DOCKET FILE COPY ORIGINAL

ORIGINAL

RECEIVED

MAY - 9 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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

In the Matter of	)	
	)	
Price Cap Performance	)	CC Docket No. 94-1
for Local Exchange Carriers	)	

COMMENTS
of
SPRINT CORPORATION

Jay C. Keithley
Leon M. Kestenbaum
H. Richard Juhnke
Norina T. Moy
1850 M Street, N.W., 11th Fl.
Washington, D.C. 20036
(202) 857-1030

W. Richard Morris
P.O. Box 11315
Kansas City, MO 64112
(913) 624-3096

May 9, 1994

No. of Copies rec'd 0+7
List ABCDE

TABLE OF CONTENTS

SUMMARY.....ii

I. UNITED'S PERFORMANCE UNDER PRICE CAPS HAS BEEN GOOD.....2

II. THE BASELINE LEC PRICE CAP PLAN CAN BE FURTHER IMPROVED.....5

A. INFRASTRUCTURE DEVELOPMENT.....5

B. UNIVERSAL SERVICE.....6

C. RULES RELATING TO BASKETS AND BANDS.....7

D. CHANGES IN PRODUCTIVITY FACTORS.....11

E. EARNINGS RESTRAINTS AND LOW-END ADJUSTMENT MECHANISMS.....13

F. COMMON LINE FORMULA.....15

G. EXOGENOUS COST CHANGES.....17

H. SERVICE QUALITY, INFRASTRUCTURE MONITORING AND NETWORK RELIABILITY.....20

I. NEW SERVICES ISSUES.....20

J. EQUALIZATION OF REGULATIONS FOR LECS AND CAPS....22

K. RELATIONSHIP TO OTHER PROCEEDINGS.....23

III. TRANSITIONAL ISSUES: IT IS PREMATURE TO ADOPT DEFINITIVE BENCHMARKS AND RULES RELATING TO LOCAL EXCHANGE ACCESS COMPETITION.....24

IV. CONCLUSION.....28

ATTACHMENT 1

SUMMARY

The LECs regulated under the current price caps mechanism have generally performed well during the initial price caps review period. However, Sprint believes that price cap incentives can be improved by removing both the earnings cap that currently restrains LEC profits and the low-end adjustment mechanism. This further move toward pure price cap regulation will provide additional incentives to LECs to enhance productivity and add infrastructure investment. In addition, the Commission should modify its price cap treatment of density zone pricing to allow rates in each zone to reflect underlying costs, and expand density zone pricing to include local switching.

The productivity factor is closely related to other issues in this proceeding. Sprint recommends an increase in the productivity factor as a quid pro quo for the elimination of sharing. On the other hand, if the Commission modifies the "balanced 50/50" common line formula so that LECs do not receive 50 percent of the growth in common line minutes, or a one-time reduction in price cap indices is mandated, then the productivity factor should be reduced appropriately to reflect any of these changes.

The interexchange basket of services should be removed from existing price cap regulation and subjected to pure price caps regulation during the next evaluation period. No

automatic pricing adjustments should be made to this basket. Because interexchange services are sold primarily to end users, they are materially different than access services (which are primarily sold to carriers) and thus a different treatment under price caps is justified.

Sprint recommends that the Commission consider requests for exogenous treatment on a case-by-case basis.

As for the transitional issues raised in the NPRM, local exchange access competition is, in reality, quite limited. Very little of the access sold to IXCs is provided by competitive access providers. Until effective and meaningful local exchange access competition develops, and it is known what form such competition takes, it is premature to develop transition plans for further relaxing the regulation of local exchange access services. Instead, the LEC price cap rules should be reviewed periodically to determine whether further changes are warranted. Sprint recommends a five-year review period.

RECEIVED

MAY - 9 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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

In the Matter of	)	
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	

COMMENTS

Sprint Corporation ("Sprint"), on behalf of Sprint Communications Company, L.P. and the United and Central Telephone Companies ("United"), hereby respectfully submits its comments on LEC price cap performance review pursuant to the Notice of Proposed Rulemaking ("NPRM") released February 16, 1994 (FCC 94-10).

In the NPRM, the Commission requested comment on whether the price cap plan for local exchange carriers "should be revised to better serve the goals of the Communications Act and the public interest in the years ahead" (¶4). As discussed below, Sprint believes that LEC price cap regulation generates substantial public benefits, but, based upon three years' experience with such regulation, that LEC price caps can be revised to provide even greater incentives to LECs to improve their productivity and infrastructure. The revisions suggested by Sprint are warranted by current information and conditions, and can be implemented by January 1, 1995. With respect to the transitional issues raised by the NPRM, local exchange access competition has not yet developed to the point that the Commission can now decide how and under what

circumstances to further relax its regulation of the LECs. Sprint addresses seriatim the questions posed in the NPRM.

I. UNITED'S PERFORMANCE UNDER PRICE CAPS HAS BEEN GOOD.

As the Commission pointed out (¶¶25-30), LEC performance under price cap regulation generally has been good, which is also true overall for the United local telephone companies: their financial, operational, service and investment results have been good over the past 3 years, and usually show improvement over results achieved under rate of return regulation.[1] United has achieved these results primarily through productivity increases from consolidation of functions, deployment of new systems and technology, and significant downsizing of the workforce related to these activities.[2]

---

[1] Price cap performance results discussed herein are for the United telephone companies only, because the Centel telephone companies did not become subject to price cap regulation until July 1993.

[2] As a result of these efforts, United has eliminated seven headquarters groups. United's price cap performance reflects the continuing benefits of bringing the Texas operations of United into its Midwest Group and combining the management of United's Ohio and Indiana operations at the Mansfield, Ohio-based United North Central headquarters. These actions removed two headquarters groups. While these actions took place before price caps, the benefits of this downsizing and consolidation were primarily reaped during the period of price cap regulation.

The United and Central Telephone companies were also combined for management purposes during the price caps regulation period. Further, management of United Telephone Southeast, Inc. and United Telephone of the Carolinas was consolidated at United MidAtlantic where Carolina Telephone and Central Telephone Company's North Carolina operations and Central Telephone of Virginia are also managed. Central Telephone Company of Florida is now managed by United Telephone of Florida and Central Telephone of Texas is now

Footnote continued on next page

Through year-end 1995, these changes, combined with those related to technological change, are expected to produce workforce reductions of nearly 2,400 employees, approximately a 7.5% reduction. While productivity increases from consolidation have a continuing impact, they are limited and additional reductions cannot be expected to continue at this level ad infinitum. Centralization and consolidation opportunities cannot continue at the pace experienced in the past and cannot be expected to be available as a source of continuing high productivity gains in the longer term.

United has also invested in new systems and technology to improve productivity and customer service. While productivity is expected to continue to increase due to further deployment of new technology and systems, much of the total expected workforce-reduction-related productivity gains have already been achieved and additional reductions in workforce will likely not match recent levels. Further, these reductions have taken place while United has increased its access lines by 11%. With growth in access lines, additional workforce reductions are even more difficult.

---

part of United Telephone's Midwest Group. From these actions, five more headquarters operations were removed. In addition, the corporate staff and operations functions of Central Telephone were consolidated with, and the functions are now provided by, the Sprint/United Management Company ("SUMC") Local Telecommunications Division staff and the Information Systems operations of SUMC in regard to end user billing, access billing and other systems.

The BOCs, GTE, and SNET have also announced plans to further reduce their employee base over the next two to three years to reduce costs and improve service. These job reductions will doubtless result in significant productivity increases. However, it is likely that workforce reductions of this magnitude will not continue at the same pace as those already announced, since these LECs, like United, have based their downsizing, at least in part, on consolidation of operations.

While job loss in the telephone market sector is an expected result of LEC productivity incentives, the economy as a whole is forecasted to add jobs as a result of price cap reform. The new job gains will result from increased use of available enhanced, broadband telecommunications services by all sectors of the economy. Furthermore, the services sector is forecasted to provide the most significant new job gains, with business services and health care leading the way.

The price cap reforms Sprint is proposing will encourage LECs to deploy enhanced telecommunications services sooner than would otherwise be the case. This acceleration in enhanced telecommunications technology deployment and improvement in service quality will result in an increased utilization of telecommunications services by all sectors of the economy, yielding growth in employment, increased gross domestic product, and greater overall consumer benefits.

While some worried that infrastructure additions would suffer under price cap regulation, United attained improved

financial and operational performance under price caps, while also adding significantly to its infrastructure. (See Attachment 1.) Sprint believes that some refinements to the price caps system can provide even greater incentives for productivity and infrastructure development. These adjustments are discussed in Section II below.

II. THE BASELINE LEC PRICE CAP PLAN CAN BE FURTHER IMPROVED.

The Commission has solicited comment (¶35) as to whether, or how, the current LEC price cap plan can be revised to improve its performance or to adapt it to recent and anticipated changes in circumstances. As discussed below, Sprint recommends that:

- the earnings limitations (sharing) and lower formula adjustment ("LFA") mechanisms be eliminated;
- other things being equal, an increase in the baseline productivity factor should be considered in light of the proposed discontinuance of profit retention limitations;
- the "balanced 50/50" common line formula should be reexamined; if replaced with a formula which reflects line growth, an offseting reduction in the productivity factor would be appropriate;
- density zone pricing be expanded; and
- requests for exogenous cost treatment, including mandated infrastructure additions, continue to be reviewed by the Commission on a case-by-case basis.

A. Infrastructure Development

The Commission requested comment (¶36) on how the LEC price cap plan should be revised to encourage deployment of an advanced telecommunications infrastructure. As detailed in Attachment 1, LECs such as United have made significant

infrastructure investments (e.g., deployment of SS7, digital switching equipment, new access lines and new database functionalities) under price caps. However, there is at least the perception that many large LECs are investing primarily in non-regulated business ventures (e.g., foreign ventures, cable and entertainment, computer stores) rather than in regulated telecommunications infrastructure improvements--investing cash generated by regulated operations in non-regulated businesses rather than plowing such funds back into access and local services. Sprint asserts that elimination of profit restraints, as required under current price cap regulation, would better encourage LECs to increase their regulated investments by increasing the potential return on that investment. Elimination of profitability restraints would make LEC investment in new technologies, features and functions in their regulated operations even more attractive, because LECs would then be afforded an expanded opportunity to retain and reinvest a greater portion of the earnings generated by that investment.

B. Universal Service

The Commission also has solicited comment on universal service (¶36). Sprint supports the goal of universal basic telephone service at affordable prices, and believes that goal has essentially been met.[3] However, the Commission has

[3] Chairman Hundt, in his address to the National Press Club on May 2, 1994, stated that 98% of American households had telephone service.

already announced that it intends to initiate a rulemaking on a broad range of issues related to universal service,[4] and Sprint believes that any comments on this topic are most appropriately presented and discussed in the Joint Board proceeding. That proceeding must look at both the mechanism for funding the Universal Service Fund and separations reform.

C. Rules Relating to Baskets and Bands

The Commission has solicited comment (¶42) on whether the rules relating to LEC price cap baskets and bands should be revised. The interexchange basket, consisting largely of interstate long distance services, should not be subject to price caps regulation as it exists today. Sprint believes that LECs should be required to cap the MTS, WATS, private line and 800 services in this basket, during the review period, at existing rates but should not be required to report this basket for price caps monitoring purposes or subject these services to automatic price adjustments. Voluntary price reductions below the CAP should be allowed for these services.

Deregulation of the interexchange basket is unwarranted because of continuing structural barriers to competition, including the lack of 1+ dialing for interstate intraLATA traffic in most regions. However, because the services in the interexchange basket are primarily end user services, LEC

---

[4] Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, 8 FCC Rcd 7114 (1993).

earnings from access should not impact interexchange basket pricing. Thus, removal from price caps monitoring and mandatory pricing changes is appropriate. In order to provide sufficient end user protections, however, the prices should be subject to "pure price caps" and should not rise above current levels. IXCs are partially protected by the requirement that LECs impute access charges into these prices so that unfair competition based on a lack of internal transfer pricing of access charges does not occur.

Further basket changes are not necessary at this time. The Commission has already revised the price cap baskets to aggregate switched local transport (transmission-related elements, the tandem switching charge, and the interconnection charge) and special access rate elements into a single "trunking" basket.[5] The trunking basket thus reflects "similarities between certain special access and flat-rated transport services, and...accommodate[s] the new zone pricing system that [the Commission] adopted for both special access and transport" (¶5). It is not clear at this point what other access services are so closely related or are potentially subject to such similar competitive pressures as to warrant their inclusion in a new or restructured basket.

Sprint asserts that changes need to be made in the treatment of density zone pricing for special access and local

---

[5] Transport Rate Structure and Pricing, 9 FCC Rcd 615 (1994).

transport trunking. As Sprint Communications Co. and United have argued in pending petitions for reconsideration in CC Docket Nos. 91-141 and 91-213,[6] the requirement that the initial price cap subindices be equal in all density zones precludes the LECs from being able to fulfill the very purpose of density zone pricing -- the establishment of rates that reflect the underlying costs in each density zone. Sprint's preferred course of action would be to allow the LECs, through the tariff filing process, to propose cost-based prices in each density zone, accompanied by an adequate cost justification, and then to establish the initial price cap subindex in each zone based upon these rates. If that were done, then the +5/-10% bands for each zone may be adequate. However, if the Commission does not allow establishment of cost-based density zone prices, then the upper and lower bands for existing zones should be widened in order to allow more rapid movement of rates in each density zone toward underlying costs and at the same time to enable the LECs to respond better to competitive pressures,[7] and to send correct entry signals to

---

[6] See Sprint Communication Co.'s Petitions for Reconsideration filed December 18, 1992 and October 18, 1993 in Docket No. 91-141, and on December 21, 1992 and April 4, 1994 in Docket No. 91-213; and United's Petitions for Reconsideration and Opposition filed December 18, 1992 and October 18, 1993 in Docket No. 91-141.

[7] LEC rates in high density zones which are above costs could "undermine efficiency by preventing the LECs from competing effectively even when they are the low cost service provider ... [and could] increase their competitive losses under expanded interconnection, bringing upward pressure to bear on LEC rates for less competitive services...." (Expanded

Footnote continued on next page

potential competitors.[8] More specifically, there should be greater downward flexibility in the high density zone, (e.g., -20%), and more room for upward movement of prices in the low density zone (e.g., +20%).

Furthermore, any downward pricing flexibility should be allowed only to the extent that it does not impede interexchange competition. For example, allowing the LECs to implement volume or non-uniform term discounts which do not reflect cost relationships and which discriminate against IXCs based on their size is likely to have a serious detrimental impact on the interexchange marketplace, and thus should be avoided.[9] This type of discrimination has the potential to cripple interexchange competition and is patently contrary to the public interest.

Zone pricing for other access services such as local switching should be implemented as well, to the extent that LECs can show that such services are also subject to the same types of economies as exist for the provision of switched transport and special access services.

Interconnection with Local Telephone Company Facilities, 7 FCC Rcd 7369, 7454 (¶178) (1992)).

[8] For example, if LEC rates in high density zones are kept artificially high, CAPs may be encouraged to enter these markets even if the CAPs' costs are higher than the LECs'. See United Telephone Reply Comments, CC Docket No. 91-141, December 10, 1991 at p. 7.

[9] See Sprint Communications Co.'s October 18, 1993 Petition for Reconsideration in CC Docket No. 91-141, Phase I.

D. **Changes in Productivity Factors**

The Commission has requested comment (¶46) on whether the productivity factor used to compute the LEC price cap indices should be changed. As discussed above, LEC productivity gains related to employee base downsizing are finite and cannot continue indefinitely. Because the impact of this powerful productivity tool will eventually decrease, future productivity gains will be even more dependent on continued deployment of new technologies and equipment (SS7, SONET, more efficient switches, etc.), that will be encouraged, in part, through elimination of sharing. New technologies and equipment should not only enable LECs to provide existing services more efficiently, but also allow LECs to offer new services that should stimulate overall use of their networks, thereby reducing fixed costs per unit of output. Further, the restructure of interstate local transport rates should encourage LECs' IXC access customers to purchase interoffice facilities in a way that contributes to overall LEC network efficiencies.

While continued productivity gains may be expected in the near term (i.e., the next 4-5 years), longer term conditions are more difficult to predict. Therefore, Sprint suggests that the productivity factor adopted in this review be maintained for a five year period. Sprint believes this period is appropriate because it normally takes at least two to three years to make and implement plans which affect

productivity. A period where multiple productivity cycles have been accomplished is needed to study the effects of a price cap plan reflecting a slightly longer, but meaningful, planning period. However, care must be taken that any price cap period not be so long that conditions markedly change without a scheduled evaluation within a reasonable term. Thus, Sprint suggests a five year time period before the next scheduled price caps review. Shortly before the end of that time, the Commission should re-evaluate the productivity factor to determine whether it remains reasonable or whether it needs subsequent upward or downward adjustment.

In view of the foregoing, and in the absence of other changes to significant elements of the price cap regime, Sprint does not recommend any change in the existing productivity factors at this time. However, the productivity factors are closely related to other issues on which the Commission has sought comment, including removal of earnings restrictions and the treatment of the carrier common line formula. As will be discussed below, Sprint is advocating an elimination of the sharing mechanism. If its recommendation is adopted, Sprint believes there should be some appropriate upward adjustment to the productivity factor to reflect the resulting increase in the LECs earnings potential. On the other hand, if the Commission requires a one-time overall price adjustment or changes its treatment of carrier common lines by eliminating the 50/50 sharing of MOU growth, a

corresponding downward adjustment in the productivity factor would be called for.

E. Earnings Restraints and Low-end Adjustment Mechanisms

The Commission requested comment (¶55) on whether the earnings restraints and low-end adjustment mechanisms should be revised or eliminated. As stated above, Sprint recommends that earnings restraints be eliminated. Sprint further recommends that the lower formula adjustment ("LFA") mechanism be eliminated.

Eliminating earnings restraints and allowing LECs to retain earnings generated by their regulated operations will more closely replicate the conditions and incentives of a competitive marketplace. Elimination of earnings restraints rewards LECs who take action (for example, by investing in infrastructure improvements) to maximize their productivity, and allows the focus to remain on prices rather than on costs and rate of return. Elimination of earnings restraints also simplifies the mechanics of price cap regulation: disputes over the allocation of sharing amounts, second-year adjustments to reflect revised rate of return calculations, and add-backs of the prior year's adjustments to the current year's rate of return, would all become moot. Furthermore, the cost allocation procedures perpetuated by the existing earnings restraints add complexity to activities such as

depreciation reform and affiliate transaction issues.[10]

The Commission has correctly noted that "a backstop mechanism may dampen the LECs' risks and rewards and thus reduce the incentives of a 'pure' price cap plan." [11] Entities that are assured a guaranteed minimum return may be less inclined to make some of the hard decisions that a firm in a truly competitive market (a decision-making environment which price caps is designed, in part, to emulate) would be forced to make.

Elimination of the LFA should not raise the specter of confiscatory or otherwise unreasonably low rates. In cases of extreme hardship, a price cap LEC could always file a petition

---

[10] In the depreciation represcription proceeding, the Commission refrained from adopting the "price cap carrier option," based, in large part, on the contention that LECs would have the potential to influence earning levels through variations in their depreciation rates (CC Docket No. 92-296, Report and Order, FCC 93-452, released October 20, 1993, pp. 42 and 43). Were sharing to be eliminated, the Commission's concern over rate-impacting depreciation cost variations by LECs on their own behalf would be alleviated.

Furthermore, in the Commission's investigation into affiliate transaction rules (Amendment of Part 32 and 64 of the Commission's Rules to Account for Transaction between Carriers and Their Nonregulated Affiliates, Notice of Proposed Rulemaking, CC Docket No. 93-251 FCC 93-43, released October 20, 1993, p. 103), it recognized that "affiliate transaction rules are necessary to assist [the Commission] in determining the LECs' sharing obligations" and that if it should decide to alter the sharing mechanism in this proceeding, it can "reevaluate the approporate extent to which the affiliate transactions rules should apply to price cap LECs."

[11] Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786, 6801 (¶121) (1990).

upon a detailed showing that circumstances beyond its control resulted in unacceptably low earnings. The waiver process thus would serve to protect the LEC, its ratepayers and its shareholders who might otherwise be irreparably harmed.

In any event, the need for a backstop to protect against the possibility of errors in the productivity offset has diminished as the Commission has gained additional experience with price caps. For the most part the LECs have been able to incorporate the existing productivity offsets while still earning returns which exceed those experienced under rate of return regulation. There is no reason to assume that future errors in the productivity factor will occur, particularly if the Commission periodically reviews the factor, or that the analytical construct used by the Commission to determine a reasonable productivity factor in the past cannot be used again.

F. Common Line Formula

The Commission requested comment (¶59) on whether, or how, the formula used to calculate the carrier common line charge (CCLC) should be changed. Sprint does not oppose replacing the current "balanced 50/50 formula" with a formula that reflects growth in the number of common lines. Under such a formula, any increases in the CCLC cap would be tied to increases in the number of common lines. However, increases in usage per line would be flowed through to access customers in their entirety. Increased usage per line will cause the rate per minute to decrease since the costs recovered by the

CCLC are non-traffic sensitive. Sprint believes that this action, if adopted, would logically require some offset to the otherwise applicable productivity factor.

The Commission cited two reasons for adopting the 50/50 formula rather than a per line formula: the 50/50 division would help to ensure that no "potential sources of increased productivity" were discouraged;[12] and the 50/50 formula would protect consumers against rate increases that might result from decreases in usage per line (¶70). Three years' experience with LEC price caps should generally alleviate both of the Commission's concerns. There have been no instances of prolonged negative growth per common line. Only one BOC, and no LECs (on a holding company basis), have experienced a negative "g" factor. Thus, concern about negative "g" is overstated.

There is little reason to suspect that LEC incentives to improve productivity would be reduced through use of a per-line CCLC formula. LECs have a vested interest in promoting the use of their switched network (both common line and traffic sensitive) generally, and presumably will continue to encourage such use no matter what common line formula is used.

Further, a per line formula would continue to reward those LECs that manage to reduce the average cost per line (as opposed to increasing the average usage per line), something over which LECs should be able to exercise some control.

---

12 5 FCC Rcd at 6795 (¶69).

Thus, a per line formula still contains an efficiency incentive by providing the LECs an opportunity to increase their profits by decreasing their average common line costs.

Finally, the Commission has recognized that "demand growth over common lines is, in substantial part, outside the LECs' influence and control, because usage largely depends upon the services and rates offered by the interexchange carriers."[13] Because IXC efforts are the prime reason for increased average common line usage, the benefits of such usage growth may appropriately be given to the IXCs and ultimately to their customers.

G. **Exogenous Cost Changes**

At the present time, §61.45(d)(1) of the Rules lists a number of cost changes eligible for exogenous treatment, including changes in the USOA and the Separations Manual, amortization of inside wiring and depreciation reserve deficiencies, tax law changes and "extraordinary" exogenous cost changes. In the NPRM (¶64), the Commission sought comment on whether it should reduce the categories of cost changes eligible for exogenous treatment and proposed limiting exogenous treatment of GAAP and USOA changes to "economic" cost changes rather than "accounting" cost changes that would be unlikely to affect pricing in a competitive environment. The NPRM also requested comment (¶65) on whether exogenous treatment for changes that stem from laws, rules or judicial decisions

---

13 5 FCC Rcd at 6794 (¶60).

should be limited to those cost changes that solely affect telephone companies or similar companies such as utilities, and whether LECs ought to be required to report all such changes so as to avoid the possibility that the Commission would not otherwise become aware of changes that have the effect of decreasing LEC costs.

Sprint submits that the proposal to eliminate exogenous treatment for all cost changes that merely reflect "accounting" costs rather than "economic" costs paints with too broad a brush, and the proposal to require a reporting mechanism for all cost changes stemming from laws, rules or judicial decisions could be unduly burdensome for the LECs and Commission staff with little offsetting benefit to the public.

Sprint believes it would be very difficult to draw a bright line between "accounting" cost changes that are not entitled to exogenous treatment and those that are. Sprint concedes that there may be some "accounting" cost changes that would have no effect on prices in a competitive market and do not deserve exogenous treatment. However, there are many "accounting" cost rules that have a major impact on prices charged by the LECs today. The LECs' prices for services subject to this Commission's jurisdiction have historically been tightly constrained by both the Part 36 separations rules and the cost allocation rules imposed in Part 69 of the rules. Many of these rules reflect "accounting" costs that have nothing to do with LECs' "economic" costs. Nonetheless, these rules are a major determinant of the rate levels and rate

structures for the LECs' access services. There is widespread agreement within the telecommunications industry -- including local exchange carriers, competitive access providers, and access customers -- that the access and separations rules are badly in need of a major overhaul. If and when these rules are revised, it is only proper that such rule changes be reflected in exogenous changes in the price cap indices, as the Commission did in its recent reallocation of GSF costs.[14] Sprint notes that the Commission, local regulators and both federal and state legislative bodies are contemplating requiring significant infrastructure additions by LECs. While some of these additions may represent investments (such as network upgrades to reflect new technology or required to meet customer demand) that the LEC should be expected to undertake in any case, others may well warrant exogenous treatment. Thus, Sprint believes that the Commission should continue consideration of exogenous adjustments on a case-by-case basis.

The Commission has also proposed that LECs be required to report all cost changes that emanate from laws, rules and court cases that have a particular impact on telephone companies or utilities in general. Sprint is concerned that such a requirement could impose burdensome data collection and reporting requirements that have few offsetting benefits to

---

[14] Amendment of the Part 69 Allocation of General Support Facility Costs, 8 FCC Rcd 3697, 3700-01 (1993).

the public at large. While the imposition of such regulatory requirements might increase jobs in the telephone industry, it could reduce economic efficiency, lead to negative productivity growth and thereby discourage job growth in the economy as a whole. There may be many such changes that are simply too inconsequential to result in any material change in the price cap index, yet the compilation and reporting, as well as Commission examination, of such changes will be burdensome. On the other hand, any such changes that would have the effect of materially reducing local exchange carrier costs can be expected to receive sufficient publicity that the LECs' customers can be expected to be aware of these changes and to bring them to the Commission's attention.

H. Service Quality, Infrastructure Monitoring and Network Reliability

The Commission invited comment (¶72) on whether the Commission should undertake to impose additional reporting requirements to assure that the LECs' service quality, network reliability and infrastructure development remain at a high level. In Sprints opinion, the current reporting requirements, summarized in ¶¶67-71 of the NPRM, continue to be adequate for these purposes. Sprint is concerned that any additional reporting requirements could increase LEC costs, with no corresponding benefits, thereby decreasing efficiency and productivity.

I. New Services Issues

The Commission solicited comment (¶¶81-83) on whether the treatment of new services, including the costing test and cost

support requirements, needs to be changed. The Commission also asked whether existing price cap requirements impose unnecessary regulatory impediments to the introduction of new services, whether new services are available on an equal basis to all LEC customers, and if not, whether the price cap plan should be modified to facilitate universal availability.

Insofar as Sprint is aware, the new services test has not prevented price cap LECs from introducing new services. However, Sprint notes that review of proposed new services has, at times, taken a significant amount of time and suggests that review of new services occur on a timely basis so that these services are made available to the public without undue delay.

Because some new services involve the introduction of new technology into the network, and because they are targeted at specific segments of the market and customers for such services are not uniformly dispersed throughout a LECs service area, it is unreasonable to expect any LEC to make all new services available ubiquitously on a flash-cut basis. Indeed, there may be so little demand in certain parts of a LEC's service area that it would be imprudent for the LEC ever to offer certain services universally. In such instances, universal implementation would burden ratepayers for services that are not needed or wanted in some portions of the service area.