



**Sprint believes that the Commission must establish a system that embraces multiple essential elements of local exchange competition. Such a plan must include the following elements<sup>2</sup>:**

- \* Open Entry Policy**
  - \* No Exclusive Franchises**
  - \* No Discrimination Against New Market Entrants**
  - \* Equal Access to Public Rights of Way**
  - \* No quid pro quo with incumbent LECs that delay entry**
- \* Fair Interconnection**
  - \* Service unbundling including local loop unbundling**
  - \* Reasonable compensation for call termination**
  - \* Uniform standards for unbundling and interconnection**
  - \* Collocation at primary LEC aggregation points**
- \* Fair Access to Numbering Resources**
  - \* Non-discriminatory access to telephone numbers**
  - \* Rapid adoption of true number portability**
  - \* Non-discriminatory access to numbering-related databases such as directory assistance, 800, LIDB and telephone directories**
- \* Universal Service Reform**

**Sprint recommends that any consideration of local loop unbundling also consider these and other necessary elements of fair competition in the local exchange market. To the extent that**

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<sup>2</sup> See Exhibit 1, **Essential Elements of Local Competition**, which contains a more complete discussion of the elements needed for the development of fair competition. Sprint supports competition based on these principles and recommends that the Commission utilize these principles as the cornerstone in its pro competition policy.

the Commission opens a proceeding to consider these elements and local loop unbundling, Sprint supports such action.

## **II. THE MFS COMMON LINE PROPOSAL IS INCOMPLETE**

MFS proposes that common lines be disaggregated from the other network components used in providing bundled local exchange services, and that collocation be allowed for purposes of interconnecting with the unbundled common lines.<sup>3</sup> Sprint supports this proposal as an incremental move that will assist the development of local exchange competition. However, it is clear to Sprint that unbundling of local loops, without action on the other competitive issues identified in the preceding section, will not be sufficient to produce vibrant competition and will leave the incumbent LEC with undue market power. MFS fails to take into account several important factors in its local loop unbundling proposal.

MFS's proposal to disaggregate common lines where pair gain technology is used and where remote switching is used for pair gain purposes<sup>4</sup> requires the installation of additional LEC facilities. MFS fails to address the cost recovery for this additional investment and fails to ensure that the incremental cost of this investment will be borne by the users of unbundled common lines rather than the general customer body of the LEC. Any proposal to unbundle common lines must appropriately address the increased costs that unbundling creates and how to recover those costs from the appropriate customer body.

MFS also suggests that only the interstate end user common line charge ("EUCL") that is collected by LECs from end users may appropriately be collected from the purchaser of unbundled loops. MFS claims that the revenue that LECs currently obtain from the carrier

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<sup>3</sup> MFS Petition at 1.

<sup>4</sup> *Id.* at Appendix 2.

common line charge (“CCL”) should not be collected from unbundled loop purchasers because “it would be impossible for LECs to measure such minutes, since traffic on unbundled common lines would not pass through a LEC switch; therefore, the LECs could not assess the CCL directly but would have to impose some type of surrogate charge.”<sup>5</sup> Sprint agrees that measurement of CCL minutes would not be possible. However, a LEC’s interstate revenue recovery for common line allocations is based on both the EUCL and the CCL. It would not be appropriate to remove the CCL revenue recovery for those lines that are unbundled. Sprint supports billing the total interstate CCL allocation, on a per line basis, for each unbundled loop purchased by a LEC competitor to the purchaser of such unbundled loops.

Sprint asserts that the problem with measured CCL is one reason that the Commission must expand the scope of any proceeding to unbundle local loops to include access issues in general. It is clear that a system based on minute of use charges for common line usage is not tenable in the long term. To the extent that common line cost allocations continue to be made between interstate and intrastate jurisdictions, the Commission should abandon common line minutes of use pricing and replace it with a per loop pricing mechanism. Without such a pricing plan, large volume customers will move from a MOU-based LEC service to a flat-rate competitive service because they can avoid the unequal contribution to common line costs that they pay because of the high volume of traffic over their LEC-provided common lines. Interstate common line pricing based on a flat rate charge will cure this problem.

Further, in order to recognize the differences in cost between common lines, appropriate local loop density and length deaveraging should take place. Sprint recommends the Commission

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<sup>5</sup> *Id.* at 42-43.

consider a plan similar to the zone density pricing that has been adopted for special access lines in areas where expanded interconnection has occurred. Sprint believes a local loop zone density pricing plan would provide LECs appropriate flexibility and facilitate local loop competition. Sprint also recommends that special access lines be included in the zone density pricing plan. To the extent that switching is not utilized on a common line local loop, it is functionally identical to a special access channel termination. As such, the pricing should be the same and the ability to arbitrage between the two services would be appropriately negated.

Sprint also recommends that the proceeding on Universal Service reform occur in tandem with any consideration of CCL unbundling and pricing reform. It is primarily the high cost of local loops in low density areas that creates the need for Universal Service Support. Any changes in CCL pricing and costing necessarily involve Universal Service Support issues. Thus, Universal Service reform should track closely with changes in CCL pricing and costing.

### **III. PRICING FLEXIBILITY FOR LECs SHOULD NOT BE BASED ON ADOPTION OF THE MFS PROPOSAL**

MFS suggests the LECs be allowed greater pricing flexibility only upon adoption of loop unbundling and proof that actual competition exists.<sup>6</sup> Sprint does not support this portion of the MFS plan. Pricing flexibility based on zone density principles should be granted to LECs immediately. Sprint, in its Comments on the Ameritech New Regulatory Model, addressed the factors needed to justify broad ranging deregulation of LECs.<sup>7</sup> Rather than adopt MFS' proposal, Sprint recommends that pricing flexibility be based on zone density pricing principles.

### **IV. CONCLUSION**

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<sup>6</sup> *Id.* at 48-50.

<sup>7</sup> See *In the Matter of a Petition for a Declaratory Ruling and Related Waivers to Establish a New Regulatory Model for the Ameritech Region*, Comments of Sprint Corporation, June 11, 1993 and letters to Willard Tom, Counselor to the Assistant Attorney General, Antitrust Division, December 31, 1994 and March 31, 1995.

**Sprint finds merit in the request by MFS that local loop unbundling occur on a nationwide basis under nationwide standards. However, Sprint urges that the Commission also address issues concerning CCL recovery mechanisms, CCL pricing deaveraging, universal service support and additional zone density pricing.**

**Respectfully submitted,**

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## ESSENTIAL ELEMENTS OF LOCAL TELEPHONE COMPETITION

### 1. FRANCHISES AND ENTRY REQUIREMENTS

Federal, state or local restrictions that limit or prohibit competitors from offering a full range of local telephone services and regulatory requirements that unreasonably restrict market entry must be abolished. Specifically:

- ▶ **No Exclusive Franchises** -- No firm should have an exclusive franchise, license or certificate to provide local telephone service.
- ▶ **No Need to Prove Existing Services are Inadequate** -- No new market entrant should have to prove that the incumbent's service is inadequate as a prerequisite to offer competing local telephone service.
- ▶ **No Discrimination Against New Market Entrants** -- No laws or regulations should impose more onerous requirements on new market entrants than apply to incumbent telephone companies or discriminate against new market entrants. However, that does not mean that new market entrants should be subject to the same regulatory requirements as the incumbent local telephone company (see below).
- ▶ **Equal Access to Rights of Way** -- Any exclusive or preferential treatment of pole, conduit and rights-of-way of the incumbent local telephone company must be eliminated so that new entrants have access to those rights of way on the same rates, terms and conditions as the incumbent.
- ▶ **No Unreasonable Requirements for Market Entry** -- Entry into a local telephone market should not be artificially restricted by unreasonable requirements imposed on new market entrants (e.g., requirements to offer facilities-based service to 100% of a given geographic area, excessive performance bonds, extended certification processes).
- ▶ **Quid Pro Quos should not be a Condition of Market Entry** -- Entry into a local telephone market should not be contingent on actions of the incumbent local telephone company or unreasonably delayed by lengthy, cumbersome regulatory proceedings concerned with ill-defined, open-ended issues (e.g., no local competition authorized until and unless the incumbent local telephone company realigns its current rates, or no local competition until and unless a comprehensive universal service protection/subsidy replacement plan has been developed, debated and adopted by regulators).

## 2. INTERCONNECTION & COMPENSATION

Interconnection of local telephone networks at reasonable rates is critical to local telephone competition. Competing networks should be interconnected so that customers can seamlessly receive calls that originate on another carrier's network and place calls that terminate on another carrier's network without dialing extra digits, paying extra, or doing anything out of the ordinary. New market entrants should be interconnected with incumbent providers in a manner that gives them seamless integration into and use of local telephone company signalling and interoffice networks in a manner equivalent to that of the incumbent local telephone company.

- ▶ **Reasonable Compensation for Call Termination** -- Mutual compensation for call termination should be set at a level that encourages the development of competition and interconnection while covering the associated costs. Compensation should:
  - ▶ ***Be economically viable*** -- not set at a level that makes provision of competing local service uneconomic (e.g., set at a level greater than the market price of local service);
  - ▶ ***Be administratively efficient and minimize carrier conflicts*** -- structures that are simple and easy to verify (e.g., flat rate charges);
  - ▶ ***Create incentives for competitive infrastructure development*** -- reward greater investment in infrastructure development by local telephone company competitors;
  - ▶ ***Minimize competitive distortions*** -- not discourage entry into all segments of the market;
  - ▶ ***Not be a source of universal service subsidy*** -- should not be designed to produce contribution, subsidies, or universal service support;
  - ▶ ***Promote competitive innovation*** -- not tied to existing local telephone company price structures so as to force new market entrants to mimic existing pricing structures; and,
  - ▶ ***Not mirror existing access charges levels*** -- compensation based on current access charges will be uneconomic.
  
- ▶ **Uniform Standards and Administrative Interconnection** -- Basic network functions must be provided in a nationally uniform manner, and conform to quality and interoperability standards. The incumbent must cooperate in ordering, billing, circuit provisioning, maintenance and repair.
  
- ▶ **Service Unbundling** -- The incumbent local telephone company's services should reflect an unbundling of service components so that a new market entrant is not forced to purchase services that it does not want in order to obtain essential telecommunications capabilities. Unbundling should be performed in response to a *bona fide* request.
  
- ▶ **Collocation** -- Collocation of facilities to achieve interconnection should reflect two characteristics:
  - ▶ ***Collocation at aggregation points*** -- collocation should be made at the local telephone company's primary aggregation points (e.g., tandems, central offices, serving wire centers); and,
  - ▶ ***Physical or virtual*** -- collocation can either be physical collocation or virtual collocation that is economically and technically equivalent to physical collocation from the perspective of the interconnector.

### 3. NUMBERING RESOURCE ISSUES

Non-discriminatory access to numbering resources is critical. The following numbering resource issues are critical:

- ▶ **Access to Telephone Numbers** -- New entrants should have non-discriminatory access to sufficient blocks of telephone numbers (*i.e.*, access to NXXs) to offer service.
- ▶ **Number Portability** -- Customers must be able to change service providers and retain the same local telephone number at the same location (service provider number portability) without having to dial extra digits or be burdened by "special" actions in order to achieve number portability. Interim number portability mechanisms, such as remote call forwarding, are an inferior form of number portability that impairs a new market entrant's service, and such impairment should be reflected in interconnection charges.
- ▶ **Access to and Inclusion in DA, LIDB, AIN, 800 and Other Databases and Telephone Directories** -- Competitive local service providers should be allowed to have their customers' telephone numbers included in telephone directories, directory assistance, LIDB, AIN, 800 and other databases and have access to such resources equal in price, functionality and quality as do incumbent local telephone providers.
- ▶ **Access to 911, TRS and Local Operator Services** -- Competitive local service providers should have access to 911, relay services and operator services provided by the incumbent local telephone company on the same terms and conditions as enjoyed by the incumbent local telephone company.
- ▶ **Number Administration** -- Numbering policy must be broadly developed and administered in a competitively neutral manner. The local exchange carrier must not be able to control the administration and assignment of numbering resources. NPA assignments must be handled in a neutral and non-discriminatory manner.

#### 4. UNIVERSAL SERVICE SUPPORT & EMBEDDED SUBSIDIES

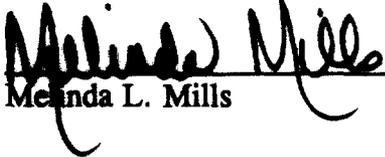
- ▶ **Competition and Universal Service.** Local service competition enhances universal service. Competition for access services and competition in the local service market may well stimulate the development of new products, stimulate demand and produce higher revenues and earnings for the incumbent local telephone company just as competition in the interLATA long distance market did for AT&T.
- ▶ **Embedded Subsidies Should be Transitioned Away.** In order to encourage efficient competition in all market segments, it is important to eliminate uneconomic/non-competitive subsidies embedded in telecommunications pricing structures over a reasonable transition period (e.g., reduce access charges that are priced substantially above costs and raise those rates that are substantially below costs.)
- ▶ **Explicit Subsidies.** Subsidies to preserve universal service should have the following characteristics:
  - ▶ ***Explicitly Identified.*** If subsidies are required, they should be explicitly identified rather than embedded in various prices;
  - ▶ ***Needs Based Targeting.*** If subsidies are required, they should be needs based either on a showing of low income by consumers or based on service to high cost areas;
  - ▶ ***Broad-Based Support.*** If subsidies are required, all telecommunications service providers should contribute to such subsidies in a competitively neutral manner based on their telecommunications revenues net of payments to intermediaries;
  - ▶ ***Neutral Administration.*** Collection and distribution of subsidies should be done by a neutral administrator;
  - ▶ ***Only Basic Residential Telephone Service Subsidized.*** Only basic residential telephone services should be subsidized, limited to (1) single party local service, (2) access to touch tone dialing, (3) access to carriers of choice, (4) access to operator services; and, (5) access to emergency (911) services.
  - ▶ ***Competitive Access to Subsidies.*** If subsidies are required, then all competitive local telephone service providers should have the opportunity to receive such subsidies when selected by an eligible customer.

## 5. REGULATION OF INCUMBENTS AND NEW MARKET ENTRANTS

- ▶ **Differential Regulation of Incumbents and New Market Entrants.** As long as there is not parity in the marketplace, there should not be parity in regulation. Regulation of local telephone providers should be a function of market power as well as the incumbent telephone company's ability to leverage its control of essential facilities. As long as the incumbent local telephone provider possesses substantially more market power than new market entrants, it is appropriate to subject the incumbent to greater regulatory oversight.
- ▶ **Elimination of Rate Base Regulation.** Traditional rate-base regulation should be abandoned and replaced with appropriately designed price and service regulation to provide the appropriate incentives as competition emerges. Traditional rate-base, rate of return regulation creates a regulatory predisposition to avoid actions that could affect the incumbent's revenues/earnings (e.g., rules that prohibit competitive entry into local telephone markets) and seek out mechanisms to ensure revenue neutrality for the incumbent (e.g., "make whole" compensation mechanisms in intraLATA toll markets to recover competitive revenue losses). Traditional rate-base regulation also contributes to uneconomic infrastructure investment incentives and discourages efficient pricing and cost reductions. Instead, appropriately styled price and service regulation, with pricing rules to transition rates to more efficient levels, enables local telephone companies to respond to emerging competition, and prevents cross-subsidization and abuse of market power.
- ▶ **Imputation** In determining the price floor for their competitive services, incumbent local telephone companies should impute in the aggregate the same charges for essential network services and functionality as are paid by their competitors to them for the same services and functionality plus the costs of other services and functionalities actually used by the incumbent telephone company.
- ▶ **Resale & Sharing.** Telecommunications services and functions should be provided without any restrictions on resale and sharing, provided that resale is of the same class of service (e.g., should not be able to repackage and resell local residential services as business services).
- ▶ **Provider of Last Resort** In a competitive market, there is no provider of last resort, only competitors, all seeking to provide services to customers. Because incumbent local telephone companies typically have universal coverage, even though competitors are entering the market, regulators should continue to restrict incumbent telephone companies from exiting markets or market segments until competitive alternatives become available (i.e., being the carrier of last resort). However, restrictions on market exit should diminish as competition develops.

## CERTIFICATE OF SERVICE

I, Melinda L. Mills, hereby certify that I have on this 10th day of April, 1995, sent via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Comments of Sprint Corporation" in the Matter of Unbundling of Local Exchange Carrier Common Line Facilities, RM 8614, filed this date with the Acting Secretary, Federal Communications Commission, to the persons on the attached service list.

  
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