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Warren D. Hannah
Director, Federal Regulatory Relations
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December 29, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

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

Dear Mr. Caton:

Today representatives of Sprint Corporation met with Kathleen Wallman, Richard Metzger, Dan Grosh, Joanne Wall, Anthony Bush and Anna Gomez of the Common Carrier Bureau to discuss issues in the above referenced matter. Information on the attached, relative to Sprint's comments and reply comments submitted on May 9 and June 29, respectively, was discussed.

Representing Sprint Corporation were Jay Keithley, Rick Kapka, Jim Sichter and John Ivanuska. Sprint requests that this information be made a part of the record in this matter. If you should have any questions, please feel free to call.

Sincerely,

Warren D. Hannah
Director
Federal Regulatory Relations

Attachment

cc: Kathleen Wallman Joanne Wall
Richard Metzger Anthony Bush
Dan Grosh Anna Gomez

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The Elimination of Sharing/LFAM furthers the Commission's Objectives For Incentive Regulation:

- Provides stronger incentives for efficiency
- Provides stronger incentives for innovation
- Greatly diminishes incentives for cross-subsidization
- Significantly reduces the administrative costs of regulation
- Makes consumers better off --- If the productivity factor is set at an appropriate level

The Elimination of Sharing/LFAM is a critical component of a regulatory framework conducive to the development of competition and rational infrastructure development.

Characteristics of the Emerging Environment

- Mixture of competitive and monopoly markets - at least for a transitional period
- Strong pressures for repricing
 - Overall price levels (cost reductions)
 - Competitive services (deaveraging/repricing)
- Investment Risks are increasing
 - New Investments - e.g., VDT
 - Substantial Investments
 - Uncertain Return
 - Long Payback period
 - Embedded Investments
 - Reserve deficiencies due to inadequate depreciation (e.g., FASB 71)
 - Economic value being eroded by competition/technology

*3 plants
15% of plant
write-down*

In the emerging environment, retention of Sharing/LFAM will:

- Blunt LEC incentives for efficiency
- Act to protect LECs (through LFAM) from competitive revenue losses
- Distort pricing and investment decisions
 - Pricing decisions relative to competitive services impact (through LFAM or Sharing) prices for less competitive services
 - Sharing/LFAM skew investment economics
 - LFAM limits downside risks
 - Sharing limits upside potential
- Enmesh the Commission in a wide variety of exceedingly complex, but competitively significant, determinations
 - Allocation of costs between VDT and other access services (to ensure access rates not impacted by VDT)
 - Recovery of underdepreciated past investments/depreciation rates
 - Recovery of “subsidies” embedded in existing LEC Rates (e.g., transport Residual Interconnection Charge)
 - Regulated/nonregulated service cost allocations

Several States have already adopted price plans, or have plans pending, that do not include sharing:

- Delaware
- Illinois
- Indiana
- Kansas
- Michigan
- Missouri
- Nebraska
- New York
- Ohio
- Pennsylvania
- Vermont
- Virginia
- West Virginia

*75% of New York
see states*

The Elimination of Sharing/LFAM is an integral part of Sprint's Price Cap Reform Proposal, reflecting the need to:

- Ensure that the focal point of competition is the market place -- not the regulatory process
- Establish a framework in which LEC stockholders, not ratepayers, bear the risks as well as the rewards of competition
- Provide LECs more latitude in making key pricing, investment, and other financial or marketing decisions, with a commensurate increase in management's accountability for their financial performance (and a commensurate decrease in regulatory protection or guarantees of cost recovery)

SPRINT PRICE CAP REFORM PLAN SUMMARY

- **5 Year Plan**
- **Optional**

Key Elements of the Sprint Price Cap Plan

- **4.5% Productivity Offset**
- **2% Upfront Rate Reduction**
- **Elimination of Sharing/Lower Formula Adjustment Mark (LFAM)**
- **LECs choosing the Sprint Plan Option would qualify for more streamlined regulation and greater pricing flexibility, e.g.:**
 - **Immediate implementation of Zone Density pricing**
 - **Targeting of upfront rate reduction to high density transport rates**
 - **Targeting of portion of productivity factor to RIC phasedown**
 - **Flexibility to move depreciation rates to economic levels/write down reserve deficiencies**