effective competition, they should also be deregulated.

Iowa's regulation of CLECs is minimal. Under Iowa Code § 476.29, a CLEC must receive a certificate of public convenience and necessity and file a tariff and maps before it is authorized to offer local service in Iowa. Applications for certificates are typically granted very quickly. However, the granting of a certificate does not mean a CLEC is actually providing service in Iowa.

The local service rates offered by competitive carriers generally are not subject to rate regulation by the Board. They are free to charge market-based rates for their services. If, however, a CLEC displaces the incumbent and becomes a new monopoly, it can be regulated, but only to the degree necessary to restrain the company's market power pursuant to Iowa Code § 476.1D, as amended by HF 277.

2. Deregulation of Competitive Services

Iowa Code § 476.1D, as amended, requires that the Board deregulate a communications service or facility if the Board determines that the service or facility is subject to effective competition. In making that determination, the Board must consider, among other factors, (1) whether a comparable service or facility is available from a supplier other than the telephone utility and (2) whether the resulting market forces are sufficient to assure just and reasonable rates

without regulation.[12] The amended statute also requires that when considering market forces for the services proposed to be deregulated, the Board shall consider factors that include, but are not limited to, the presence or absence of all of the following: wireless communications services, cable telephony services, VoIP services, and economic barriers to the entry of competitors or potential competitors in that market.[13] Basic economic theory[14] suggests that these requirements are among the minimum necessary conditions to ensure the existence of a competitive market.

Moreover, it is the policy of the State of Iowa that communications services should be available throughout the state, from a variety of providers, at just, reasonable, and affordable rates.[15]

The Board has deregulated a wide variety of communications services, facilities, and exchanges during the last 20 years including, but not limited to, the following:

- Rates for local exchange service in 20 Iowa exchanges (2005)
- Rates for local exchange service in 20 Iowa exchanges (2004)
- Local directory assistance services (2001)
- Non-local directory assistance (1996)
- All intrastate long-distance services (in two stages, in 1989 and 1996)
- Wireless (cellular) telephone service (1986)
- Paging services (1986)
- Pay telephone services (1985)
- Centrex services (1984)
- Customer-owned telephone equipment (1983)

When considering the deregulation of a service or facility, the Board applies the procedures and standards from Iowa Code § 476.1D, as amended by HF 277, and the Board's rules.[16] The rules specify a process by which the public is given notice of a service, facility, or exchange that is being proposed for deregulation and an opportunity to comment on the proposal. For proposed deregulation of new services, an expedited process must be completed within four months. For deregulation of existing services, the process takes from three months to a year, depending upon the complexity of the issues and other factors.[17]

Pursuant to the Board's rules, interested persons can file written statements of position and counter-statements, which is followed by an oral presentation. The

[12] Iowa Code § 476.1D(1)"a."
[13] Iowa Code § 476.1D(1)"b."
[14] See, for example, The Regulation of Public Utilities, Charles F. Phillips, Jr., Public Utilities Reports, Inc. (1988), pp. 54-61.
[15] Iowa Code § 476.95(1).
[16] 199 IAC chapter 5.
[17] For example, the proceedings to deregulate wireless service took five months; billing and collection services were deregulated in three months; interLATA long distance took six months; and local directory assistance took 12 months.

Board's decision is based on the resulting record. In making its decision, the Board considers whether any provider has the ability to control prices in the marketplace, whether other potential providers can enter the market easily and whether they are likely to do so, and whether there are alternative services that can be substituted for the service proposed for deregulation. Again, these factors are consistent with well-established economic theory regarding competitive markets and are used, in one form or another, by practically every state public utility commission that has authority to deregulate telecommunications services.

Iowa Code § 476.1D(5) allows the Board to deregulate only the price of a service while retaining service quality regulation if the Board determines that the service in question is an essential communications service and the public interest warrants continued service regulation. In Docket Nos. INU-04-1 and INU-05-2, the Board exercised its authority in this regard by deregulating the rates for local exchange service in 40 Iowa exchanges, but retaining service quality regulation after determining that local exchange service is an essential communications service.

The Board has deregulated dozens of services in at least 14 different dockets since 1983, but only when the services were subject to effective competition sufficient to prevent monopoly behavior. In the absence of effective competition, unregulated monopolies would be able to raise prices to unreasonable levels with undesirable effects on society. Moreover, an unregulated provider with some monopoly services could engage in predatory pricing; that is, it could reduce prices in markets where it faced limited competition and support the losses with monopoly profits from other exchanges. The result is to drive any potential competitors out of the market and deter others from entering the market. While this would probably be a violation of antitrust laws, the fact is that few, if any, of the existing competitors have the resources to bring such a case against a monopoly provider. For all of these reasons, it is important that a service or facility not be deregulated until it is, in fact, subject to effective competition. This is a very fact-sensitive determination that can change over time.

The Board has deregulated many services, but on two occasions the agency found that at the time the case was heard, the record did not support deregulation of local exchange services. The first such case involved an ILEC, South Slope Cooperative Telephone Company, Inc., that constructed new facilities to serve parts of the U S West exchanges in Coralville and Cedar Rapids, Iowa. U S West requested deregulation of its local exchange services in these communities, arguing that the presence of South Slope amounted to effective competition. In March 2000, the Board denied the request, finding that it was impractical to deregulate only the small parts of these exchanges where South Slope was competing with U S West. The Board also expressed concern

that with only two competitors, the market might develop into a duopoly[18] rather than a truly competitive market.

In 2001, Iowa Telecom filed a petition to deregulate nine of its exchanges where it was experiencing competition. In each of the nine exchanges, there was only one competitor, but some of those competitors had made substantial inroads into Iowa Telecom's market share. The Board denied the petition, concluding that having only two telephone companies in each of the exchanges created a duopoly that would not provide effective competition or assure reasonable rates without regulation, and there was little prospect of additional competitors entering these markets. Moreover, complete deregulation could have allowed Iowa Telecom to reduce its rates below cost in these nine exchanges, driving the competitor out of business and creating a strong disincentive for any potential new competitors.

In two recent dockets, however, the Board has determined that effective competition exists in 40 Iowa exchanges and as a result, the Board deregulated rates for some local exchange services in those exchanges. In 2004, the Board initiated a proceeding on its own motion to consider deregulation of local exchange service rates in 24 Iowa communities and residential second line service throughout Iowa. At the conclusion of the proceeding, the record demonstrated that due to the overbuilt nature of those exchanges and the fact that the competitors had obtained more than 50 percent of the market share in those exchanges, effective competition existed and the Board deregulated all local exchange services in 20 of the 24 proposed exchanges. The Board did not find, however, that the record demonstrated the existence of effective competition to warrant the deregulation of residential second line service.

In 2005, after HF 277 was signed, the Board initiated a second deregulation proceeding to consider whether residential and business local exchange service in 31 Iowa communities should be deregulated. At the conclusion of the proceeding, the record in that proceeding demonstrated that 20 of the 31 proposed exchanges had been overbuilt by the CLECs and effective competition existed. Therefore, the Board deregulated single line flat-rate local exchange service in the 20 overbuilt exchanges.

3. Legislative Action on Deregulation

Effective July 1, 2005, the legislature passed HF 277, which deregulated retail rates for most local exchange communications services in Iowa except for single line flat-rated business and residential rates. Rates for these services are initially set at the corresponding rates charged by each rate-regulated utility as of January 31, 2005. These monthly rates may be increased by up to $1 per year

[18] A duopoly is like a monopoly, but with two sellers rather than one. Economic theory indicates that duopolies may not develop into, or always behave like, competitive marketplaces due to the likelihood of implicit or explicit collusion, price following behavior, and other market distortions.

for residential service, or $2 per year for business service, beginning July 1, 2005, until June 30, 2008. There is also a provision to adjust the rates for inflation. However, the residential rate cannot exceed $19 per month and the rate for single line business service may not exceed $38 per month during that time period. On June 30, 2008, all rates may be deregulated, but if the Board finds that competition has not sufficiently developed during this time, it may extend the basic service rate for two more years until 2010.

HF 277 also provided that if a company chooses to increase basic rates, it must offer DSL in all of its exchanges within 18 months. The deployment timeframe for DSL may be extended up to an additional nine months if deemed necessary by the Board. Qwest raised its rates on August 1, 2005, and therefore must meet the DSL deployment deadline by February 1, 2007. Iowa Telecom has recently filed a tariff to raise its single line flat-rate residential and business service monthly rates for its Rate Group 1 customers. Frontier has not raised their rates as a result of HF 277. Iowa Telecom and Frontier have DSL available in almost all of their exchanges. However, it is important to note that DSL is not available to every customer in these exchanges because of technological and distance limitations.

HF 277 also contained several consumer protection provisions including the preservation of a basic service rate (dial-tone and E-911 only) for three years for both residential and business customers. In addition, the Board retains jurisdiction over service quality.

4. Interconnection and Arbitration

When a competitive carrier provides telephone service in an exchange, it needs the traffic exchanged with the incumbent carrier to be considered local and not long distance. It also may need to lease certain network elements to provision its services. The rates, terms, and conditions that allow local dialing and the leasing of network elements are contained in the interconnection agreement negotiated between the competitive and incumbent carriers. Without an interconnection agreement, it would be difficult for a competitive carrier to survive. Under federal law, the incumbent telephone company has an obligation to "negotiate in good faith" and to "interconnect directly or indirectly with the facilities and equipment of other telecommunications carriers."[19]

In most cases, interconnection agreements are negotiated with little regulatory intervention. One reason for this is once an incumbent carrier has negotiated an initial interconnection agreement with a competitive carrier, federal law allows other competitive carriers to adopt the agreement "upon the same terms and conditions."[20] One advantage of adopting an existing interconnection agreement is the competitive carrier can avoid delays and expense associated with the

[19] 47 U.S.C. § 251(a) – (c)
[20] 47 U.S.C. § 252(i)

negotiation process. Thus, the adoption of existing agreements should help competitors gain quicker market entry.

Occasionally, there is no applicable existing agreement for a competitive carrier to adopt and disputes arise between the incumbent carrier and the competitive carrier while attempting to negotiate a new interconnection agreement. In this situation, federal law allows the state commission to arbitrate an interconnection agreement between the incumbent and competitive carriers.[21] When this occurs, however, market entry by the competitor will be delayed and both the competitor and incumbent will incur additional legal costs.

Under the federal arbitration statute, market entry could be delayed substantially for the competitor because the state commission cannot commence arbitration until 135 days after the negotiation process commenced.[22] If the state commission is called upon to arbitrate an interconnection agreement, it must resolve all issues within nine months after the date on which the negotiation process originally began.[23] The nine-month arbitration time frame could be extended further by court challenges to the agreements arbitrated by the state commission.

An example of these delays occurred in 2005, when the inability to negotiate interconnection agreements and the resulting arbitration process delayed MCC Telephony of Iowa (Mediacom) from providing cable telephone service in a number of rural markets in Iowa. But Iowa is not unique in this respect. In several other states, state commissions were drawn into similar arbitration proceedings that have resulted in the delay of cable telephone's competitive market entry in rural markets.

5. Local Number Portability and Local Voice Competition

Local Number Portability (LNP) is defined in the Telecommunications Act of 1996 as the "ability of users of telecommunications services to retain, at the same location, existing telecommunications numbers without impairment of quality, reliability, or convenience when switching from one telecommunications carrier to another."[24] Without LNP, local voice competition is hindered because customers must change their telephone numbers if they wish to move their voice service to a competitive wireline or wireless carrier.

Until recently, LNP was required only in the 100 largest cities in the country. In 2003, the Federal Communications Commission (FCC) issued orders clarifying that LNP would be required between wireline and wireless carriers by November 2003. The orders also required LNP to be extended to the rest of the country by

[21] 47 U.S.C. § 252(b)
[22] 47 U.S.C. § 252(b)(1)
[23] 47 U.S.C. § 252(b)(4)(c)
[24] 47 U.S.C. § 153(30)

May 2004. The FCC stated that an additional 70 million Americans could "enjoy the benefits of competition."[25]

Nevertheless, smaller local exchange carriers in much of the country filed petitions with their state commissions to suspend the FCC's new LNP requirements. Under federal law,[26] states could suspend if it were shown that:

- the requirement would impose a significant adverse economic impact;
- the requirement is unduly economically burdensome;
- the requirement is technically infeasible; and
- suspension is in the public interest.

In 2004, approximately 148 Iowa telephone companies petitioned the Board to suspend LNP. The Board conducted two LNP proceedings - one involving Iowa Telecom and the other a consolidated proceeding involving 147 independent telephone companies.

Iowa Telecom petitioned to have LNP suspended to be consistent with the goals of its network improvement plan approved earlier in the settlement of a general rate case. Iowa Telecom stated that over 85 percent of its customers would have LNP capable lines by the end of 2004, but requested suspension of LNP in 63 exchanges. Those exchanges required substantial network upgrades before LNP could be implemented. Iowa Telecom proposed implementing LNP in those exchanges over a three-year period. The Board ultimately approved Iowa Telecom's proposed suspension plan.

In the consolidated proceeding, the 147 independent telephone companies petitioned for an indefinite suspension of LNP. The Board agreed only to a limited suspension and divided the independents into five groups with different timeframes for deploying LNP. Each telephone company was assigned to a specific group based on the record in the proceeding. Based on the Board's decision, about two-thirds of the 147 companies would have deployed LNP in 2005.

However, on March 11, 2005, the United States Court of Appeals for the District of Columbia Circuit remanded the FCC's 2003 LNP Order. The Court held that the FCC failed to prepare a Final Regulatory Flexibility Analysis regarding the impact of LNP on small entities. Until the Final Regulatory Flexibility Analysis is complete, both the FCC's LNP Order and the Board's LNP Order involving the 147 independent telephone companies are stayed. The FCC has requested assistance on preparing the Final Regulatory Flexibility Analysis and the Board filed comments with the FCC.

[25] FCC News Release, issued May 21, 2004.
[26] 47 U.S.C. § 251(f)(2)

It is the Board's understanding that most of the independent telephone companies in Iowa have delayed plans to implement LNP. However, Iowa Telecom's LNP deployment remains on schedule, while Qwest and Frontier have been fully LNP capable for several years.

The uneven deployment of LNP creates the potential for a competitive mismatch. Because Qwest, Iowa Telecom, and Frontier are LNP capable in most exchanges, it presents better opportunities for wireline and wireless carriers who wish to compete for traditional ILEC customers. In the exchanges where LNP is not deployed, wireline and wireless carriers encounter a competitive barrier when competing for traditional ILEC customers.

C. Description of Relevant Federal Laws

1. The Telecommunications Act of 1996

As part of the break-up of the Bell Telephone system in 1984, the resulting Regional Bell Operating Companies (a/k/a RBOCs, which include Qwest's predecessor U S West) were prohibited from offering interstate and most intrastate long distance services. This prohibition was addressed in the federal Telecommunications Act of 1996, which opened the local exchange markets to competition. When the 1996 Act was being drafted, there was recognition that if local telephone service was to become competitive, the RBOCs would have to lose market share in their existing local exchange monopolies.

The trade-off for this loss of market share was to permit the re-entry of the Bell Operating Companies into the long-distance markets through applications filed pursuant to 47 U.S.C. § 271. This federal statute basically provides that if a Bell Operating Company can show that its local exchange system is open to competition, it can re-enter the long distance market. The level of competition necessary to comply with the requirements of this section is less than the "effective competition" standard that is typically used to deregulate a service. The FCC concluded that the § 271 requirement is satisfied if one or more competing providers serve residential and business subscribers and that no particular level of market penetration is required.[27]

The 1996 Act also differentiated between small and large carriers. Generally, each telecommunications carrier has the duty to interconnect with other telecommunications carriers.[28] Further, each ILEC has the duty to negotiate agreements regarding resale of its telecommunications services, number portability, the provision of dialing parity, access to its poles, ducts, conduits, and

[27] *In the Matter of Application by Qwest Communications International, Inc. for Authorization To Provide In-Region, InterLATA Services in the States of Colorado, Idaho, Iowa, Montana, Nebraska, North Dakota, Utah, Washington, and Wyoming,* WC Docket No. 02-314, paras. 20-21. (Rel. December 23, 2002).
[28] 47 U.S.C. § 251(a)(1).

rights-of-way, and the establishment of reciprocal compensation arrangements for the transport and termination of telecommunications.[29]

However, the 1996 Act exempted certain rural telephone companies from the duty to negotiate agreements with all of these terms and conditions. This rural exemption can be lifted for a particular company by the state public utility commission if the commission concludes that the company is technically and economically capable of fulfilling the duty and it is in the public interest to lift the exemption.

2. FCC Actions: TRO Order / Change in Interconnection Agreements

Many CLECs in Iowa rely upon the ILEC's wholesale services to provide their own retail services. In other words, these CLECs lease the use of the ILEC's facilities (often referred to as unbundled network elements or UNEs) at a wholesale rate and use those rented facilities to offer service to customers. The viability of this approach depends upon the price of these wholesale services; if the spread between the wholesale price and the ILEC's retail price is too small, then these CLECs cannot stay in business. Current wholesale prices in Iowa, which are set by the Board using a formula required by the FCC, appear to be in a range that allows the CLECs to survive.

This wholesale approach is in contrast to facilities-based competition, which involves a CLEC's construction of its own facilities to provide service. While facilities-based competition involves a greater investment by CLECs to provide service, it also provides these competitors with greater autonomy regarding the services that they provide. To minimize some of the initial investment costs, however, some CLECs provide service through a combination of UNEs and their own facilities.

In August 2003, the FCC issued its Triennial Review Order (TRO)[30] wherein the FCC found that if an ILEC can demonstrate that three or more CLECs are using their own facilities, in whole or in part, to compete with the incumbent, then the ILEC should no longer be required to offer an unbundled network element platform (UNE-P) to its competitors in that market, as was required by the Act and FCC regulations. Upon review of this portion of the TRO, a three-judge panel of the D.C. Circuit Court of Appeals found that the FCC erred in maintaining competitors' mass-market access to unbundled switching and inter-office transport and remanded this portion to the FCC for the development of new

[29] 47 U.S.C. §§ 251(b) and (c).
[30] *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers; Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98, and 98-17, "Report and Order on Remand and Further Notice of Proposed Rulemaking." (Rel. August 21, 2003).

rules regarding unbundling.[31] On February 4, 2005, the FCC released its newly-adopted rules for the network unbundling obligations of ILECs. The new rules eliminated unbundled access to mass market circuit switching and UNE-P while retaining unbundled access to high-capacity loops and transports.

In anticipation of UNE-P no longer being made available to CLECs, Qwest developed a replacement offering, Qwest Platform Plus (QPP), which offers loop, switching, and vertical features to CLECs that had once purchased UNE-P from Qwest. In a July 20, 2004, press announcement, Qwest stated that QPP would be equivalent to UNE-P in price through December 31, 2004, at which point the price would rise incrementally during a transition period from January 2005 to January 2007.

QPP pricing is geographically sensitive by zones that mirror Qwest's retail community groupings or zones. QPP recurring monthly rates include residential and business price splits with discounts to competitors utilizing Qwest's QPP service offerings for a significant portion of its customers. QPP monthly rates in the three zones were $17.66, $20.11, and $31.36 through December 31, 2004. Total transitional rate increases through January 1, 2007, range from $4.21 to $12.42 based on the chacteristics and the quantity of services purchased by each carrier.

On July 16, 2004, Qwest and MCImetro Access Transmission Services, LLC, signed what Qwest has referred to as the definitive agreement with regards to replacing UNE-P with QPP. The Board has seen numerous adoptions of the QPP agreement by other CLECs and anticipates that process will continue as CLECs that are currently using UNE-P will have to decide between QPP, installation of a switch and utilizing UNE loops (UNE-L), or dropping out of the market altogether as a result of the increased cost to provide service.

II. VOICE SERVICE MEDIUMS

A. Traditional Wireline

Traditional wireline service is telephone service provided by either ILECs or CLECs. FCC data indicates that on a national basis the total number of ILEC lines has declined steadily since 1999, while the number of CLEC lines has increased steadily during the same period. However, since 1999 the reduction in ILEC lines has not been offset by the increase in CLEC lines. As the table below shows, total wireline service has declined by nearly 12 million lines or 6.1 percent over a five-year period. [32]

[31] *U.S. Telecom Ass'n v. FCC*, 359 F.3d 554 (D.C. Cir. 2004).
[32] Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition Status as of December 31, 2004,* released July 2005.

U.S. Traditional Wireline Service in Millions

Date	ILEC Lines	CLEC Lines	Total Lines
Dec. 1999	181.3	8.2	189.5
June 2000	179.7	11.6	191.3
Dec. 2000	177.6	14.9	192.5
June 2000	174.8	17.3	192.1
Dec. 2001	172.0	19.7	191.7
June 2002	167.5	21.6	189.1
Dec. 2002	164.5	24.9	189.4
June 2003	158.4	27.0	185.4
Dec. 2003	153.2	29.8	183.0
June 2004	148.1	32.0	180.1
Dec. 2004	145.0	32.9	177.9

The FCC reports that on a national level, 60 percent of CLEC wirelines currently serve residential and small business customers.[33] That compares to 77 percent of ILEC wirelines serving residential and small business customers.

Also on a national basis, CLECs reported providing approximately 26 percent of their wirelines over their own local loop facilities. CLECs resold the services of other carriers or leased unbundled network elements from ILECs to serve the remainder. The FCC reported that for the six months ending December 31, 2004, CLEC wireline service provisioned by reselling services increased by 10 percent and that CLEC wirelines provisioned over UNE loops decreased by 3 percent.[34] This change in the way CLECs are provisioning their wireline services may be attributable to changes in interconnection agreements resulting from the FCC's TRO as noted earlier in this report.

The table below represents data collected from the IUB Telecommunications Utility Annual Reports. It shows that the number of ILEC access lines has decreased by 174,000 lines from 2000 to 2004, a decrease of nearly 10 percent. At the same time, the number of CLEC access lines has increased by 35,000 lines, an increase of over 18 percent.

The table below also shows year-end 2004 access lines from IUB Telecommunications Utility Annual Reports to be roughly 1.8 million in Iowa. Survey results show total wireline connections for July of 2005 to be less than 1.6 million. The difference in the counts between the two souces of information is related to survey non-responding wireline service providers and timing differences. Actual total wireline connections are most likely to be somewhere between 1.6 and 1.8 million.

[33] Ibid.
[34] Ibid. pp.1-4

Iowa Traditional Wireline Service in Millions[35]

Date	ILEC Access Lines	CLEC Access Lines	Total Access Lines
2000	1.759	.193	1.952
2001	1.738	.198	1.936
2002	1.706	.217	1.923
2003	1.653	.244	1.897
2004	1.585	.228	1.813

B. Wireless Service

The FCC reports that 97 percent of the U.S. population lives in counties with three or more different carriers providing wireless service. Additionally, 93 percent of the U.S. population lives in counties with five or more wireless providers. For the purposes of the FCC's report, providing wireless service in a county means offering service in some portion of that county. Multiple operators providing service in a county are not necessarily providing service to the same portions of that county.[36]

There are five wireless providers considered by industry analysts to be national in coverage: Sprint PCS, Verizon Wireless, T-Mobile, Cingular Wireless, and Nextel. The FCC points out that these carriers do not have service areas or pricing plans that cover the entire United States. Each of these carriers has networks available to at least 200 million people. There are also large regional carriers such as ALLTEL Corp., U.S. Cellular, and Dobson Communications. The FCC states "because of the different geographic service areas, the five nationwide providers and the large regional providers do not compete head to head in each and every region and locality of the country."[37]

The Web sites for Sprint PCS, Verizon Wireless, and US Cellular indicate that their respective wireless services cover the entire state of Iowa, with the possibility of roaming charges and some dead zone pockets. ALLTEL does not list coverage on its Web site. Nextel, T-Mobile, and Cingular coverage maps for Iowa indicate that coverage appears to follow mainly along Interstate 35 and Interstate 80 with some branching out in the eastern and northern parts of Iowa.

In Iowa, there was a low response to the Market Monitoring Survey by the wireless industry. However, in 2004, five wireless providers intervened and provided coverage data in a local number portability proceeding.[38] Based on that

[35] Source: IUB Telecommunications Utility Annual Report Letters.
[36] FCC's *Tenth Annual Report on the State of Competition in the Wireless Industry,* September 30, 2005.
[37] Ibid.
[38] Docket Nos. SPU-04-3, SPU-04-5, and SPU-04-6.

information, it appears that U.S. Cellular and Verizon Wireless provide the broadest coverage in the rural parts of the state.

There is no doubt that the growth of the wireless industry has been robust. The FCC states that between the end of 2003 and the end of 2004, wireless subscribership increased by nearly 25 million to just under 185 million nationally. The NRUF data for Iowa indicates that wireless connections have grown by more than 431,000 since 2003 and now total over 1.7 million. As noted in the previous section, the IUB annual report information indicates that Iowa wireline connections are roughly 1.8 million. In Iowa, wireless subscribership appears to be on track to overtake total wireline subscribership in the near future.

From a local voice competition standpoint, the overarching question is to what extent wireless service is substituting for wireline service. From a "minutes of use" standpoint, few would argue the direct substitution of wireless for wireline. The more significant question, however, is to what extent consumers are discontinuing wireline service altogether and substituting it for wireless service. Because of the low response rate of the wireless industry to the Market Monitoring Survey, a conclusive answer to this question is still not available for Iowa.

The FCC cites a survey conducted by the Centers for Disease Control, which indicates that 5.5 percent of adults live in households with only wireless telephones. The 5.5 percent number had increased from 4.4 percent within the same year and from 2.8 percent the year before. For younger adults, wireless substitution was much higher. The survey indicated that roughly 14 percent of 18-24 year olds live in wireless-only households.[39]

Another survey by the Consumer Electronics Association found that 17 percent of respondents who had purchased a wireless telephone in the past 90 days, indicated they would be using the wireless telephone exclusively. The survey questioned 1,184 consumers and was conducted over the Internet.

Consumer Reports Magazine recently released the results of a survey of 50,000 consumers in 18 metropolitan areas. According to that survey, only 47 percent indicated satisfaction with their service, while 31 percent reported they were seriously considering changing providers. The dissatisfaction with wireless service was tied to price and poor service.[40]

For a rural state like Iowa, the substitution of wireless for wireline may be less than national studies suggest. This is because quality of wireless reception could be lower in rural areas where, presumably, there are fewer cell towers. Fewer cell towers could result in poorer reception and more dropped calls. Thus,

[39] FCC's *Tenth Annual Report on the State of Competition in the Wireless Industry,* September 30, 2005, paragraph 196.
[40] Consumer Reports Magazine, January 2006, pp. 20-23.

although wireless subscribership appears to be outpacing wireline service in Iowa, it remains unclear to what extent consumers are willing to discontinue wireline service altogether and rely totally on a wireless alternative.

C. Cable Telephony

The idea of cable companies offering telephone services over their cable infrastructure has been around for almost 10 years, but economic and technical barriers have kept most of the cable operators out of the telephony business. Nationally, the two largest providers of cable telephony are Comcast Corporation and Cox Communications. As of April 2005, each had approximately 1.3 million telephone customers.[41] The Cox service area in Iowa is limited to where Cox has facilities in the Qwest exchanges of Carter Lake, Crescent, Council Bluffs, and Underwood.

On September 16, 2005, Qwest was granted, in part, relief from statutory and regulatory obligations that apply to it as the incumbent telephone company in the Omaha Metropolitan Statistical Area (MSA) by the FCC, in large part due to the substantial infrastructure investment by Cox Communications in the area.[42] Specifically, Qwest was relieved of section 251(c)(3) unbundling obligations to competitors in 9 out of 24 Qwest wire centers in the Omaha MSA where the FCC felt that the intermodal deployment for telephone services, primarily by Cox, was extensive.[43] None of the nine wire centers are in Iowa. The FCC also granted Qwest's request to forbear from applying price cap, rate of return, 15-day tariffing, and 60-day discontinuance regulations for its provision of interstate mass-market exchange access services and broadband Internet access services in the entire Omaha MSA, which includes Council Bluffs.[44] Qwest filed a petition for review with the United States Court of Appeals for the District of Columbia Circuit on December 12, 2005.

MCC Telephony of Iowa (Mediacom) has begun the rollout of telephone service over its cable system. Mediacom's local exchange territory reaches into numerous communities located in Qwest's, Iowa Telecom's, Frontier's, and several independent telephone companies' service areas.

The footprint of Mediacom's service area will cover large portions of the state, but Mediacom stated in its certification filings that it did not plan to simultaneously rollout telephone services to its entire service area. Mediacom's telephone service rollout began in the fall of 2005 after the July 2005 effective date of the Market Monitoring Survey. This precludes drawing any conclusions on current

[41] Cable Digital News, April 2005, *Cox Accelerates Switch to IP Telephony Service*, http://www.Cabledatacomnews.com.
[42] http://www.fcc.gov., *FCC Grants Qwest Forbearance Relief in Omaha MSA*, WC Docket No. 04-223, September 16, 2005.
[43] Ibid.
[44] Ibid.

market shares attained by Mediacom. Indications of the potential number of Mediacom subscribers are hinted at by its requests for more than 250 blocks of (1,000 telephone numbers per block) telephone numbers throughout Iowa.

Mediacom's advertised service offerings include unlimited local and nationwide calling, several calling features such as Voice Mail and Caller ID, and a separate international calling option. Mediacom's rate for packaged services is $49.95 per month with discounts applied to subscribers of Mediacom's cable video and/or cable Internet service.[45]

D. Voice over Internet Protocol (VoIP)

VoIP is the transmission of telephone calls over a data network like one of the many networks that make up the Internet.[46] There are four primary ways to use the VoIP technology: computer-to-computer, computer-to-telephone, telephone-to-computer, and telephone-to-telephone.

This service has been in existence since the mid-1990s. Early calls were plagued with echoes, delays, and other quality problems that made the technology unacceptable to the mass market. In recent years, the equipment and technology have improved and the availability of high-speed Internet lines has increased. Nationwide there are approximately 2 million VoIP callers today, which is 1 percent of all telephone lines in the United States.[47] This compares to the 100,000 callers using VoIP in 2003 who made up less than one-tenth of 1 percent of all telephone subscribers.[48] Although the number of subscribers currently using this technology is relatively small, one observer has estimated that the number could increase to 40 percent of subscribers with broadband connections or 24.3 million by 2008.

At present, the FCC does not regulate VoIP as a separate service. As the technology has developed, several issues have arisen, such as the ability of law enforcement officials to engage in wiretaps for law enforcement purposes (as called for in the Communications Assistance for Law Enforcement Act (CALEA) of 1994)**,** the ability for this technology to be compatible with Emergency 911 (E911) services, and intercarrier compensation. Still another issue is the financial support of the federal Universal Service Fund, which subsidizes the cost of telephone service in poor, rural, and high-cost areas. The FCC has recently found that certain broadband and interconnected VoIP services must be prepared to accommodate law enforcement wiretaps and has given these providers 18 months from August 5, 2005, to come into compliance with all relevant CALEA requirements.[49] The FCC has also adopted an immediate E911

[45] http://www.mediacomcc.com/products_phone.html.
[46] http://computer.howstuffworks.com/ip-telephony.htm/printable.
[47] http://news.zdnet.com/2102-1035_22-5879421.html?tag=printthis
[48] Paul Davidson, "Calling Via Internet Has Suddenly Arrived," USA Today, July 7, 2003, p. 2B.
[49] http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-260434A1.doc

requirement applicable to all interconnected VoIP providers.[50] The FCC has stated that a VoIP provider cannot register new customers until it has complied with the requirement that access to public safety answering points (PSAP) is met. These PSAPs comprise a network that dispatches emergency services and can help identify the location of the caller. In addition, the FCC has initiated rulemakings concerning CALEA and E911 compliance to look at technical solutions. The outcome of these issues could have a large impact on the pricing and availability of VoIP.

Regardless of the challenges facing VoIP, the demand for this service continues, primarily because calling via VoIP can be less expensive than traditional telephone service. This is, in part, because many VoIP calls avoid some or all of the taxes and fees that apply to traditional calls. Some of these charges may include the subscriber line charge, telecommunications relay services charge, federal excise tax, and local number portability charge. These charges are avoided for various reasons; the main reason being the classification of service the FCC has given VoIP.

VoIP is also attractive because it offers other features which allow customers to manage calls in new ways, such as programming the telephone to not ring during certain hours, forwarding calls to other telephones, and viewing a log of missed, incoming, or outgoing calls via a Web site.

The recent passage of HF 277 has placed additional emphasis on the role of VoIP services in markets that are before the Board for consideration of market deregulation. HF 277 states the Board shall consider factors that include the presence or absence of VoIP as well as wireless communications services, cable telephony, and economic barriers.

However, it has been extremely difficult to obtain specific market data on VoIP providers. VoIP service in Iowa is provided by partnering with a CLEC or ILEC. In Iowa, there have been no blocks of numbers directly assigned to any VoIP provider. Thus, it is nearly impossible to track the telephone numbers used for VoIP service, because they show up in the NRUF data as assigned to another carrier.

A second tracking problem that is encountered is when Iowans subscribe to VoIP services using telephone numbers from other states. When this situation occurs, it is difficult to determine whether the telephone number is associated with an Iowa or other state subscriber.

Another problem is that there is no certification or registration requirement for VoIP providers on either the national or state level. Thus, there is no direct means to know when a VoIP provider is providing service in a state.

[50] http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-05-116A1.pdf

In Iowa some well-known service providers are advertising VoIP offerings. Qwest's OneFlex Premier is $29.99 per month for unlimited local and on-net calling and a maximum of $49.98 for unlimited local and long-distance calling. Verizon offers its VoiceWing 500 plan for $19.95 per month. This includes 500 outbound minutes to anywhere in the United States and Puerto Rico with unlimited incoming calls and free calls to other VoiceWing subscribers. Verizon's VoiceWing Unlimited Plan for $29.95 per month allows for unlimited local and long-distance calling for customers of Verizon's own DSL or $34.95 for users of other broadband services. AT&T offers its CallVantage plan for $29.95 per month.[51] The CallVantage plan offers unlimited local and long-distance calling.

There is a start-up Iowa company that now advertises free VoIP service. FreeDigits is a VoIP service offered by WebPoint Communications, which partners with 13 Iowa independent telephone companies. FreeDigits service is available to subscribers anywhere in the country, providing them with an Iowa telephone number, a voice mailbox, 200 minutes per month for out-bound calling, and the ability to forward calls to other telephones.

There are many other companies advertising VoIP services in Iowa as well as nationally. Some of these companies include Vonage, Lingo, Packet8, SunRocket, VOIPNET, alphaphone, OPEX Internet Voice, and iconnectHERE. All offer unlimited local and long-distance calling at rates ranging from $19.95 to $29.99 per month. Lingo also offers an option to make an annual payment of $199 that brings the monthly cost down to $16.65 per month.[52]

Internet companies such as Yahoo, Google, America Online, and Earthlink have also entered the VoIP market. Yahoo added improved VoIP calling to its Yahoo Messenger in the spring of 2005. Earthlink is testing its version. Google has recently released its Google Talk service. America Online has announced it will soon be offering its TotalTalk service.[53]

Although VoIP calling plans may offer lower monthly bills than traditional wireline service with similar features and similar amounts of long distance calling, current VoIP technology generally requires a computer and a broadband connection. This could be an added expense, but many current VoIP users already had much of the necessary equipment when they signed up for VoIP service, making the incremental costs relatively low.

E. Broadband Over Power Line

Broadband over Power Line (BPL) is a term used to describe high-speed data transmission systems that conduct signals over electrical wiring or power lines. BPL technology enables electric power lines to function as a third wire into the

[51] http://www.usa.att.com/callvantage/plans/index.jsp
[52] http://www.seekaplan.com/voip.asp
[53] http://news.zdnet.com/2102-1035_22-5879421.html?tag=printthis

home and potentially creates a competitive alternative to digital subscriber lines and cable modem services. Potentially, BPL could be used as a competitive platform for the emerging VoIP industry to compete in the voice telecommunications market.

BPL has been in development for the past ten years. There have been more than 100 trials in 40 different countries since 2001. In the U.S., there are numerous pilot projects in progress. In Iowa, Alliant Energy began a 6-month pilot project on March 30, 2005. On June 25, 2005, the project was halted as a result of complaints filed with the FCC on interference by amateur radio operators and other technical issues.

The BPL pilot project left Alliant with many concerns including:

- Regulations related to VoIP;
- Classification of BPL as an information service or a telecommunication service;
- State vs. Federal jurisdiction on open access and right-of-way;
- Treatment of pole attachment fees and add-on franchise fees;
- Affiliate transaction policies and cross subsidization;
- Need to insure there is no negative impact on electric reliability;
- Ability to maintain security; and
- The need to determine who is responsible for quality of service: the utility or the ISP?

As part of its goal to promote accessibility for all Americans and encourage new facilities-based broadband platforms, the FCC adopted rules for BPL on October 14, 2004.[54] The adopted rules encouraged development of BPL while safeguarding existing licensed services against harmful interference. BPL services do not receive protection from interference from other radio services. As a result, it is possible that licensed radio services, such as amateur radio, may interfere with the BPL service.

The Institute of Electrical and Electronics Engineers is working to develop a standard to define the nature of the communication channel to be used for BPL systems. The standard is expected to be complete in early 2007.

F. The Assignment of New Telephone Numbers

One way to gauge competition is to look at the assignment of new telephone numbers to CLEC's and other non-incumbent providers. Telephone numbers are assigned by the NANPA and by the Pooling Administrator (PA). The NANPA

[54] FCC Docket No. 04-245, Report & Order adopted October 14, 2004, released October 28, 2004.

assigns telephone numbers in blocks of 10,000 numbers, and the PA assigns telephone numbers in blocks of 1,000 numbers.

Depending upon the area of the state, carriers apply for telephone numbers either in blocks of 10,000 or 1,000 at a time. Before additional telephone numbers are assigned to a particular area, a carrier must certify that its existing telephone numbers are 75 percent used up and would exhaust in less than six months. The exception is when a carrier initiates service in a new area.

The previous market monitoring survey was completed two years ago. The table below shows the total number of blocks of telephone numbers assigned by the NANPA and the PA between January 1, 2004, and November 16, 2005. The table shows the block assignments for ILECs, CLECs, and wireless carriers. The block assignments are also shown for each "NPA" or area code in Iowa.

Blocks of Telephone Numbers Assigned Since Last Survey

	NPA 319	NPA 515	NPA 563	NPA 641	NPA 712	Iowa Total	% of Total
ILECs	13	37	8	0	13	71	6%
CLECs	39	119	37	62	96	353	30%
Wireless	145	121	100	233	160	759	64%
Iowa Total	197	277	145	295	269	1183	100%

The table shows that in most areas of Iowa, wireless carriers are requesting new telephone numbers at far greater rates than ILECs or CLECs. Statewide, Iowa's wireless carriers were assigned blocks of new telephone numbers at roughly twice the rate of CLECs and 10 times the rate of ILECs. The one exception is in the 515 area code in Central Iowa. In this area, which includes Des Moines and Ames, CLECs were assigned about the same number of blocks of telephone numbers as the wireless carriers. A request by Mediacom accounts for two-thirds of the CLEC blocks in 515.

III. COMPETITION IN ILEC MARKETS

A. Overview of Survey Results

On a statewide basis, it appears that there are several more competitors that now have connections in the state than in 2003. For those companies that responded to the 2003 and 2005 surveys, a comparison shows that the number of CLECs with connections increased from 59 in 2003 to 72 in 2005. The change can be attributed to 17 new CLECs that reported in 2005 and four CLECs that responded in 2003 but not in 2005.

Not only is the quantity of competitors increasing, but competitors' connections are also on the rise. CLEC connections increased by about 40,000 or by 18.7 percent since the 2003 survey. The 2005 survey also shows that the number of ILEC connections declined by approximately 7.7 percent or 110,000 since 2003. The overall impact of gains and losses in the total number of wireline connections on a statewide basis represents a 4.3 percent decline.

Because of the lack of response by many wireless carriers to the Board's survey, an actual count of the number of wireless connections in the state cannot be determined. The Board has reviewed NANPA NRUF data and the records indicate that there were 12 wireless service providers in 2003 and 18 in 2005. NRUF data also shows an increase of 431,000 assigned numbers from 1.3 million in 2003 to 1.7 million in 2005. This is a 31 percent increase in the quantity of numbers assigned to wireless carriers and represents a 6 percent increase in total numbers assigned to all carriers in the state.

It is difficult to know what has specifically caused the change in the number of connections and market share shifts between the various groups of service providers. On the surface it may appear as if customers are moving from ILEC service to CLEC service and from ILEC service to wireless service. Beyond the apparent increase in the number of consumers using wireless service, other events may have impacted the changes. The change in ILEC connections could include: the replacement of second lines with wireless service; the elimination of second lines when dial-up Internet has been replaced with high-speed Internet connections, and population shifts.

Since the 2003 survey, several communities experienced an increase in competitive activity. The Board addressed the competitive activity for various communities in two Board-initiated investigations, Docket Nos. INU-04-1 and INU-05-2. As a result, 40 overbuilt communities were deregulated due to a finding of effective competition.[55]

Incumbent local service providers continue to maintain a significant portion of the market share throughout their serving areas.

[55] The following communities have been deregulated: In the Frontier ILEC territory—Orange City and Oyens; Iowa Telecom—Armstrong, Belle Plaine (includes Luzurne), Bennett, Cambridge, Coon Rapids, Delmar, Forest City, Greene, Grundy Center (includes Holland), Guthrie Center, Harlan, Hartley, Lowden, Manning (includes Aspinwall), Marble Rock, Marengo, Oxford, Oxford Junction, Paullina (includes Germantown), Primghar, Reinbeck (includes Morrison), Saint Ansgar, Slater (includes Alleman and Sheldahl), Solon, Stacyville, Stanwood, Tiffin, and Wapello; and Qwest—Alta, Carter Lake, Council Bluffs, Laurens, Mapleton, Onawa, Osage, Spencer, Storm Lake, and Whiting.

B. Qwest Territory

1. Background

Qwest provides landline telephone service to 14 Midwest and Western states, serving approximately 15.1 million access lines, 744,000 wireless customers, 1.2 million DSL customers, and 4.6 million long distance customers.[56] Qwest also has a CLEC (Qwest Communications Corporation) and a wireless division (Qwest Wireless) that do business in Iowa.

As of July 1, 2005, Qwest reported that it serves about 120 Iowa exchanges and over 200 communities[57] as an ILEC, with a total of around 800,000 connections. This is in comparison to a similar number of exchanges and communities reported in the 2003 survey, but with about 875,000 connections[58] at that same time, an 8 percent decrease in the number of connections.

Des Moines is the largest exchange with about 170,000 connections and Whiting is the smallest with around 200 connections. Qwest serves the most urban customers of any local exchange carrier in Iowa, including the communities of Ames, Cedar Rapids, Council Bluffs, Davenport, Des Moines, Dubuque, Iowa City, and Sioux City, but Qwest also serves 55 rural exchanges having between approximately 200 and 2,800 connections.

Qwest was price regulated beginning November 7, 1998. The company's price plan allowed Qwest to adjust its prices for basic local service based on the annual rate of inflation. The plan also allowed Qwest to introduce new services that were not subject to rate regulation by the Board. In addition, Qwest could increase prices for its non-basic services (such as call waiting or call forwarding) by up to 6 percent annually.

The regulatory climate changed for Qwest and other price plan ILECs in Iowa, effective July 1, 2005. As described earlier in this report, HF 277 amended the statute relating to price regulation by deregulating retail rates for most local exchange communications services offered by ILECs in Iowa, except for single line flat-rated residential and business rates. The effect of this amended statute on Qwest is described in more detail below.

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[56] From Qwest's website at http://www.qwest.com/about/index.html.

[57] Qwest serves several communities in some of its exchanges. For example, the Des Moines exchange includes communities such as Clive, Johnston, Pleasant Hill, Urbandale, and West Des Moines.

[58] These numbers vary slightly from the 2003 report, as corrections have been made to the 2003 data.

2. Survey Results for Qwest Territory

When looking at Qwest's communities as a whole, the survey shows that Qwest serves almost 70 percent of the total connections in its territory, compared to almost 75 percent of the total in 2003. Qwest's market share in each individual exchange ranges from not quite 30 percent to 100 percent. Qwest maintains an overall market share of at least 90 percent in 47 of its 120 exchanges. Over two-thirds of those exchanges are rural exchanges. In 2003, Qwest had a market share of over 90 percent in 78 of its exchanges.

The level of competition that Qwest faces in each exchange varies widely because of factors like the urban or rural nature of the exchange, the concentration of business and residential customers, and other differences. In some exchanges, Qwest's competitors have captured a significant share of some, or even most, customer classes. For example, in several exchanges the 2005 study indicates that one competitor serves more connections than Qwest. The Board has already deregulated most of these exchanges (see III.B.3 and 4 below).

The 2005 survey shows that Qwest has 52 total wireline competitors serving customers in its combined exchanges, compared to 39[59] reporting competitors in the 2003 survey. This resulted in an increase in the number of CLEC connections by about 22 percent.

However, there are still several communities that have very few competitors with connections. The survey shows that Qwest serves about 83 percent of the residential and over 70 percent of the business connections in its service territory. In 55 of Qwest's served communities, the competitors providing service have ten or fewer wireline connections. In addition, 25 communities have only one competitive wireline connection and there are no wireline competitors for Qwest in 24 communities.

In the 2003 survey, 18 exchanges had a competitor that served at least as many business connections as Qwest. In the current survey, only nine exchanges have a competitor that serves more business connections than Qwest.
Finally, the survey data for 2003 showed that 12 CLECs in Qwest's territory had constructed their own networks to provide service, which allowed them to offer new and different services and to control their own quality of service. However, each of these competitors served only one or two Qwest communities, due to the extremely high cost of overbuilding. Five of these facilities-based CLECs were

[59] This number represents only the providers who reported connections in the Qwest territory in the 2005 survey; whereas, the number in the 2003 survey (70 CLECs) represented those who had certificates to provide service to the Qwest territory. The number of CLECs in the 2003 survey included several CLECs that had a certificate at the time but did not provide service and several other certificated CLECs that did not respond to the 2003 survey.

municipally owned, meaning they were very unlikely to offer service outside their own community.

For 2005, the data shows 20 CLECs in the Qwest territory with facilities-based networks. As in the last survey, most of these CLECs serve only one or two Qwest communities. And again, as in the previous survey, five were municipally owned. Many communities that are served by facilities-based CLECs have now been rate deregulated by the Board.

3. Communities Deregulated under Docket Nos. INU-04-1 and INU-05-2

The Board initiated a proceeding on its own motion in 2004 to consider, among other things, whether to deregulate local exchange service rates in 24 Iowa communities. Facilities-based competition was the focus of that proceeding. On December 23, 2004, the Board issued a final decision and order in Docket No. INU-04-1, "Deregulation of Local Exchange Services in Competitive Markets." The Board determined that effective competition existed in 20 Iowa communities. Specifically for Qwest, the Board found that the rates for local exchange service should be deregulated in five Qwest exchanges - Laurens, Mapleton, Spencer, Storm Lake, and Whiting. The Board also found that the rates for local exchange service in the Council Bluffs residential and business markets should be deregulated.

After HF 277 was signed into law, the Board initiated another deregulation proceeding to consider whether residential and business local exchange service in 31 Iowa communities should be deregulated. On December 5, 2005, the Board issued a Final Decision and Order in Docket No. INU-05-2, "Deregulation of Single Line Flat-Rated Local Exchange Services in Competitive Markets." The Board found that the rates for local exchange service should be deregulated in four additional Qwest exchanges - Alta, Carter Lake, Onawa, and Osage. Because this order is so recent, the impact of rate deregulation is not known at this time.

4. Pricing changes for single line flat-rated residential and business retail connections

Qwest divides its service territory into three rate groups. In the 2003 survey, basic monthly rates for single line flat-rated residential service ranged from $10.71 to $12.65. Those rates were effective until November 7, 2004, when the residential rates were raised to $12.80 statewide. This increase was a result of Qwest filing its annual price plan on October 1, 2004, which was filed as a renewal of its original 1998 price plan. In that filing, Qwest applied the price increases in the residential sector so that the traditional rate group differences would disappear. These changes did not apply to the business rates, which were

reported in the 2003 survey to range from $25.60 to $31.82 per month for the three rate groups.[60]

In addition, Qwest implemented price increases for single line flat-rated residential and business rates on August 1, 2005, pursuant to HF 277. HF 277 allows for an annual increase in residential rates by $1.00 per month and business rates by $2.00 per month. Further, HF 277 allows for an adjustment to these same rates by the most recent annual percentage change in the gross domestic product price index.

The inflation index change for single line flat-rated residential service was $0.32 at that time. Therefore, the statewide single line flat-rated residential rate increased by a total of $1.32 and is now $14.12. The inflation index change for single line flat-rated business service was $0.64 at that time. Therefore, single line flat-rated business rates increased by $2.64, and now range from $28.24 to $34.46 for the three rate groups. For a summary of the rate changes, see the chart below.

Qwest			
Flat-rated Residential	**July 1, 2004**	**November 7, 2004**	**August 1, 2005**
Group 1	$10.71		
Group 2	$11.68		
Group 3	$12.65		
Statewide		$12.80	
Statewide			$14.12
Flat-rated Business	**July 1, 2004**	**November 7, 2004**	**August 1, 2005**
Zone 1	$25.60		$28.24
Zone 2	$28.35		$30.99
Zone 3	$31.82		$34.46

Qwest reports in the 2005 survey that it has over 370,000 residential connections under the single line flat-rate and approximately 75,000 business connections on this rate. This information was not requested in the 2003 survey.

C. Iowa Telecom Territory

1. Background

Iowa Telecom was founded in late 1999 for the purpose of acquiring the Iowa operations of GTE. On July 1, 2000, Iowa Telecom began providing service to 296 generally rural Iowa exchanges. The largest exchange served is Newton.

[60] Included in all basic rates are Extended Area Service (EAS) charges, if applicable, which allow customers to make unlimited local calls to other towns for a flat rate.

Approximately 75 percent of Iowa Telecom's communities have fewer than 1,000 connections.

In 1995, Iowa Telecom's predecessor, GTE, elected to become price-regulated pursuant to Iowa Code § 476.97(11). As long as GTE operated under price regulation, its rates were no longer subject to traditional rate-of-return proceedings before the Board. Instead, GTE's rates changed according to inflation. When Iowa Telecom acquired the Iowa operations of GTE, it elected to continue the GTE price plan.

Like the other price regulated ILECs, Iowa Telecom has the ability to reduce prices in specific exchanges to meet competition. Iowa Telecom has done this and the situations are discussed in the Pricing Changes section.

Iowa Telecom has sold several exchanges since the 2003 survey. The exchanges of Baxter, Melbourne, Rhodes, and State Center were acquired by Partner Communications Cooperative in 2004.[61] Iowa Telecom also sold the Oxford Junction exchange to Lost Nation – Elwood Telephone Company in September 2005.[62]

2. Survey Results for Iowa Telecom Territory

The survey shows Iowa Telecom serving 327 communities with almost 243,000 connections. Iowa Telecom's percentage of total connections within its serving area decreased from 87 percent to the current 81 percent.

The total number of competitors in Iowa Telecom's territory responding to this survey is 34, which is an increase of five over the previous survey. The number of connections for these competitors has decreased from slightly more than 29,000 to slightly less than 29,000. The percentage of CLEC to total connections has remained constant at 10 percent.

Competitors have connections in 76 different communities, up slightly from the 72 communities in the 2003 survey. The percentage of communities that have a competitor offering services remained constant at 23 percent. However, in 29 of these communities competitors have captured very small market shares, sometimes only one or two customers.

Competitors that appear to be gaining market share at a fast rate are generally municipalities or small neighboring ILECs that have a strong local presence and

[61] Approval was granted in Docket No. SPU-04-15. See *Order Approving Joint Application for Discontinuance of Service, Authorizing Transfer of Certificate, and Granting Waiver* issued on June 23, 2004.
[62] Approval was granted in Docket No. SPU-05-19. See *Order Approving Joint Application for Discontinuance of Service* issued on September 30, 2005.

knowledge of local market conditions. Most of the other competitors' connection counts have remained constant or slightly decreased since the last survey.

Consistent with the 2003 survey, the current survey shows that competitors have gained large market shares in some Iowa Telecom exchanges. These communities were included in the evaluations of competition and possible rate deregulation under Docket Nos. INU-04-1 and INU-05-2.

3. Communities Deregulated under Docket Nos. INU-04-1 and INU-05-2

The Board initiated a proceeding on its own motion in 2004 to consider, among other things, whether to deregulate local exchange service rates in 24 Iowa communities. Facilities-based competition was the focus of that proceeding. On December 23, 2004, the Board issued a final decision and order in Docket No. INU-04-1, "Deregulation of Local Exchange Services in Competitive Markets." The Board determined that effective competition existed in 20 Iowa communities. Specifically for Iowa Telecom, the Board found that the rates for local exchange service should be deregulated in 14 Iowa Telecom exchanges—Armstrong, Coon Rapids, Delmar, Forest City, Harlan, Lowden, Oxford, Oxford Junction, Primghar, Saint Ansgar, Solon, Stacyville, Stanwood, and Tiffin.

On May 13, 2005, the Board initiated Docket No. INU-05-2, pursuant to § 476.1D as amended by HF 277 and the Board's own rules (199 IAC 5.3(1)), to consider whether residential and business single line flat-rated local exchange service in 31 Iowa communities should be deregulated. These communities included 14 where Iowa Telecom was the ILEC.[63] On December 5, 2005, the Board issued its final decision and order in Docket No. INU-05-2 deregulating single line flat-rated residential and business services in all 14 communities.

The 2005 survey shows that in all instances the largest competitor in each of the deregulated exchanges has more connections than Iowa Telecom. These communities have been overbuilt by municipalities or by relatively small neighboring or nearby ILECs and have a strong local presence and knowledge of local market conditions and offered services at rates that are comparable to those offered by Iowa Telecom.

4. Pricing Changes for Single Line Flat-Rated Residential and Business Retail Connections

Iowa Telecom consolidated its 16 rate groups into one rate group effective April 23, 2004. This consolidation and rate increase was the result of a

[63] These 14 communities included Belle Plaine (includes Luzerne), Bennett, Cambridge, Greene, Grundy Center (includes Holland), Guthrie Center, Hartley, Manning (includes Aspinwall), Marble Rock, Marengo, Paullina (includes Germantown), Reinbeck (includes Morrison), Slater (includes Alleman and Sheldahl), and Wapello.

settlement agreement reached by all parties in Docket No. RPU-02-4. The approved monthly rates throughout Iowa Telecom's service territory were established at $16.60 for residential service and $32.09 for business service. Previously, basic monthly rates for residential service ranged from $8.92 to $16.31 and basic monthly rates for business service range from $15.64 to $29.69.

The basic monthly residential and business rates were increased to $16.98 and $32.98, respectively, on January 17, 2005, for most of Iowa Telecom's exchanges. Iowa Telecom is subject to a price plan and the plan allows for an increase in rates up to the annual rate of inflation. The applicable inflation rate was 2.258 percent and the rate changes resulted in a 2.04 percent increase in basic communications service revenues. The basic rates were not increased in the 14 exchanges that were the subject of deregulation in Docket No. INU-04-1.[64]

Concurrently, on January 17, 2005, Iowa Telecom also reduced its monthly residential and business rates in three exchanges. These exchanges are Avoca, Minden, and Shelby. The monthly residential and business rates were reduced to $11.00. The price plan that Iowa Telecom operates under allows for a decrease in basic service rates to the rate level offered by a competitor. Iowa Telecom stated that Walnut Communications was offering an $11.00 rate in the three exchanges.

Iowa Telecom continues to apply mandatory EAS charges to the basic rates in the majority of its exchanges. These rates vary by exchange and may be substantial. Residential EAS rates can be up to $16.44 per month and business EAS rates can be as high as $32.86 per month. The higher EAS rate are typically associated with a small rural exchange located near Des Moines and has set up extended area service to Des Moines and several other local exchanges. The majority of the exchanges have residential EAS rates below $5.00 per month and business EAS rates below $6.00 per month.

Iowa Telecom reports in the 2005 survey that it has slightly more than 179,000 residential connections under the single line flat-rate, and approximately 33,500 business connections on this rate. This same information is not available from the 2003 survey.

The Board has been contacted by a number of CLECs competing in Iowa Telecom's exchanges regarding alleged anticompetitive pricing by Iowa Telecom. The CLECs describe various offerings with one offering being as low as $5.95 per month for a bundled package of local telephone service, 100 minutes of long distance, four vertical services, and free installation.

[64] These exchanges were Armstrong, Coon Rapids, Delmar, Forest City, Harlan, Lowden, Oxford, Oxford Junction, Primghar, Solon, St. Ansgar, Stacyville, Stanwood, and Tiffin.

No formal complaints were filed, but on November 4, 2005, the Board sent a letter to Iowa Telecom describing the informal complaints and requesting a response. Iowa Telecom responded on November 18, 2005, saying that its offerings were the first of their kind; the pricing of these offerings is constrained only by its low incremental costs; the pricing of these offerings covers these incremental costs; and that these offerings encourage competition. Board staff forwarded copies of the Iowa Telecom response to the CLECs. As of the date of this report, no formal complaints have been filed.

D. Frontier Territory

1. Background

Frontier is a subsidiary of Frontier Telco, Inc., which is also a subsidiary of Citizens Communications Company. Citizens and its Frontier subsidiaries operate in parts of 24 states and provide local exchange service to over 2.4 million access lines nationally.

In 2005, Frontier reported providing over 55,000 connections grouped into 38 communities. The 2003 survey showed that Frontier had over 60,000 connections. These communities are located in western and north central Iowa. Frontier's smallest community is Deloit and its largest is Fort Dodge. Frontier reports in the 2005 survey that it has more than 26,000 residential connections under the single line flat-rate and more than 9,000 business connections on this rate. This information was not requested in the 2003 survey.

Frontier divides its service territory into three rate groups. The current basic monthly rates for residential and business services became effective December 31, 2004. Residential service rates range from $7.65 to $18.14. Business service rates range from $13.79 to $36.60. Many Frontier exchanges have Extended Area Service (EAS) charges added to basic rates. These charges add $.90 to $3.09 to the basic monthly residential rate and $1.75 to $5.54 to the basic monthly business rate. Current rates reflect a price plan increase tied to inflation. Frontier exempted Orange City from the annual inflation-based rate increase permitted under its price plan in response to competition from Orange City Communications.[65] No rate changes have been made pursuant to HF 277.

2. Survey Results for Frontier Territory

Frontier has maintained market shares very close to the levels reported in the 2003 survey. The current survey indicates that wireline competition exists in only 5 of the 38 communities served by Frontier. In the 2003 survey, there were 6 communities with wireline competition.

[65] Statement of Position of Jack Phillips on behalf of Frontier Communications of Iowa, Inc., in Docket No. INU-05-2, page 2, June 13, 2005.

The most significant competition in Frontier's territory comes from Orange City Communications in Orange City. Orange City Communications is a municipal utility, which provides service over its own facilities. Frontier and Orange City Communications have approximately equal market share in Orange City.

In Oyens, local exchange services are provided by both Frontier and Western Iowa Telephone Company d/b/a WesTel Systems. This arrangement was not the product of competitive arrangements as much as the location of Oyens in relation to the service areas of Frontier and WesTel Systems.

AT&T Communications of the Midwest (AT&T) provides less than 50 business connections in 2 communities. AT&T does not offer residential service in Frontier's service areas. SBC and AT&T received FCC approval to complete their merger in December 2005 and at this time it is not clear how the merger will affect AT&T's CLEC operations in Iowa.

Overall, the survey indicates that Frontier maintains approximately 98 percent market share in residential service and approximately 99 percent market share in business service across its Iowa service area. Based on certificate applications filed with the Board, most Iowa CLECs have not requested authority to serve in Frontier's territory.

3. Communities Deregulated under Docket No. INU-05-2

On May 13, 2005, the Board initiated Docket No. INU-05-02 pursuant to HF 277 to consider whether residential and business single line flat-rated local exchange service in 31 Iowa communities should be deregulated. The communities of Orange City and Oyens, where Frontier is the ILEC, were included in the proceeding. On December 5, 2005, the Board issued its Final Decision and Order in Docket No. INU-05-2, in which it deregulated single line flat-rated residential and business services in Orange City and Oyens.

E. Independent Telephone Companies

1. Background

There are 157 non-rate-regulated independent telephone companies providing local telephone service in Iowa – more than any other state. Each of these independents serves a distinct service territory. Generally, the independents do not compete for the customers of other independent telephone companies. They are not subject to the Board's ratemaking authority but are subject to the Board's service quality regulations, such as the filing of tariffs and the Board's authority to hear customer complaints.

The independent telephone companies vary in size from less than 100 to more than 12,000 connections. Many of them serve just a single community; however some serve several neighboring communities within their service territory. According to the survey, approximately 60 percent of Iowa's independents serve fewer than 1,000 connections.

The rates charged by independent telephone companies for basic local exchange service are variable, but they are generally comparable to, or lower than, the rates charged by the larger ILECs. The independents, however, have additional revenue sources that may not be available to the larger telephone companies. The independents are eligible to receive Federal Universal Service Fund support to subsidize the high cost of providing loops in rural areas.[66] Qwest, Iowa Telecom, and Frontier do not receive this support in Iowa.

Additionally, all local telephone companies collect fees from long distance companies for use of their local network to complete long distance calls (known as access charges), the access rates charged by small independents in general are substantially higher than the access rates of the larger ILECs (e.g., independents tend to charge around 8.5 cents per minute whereas the rates for the larger ILECS are as low as 1.5 cents per minute). Some independents use these extra revenue sources to keep their local service rates low or to provide advanced services such as broadband.

2. Survey Results for Independent Telephone Company Territories

Responses to the current survey show that the independent telephone companies as a group serve about 223,000 connections in 387 Iowa communities. It the previous survey, the number of independent connections was approximately 237,000. It does not appear that the reduction in ILEC connections was due to increased competition from CLECs. The current survey shows total CLEC connections have remained almost even since 2003.

Several explanations are possible for the reductions in ILEC connections in the service areas of the independents. First, the independents are generally located in the more rural parts of Iowa where the overall populations may be declining. Second, there may be a decline in second lines previously dedicated to dial-up Internet usage. Broadband DSL allows Internet access simultaneously with voice service on a single connection. Thus, as broadband penetration rates increase, there is less need for second lines dedicated to Internet access. Third, there may be reductions in primary lines and second lines due to the increased penetration rates of wireless services.

[66] High cost loop support provides funding for the "last mile" of connection for rural companies in service areas where the cost to provide this service exceeds 115 percent of the national average per line. See www.universalservice.org/hc/components/loop.asp.

Similar to 2003, CLEC connections in the Independent communities totaled about 1,800. However, in 2005, the number of communities with CLEC connections dropped from 31 to 16. In 2003, many of the competitive communities held 3 or fewer connections. In 2005, many of these same communities show no CLEC penetration.

Most of the 1,800 connections are due to two municipal utilities that have over-built the independent telephone networks in two communities. One of the municipals holds about a 35 percent market share, while the second municipal holds almost a 70 percent market share.

Beyond the municipals, there are only about 100 other competitive connections spread across 14 independent communities. AT&T Communications of the Midwest holds most of this market through its Digital Link non-residential service offering. AT&T does not offer residential local exchange service in the independent communities. The FCC approved SBC Communications' acquisition of AT&T in December 2005, and the extent and direction of the newly merged company's CLEC business plans in Iowa are not clear at this time. After AT&T, there are several CLECs providing connections to a handful of customers in nine communities. As was the case in 2003, as a whole, the independent telephone companies continue to provide over 99 percent of the connections in the communities they serve.

F. Municipal Telephone Utilities

1. Background

In the late 1990's, a small number of municipal utilities began providing telecommunications services in their communities. Today, there are 14 municipal providers offering telecommunications services. The municipal telecommunication providers typically compete with the incumbent telephone company by constructing new facilities within their community. The build-out of these new facilities is generally limited to the developed urban areas within the local exchange. Some of the municipal telecommunications utilities offer service to rural customers via an agreement with the incumbent telephone company. These municipals are reselling the ILEC's local telephone service to the rural customers.

Thirteen of the 14 municipal telecommunications utilities provide service in only one community and exchange, although one provides service in four different communities. The communities with a municipal telecommunications utility have a range in population from approximately 900 to more than 11,000. There is only one community with a population greater than 6,000. The remaining communities have populations of less than 6,000, with ten of these communities below 2,000 in population. These population levels are based on 2000 census data.

2. Municipal Utility Vote

There appears to be a movement for municipals to consider whether a city-owned telecommunications utility is in their best interests. Several communities voted in the November 2005 elections on whether a city-owned telecommunications utility should be formed.[67] The measure passed in 17 of the 30 communities where the issue was on the ballot. These communities ranged in population size from slightly more than 1,000 to slightly less than 70,000 with all but four less than 6,000 in population. In general, these communities are of comparable size to existing municipal telecommunications utilities. The municipal utilities will each further study and assess options of infrastructure and services needs of the particular utility in each of these communities.

3. Survey Results for Municipal Telephone Companies

In some instances the municipals have seen significant success. The municipal utility responses in the recent survey reflect significant market share penetration by many of the municipals. The previous survey showed a range of market share from less than 5 percent to almost 70 percent. The current survey shows the range to be slightly more than 25 percent to almost 70 percent. The majority of the municipals held steady or had a slight increase in market share. Those showing a significant increase are from those who had previously just entered the market. This increase appears to correspond with a direct reduction in the market share of the incumbent utility rather than other competitors' market shares, which has remained relatively constant.

There are several factors that may be contributing to the municipals' success. New facilities and the ability to offer advanced services, such as high-speed Internet access, are advantages for the municipals. Another advantage is related to the economic development interests of the community. By purchasing service from the municipal provider, residents and businesses keep dollars in their community and support the entity that brought them advanced services. Another advantage is that the municipal rate structure is slightly lower than that of the incumbent which would appeal to a certain market segment.

[67] http://www.radioiowa.com/gestalt/go.cfm?objectid=7EF159FE-1178-46AD-B1E21BE301AC8152

IV. CONCLUSIONS

The policy of the State of Iowa is that communications services should be available throughout Iowa from a variety of providers at just, reasonable, and affordable rates. Under newly enacted HF 277, the Board has the duty to deregulate local exchange markets after considering the presence or absence of the following: (1) wireless communications services, (2) cable telephony services, (3) VoIP services, and (4) economic barriers to the entry of competitors or potential competitors in that market. The current survey was conducted by the Board to evaluate competitive criteria relating to the first three conditions as well as the presence of wireline competition provided by CLECs. Economic barriers to entry by competitors is addressed in deregulation proceedings as many of the issues tend to center around the specifics of the location involved, facilities utilized for the provision of service, and the carriers providing service. The following conclusions can be drawn from this report:

- **Certain local voice markets in Iowa have sufficient competition when evaluating wireline competitive service providers. The Board has deregulated 40 of these markets since the last survey.**

In Docket Nos. INU-04-1 and INU-05-2, the Board deregulated the rates for local exchange service in 40 Iowa exchanges but retained service quality regulation after determining that local exchange service is an essential communications service. Twenty-eight of the competitive exchanges are in Iowa Telecom's territory, ten are in Qwest's territory, and two are in Frontier's territory.

- **Incumbents continue to maintain a significant portion of the market, despite incumbent connections declining steadily over the past five years.**

FCC and IUB data indicates that total ILEC connections have declined steadily since 1999. CLEC connections have increased over this period. Yet in most communities, ILECs continue to maintain the highest market shares. Several explanations are possible for the reductions in ILEC connections. First, connections in the rural areas may be declining as the overall rural populations decline. Second, there may be a decline in second lines previously dedicated to dial-up Internet usage. Broadband DSL allows Internet access simultaneously with voice service on a single connection. Thus, as broadband penetration rates increase, there is less need for second lines dedicated to Internet access. Finally, there may be reductions in primary lines and second lines due to the increased penetration rates of wireless service.

- **The response rate by wireless carriers was not sufficient to draw conclusions regarding whether additional local voice markets warrant deregulation.**

The growth of wireless subscribership has been strong. According to NANPA's NRUF data, wireless subscribership in Iowa totals about 1.7 million. Current Iowa wireline connections total somewhere between 1.6 and 1.8 million. From a local voice competition standpoint, the overarching question is to what extent wireless service is being substituted for wireline service and whether this substitution warrants the deregulation of additional local voice markets in Iowa. Because of the low response rate by the wireless industry to the survey, a conclusion cannot be drawn at this time. The Board is continuing to work with the wireless industry to determine ways to better evaluate the extent of wireless penetration in Iowa and its impact on competition.

- **Cable telephone service is poised to compete in many Iowa local voice markets. However, because the largest cable telephone company in Iowa only recently began its service rollout, there was no market share data available for this survey.**

Mediacom began its rollout of cable telephone service in the fall of 2005. The footprint of its local voice territory covers a large portion of Iowa reaching into numerous communities in Qwest's, Iowa Telecom's, Frontier's, and several independent telephone companies' service areas. Because Mediacom's service rollout occurred after the effective date for responding to the Market Monitoring Survey, no conclusions can be drawn about Mediacom's current market shares. Nevertheless, it appears that Mediacom's service rollout has the potential to significantly alter local voice market shares in numerous communities across Iowa. The Board will monitor Mediacom's progress by conducting market share "spot checks" as appropriate.

- **The emerging VoIP industry is also poised to compete in many Iowa local voice markets. However, VoIP market share data remains elusive for a number of reasons.**

There is no certification or registration requirement for VoIP providers on either the national or state level. Thus, there is no direct means of knowing who the VoIP providers are in any state. In Iowa, VoIP service is provided by partnering with a CLEC or ILEC, thus, NANPA's NRUF data is not useful for determining if or in which communities a VoIP provider offers service. Furthermore, consumers in other states can subscribe to VoIP service using Iowa telephone numbers. For the purposes of a market monitoring survey, out-of-state consumers using Iowa VoIP services would complicate the results of the survey process. Finally, only one service provider responded to the survey with connection counts for VoIP services.

- **Wireline competition in Qwest's territory.**

In the Qwest territories, the 2005 survey shows that Qwest serves almost 70 percent of the total connections in its territory, compared to almost 75 percent of the total in 2003. Qwest's market share in each individual exchange ranges from not quite 30 percent to 100 percent. Qwest maintains a market share of at least 90 percent in 47 of its 120 exchanges. Over two-thirds of those 47 exchanges are rural exchanges. In 2003, Qwest had a market share of over 90 percent in 78 of its exchanges. Since the previous survey, the Board has deregulated 10 Qwest communities in two separate dockets.

- **Wireline competition in Iowa Telecom's territory.**

Iowa Telecom has experienced a reduction in connections since the last survey. This reduction may be due to a general decrease in the rural population that comprises the majority of Iowa Telecom's service territory. It may also be due to certain new competitors, such as municipals and independent telephone companies, who have been relatively successful in garnering market share. Since the last survey, the Board has deregulated 28 of Iowa Telecom communities in two separate dockets.

Iowa Telecom, as allowed under its price plan, has reduced its rates or has not increased rates in the communities where it is experiencing significant competitive pressures. Overall, Iowa Telecom maintains a significant percentage of both the residential and business wireline market throughout its service territory.

- **Wireline competition in Frontier's Territory.**

Frontier has substantial competition in only two of its 38 reported communities. The Board deregulated both of these communities since the last survey. Overall, wireline competition in the remainder of Frontier's service territory was essentially unchanged since the 2003 survey with Frontier maintaining close to 100% of the residential and business connections.

- **Wireline competition in the independent telephone companies' territories.**

Since the previous survey, competitive wireline connections in the independent communities remained at about 1,800. Most of the 1,800 connections are attributable to two municipal utilities that have built new networks in two communities. One of the municipals holds about a 35 percent market share, while the second municipal holds almost a 70 percent market share. Beyond the areas served by municipals, there are only about 100 other competitive connections spread across 14 communities where independent telephone companies are the incumbents.

- **Wireline competition provided by municipal telephone companies.**

Since the last survey, the municipal telephone companies have retained or slightly increased their market share. New entries have been able to capture a significant market share in a relatively short time. One potential explanation for this growth is the appeal of local control and knowledge of the customer base. There is a growing grassroots effort to form additional communications utilities in the local communities. As this growth continues, the Board will monitor by conducting market share "spot checks" as appropriate.

- **Summary**

The survey shows that total ILEC market shares have declined by over 100,000 connections since the 2003 survey. Total CLEC market shares have increased by about 40,000 connections since 2003. The decline in total Iowa wireline connections (ILEC plus CLEC) is consistent with the trends in other parts of the country.

Based on NANPA's NRUF data, there appear to be over 1.7 million wireless connections in Iowa. This compares to approximately 1.3 million wireless connections at the time of the 2003 survey. Total wireline connections based on the survey and IUB annual report information, are between 1.6 and 1.8 million, thus, wireless connections appear be approaching the same level as wireline connections in Iowa.

For the most part, wireline competition exists in urban areas of Iowa and in some rural areas where facilities-based CLECs have constructed new networks. In most rural parts of the state there is little wireline competition. However, Mediacom's recent entrance into the local voice market may bring competition to additional smaller communities as well as urban areas. Mediacom's cable/voice network covers a large portion of the state.

In the future, there may be additional municipal competitors in smaller Iowa communities. In the November 2005 elections, 17 communities supported studies to determine the feasibility of constructing municipal communications utilities. Thirteen of the communities have populations of less than 6,000 people.

Lack of LNP may be a competitive barrier to market entry in rural areas of the state. Without LNP, customers would need to change their telephone numbers if they wish to change service providers. Until the LNP issue is resolved in rural parts of the state, wireline competitors may be hesitant to initiate service. Additionally, interconnection agreements may not be available for competitors to adopt in rural parts of the state. Without agreements to adopt, competitors must negotiate new agreements. If negotiations break down, competitors may be forced into the arbitration process, further delaying market entry.

As new technologies emerge, the Board may require new tools to assess competition. HF 277 charges the Board with deregulating markets by assessing competition from cable telephone services, wireless services, and VoIP services. The 2005 survey shows that as alternatives become more dissimilar to traditional wireline service, it becomes more difficult to accurately assess competition.

Determining the impact of cable telephone competition remains fairly straightforward. But assessing wireless competition is less straightforward for a number of reasons. Wireless carriers are reluctant to participate in the surveys because they do not fall directly under the Board's jurisdiction. But more importantly, for most consumers wireless service is one component of an overall package of telecommunications services – not a strict replacement for wireline service. Assessing VoIP encompasses all the problems of assessing wireless service but with additional complications. VoIP providers typically obtain telephone numbers from other carriers, so there is no direct means for the Board to track when VoIP providers initiate service in Iowa. Further complicating a competitive assessment of VoIP is that Iowa phone numbers are often assigned to consumers outside of Iowa. There may also be numerous Iowa consumers subscribed to VoIP services using non-Iowa telephone numbers. The Board will continue to evaluate the impact of these services on competition in Iowa.

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Iowa Utilities Board
Second Statewide
Telecommunications Competition Survey
for Retail Local Voice Services

ATTACHMENT A

STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: TELECOMMUNICATIONS MARKET MONITORING SURVEY FOR LOCAL VOICE SERVICES IN IOWA	DOCKET NO. NOI-05-3

ORDER INITIATING INQUIRY AND GRANTING CONFIDENTIALITY

(Issued September 21, 2005)

BACKGROUND

On May 7, 2004, the Utilities Board (Board) initiated a deregulation proceeding on its own motion, pursuant to Iowa Code § 476.1D (2003) and 199 IAC 5.3(1) (2003), identified as Docket No. INU-04-1, to consider whether local exchange service to business customers in 21 specific Iowa communities was subject to effective competition and should be deregulated.

On December 23, 2004, the Board issued its "Final Decision and Order" in that proceeding and determined that effective competition was present in 20 of the 21 identified communities. Accordingly, the Board deregulated residential and business

local exchange services in those markets. Also as part of the December 23, 2004, order, the Board retained service quality regulation over all telecommunications service providers in those communities pursuant to Iowa Code § 476.1D(5) and noted that it would continue to monitor the markets identified in the December 23, 2004, order through the use of competition surveys. On March 15, 2005, Governor Vilsack signed into law an act, identified as House File 277 (HF 277), which amended Iowa Code §§ 476.1D and 476.55. The amended statute deregulates retail rates for most local exchange communications services in Iowa except for single line flat-rated residential and business rates. Rates for these services are initially set at the corresponding rates charged by each rate-regulated utility as of January 31, 2005. These monthly rates may be increased by up to $1 per year for residential service, or $2 per year for business service, beginning July 1, 2005, until June 30, 2008. Effective July 1, 2008, the retail rate jurisdiction of the Board shall not be applicable to any local exchange service unless the Board elects to extend its jurisdiction over single line flat-rate services, if such an action is necessary for the public interest.

NOTICE OF INQUIRY

The Board is initiating this inquiry for two purposes: first, to collect data from local telecommunications service providers in Iowa and, second, to receive public comment concerning other market monitoring measures.

1. Local Exchange Surveys

Data collection will be conducted through the use of two separate survey instruments; one will be sent to all local voice service providers in Iowa, while the second will be sent only to price regulated local carriers.

The survey that will be sent to all local service providers, identified as the "2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services," will be used to obtain an overview of the status of local exchange competition in Iowa. The survey will be sent to all local service providers as well as to companies that utilize wireline, wireless, cable telephony, and VoIP for the provision of service. A copy of this survey is attached to this order.

The survey that will be sent to all price regulated carriers, identified as "2005 Single Line Flat-Rated Retail Residential and Business Retail Connection Count Survey for Price Regulated Companies," will be used to obtain a count of the number of connections being used to provide local single line flat-rated residential and business service connections. A copy of this survey is also attached to this order.

The Board directs that each company receiving a copy of this order shall complete the appropriate survey using data obtained as of July 1, 2005, and return it to Board staff on or before October 17, 2005. Electronic versions of the surveys should be sent to IUBSurveys@iub.state.ia.us. Questions regarding the surveys may be directed to Larry Stevens as the Inquiry Manager for this docket at (515) 281-4725, e-mail larry.stevens@iub.state.ia.us.

2. Other Market Monitor Measures

The Board intends to monitor the competitive status of local exchange service in Iowa through a variety of means, in addition to the surveys initiated by this order. This information will be helpful in determining whether to extend price regulation in 2008. It will also help to ensure that the markets are, and continue to be, subject to effective competition. The Board is seeking public comment concerning the best way to fulfill this task. This includes comments on the market monitoring measures the Board is proposing to initiate and comments on additional steps the Board should consider.

First, the Board will conduct periodic spot checks of the status of telecommunications competition in selected exchanges. Initially, the exchanges will be selected to obtain a representative sample of various market conditions. The Board will review retail prices and advertising efforts in order to obtain the customer's view of the market. Thus, the Board does not expect it will have to obtain information by means of frequent surveys or other requests directed to the companies involved. Instead, the focus will be on Web sites and other advertising from each of the competitors, including wireless service providers that actually provide service in the exchange.

Second, the Board will monitor competition through formal and informal complaints it receives, including customer complaints and complaints between competitors. If the Board receives numerous, serious, or well-substantiated

complaints regarding a particular company or concerning a single market, it may be appropriate for the Board to initiate its own investigation. Because these complaints may take many forms, it is difficult for the Board to describe all of the possible courses of action at this time, but the Board is interested in comments concerning this option.

Third, the Board will monitor competition through a fifth broadband survey data collection effort. The information obtained through this effort can provide an indication as to the availability of high-speed Internet access throughout Iowa and identify broadband service providers that have the capability of providing VoIP services.

In addition, the Board is interested in receiving public comment concerning other activities or actions the Board should consider as part of its monitoring efforts.

Once the Board has reviewed the initial comments, it will determine if additional questions need to be addressed and in what format. Comments shall be filed with the Board on or before November 7, 2005. Questions about the docket should be addressed to Mr. Stevens, (515) 281-4725, e-mail larry.stevens@iub.state.ia.us.

CONFIDENTIAL TREATMENT

In this proceeding, the Board requests survey responses from all local voice service providers in Iowa. These responses will include information that many carriers consider to be trade secrets or otherwise entitled to confidential treatment.

Therefore, the Board will grant confidential treatment for the individual company information submitted in the updated survey responses pursuant to Iowa Code §§ 22.7(3) and 22.7(6).

Iowa Code § 22.7(3) provides confidential treatment for trade secrets, which are recognized and protected as such by law. The material requested of the carriers includes specific line count information. The Board finds that line count information constitutes a trade secret under Iowa Code § 550.2(4) as it derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, by a person able to obtain economic value from its disclosure. The Board finds that this information, if released, would provide an advantage to competitors.

Iowa Code § 22.7(6) provides confidential treatment to public records that are reports to government agencies and which, if released, would give advantage to competitors and serve no public purpose. The Board finds that the responses to the updated survey constitute a report to a government agency and the Board finds that the release of the information would serve no public purpose.

At this time, the Board anticipates that orders or reports issued in this docket will not discuss or include individual company confidential information. However, they may include aggregated information and other information in a format such that it will not be possible to reconstruct company-specific confidential information with any degree of precision. However, it is too early to predict the requirement of the

orders or reports at this time, and the Board therefore expressly reserves the right to use any of this information in its orders or reports, if necessary. Before doing so, the Board will give the affected company or companies notice pursuant to 199 IAC 1.9.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. An inquiry identified as Docket No. NOI-05-3 is initiated relating to market monitoring for local telecommunications services in Iowa.

2. Responses to the surveys described in this order are to be filed with the Board on or before October 17, 2005.

3. Comments from interested parties regarding the market monitoring strategies raised in this docket are to be filed with the Board on or before November 7, 2005.

4. The information contained in the survey responses shall be held confidential by the Board subject to the provisions of 199 IAC 1.9(8)"b"(3).

UTILITIES BOARD

/s/ John R. Norris

/s/ Diane Munns

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 21st day of September, 2005.

Iowa Utilities Board
2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services
Docket No. NOI-05-3
Survey Instructions and Guidelines

This survey only addresses retail local voice services being provided to consumers within the state of Iowa. This survey instrument is divided into two sections. Part I requests a physical count on the number of customer connections or functional equivalent facilities for which a service provider is billing consumers for retail local voice service. Part II requests information on the recurring monthly pricing of the retail local voice services offered to consumers. All requested information is as of **July 1, 2005**. Listed below are a few definitions to help define the scope of this survey.

"Local service" means telephone service furnished between customers or users located within an exchange or service area.

"Exchange area" or "service area" means the general area in which the telephone utility holds itself out to furnish local telephone service.

For the purpose of this survey, Retail Local Voice Service Connections or the functional equivalent facilities are revenue producing and provide voice grade access to the public switched network. The connections also utilize telephone numbers included in Numbering Plan Areas (NPAs) assigned to Iowa and monitored by the North American Numbering Plan Administrator (NANPA).

PART I: Customer Connections

The purpose of this portion of the survey is to obtain actual counts of the number of retail local voice service connections being furnished by each service provider to end users or customers in the various communities of Iowa. Many different types of facilities and technologies are being used within the state to provide retail local voice services. Count customer connections based on how customers are billed rather than how services are provisioned. **See the Example on Page 3.**

Column ------ Column Description ---------- Explanation

(a) Community Name – Community Name

(Note: Wireless and VoIP providers may need to use the customer billing addresses to determine the community name.)

(b) Exchange Name or Service Area – General area or location where the service provider holds itself out to furnish retail local voice service.

(c) Service Provider Type – Incumbent or Competitor

(d) How the Service is Provisioned:

F = Service provided using facilities owned by the service provider.

U = Service provided using leased or purchased UNEs, QPPs, or similar types of leased network elements.

R = Service provided through the use of resold services (resale).

C = Service provided by using any combination of owned facilities, resale, and/or leased network elements.

If service is being provisioned by two or more methods, please provide the count of the number of connections for each method in column (f).

(e) NPA-NXX – Each number plan area-NXX as utilized in the provision of retail local voice service.

(f) Number of Retail Local Service Connections or Functional Equivalent for Each NPA-NXX – This is the numerical count of the quantity of retail local voice connections provided to end users. Please provide counts of the number of connections provided through the use of each method of service provisioning (F,U,R, & C) as identified in column (d) and, if possible, identify the service being provided as being residential (RES) or business (BUS). If offered services are not distinguished as either residential or business, enter the counts in the combination (COMB) column. **See example below.**

PART I: Customer Connections – Example

Community Name (a)	**Exchange Name or Service Area (b)**	**Service Provider Type: I=Incumbent C=Competitor (c)**	**How the Service is Provisioned: F = Facilities Based U = UNEs R = Resale C = Combination (d)**	**NPA-NXX (e)**	**Number of Local Voice Service Connections or Functional Equivalents for Each NPA-NXX (f)**		
					RES	**BUS**	**COMB**
Example City	Example City	C	F	563-852	25	32	
			U	563-852	10	2	
			R	563-852	22	40	
			C	563-852	10	15	

PART II: Pricing Information

The purpose of this portion of the survey is to obtain pricing information on the most popular retail local voice service offerings. Local service providers often provide numerous calling plans for consumers and local service plans vary by service provider. Please list your top three business and residential plans with the percentage of customers utilizing each service.

Column ------ Column Description ---------- Explanation

(g) Top Three Services or Plans for Both Residential and Business Local Voice Services - Common name of the most popular local voice services or local voice service plans as sold by the service provider. Identify if each service or plan is offered to residential, business, or all customer classes.

(h) Percentage of Customers Utilizing Each Service or Service Plan - Percentage of customers utilizing each service plan as listed in column (g).

(i) Monthly Rate – Recurring monthly dollar amount for the service being provided.

(j) Recurring Monthly End User Charges – Charges added to the consumer billing as part of the charges for receiving service (Example - subscriber line charge).

(k) Other Monthly Recurring Charges – Charges that are added to the end users bill that are not usually considered to be part of the rates for recovering the costs associated with the service. These charges could include assessments for 911/E911, property tax surcharges, number portability charges, or local fees, taxes, and surcharges. **Do not include federal universal service charges, state taxes, or federal taxes**. Please identify each charge.

(l) Service or Service Plan Details – Briefly describe the service and the components of each plan. Explanations could include: residential single line service, business multi-line service, includes custom calling features, regional calls included, 500-minute plan with 120 minutes of 7 AM to 7 PM usage, etc.

Other Information:
Should you have questions concerning this survey or desire to have an electronic copy, visit our Web site at www.state.ia.us/iub/ . You may also contact Larry Stevens at (515) 281-4725 or at larry.stevens@iub.state.ia.us. Survey forms are to be completed and returned on or before **October 17, 2005**. Completed forms should be sent to: Executive Secretary, Iowa Utilities Board, 350 Maple Street, Des Moines, IA 50319-0069. Those wishing to send e-mails with electronic versions of the surveys attached should send them to IUBSurveys@iub.state.ia.us.

CONFIDENTIAL

Iowa Utilities Board
2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services
Docket No. NOI-05-3
Data as of July 1, 2005

Company Name _____ Address _____

Contact Person _____ Telephone _____ Fax _____

E-Mail _____

1.) Does your company currently provide retail local voice telecommunications services in the State of Iowa?

Yes ☐ No ☐

2.) If yes, what type of service provider:

ILEC ☐ CLEC ☐ Cable ☐ Wireless ☐ VoIP ☐ Other ☐ Explain: _____

3.) Please use the worksheet formats in the following two pages to provide information on the communities and locations in Iowa where you provide retail local voice services. Create additional pages as needed to complete this survey.

PART I: Customer Connections

Community Name (a)	Exchange Name or Service Area (b)	Service Provider Type: I=Incumbent C=Competitor (c)	How the Service is Provisioned: F = Facilities Based U = UNEs R = Resale C = Combination (d)	NPA-NXX (e)	Number of Local Voice Service Connections or Functional Equivalents for Each NPA-NXX (f)		
					RES	BUS	COMB

CONFIDENTIAL

Iowa Utilities Board
2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services
Docket No. NOI-05-3
Data as of July 1, 2005

PART I: Customer Connections (continued)

Company Name _____

Community Name (a)	Exchange Name or Service Area (b)	Service Provider Type: I=Incumbent C=Competitor (c)	How the Service is Provisioned: F = Facilities Based U = UNEs R = Resale C = Combination (d)	NPA-NXX (e)	Number of Local Voice Service Connections or Functional Equivalents for Each NPA-NXX (f)		
					RES	BUS	COMB

CONFIDENTIAL

Iowa Utilities Board
2005 Telecommunications Market Monitoring Survey for Retail Local Voice Services
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PART II: Service Rates

Company Name _____

Top Three Services or Plans for Both Residential and Business Local Voice Services (Identify if each service or plan is offered to residential, business, or all customer classes) (g)	Percentage of Customers Utilizing Each Service or Service Plan (h)	Monthly Rate $.$$ (i)	Recurring Monthly End User Charges $.$$ (j)	Other Monthly Recurring Charges – Identify Each $.$$ (k)	Service or Service Plan Details (l)

CONFIDENTIAL

Note: This data request is only for Frontier Communications, Iowa Telecommunications, and Qwest

Iowa Utilities Board
2005 Single Line Flat-Rated Residential and Business Retail Connection Count Survey for Price Regulated Companies
Docket No. NOI-05-3
Data as of July 1, 2005

Company Name _____ Address _____

Contact Person _____ Telephone _____ Fax _____

E-Mail _____

1) Provide the number of single line flat-rated residential and business retail connection counts by community and NPA-NXX as shown in the following table.

Community Name	NPA-NXX	Number of Local Voice Service Single Line Flat-rated Connections for Each NPA-NXX	
		RES	BUS

2) Provide a chronological listing of rates and rate changes, if any, for single line flat-rated residential and business retail service beginning July 1, 2004, through September 1, 2005.

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ATTACHMENT B

SERVICE PROVIDERS RESPONDING TO THE SURVEY

Wireless

Alltel – Western Wireless
CellCom
Dynamic Broadband
Iowa RSA 10 General Partnership
Iowa RSA 2 Limited Partnership
Iowa RSA 7
Iowa Wireless Services L.P.
Great Lakes of Iowa Inc.
Mill Valley Wireless
Modern Communications
Northwest Missouri Cellular Limited Partnership
NPCR, Inc. (Nextel Partners)
Prairie iNet
Qwest Wireless
RSA 1 Limited Partnerhip
Siebring Electric Company
Sprint Spectrum, L.P. d/b/a Sprint PCS and Nextel West Corp. d/b/a Nextel
Starcom Inc.
Swiftel Communications - Selling Sprint
TracFone Wireless, Inc.

CLECs

1-800-RECONEX, Inc. d/b/a USTel
Acceris Management and Acquisition LLC d/b/a Acceris Communications Corp.
ACN Communication Services, Inc.
Advanced Integrated Technologies Inc.
Advanced Network Communications, L.L.C.

CLECs (cont.)

Algona Municipal Utilities
AllTel Communications of the Midwest, Inc.
Alta Municipal Utilities
Alternate Communications Technology, Inc.
American Telco of Iowa
AmeriVision Communications, Inc.
Ascendtel, LLC
AT&T Communications of the Midwest, Inc.
Avera Communication, L.L.C.
BG Enterprises, Inc.
BT Communications Sales LLC
BTC, Inc.
Budget Phone, Inc.
BullsEye Telecom, Inc.
CAT Communications International, Inc. d/b/a CCI
Cedar Communications, L.L.C.
Cedar Valley Telecommunications, Inc.
CenturyTel Long Distance, LLC
Choicetel Communications LLC
CI2 Inc
City of Hawarden d/b/a HITEC
Comm South Companies, Inc.
CommChoice of Iowa, LLC
Connect America Communications, Inc.
Consolidated Communications Network Services, Inc.
Consolidated Communications Operator Services, Inc.
Consolidated Communications Public Services, Inc.
Consolidated Telecom, Inc.
Coon Creek Telecommunications Corp
Coon Rapids Municipal Communications Utility
Corn Belt Communications, Inc.
Cox Iowa Telcom, LLC Inc.
Crystal Communications, Inc. d/b/a HickoryTech
CS Technologies, Inc.
Custom Teleconnect, Inc.

CLECs (cont.)

Digital Telecommunications, Inc.
DPI Teleconnect, L.L.C.
Ernest Communications, Inc.
Evercom Systems, Inc.
Excel Telecommunications, Inc.
Fast Phones of Nebraska, Corp.
FiberComm Communications
France Telecom Corporate Solutions L.L.C.
Frontier Communications of America, Inc.
Geneseo Communications Services, Inc.
Global Tel*Link Corporation
Goldfield Access Network, L.C.
Granite Telecommunications, LLC
Great Lakes Communications Corporation - GLCC
Grundy Center Communications Utilities
Guthrie Telecommunications Network, Inc.
Harlan Municipal Utilities
Houlton Enterprises, Inc. d/b/a Guaranteed Phone Service
iloka, Inc. d/b/a Microtech-tel
Independent Networks, L.C.
Inmate Calling Solutions, LLC
Inmate Communications Corp.
Intellicall Operator Services, Inc.
Ionex Communications North, Inc.
Iowa Telecom Communications, Inc.
ITI Inmate Telephone, Inc.
Jaguar Communications, Inc.
KMC Data, LLC
KMC Telecom V, Inc.
Laurens Municipal Broadband Communications Utility
Lightyear Network Solutions, LLC
Local Telephone Data Service Corporation
Long Lines Metro, Inc.
Louisa Communications, L.C.
Mahaska Communication Group, LLC

CLECs (cont.)

Mapleton Communications
MCC Telephony of Iowa, Inc.
McData Services Corporation f/k/a Computer Network Technology
MCImetro Access Transmission Services, LLC
McLeodUSA Telecommunications Services, Inc.
Network Communication International Corp.
Network Operator Services, Inc.
Network PTS, Inc.
New Access Communications LLC
New Edge Network, Inc.
New Rochelle Telephone Corp.
North West Rural Electric Cooperative
NOS Communications, Inc.
OCMC, Inc.
OmniTel Communications
Operator Service Company, LLC
Orange City Communications, L.L.P.
OrbitCom, Inc.
Osage Municipal Communications Utility
Pay Phone Concepts Inc.
Payphones Unlimited, Inc.
Phone 1, Inc.
PhoneTel Technologies, Inc.
PrairieWave Telecommunications, Inc.
Preferred Carrier Services, Inc.
Primus Telecommunications, Inc.
Public Communications Services, Inc.
QuantumShift Communications, Inc. f/k/a MVX.Com
Reinbeck Municipal Telecommunications Utility
Reliant Communications, Inc.
SBC Long Distance, LLC
SNG Communications, L.L.C.
Spencer Municipal Communications Utility
Sprint Communications Company, L.P.
Starwest Inc.

CLECs (cont.)

The Community Agency
Transworld Network, Corp.
Trinsic Communications, Inc.
TRX, Inc.
Twin Rivers Valley Telephone Company
UCN, Inc.
United States Advanced Network, Inc.
United Western Coop
Value-Added Communications, Inc.
VarTec Telecom, Inc.
VCI Company
Vycera Communications, Inc.
WilTel Local Network, LLC & WilTel Local Network, LLC
XO Communications Services, Inc.
YMax Communications Corp.

LECs

Ace Telephone Association
Alliance Communications Cooperative
Alltel Nebraska, Inc. d/b/a ALLTEL
Alpine Communications L.C.
Andrew Telephone Company, Inc.
Arcadia Telephone Cooperative
Atkins Telephone Company, Inc.
Ayrshire Farmers Mutual Telephone Company
Baldwin Nashville Telephone Company
Barnes City Coop. Telephone Company
Blue Earth Valley Telephone Company
Breda Telephone Corporation
Brooklyn Mutual Telecommunications Cooperative
Butler Bremer Mutual Telephone Company
Cannon Valley Telecom, Inc.
Cascade Communications Company
Casey Mutual Telephone Company
Center Junction Telephone Company
Central Scott Telephone Company

LECs (cont.)

CenturyTel of Chester, Inc.
CenturyTel of Postville, Inc.
Citizens Mutual Telephone Cooperative
Citizens Telecommunications Company of Minnesota
Clarence Telephone Company, Inc.
Clarksville Telephone Company
Clear Lake Independent Telephone Company
C-M-L Telephone Coop. Association
Colo Telephone Company
Communications 1 Network, Inc.
Coon Creek Telephone Company
Cooperative Telephone Company
Cooperative Telephone Exchange
Corn Belt Telephone Company, Inc.
Cumberland Telephone Company
Danville Mutual Telephone Company
Dixon Telephone Company
Dumont Telephone Company
Dunkerton Telephone Coop.
East Buchanan Telephone Coop.
Ellsworth Cooperative Telephone Association
Farmers & Merchants Mutual Telephone Co.
Farmers' and Business Mens' Telephone Company
Farmers Cooperative Telephone Company
Farmers Mutual Cooperative Telephone Company
Farmers Mutual Cooperative Telephone Company
Farmers Mutual Telephone Company
Farmers Mutual Telephone Company - Nora Springs
Farmers Mutual Telephone Company of Stanton
Farmers Mutual Telephone Cooperative
Farmers Telephone Company
Farmers Telephone Company - Essex
Farmers Telephone Company - Nora Springs
Fenton Coop. Telephone Company
Frontier Communications of Iowa, Inc.

LECs (cont.)

Goldfield Telephone Company
Grand Mound Cooperative Telephone Association
Grand River Mutual Telephone Corp.
Griswold Cooperative Telephone Co.
Harmony Telephone Company
Hawkeye Telephone Company
Heart of Iowa Communications Cooperative
Heartland Telecommunications Company of Iowa
Hills Telephone Company, Inc.
Hospers Telephone Company
Hubbard Cooperative Telephone Association
Huxley Communications Cooperative
IAMO Telephone Company
Interstate 35 Telephone Company, Inc.
Iowa Telecommunications Services, Inc.
Jefferson Telephone Company
Jordan Soldier Valley Coop. Telephone Co.
Kalona Cooperative Telephone Company
Keystone Farmers Coop. Telephone Company
Killduff Telephone Company
La Motte Telephone Company, Inc.
La Porte City Telephone Company
Laurel Telephone Company, Inc.
Lehigh Valley Coop. Telephone Association
Lost Nation Elwood Telephone Company
Lynnville Telephone Company
Mabel Cooperative Telephone Company
Marne & Elk Horn Telephone Company
Massena Telephone Company Inc.
Mechanicsville Telephone Company
Mediapolis Telephone Company
Miles Cooperative Telephone Association
Miller Telephone Company
Minburn Telecommunications, Inc.
Minburn Telephone Company

LECs (cont.)

Minerva Valley Telephone Company, Inc.
Modern Cooperative Telephone Company
Montezuma Mutual Telephone Company
Mutual Telephone Company
Mutual Telephone Company of Morning Sun
North English Cooperative Telephone Co.
Northeast Iowa Telephone Company
Northern Iowa Telephone Company
Northwest Iowa Telephone Company, Inc.
Northwest Telephone Coop. Association
Ogden Telephone Company
Olin Telephone Company, Inc.
Onslow Coop. Telephone Association
Oran Mutual Telephone Company
Palmer Mutual Telephone Company
Palo Cooperative Telephone Assn.
Panora Communications Cooperative
Partner Communications Cooperative
Peoples Telephone Company
Prairie Telephone Company, Inc.
Prairieburg Telephone Company, Inc.
Preston Telephone Company
Qwest Corporation
Radcliffe Telephone Company
Readlyn Telephone Company
Ringsted Telephone Company
River Valley Telecommunications Cooperative
Rockwell Cooperative Telephone Association
Royal Telephone Company
Ruthven Telephone Exchange Company
Sac County Mutual Telephone Company
Schaller Telephone Company
Scranton Telephone Company
Searsboro Telephone Company
Sharon Telephone Company

LECs (cont.)

Shell Rock Telephone Company
South Central Communications, Inc.
South Slope Cooperative Telephone Company, Inc.
Southwest Telephone Exchange, Inc.
Spring Grove Cooperative Telephone Company
Springville Cooperative Telephone Association, Inc.
Stratford Mutual Telephone Company
Sully Telephone Association
Superior Telephone Co-op.
Swisher Telephone Company
Templeton Telephone Company
Terril Telephone Company
Titonka-Burt Communications
United Farmers Telephone Company
Universal Communications of Allison, Inc.
Van Buren Telephone Company, Inc.
Van Horne Cooperative Telephone Company
Ventura Telephone Company, Inc.
Villisca Farmers Telephone Company
Walnut Telephone Company
Webb-Dickens Telephone Corp.
Webster Calhoun Cooperative Telephone Assn.
Wellman Cooperative Telephone Association
West Liberty Telephone Co.
WesTel Systems (West Iowa Tel)
Western Iowa Telephone Association
Westside Independent Telephone Company
Winnebago Cooperative Telephone Association
Woolstock Mutual Telephone Assn.
WTC Communications, Inc.
Wyoming Mutual Telephone Company

Cable

Bellevue Municipal Cable
Buford Media Group, LLC

Cable (cont.)

Cable ONE
Cedar Falls Municipal Communications
Comserv Ltd
Farnhamville Cable TV
Goldfield Communications Services Corp.
Gowrie Cablevision, Inc.
Independence Light & Power, Telecommunications
Inter County Cable Company
Interstate Cablevision Inc.
LN Satellite Comm. Co.
Lost Island Cable TV Company
Milford Cable TV, Inc.
Muscatine Power & Water
Northland Communications
PEC Cable
Premier Communications
Tele-Services, Ltd.
Ter Tel Enterprises, Inc.
Vernon Communcations

VoIP

Iowa Network Services, Inc.
Level 3 Communications, LLC
Qwest Communications Corporation

Broadband

Golden Corridor Communications Company
Oneota Net, Inc.

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ATTACHMENT C

NON-RESPONDERS – NO SURVEY INFORMATION RECEIVED

Wireless

AiroLink Communications, Inc.
AT&T Wireless
Local Link USA
Midwest Wireless Iowa LLC
New Cingular Wireless PCS LLC
U S Cellular Corp.
Verizon Wireless[68]
Virgin Mobile Telecoms Ltd
VoiceStream PCS I LLC, d/b/a T-Mobile

CLECs

Buehner-Fry, Inc. d/b/a Resort Operator Services and d/b/a Directdial USA
AOS Provider

CommPartners, LLC
Per Tariffs filed with IUB – Provides residential and business voice services in Qwest and Frontier exchanges.

Gerlach Communications Holding Group Inc.
AOS Provider

International Tele-Services, Inc.
AOS Provider

I-Rule.net – *No Certificate Issued.*

Lighthouse Communications d/b/a LH Telecom
Per Tariffs filed with IUB – Provides residential and business voice services in Ankeny, Des Moines, Indianola, Grimes, Cedar Rapids, Davenport, and Council Bluffs.

[68] Verizon Wireless controls and/or manages the following partnerships and entities in Iowa: Cellular Inc. Network Corporation, CommNet Cellular License Holding LLC, Des Moines MSA General Partnership, Dubuque MSA Limited Partnership, GTE Wireless of the Midwest Incorporated, Iowa 8-Monona Limited Partnership, Iowa RSA 5 Limited Partnership, Iowa RSA No. 2 Limited Partnership, Iowa RSA No. 4 Limited Partnership, Iowa RSA No. 10 General Partnership, Omaha Cellular Telephone Company, Iowa RSA No. 7 LP, Sioux City MSA Limited Partnership, Southwestco Wireless L.P., Verizon Wireless (VAW) LLC, and Waterloo MSA Limited Partnership,.

CLECs (cont.)

Manning Municipal Communication & Television System Utilities
Per Tariffs filed with IUB – Provides residential and business voice services in Manning.
Nations Broadand, Inc.
AOS Provider
Nexgen Integrated Communications, L.L.C.
Per Tariffs filed with IUB – Provides residential and business voice services in Des Moines.
Northstar Telecom, Inc. – *No Certificate Issued.*
Pacific Centrex Services, Inc. – *No Certificate Issued.*
Preferred Long Distance, Inc.
Per Tariffs filed with IUB – Provides residential and business voice services in Qwest exchanges.
Talk America Inc.
Per Tariffs filed with IUB – Provides residential and business voice services in Qwest exchanges.
Telespan Communications, Inc.
AOS Provider
Telrite Corporation (Filed Tariff – May 21, 2005)
Per Tariffs filed with IUB – Provides residential and business voice services in Qwest exchanges.
T-NETIX Telecommunications Services, Inc.
AOS Provider
Universal Access, Inc.
Per Tariffs filed with IUB – Provides residential and business voice services in Qwest exchanges.
Woolstock Fiber Company – *No Certificate Issued.*

LECs

Bernard Telephone Company, Inc.
Per Tariffs filed with IUB – Provides residential and business voice services in Bernard.
Coon Valley Cooperative Telephone Assn., Inc.
Per Tariffs filed with IUB – Provides residential and business voice services in Menlo, Casey, Guthrie Center, Stuart, Nevinville, Greenfield, Prescott, and Orient.
Lone Rock Cooperative Telephone Company
Per Tariffs filed with IUB – Provides residential and business voice services in Lone Rock, Fenton, and Burt.
Martelle Coop. Telephone Assn.
Per Tariffs filed with IUB – Provides residential and business voice services in Martelle, Anamosa, Morley, Springville, and Cedar Rapids.
Sprint Missouri, Inc. – *No Certificate Issued.*

Cable

Larrabee Municipal Utilities