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WASHINGTON, D.C. 20054

In the Matter of)
)
Federal-State Joint Board on) CC Docket No. 96-45
) (Report to Congress)
Universal Service)

REPLY COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint") hereby respectfully submits its reply to comments filed on January 26, 1998, regarding the Commission's report to Congress on implementation of the universal service section of the Telecommunications Act of 1996.

In its initial comments in this proceeding, Sprint recommended two changes to the existing USF mechanism to ensure that such mechanism is explicit, equitable¹ and competitively neutral:² first, that the Commission allow all carriers to recover their USF contributions directly from their own end users; and second, that the Commission create a unified national high cost/low income USF financed on the basis of carriers' total (interstate plus intrastate) revenues. As discussed briefly below, there is widespread support for these recommendations among other commenting parties. Although these recommendations constitute a substantive change to the Commission's existing USF mechanism, Sprint believes that they can and should be implemented without major disruption to the provision of universal service support.

Under the existing USF cost recovery mechanism, one segment of the industry (ILECs) is allowed to recover its USF assessment from IXCs in the form of higher interstate carrier access charges, while another segment of the industry (IXCs) is forced

¹ 47 U.S.C. 254(b).

² See, *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket 96-45, Report and Order released May 8, 1997 at paragraph 47.

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to recover both its direct USF contributions and the majority of the LECs' USF contributions (the increased interstate access charges) from its end users (interstate interexchange service subscribers). There is virtual unanimity among IXC's and CLECs³ that this system is competitively inequitable and cannot be sustained. The Act and the public interest require that the Commission adopt a competitively neutral recovery mechanism, and indeed, the Commission itself has already stated that universal service support mechanisms and rules must neither unfairly advantage nor disadvantage one provider over another.⁴ The cost recovery mechanism which best satisfies this requirement is one in which all carriers recover their USF contributions directly and explicitly from their own end users. Under such a system, no industry segment is unduly burdened by USF cost recovery, demand for services provided by a particular industry segment is not unduly repressed as a result of a disproportionate cost burden, and explicit information on the cost of funding the universal service programs is made available to consumers and public policy officials.

There was also considerable support among commenting parties for replacing the current USF mechanism, which provides support for only 25% of total high cost and low income subsidies using carriers' interstate-only revenues, with a unified national universal service fund financed on the basis of contributing carriers' total revenues. As pointed out by IXC's, ILEC's and state utility commissions,⁵ the Commission's decision to finance the high cost/low income fund on the basis of interstate only revenues places a disproportionate burden on carriers with predominately interstate businesses, while benefiting those whose markets are

³ See, Comments of Access Authority, Inc. at p. 2; AT&T at pp. 3-4; MCI at pp. 3-4; and AirTouch Communications, Inc. at pp. 23-25.

⁴ See, footnote 2, *supra*.

⁵ See, Comments of BellSouth at pp. 10-11; GTE Service Corporation at pp. 3-4 and 29 - 30; John Staurulakis, Inc. at pp. 9-11; US WEST, Inc. at pp. 2-3; Wyoming Public Service Commission at p. 4; Sprint at pp. 4-5; and the Local and State Government Advisory Committee at p.3.

predominately intrastate. The only way to ensure competitive neutrality in the funding of the high cost/low income fund is to base carrier contribution levels on total (interstate plus intrastate) revenues.

The Commission's failure to create such a unified, national high cost/low income fund not only violates the requirement that such plan be competitively neutral; it also threatens the statutory mandates that the universal service plan support high quality services at affordable rates, that services be available in rural and high cost areas at rates that are reasonably comparable to those services provided in urban areas, and that predictable support mechanisms remain available.⁶ Some thirty government agencies⁷ assert that the Commission's decision to limit federal support to 25% of the amount necessary to serve high-cost areas and low income consumers will lead to substantial and burdensome rate increases in high cost, rural states.⁸ Many of these parties request the Commission to reverse its earlier ruling and instead adopt a national universal service fund. Although the Commission originally justified its decision to provide only 25% federal funding by stating that such a plan would best accommodate state plans, comments filed in this proceeding by the states make clear that the Commission's current plan does anything but accommodate their needs. The Commission should recognize that its funding design is flawed and fails to support the

⁶ See, footnote 1, *supra*.

⁷ See, Comments of The Alabama, Alaska, Arkansas, Georgia, Idaho, Kentucky, Maine, Montana, New Hampshire, New Mexico, North Carolina, South Carolina, Vermont and West Virginia State Regulatory Agencies at pp. 2-5; the State of Alaska at pp. 5-6; the Colorado Public Utilities Commission pp. 2-3; the Local and State Government Advisory Committee at p.3; the Mississippi Public Service Commission at p.2; The Kansas Corporation Commission at p.1; the Nebraska Public Service Commission; the New Mexico Attorney General; the state of South Dakota at p.2; the Transportation Committee of the Nebraska Legislature; the Governor of the State of Utah; the Utah State Legislature; the Washington Utilities and Transportation Commission at p. 7; the Western Governors' Association; the Wisconsin Public Service Commission pp. 4-5; and the Wyoming Public Service Commission at pp. 1-3.

⁸ Bell Atlantic attempts to use this fact to question, once again, the prudence of using a cost proxy model (Comments at p. 10). It is noteworthy that it stands alone, among some 60 commenters, in rehashing this issue. The Commission has, at paragraphs 229 and 232 of its May 8, 1997 Order, fully considered Bell Atlantic's arguments and responded appropriately. It is not necessary for Commission to expend further time or resources addressing the matter again here.

principles outlined in Section 254(b).⁹ It should take this opportunity to adopt a national, unified fund financed by contributions based on intrastate as well as interstate revenues.

While, in most regards, Sprint supports the states in their call for changes in the Commission's funding mechanism, it cannot support the suggestion by some states¹⁰ that the Commission bar USF support from being used to reduce interstate access charges. Essentially, these states want to 'have their cake and eat it, too' - they want the explicit universal service support mechanisms provided for by the Act while, at the same time, preserving the implicit subsidies currently embedded in access. Even if the Commission was tempted to accommodate this regulatory incongruity, it may not legally do so. Section 254(e) of the Act mandates that universal service support mechanisms be "explicit and sufficient." In its *Access Reform* order, the Commission explained that:

Recognizing the vulnerability of implicit subsidies to competition, Congress directed the Commission and the states to take the necessary steps to create permanent universal service mechanisms that would be secure in a competitive environment. To achieve this end, Congress directed the Commission to strive to replace the system of implicit subsidies with "explicit and sufficient" support mechanisms. In calling for explicit mechanisms, Congress did not intend simply to require carriers to identify and disclose the implicit subsidies that currently exist in the industry.¹¹

At least two parties -- the Telecommunications Resellers Association and the South Dakota Public Utilities Commission -- assert that the Commission should require facilities-based IXC's to pass through to their customers any access charge savings

⁹ Sprint does not expect, nor does Section 245(b) contemplate, that a national universal service fund, or for that matter, a supplementary state fund, to serve as a substitute for appropriate, cost-based rate increases in some, primarily rural, cases. Sprint has stated in past comments that, in order to avoid significant intrastate USF surcharges, states should act now to rebalance local rates. Today, it is not unusual for rates in rural areas to be notably lower than those in urban areas. Moving local rates to cost-based prices will lessen the need for high intrastate USF surcharges and ease the universal service burden on rural states.

¹⁰ See, for example, the comments of the New Mexico Attorney General; and the South Dakota Public Utilities Commission at pp. 2-3.

¹¹ See, *In the Matter of Access Charge Reform*, CC Docket 96-262, Report and Order released May 16, 1997 at paragraph 33.

resulting from the replacement of implicit subsidies with explicit support mechanisms.¹² The Commission should resist such attempts to impose a regulatory requirement where competitive market forces can achieve the desired result. The fact is, in the highly competitive interexchange market, competitive pressures will (and have) force IXCs to set their rates at appropriate levels. Studies have shown that historically, long distance rates have fallen more steeply than the IXCs' associated access costs.¹³ Commission action regarding the issue of IXC flow-through is, therefore, both unwarranted and unnecessary.

CONCLUSION

The Commission should view its report to Congress as an opportunity to modify its earlier orders and create the competitively neutral USF contribution system envisioned by the Act.

Respectfully submitted,

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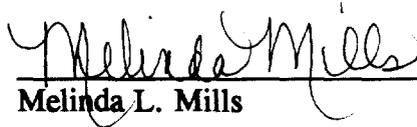
February 6, 1998

¹² See, Comments of Telecommunications Resellers Association at p. 11; South Dakota Public Utilities Commission at pp. 2-3.

¹³ See, Jim Lande, Industry Analysis Division, Common Carrier Bureau, "Telecommunications Industry Revenue: TRS Fund Worksheet Data", December 1996 at p. 9.

CERTIFICATE OF SERVICE

I, Melinda L. Mills, hereby certify that I have on this 6th day of February 1998, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing "Reply Comments of Sprint Corporation" in the Matter of Federal-State Joint Board on Universal Service, Report to Congress, CC Docket No. 96 45, filed this date with the Secretary, Federal Communications Commission, to the persons on the attached service list.



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