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December 22, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary - Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: CC Docket Nos. 96-45 and 97-160
FCC CCB Cost Model Input Workshops

Dear Ms. Salas,

Today, I provided to members of the Common Carrier Bureau staff the attached information in regard to the above referenced proceedings. The information represents Sprint's response to the proposed methodology for developing certain expense inputs being considered by the Bureau staff as described in the December 1, 1998 cost model input workshop. Specifically, the attached information addresses the Bureau staff's proposed inputs for customer and corporate operations expenses as well as plant non-specific expenses.

We request that this information be made a part of the record in this matter. The original and three copies of this notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(b)(1) for this purpose. If there are any questions, please call.

Sincerely,

Pete Sywenki

Attachment

cc: C. Brown
B. Loube
K. King

SPRINT
COMMENTS ON PRELIMINARY USF INPUT VALUES
CORPORATE AND CUSTOMER OPERATIONS, AND PLANT NONSPECIFIC EXPENSES
DECEMBER 21, 1998

Marketing Expenses

Sprint believes that it is appropriate to recover specific marketing expenses associated with the provision of basic local service through an explicit universal service fund. Current ILEC marketing expenses include forecasting (which determines network growth requirements), sales and advertising expenses, product management and more. It is possible that some of these expenses might be inappropriate for inclusion in a USF cost calculation (such as portions of product management). However, others will not only continue to be incurred in the provision of basic service (forecasting, advertising) but might possibly *increase* beyond their most recent levels.

The reason for this possible increase is the competitive environment assumed in the FCC's proposed costing methodology. With regard to the production of a service such as basic telephone service, a competitive environment guarantees that inefficiencies (if they exist) will be removed or corrected. But with regard to marketing expenses, a shift from a monopoly market to a competitive market will be accompanied by an increase in expenditure, not a decrease.

The FCC's proposed costing methodology assumes all of the productive efficiencies and cost savings that are achieved by the economies of scale that come from serving an entire market. To be consistent with this approach, the FCC must also assume that the provider incurs whatever costs are associated with marketing to that same market in a competitive environment. Sprint believes that the total monthly per line input for marketing expense that has been suggested in the December 1, 1998 workshop is a reasonable approximation of actual and current marketing expenses that would be incurred by an efficient provider. Sprint also believes that the Commission should leave open the possibility that this figure might need to be adjusted upward to more accurately reflect the forward-looking nature of the FCC's proposed methodology.

Customer Service Expenses

Sprint believes that the range of input values presented at the December 1, 1998 workshop for customer service expense understate the costs that an efficient provider would incur in Sprint's operating territory. The proposed values presented by the FCC ranged from $1.27 to $1.46. Sprint believes that an input value of $1.70 is appropriate and more accurately estimates the necessary forward-looking costs of providing local service.

Sprint has determined the proposed input of $1.70 based on our avoided cost study, an activity based costing analysis of data compiled for our Texas (Centel) property, our only non-rural LEC currently receiving USF payments. Total Texas (Centel) customer service expenses on a monthly per line basis is $3.60. Our proposed input of $1.70 represents 47% of total company expenses. Subaccounts within customer service were assigned to local basic service based on actual measures of work performed in those functional areas. For example, business office expenses are assigned to basic local service based on studies of business office activities. A random sample of business office representatives time is observed and classified according whether the representative is working on basic service, toll service, features, etc. The results of the random sample are tabulated to arrive at a percentage distribution of business office activities by service. Another example, a random sample of customer bills was analyzed to count lines pertaining to basic service, toll service, directory advertising, etc. The results were tabulated to arrive at a percentage distribution to be applied to customer billing expenses. Customer billing expenses assigned to basic local service are included in the $1.70 proposed input. Sprint proposes that an activity based costing approach be allowed in the determination of customer service inputs.

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Corporate Operations Expenses

Sprint believes that the proposed ranges presented at the December 1, 1998 workshop accurately estimate the necessary forward-looking costs of providing local service.

Plant Nonspecific Expenses
Other Property Plant & Equipment Expenses

Sprint believes that the proposed ranges presented at the December 1, 1998 workshop accurately estimate the necessary forward-looking costs of providing local service.

Network Operations Expenses

During the past year, Sprint has provided the Commission with a large amount of information designed to serve as support for specific *investment* input values to be used in the FCC's proxy model. This information has included invoice pricing, actual contractor costs, and more. With regard to operating *expenses*, Sprint believes it is consistent to look to the actual experiences of firms currently providing basic service, particularly firms operating under price regulation since those firms possess the same incentives for efficiency that any competitive firm possesses.

Sprint believes that the component parts of the plant nonspecific expenses are directly attributable to the provision of basic local service because Sprint utilizes the best available technology and most efficient methods in its operations. Sprint's actual expenses are the appropriate measures to use when determining forward-looking network operations expense levels for use in the FCC's costing model.

Sprint believes that the range of input values presented at the December 1, 1998 workshop for network operations expense understate the costs that an efficient provider would incur in Sprint's operating territory. The proposed values presented by the FCC ranged from $1.38 to $1.60. Sprint believes that an input value of $3.00 is appropriate and more accurately estimates the necessary forward-looking costs of providing local service.

The table below breaks the plant nonspecific expenses down into the component parts based on Sprint's actual experience. The expenses outlined are clearly essential to the provision of basic access line service and should be recovered through USF.

The approximate percentages in the table were derived from analyzing Sprint-Florida detailed subaccounts for plant nonspecific expenses. Subaccount data was taken from the company's general ledger for 1997. Each expense subaccount was classified as relating to the operation or administration of loop, switching, loop carrier or interoffice transport investment. Expenses relating to interoffice transport investment were weighted at zero in the development of the USF percentage. Switching related expense subaccounts were assigned to USF at 85%, the ratio of Florida local switching minutes to total switching minutes. Loop related expense subaccounts were assigned 100% to USF. In some instances, expenses in subaccounts relate to operation and administration of multiple network functions. In these instances, expenses are allocated among network functions on the basis of the relative investment in those functions.

Sprint monthly plant nonspecific expense per line costs were determined by applying the percentages discussed above times balances of Sprint LTD plant nonspecific expense accounts for 1997. Then those amounts are divided by the number of Sprint LTD access lines at December 31, 1997 and divided by twelve.

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Account	Description	Subaccount	Approximate Assignment for USF	Monthly Per Line
6531	Power		80% Local Switching & Loop Carrier	$ 0.18
6532	Network Administration	Traffic Engineering	67% Local Switching	0.04
		Assignment	95% Loop	0.29
		Supervision, Other	87% Loop and Local Switching	0.28
6533	Testing	Line Testing	100% Loop	0.22
		Other Testing	80% Local Switching & Loop Carrier	0.22
		Supervision, Dispatch	85% Local Switching & Loop	0.28
6534	Plant Operations Admin	Central Office	80% Local Switching	0.22
		Outside Plant	95% Loop Cable & Loop Carrier	0.22
		Cable & Wire	95% Loop	0.14
		Other	90% Local Switching & Loop	0.15
6535	Engineering	Cable & Wire	95% Loop	0.13
		Central Office	80% Local Switching	0.05
		Drafting	90% Loop	0.08
		Other Administrative	90% Loop	0.50
	Total Account 6530			$ 3.00

Account 6531 contains expenses of providing power for switching and carrier equipment. No reductions in power expense are expected in a forward-looking environment, and Sprint believes that the current level of expense is appropriate.

Account 6532, traffic engineering, is expense associated with monitoring line and trunk usage and planning for future line and trunk needs. This account relates to both interoffice transport and switching investments. Only the amount assigned to local switching has been included for USF recovery.

Account 6532, assignment, is expense associated with assigning plant facilities in association with service order activity. This account relates to both interoffice transport and loop investment. The assignment function employs an automated system in which the vast majority loops and DLC equipment are automatically assigned without need for human intervention. Only the amount related to the assignment of loop facilities has been included for USF recovery.

Account 6532, supervision and other, are expenses associated with supervision and record keeping of the network administration function. This account has been assigned to USF based on the composite percentage of traffic engineering and assignment expenses assigned to USF.

Account 6533, line testing, is the expense of testing loop facilities. Sprint utilizes state-of-the-art test systems to test trouble reports with out human intervention and to route those reports to the appropriate work groups. The test systems also automatically test customer facilities on a proactive basis to identify and analyze potential problems so that they may be dealt with economically on a proactive basis, rather than with a more inefficient individual dispatch.

Account 6533, other testing, are the expenses of testing switching and loop carrier equipment. Local switching and loop carrier has been assigned to USF.

Account 6533, supervision and dispatch, are the expenses of supervising the test function and dispatching technicians on trouble reports. This account has been assigned to USF based on the composite percentage of all testing expenses assigned to USF.

Account 6534, central office, is the administrative expense associated with supervision of the central office, loop carrier system, and interoffice carrier system maintenance and construction functions. The central office plant operations administration function utilizes fully automated network trouble monitoring, centralized network maintenance centers, and automated scheduling of central office maintenance activities. Only amounts associated with loop carrier and local switching have been assigned to USF.

Account 6534, outside plant and cable & wire, is the administrative expense associated with the supervision of the outside plant maintenance and construction functions. Only amounts associated with loop carrier and loop cable have been assigned to USF.

Account 6534, other, are the other expenses and the administrative expense associated with general supervision of the plant operations administration function. This account has been assigned to USF based on the composite percentage of all plant operations administration expenses assigned to USF.

Account 6535, cable & wire, are the expenses associated with the cable & wire engineering function which are not chargeable to specific jobs. Interoffice transport expenses have been excluded from USF. Loop expenses have been assigned to USF.

Account 6535, central office, are the expenses associated with the central office engineering function which are not chargeable to specific jobs. Loop carrier and local switching expenses have been assigned to USF.

Account 6535, drafting, are the expenses associated with the drafting function which are not chargeable to specific jobs. The drafting function employs a state of the art AM/FM system for central office and outside plant and a facilities data warehouse to make this information immediately and automatically available to other systems and functions. This account has been assigned to USF based on the composite percentage of all engineering expenses assigned to USF.

Account 6535, other administrative, are the expenses associated with preliminary engineering work done before project numbers are assigned, and with other engineering work not included elsewhere in the accounts. This account has been assigned to USF based on the composite percentage of all engineering expenses assigned to USF.

Sprint does not contend that it should simply be reimbursed for it's cost, however efficient or inefficient its operations may be. Sprint is at the leading edge of the use of technology and efficient operations. Sprint is a least cost provider for our service territories.

Regression Analysis Method of Calculating Input Ranges

Although Sprint does not yet have detail on how Preliminary Results input ranges were calculated for the December 1, 1998 workshop, we would like to comment generally on the methodology used. Our opinion is that a regression analysis may be an acceptable method of calculating input ranges. However, Sprint would need to investigate further whether the specifications and data used in the calculations are reasonable before we could comment on the appropriateness of the results of the calculations. Accordingly, Sprint requests that the Commission allow further comments on this matter at a later date. Specifically, there would be value in understanding how the exact specification of the regression data was achieved. Were additional explanatory variables considered? Were attempts made to include any additional explanatory variables? Are these intermediate results available to the industry? Were various functional forms attempted? Answers to these questions will provide key information needed to evaluate the regression results themselves.