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

In the Matter of	**)**	
	)	
Federal-State Joint Board on	**)**	**CC Docket No. 96-45**
Universal Service	**)**	**DA 98-2410**
	)	

REPLY COMMENTS OF SPRINT CORPORATION

Very little in the comments of other parties on the Joint Board's Second Recommended Decision warrants a reply. Rather than reiterating the positions and supporting reasoning advanced in its initial comments, Sprint will confine this reply to a brief discussion of three issues: (1) the need to employ forward-looking costs in the new high cost fund; (2) the need to analyze costs and determine support using areas far smaller than a study area; and (3) the need to require ILECs to recover their universal service costs from the end users rather than from access charges.

I. FORWARD-LOOKING COSTS

Some parties (e.g., BellSouth at 6-7 and SBC at 3-4) take issue with the Joint Board's recommendation that the high cost fund should be based on the use of a forward-looking cost model. At least in BellSouth's case, its opposition appears to be tied to the Joint Board's recommended use of an entire study area to measure costs, a subject which is discussed in the ensuing section of these reply comments. However, despite the fact that there are issues that remain to be addressed with the Commission's cost model[1],

[1] See Sprint's December 23, 1998 Comments at 3-4.

Sprint does not believe it can be seriously argued that the permanent high cost fund should be based on embedded costs rather than forward-looking economic costs. As the Commission found in its Report and Order in this proceeding,[2] forward-looking economic costs best approximate the costs that would be incurred by an efficient carrier, and calculating universal service support based on such costs encourages, preserves and advances universal service and thereby helps to ensure that high cost support will not be used for purposes other than those intended by Section 254 of the Act. The Commission also found (id. at 8901) that embedded costs – whether they are above or below forward-looking economic costs – provide the wrong signals to potential entrants and existing carriers alike and ultimately could jeopardize the provision of universal service. None of the opponents of forward-looking costs even begins to come to grips with the reasons that underlie the Commission's past endorsement of forward-looking costs as the basis for determining universal service support, and the Commission should not seriously entertain ill-conceived proposals to abandon forward-looking economic costs as the touchstone of the new high-cost fund.

II. SUPPORT MUST BE CALCULATED IN AREAS FAR SMALLER THAN A STUDY AREA

Sprint's initial comments (at 8-10) explained why the Joint Board's recommendation that costs be measured on a study area basis is entirely unsound, a view shared by many other parties as well.[3] Nonetheless, a number of other parties support the

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[2] 12 FCC Rcd 8776, 8899-8900 (1997) (subsequent history omitted).

[3] See e.g., MCI WorldCom at 10, 15; SBC at 4-5; U S West at 7-10; and Wyoming PSC at 4-6. .

Joint Board's study area approach.[4] The reason many of these parties offer for supporting the study area approach is that a more disaggregated examination of costs would inevitably lead to a larger high cost fund. This does not need to be the case. Ultimately, the determination of the size of the high cost fund is a political one: the Commission will have to make judgments on how much is too much for subscribers in high-cost rural areas to pay for their basic telephone service needs, and how big a "tax" the Commission is willing to impose on the telecommunications industry, and ultimately the public, to subsidize phone service in high-cost areas. Calculating costs on a disaggregated basis, such as a wire center or a census block group, guarantees that whatever amount of high cost support the Commission ultimately determines is appropriate can be directed to support consumers in areas where the cost is highest – the very type of targeting that Section 254 contemplates. As Sprint pointed out in its initial comments (at 9-10), calculating support on a study area basis raises a host of conceptual and administrative problems, including whether CLECs that only serve the lower cost areas of a high-cost study area should be entitled to universal service support, and if not, whether the universal service program is competitively neutral and one that encourages new entry.

Calculating costs on the basis of a study area also necessarily requires continuation of the implicit cross-subsidies between low cost and high cost regions within a study area. As U S West points out (at 8-9), such continued reliance on implicit subsidies is not only bad policy but contrary to the intent of Congress, which directed that implicit subsidies should be removed and universal service support should be made

[4] See AT& T at 4-5; Ameritech at 5, Bell Atlantic at 5; and CompTel at 2-3.

explicit. Such a policy would be highly detrimental to the development of local competition in higher cost areas as well. A would-be entrant would never be able to compete successfully with the incumbent LEC in a high-cost area unless it had the full amount of internal subsidy from other services that the ILECs possess. And, ironically, since residential rates in even low cost areas are sometimes kept at below-cost levels, new entrants have little ability to compete in the residential market.

On the other hand, AT&T and CompTel raise a legitimate issue that many states have established a single, statewide rate for UNEs and that the absence of disaggregated UNE rates presents opportunities for arbitrage. Sprint agrees that just as costs must be examined on a disaggregated basis for determining USF support, UNE prices must be geographically disaggregated as well. Otherwise, CLECs are forced to pay above-cost rates in high-density low-cost urban areas, while ILECs could be subjected to uneconomic entry in high cost areas from CLECs that purchase loop UNEs at statewide-averaged rates that are well below the actual costs of loops in outlying areas. Thus, it may be appropriate for the Commission to limit high-cost support from the federal fund only to those states that establish geographically deaveraged prices for UNEs.

III. ILECs SHOULD RECOVER THEIR USF COSTS FROM THEIR END USERS

Sprint pointed out in its initial comments that it was unfair for the Commission to permit, and indeed require, ILECs to pass the vast bulk of their universal service contributions onto IXCs through access charges. Sprint argued (at 14) that this disproportionately burdens IXCs and their customers with the cost of USF programs and violates the principles of non-discriminatory, competitively neutral recovery of USF costs. It is noteworthy that Sprint's view is not only shared by other IXCs (e.g., AT&T at

8), but also by every major ILEC that addressed the issue.[5] Not only do all these ILECs agree that they should be permitted to assess their USF costs directly on end users, but many argue that they should be required to do so. Thus, Ameritech (at 11) urges that the Commission consider requiring all carriers to recoup universal service support only via specific surcharges on their end user bills, and U S West (at 15) advocates a uniform mandatory retail end-user surcharge on the consumer's bill by all carriers.

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[5] See Ameritech at 10-11, BellSouth at 9-10, GTE at 32, and U S West at 13-17.

CERTIFICATE OF SERVICE

I, Joan Hesler, hereby certify that I have on this 13th day of January 1999, 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, CC Docket No. 96-45, DA 98-2410, filed this date to the persons on the attached service list.

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