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

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In the Matter of	)	
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Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
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Access Charge Reform	)	CC Docket No. 96-262
	)	

COMMENTS OF SPRINT CORPORATION

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July 23, 1999

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SUMMARY

In this filing, Sprint Corporation ("Sprint") provides its comments in response to the Commission's further notice of proposed rulemaking regarding the implementation of the universal service plan.

Sprint asserts that the Commission has not, within its *Truth-in-Billing Order* or in the instant matter, addressed all facets of the issue of carrier recovery of USF contributions. Sprint explains that it is imperative, in order to preserve competitive neutrality, that the Commission expressly order that local exchange companies are prohibited from recovering USF contributions through carrier access charges.

Sprint advises against the inclusion of wireless lines when determining a state's ability to support universal service. Wireless costs were not considered in determining the national benchmark and thus it is inappropriate to include them when assessing a state's ability to support universal service. The Commission should not take any action that would prejudge the states' decisions on the inclusion of wireless carriers as universal service contributors. It should thus reject the notion of including wireless lines when determining a state's ability to support universal service.

It is imperative that hold harmless be implemented as part of the federal plan. It is critical that the Commission use as a starting point existing levels of funding – it may provide more, but not less. Furthermore, because it is quite likely that the cost model will not be flawless upon its introduction on January 1st, it is necessary that hold harmless be in place on that date. Its mere presence will lessen significantly any concern regarding the readiness of the model.

As Sprint has argued consistently in this docket, it is imperative that any ILEC receiving an increase in universal service support funds above its current funding levels must be required to offset that increase, dollar for dollar, though decreases in intrastate access charges.

The Commission should reject entirely the concept of block grants. The decision regarding the distribution of USF dollars must be made prior to the disbursement of the fund and not be left to a matter discretion after the fact. Neither the Act nor its legislative history contain any evidence to suggest that Congress intended a change in the manner in which USF dollars are dispensed. Funds should be directed to the relevant carrier based on the supported services provided by that carrier.

The Commission should calculate cost on the basis of wire center boundaries. Computing costs on a study area basis, as the Joint Board has suggested, results in little more than maintaining the status quo. Use of the wire center is the right answer for universal service because it allows support to be targeted. It also is the right answer for competition since it removes barriers to entry in high cost areas. Moreover, measuring cost at the wire center ensures that competition will not erode needed subsidies in high cost areas.

In an effort to assist the Commission in maintaining a federal fund that is not materially larger than the existing universal service fund while, at the same time, calculating costs based on wire centers, Sprint proposes a three-stepped plan. First, federal support should be available only for wire centers whose costs are 150% or greater than the nationwide average cost per line. Second, initially, only 37.5% of the

costs exceeding that threshold should be eligible for federal support. Finally, states will be responsible for funding their internal universal service needs up to an amount equivalent to $1.00 per access line per month. That is, federal universal service support will be available to companies in a state only to the extent that the support need defined in step 2 above exceeds the amount a state could raise through a $1.00 monthly charge per access line.

Finally, Sprint asserts that certain adjustments to the access charge regime are necessary. In short, interstate access charges must be rebalanced targeting specifically those rates that are now above costs (i.e. traffic sensitive rates). Implicit subsidies must be removed; if done in conjunction with rebalancing, removing these subsidies will minimize the overall size of the universal service fund.

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COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint"), on behalf of its local, long distance and wireless divisions, submits its Comments in response to the *Further Notice of Proposed Rulemaking* ("FNPRM")[1] issued by the Commission on May 28, 1999.

INTRODUCTION

In response to the most recent recommendations of the Federal-State Joint Board on Universal Service ("Joint Board"), the Commission has modified, in some instances significantly, its direction with respect to implementation of the federal universal service fund ("USF"). On certain points - such as the commitment to maintain a fund size near the currently existing fund size - Sprint applauds the Commission's philosophical shifts. Sprint continues, however, to harbor grave concerns about other aspects of the Commission's tentative plan. It is imperative that the guiding force

behind USF be congressional intent, as expressed in Section 254 of the Act, and the realities of the telecommunications marketplace rather than administrative expediency. With this in mind, Sprint offers the following suggestions regarding the Commission's tentative conclusions on the implementation of the universal service plan.

I. Incumbent Local Exchange Carriers Must Not Be Permitted to Recover USF Contributions Through Access Rates.

At ¶86, the Commission determines that it need not revisit the issue of how a carrier recovers its universal service costs because it had resolved the matter in its *Truth-in-Billing*[2] docket. Sprint agrees that, within the context of that docket, the Commission addressed the question of how any end user charge resulting from universal service would be labeled on the bill, as well as the debate regarding whether a carrier may bill the customer more than its pro rata share of universal service fees. However, Sprint respectfully suggests that the Commission has not, in either its *Truth-in-Billing Order* or in the instant matter, addressed all facets of the recovery issue.

In the *Truth-in-Billing Order*, the Commission declined to prescribe precisely how carriers are to recover USF-associated costs stating that it would "... afford carriers the freedom to respond to consumer and market forces individually, and consider whether to include these charges as part of their rates, or to list the charges in separate line items."[3] While, significantly, the Commission has determined that it is appropriate for a

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[1] *Federal-State Joint Board on Universal Service*, Seventh Report & Order and Thirteenth Order on Reconsideration in CC Docket No. 96-45; Fourth Report &Order in CC Docket No. 96-262 and Further Notice of Proposed Rulemaking, FCC 99-119 (rel. May 28, 1999).
[2] *Truth-in-Billing and Billing Format*, First Report and Order and Further Notice of Proposed Rulemaking, FCC 99-72 (rel. May 11, 1999) ("*Truth-in-Billing Order*").
[3] *Truth-in-Billing Order*, at ¶55.

carrier to recover its USF costs through an end-user charge, its continues to require LECs to pass their funding obligations through to IXCs.

Sprint has, throughout this proceeding, advocated the view that in order to build competitive neutrality into the cost recovery mechanism, it is imperative that the Commission forbid local exchange carriers ("LECs") from recovering their USF contributions through carrier access charges. Whether the interexchange carrier ("IXC") recovers its contributions through a separate charge or otherwise buried in its rates is, in the end, the IXCs' only avenue of recovery is from the end user. The LEC, on the other hand, is required to pass its USF costs to the IXC through access charges, thereby avoiding the need for any type of end user charge. This gives the LEC an unwarranted competitive advantage – the very type of advantage the Commission worked to annul in the *Truth-in-Billing Order*. Sprint submits that the Commission cannot square the position it has taken in this regard in this proceeding with that it has taken in Truth-in-Billing. There, the Commission determined that uniform labeling of items associated with federal regulatory action was necessary in order to allow consumers to understand and compare charges among service providers.[4] The Commission defeats this purpose when it allows one segment of service providers to "hide" USF costs in carrier rates. In that situation, the end user, comparing rates, will believe that the IXCs are imposing a cost that LECs do not impose. Competition is skewed and a primary goal of the Act is made less likely, if not defeated in toto. The Commission must act now to declare that federal USF contributions should be recovered through charges to their end users rather than through interstate carrier access charges.

[4] *Id*, at ¶50.

II. Wireless Lines Should Not Be Considered When Determining a State's Ability to Support Universal Service.

At ¶112, the Commission asks whether wireless lines should be included when determining a state's ability to support universal service. Sprint believes the answer to this question is no, wireless lines should not be included in such a calculation.

The Commission has adopted the Joint Board's methodology for determining how support will flow, finding that the federal fund will support areas with per-line costs in excess of a cost-based national benchmark figure (at ¶11). In previous orders, the Commission has declined to include wireless costs in building the proxy cost model to determine just what that average cost per line would be. Consequently, to the extent wireless costs were not considered in determining the benchmark, it is inappropriate to include wireless lines when assessing a state's ability to support universal service.

Likewise, the Commission recommends (again, in ¶11) that an objective indication of state resources should be used to glean the state's ability to achieve reasonable rate comparability without federal support. Sprint asserts that adoption of the suggestion that wireless lines be included when determining a state's ability to support universal service, would result in anything but the objective standard the Commission seeks. Some states have elected not to assess intrastate USF obligations on wireless carriers. To date, however, it is not clear precisely what the states will do in this regard – some states have determined that wireless carriers shall contribute to their respective state funds; other states have declined to take similar action or have not yet made a decision on the issue. Still other states, such as Missouri, are statutorily prohibited from considering wireless providers as contributors since they are not considered telecommunications carriers in those states.

Sprint does not argue with the Commission's authority to devise a reasonable methodology for determining a state's ability to support universal service. However, Sprint does aver that, in doing so, the Commission should not take any action that would prejudge the states' decision on the inclusion of wireless carriers as universal service contributors – or to penalize a state like Missouri which cannot by virtue of its state's statutes, include wireless carriers as contributors to universal service. The suggestion made in ¶112 would render such an unacceptable result. It must, therefore, reject the notion of including wireless lines when determining a state's ability to support universal service.

III. The Commission Must Adopt a Hold Harmless Provision.

The initial premise of all Commission actions with respect to USF must be the old adage "first, do no harm". In keeping with that logic, Sprint fully supports the Commission's suggested use of a hold harmless mechanism with regard to existing federal high-cost support in order to ensure that no carrier or state is unduly harmed. No carrier or state should receive less explicit federal high cost support than it receives today. When it required support to be made explicit, Congress certainly did not anticipate changes to the universal service plan that would harm either carriers or end users. In crafting changes to the plan, therefore, the Commission may move forward and provide more support, but it may not provide less. Under these circumstances, the Commission's suggested hold harmless proviso is completely appropriate and should be adopted.

Moreover, the hold harmless proviso is essential given the state of development of the cost model and the cost model inputs. As Sprint has amply demonstrated through its participation in the input phase of the cost modeling process, and as documented in the

comments in that proceeding that Sprint is filing this same day[5], the proposed inputs for the determination of universal service costs are simply not representative of the forward looking costs of the Sprint Local Division companies. Consequently, the outputs of the cost model materially understate the actual forward-looking costs of providing basic local services in Sprint Local's serving areas.

The hold harmless provision is, therefore, critical to ensure that LECs such as Sprint Local do not suffer a diminution of universal service support merely because of the erroneous understatement of their true forward looking costs of service. Although Sprint does not oppose the Commission's proposal to revisit the hold harmless provision in three years, it would oppose any reopening of that provision prior to the adoption of inputs that accurately reflect the actual forward looking costs on a company specific basis. It would indeed be ironic if the Commission were to deny universal service support to a LEC on the basis that a smaller LEC serving primarily high cost areas could not achieve the lower per unit cost that a larger LEC serving both high and low cost areas is able to achieve. Yet, that is precisely the result of using nationwide average input costs in the Commission's universal service model.

Finally, in its companion order regarding cost model inputs, the Commission has raised the question of how it might determine support levels in the event the model is not ready for implementation on January 1, 2000[6]. Sprint notes that the adoption of carrier-specific hold harmless lessens significantly any concern regarding the readiness of the model[7]. Once in place, the carrier-specific hold harmless provision will ensure that support continues

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[5] *In the Matter of Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket No. 96-45, CC Docket No. 97-160, Further Notice of Proposed Rulemaking rel. May 28, 1999.

[6] *Id*, at ¶243.

[7] Similarly, Sprint asserts that the only way the Commission will be able to eliminate its hold harmless provision without imposing new harm on some carriers is with the adoption of company-specific inputs to the model –

to flow to targeted high-cost areas, regardless of the amount of time it takes to perfect the model and its inputs.

This point cannot be stressed enough. While not attempting to be critical, Sprint notes that the model has already been through numerous iterations. The Commission should not, therefore, harbor any false assumptions that the model will be flawless on January 1st. This fact alone makes the implementation of hold harmless critical to the success of the new universal service methodology.

IV. ILECs Receiving Increases in Universal Service Support Must Offset Those Increases, Dollar for Dollar, Through Reductions to Intrastate Access Charges.

Sprint asserts that it is imperative that any ILEC receiving an increase in universal service support funds above its current USF funding levels must be required to offset that increase, dollar for dollar, through decreases in intrastate access charges[8]. (Below in Section VIII, Sprint will discuss the need to remove implicit subsidies from interstate access charges.) Pursuant to Section 254(e), the universal service support mechanism is to be "explicit and sufficient." The Commission has acknowledged that currently, implicit subsidies exist in intrastate access charges that are used to support universal service. As those implicit subsidies are made explicit, carriers should not either reap a windfall or on the other hand be disadvantaged – which is the goal of the universal service provision. However, the intent of hold harmless can be easily corrupted if the system can be manipulated such that a carrier could actually turn universal service into a revenue-making opportunity.

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something its current proposal fails to do. Sprint expands on this point in its comments filed this day in the Commission's companion docket.

[8] It should be noted that, in a very few special circumstances, states may have already eliminated the subsidies that were present in intrastate access.

The only way to insure against such an outcome is to require the dollar for dollar offset in intrastate access rates as described above. To do otherwise, (such as permitting reductions to be made to basic rates or hold harmless amounts), would allow the implicit subsidies already present in intrastate access to remain in place, thereby defeating the goals set forth in Section 254. Moreover, such reductions are an entirely appropriate use of universal service funds, as specifically described in ¶77 of the Commission's *1st Report and Order* on USF.[9] There, the Commission made clear that USF monies "... will be available for access to interexchange service... " The single best way to accomplish both of these objectives is to require that ILECs receiving increases in USF support apply those increases, dollar for dollar, to reductions in intrastate access rates. These decreases in intrastate access charges will prevent double recovery by the LECs.

V. The Commission Should Reject the Block Grant Concept.

As noted in its comments filed in response to the Joint Board's recommendation concerning block grants[10], Sprint strenuously objects to the notion of disbursing dollars in the form of block grants to the states rather than distributing the funds directly to the relevant carriers. As the Joint Board itself found:

> "... we cannot recommend that the Commission adopt that mechanism, in light of the long-standing practice at the time that the 1996 Act became law of distributing federal universal service support to the carriers providing the supported services, and the absence of any affirmative evidence in the statues or legislative history that Congress intended such fundamental shift to a state block grant distribution mechanism."[11]

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[9] *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776 (1997) at ¶226. ("*1st Report and Order*")

[10] *Federal-State Joint Board on Universal Service, Second Recommended Decision*, CC Docket 96-45, (rel. November 23, 1998). (Sprint comments filed December 23, 1998 at pp. 2-3).

[11] *Id*, at ¶61.

Similarly, Chairman Kennard, in dissenting in part from the instant order, expressed his belief that:

> The Joint Board considered and rejected this idea [of block grants], and for good reason. Federal support has traditionally been distributed directly to the carriers themselves. Under section 254 of the Act, support must ultimately go to carriers. Accordingly, the block grant idea amounts to a proposal to add an additional layer of administration, which is bound to increase costs and reduce efficiency. The states themselves are generally opposed to the idea as evidenced by the rejection of this idea by the joint board. Similarly a majority of the comments in this proceeding, including many of the recipients of high-cost support are also opposed to the idea. In sum, block grants are not a good idea for high-cost support."

Sprint is in full agreement with the Chairman on this point. The decision regarding the distribution of USF dollars must be made prior to the disbursement of the funds and not be left to a matter of discretion after the fact. In addition to the unnecessary administrative hurdles that would result from a block grant scenario, the Commission must also consider the damage such a plan would do to goals of the fund. For instance, while a state would be awarded funding based on its high-cost needs, once provided the lump sum amount, it would be free to redirect those monies away from high cost areas to unrelated subscribers or services, thus depriving the intended recipients of the support. Likewise, unless USF dollars are delivered to their intended destination, funding would not be available to new entrants seeking to enter high cost areas, negatively impacting not only the competitive neutrality of the funding mechanism, but the proliferation of facilities-based competition as well.

Importantly, the specific justification given for the Commission's use of a forward-looking costing mechanism was to take advantage of the geographic level of detail provided by such a mechanism – a level of detail not attainable from exiting cost accounting systems.[12]

[12] *1st Report and Order.*

This level of detail is necessary for the effective targeting of support. However, the proposed block grant approach provides no assurance that such targeting will occur.

The Commission should, once and for all, put to rest the notion of block grants for universal service funding. As the Joint Board aptly notes, neither the Act nor its legislative history contains any evidence to suggest that Congress intended a change in the manner USF dollars are dispensed. Funds should be directed to the relevant carrier based on the supported services provided by that carrier.

VI. The Commission Should Calculate Costs on the Basis of Wire Center Boundaries.

In spite of past proclamations on behalf of both the Joint Board and the Commission on the merits of calculating costs over a wire center area, the Commission once again has requested input on this facet of the universal service plan (at ¶105). Sprint has consistently supported the use of a wire center or smaller geographic area[13] instead of the study area for this purpose. In its most recent comments on the subject, Sprint noted that computing costs on a study area basis results in little more than maintaining the status quo. Moreover, Sprint has asserted that Section 254 does not envision, and would not permit, a plan that would not accommodate competition – which would be the result of using a study area.

The flaws associated with use of a study area cause the concept to collapse under its own weight. A study area is based on the LEC service area – a fact that this Commission recognized as fatal when it asserted that existing LEC service areas are too large and would

[13] In previous filings, Sprint has supported the use of census block groups. Even the wire center establishes a degree of averaging that is probably unsustainable in a competitive market – i.e. cost variations within a wire center (such as between the densely populated areas around the typical wire center to the outlying suburbs), are huge. However, Sprint recognizes the Synthesis Model does not produce costs below the wire center.

increase CLEC start-up costs, thereby imposing a barrier to entry.[14] Moreover, to the extent a state should decide that CLEC's service area must mirror the area over which costs are calculated, the study area as a measure virtually ensures the erection of such a barrier. LEC study areas are often non-contiguous, not logically created with respect to efficient outside plant lay-out, and not what an efficient CLEC would design on its own for a serving area – facts that would logically impact a new competitor's decision to enter the market.

Equally as important, from a costing standpoint, the study area approach uses an average cost for the entire study area rather than an individual wire center. As a result, a study area with an average cost that falls below the federal benchmark would, according to the Commission's methodology, appear to have no need for federal universal service assistance. As a consequence, the low-cost areas within the study area will continue to subsidize the high cost areas, defeating completely congressional objectives for universal service.

To the extent that the universal service plan causes the subsidization of high cost areas by low cost areas to continue, the Commission must accept the reality that this type of subsidization will be eroded with the arrival of competition in the low cost areas – the only portion of the study area to which competitors will flock. Why would an efficient competitor act otherwise when, as a result of study area-wide averaging, there is no guarantee that serving the high cost areas will allow the competitor to recover its costs? The Commission recognizes the probability of this destructive consequence when it notes, in ¶9 that, "[U]nder the current system of federal support, potential new entrants to the local market in high-cost areas are at a competitive disadvantage relative to incumbents, which have access to much greater implicit support than new entrants... explicit mechanisms may encourage competitors to expand service beyond urban areas and business centers into all areas of the country and to all

[14] *1st Report and Order* at ¶184.

Americans, as envisioned by the 1996 Act." Again in ¶15, the Commission stresses that, "... as support becomes explicit and portable, we expect that competitors will find that they are increasingly able to compete for customers outside of the urban and business communities where we have seen more extensive competitive entry to date." The Commission clearly, and rightfully, wishes to promote competition in all areas of the country, not just the urban, low cost areas. As outlined above, averaging costs over a study area will ensure that the opposite occurs.

It is for these very reasons that the Commission, from the start, gave its support to the adoption of the wire center approach. The Commission recognizes that calculating support over a smaller area such as the wire center would promote the efficient targeting of support.[15] The Commission is also aware that the wire center approach contains none of the pitfalls for competition with which the study area method is laden. The use of the smaller geographic area for calculating costs will facilitate entry into high cost areas, as it mitigates the burden on new entrants to essentially re-create the existing implicit subsidies. With that burden lifted, the competitive disadvantages for new entrants are diminished.

The key to the success of universal service is targeting support to high cost areas. Disbursing funds on a study area basis would ignore the Commission's stated goal – and the primary objective of Section 254 - of targeting support to high cost areas.

Using the wire center is the right answer for universal service because it allows support to be targeted. It is also the right answer for competition since it removes barriers to entry in high cost areas. Just as importantly, measuring cost at the wire center ensures that competition will not erode needed subsidies in low cost areas.

[15] *Id*, at ¶193.

The Commission was correct in 1997 when it initially reasoned that the wire center was the right answer – it must not waiver from its position now for the sake of an illusory sense of administrative ease that use of a study area may, on its face, appear to offer. In fact, all the study area provides is a proverbial fig leaf behind which is hidden existing implicit subsidies. While it is true that use of the study area would help the Commission and the Joint Board to achieve the goal of maintaining a fund not materially larger than that which exists today – a goal that Sprint shares - it is not necessary to abandon targeting of support in order to achieve that objective. In the section below, Sprint will describe a plan that uses wire center costs but achieves a fund that is not materially larger than today's fund and does not hide the extent to which implicit subsidies currently exist in local rates.

Any attempt to use the study area to define need is flawed on at least two levels. First, the foundation for such an approach is the assumption that subscribers in the local cost wire centers are assessed local rates based on the study areas average costs – i.e. that rate averaging can spread a portion of the costs of serving high cost areas to subscribers in low cost areas. Such an assumption is untenable in a competitive marketplace. The reality is that competition will drive rates to cost and any subsidy generated by charging above cost rates in urban or low cost areas will be driven out. Clearly, the subsidy needed to sustain universal service in high cost areas can only be measured based on the costs of serving those areas, not the average costs within a study area.

The second flaw in the use of study area average costs to define universal service need is its inherent lack of competitive neutrality. In some instances, a company serving high cost areas would receive no support since its overall average costs are below the threshold level, while another company serving similarly high cost areas would receive support because its study area average costs are sufficiently high to qualify for universal service support. The

unintended result will be to create the anomalous situation where one high cost wire center receives universal service support while another wire center, with precisely the same costs, would be given no support. This is tantamount to a policy decision to provide incentives to competitive entry, through USF support, to only selected high cost areas, i.e., the high cost wire centers served by high cost companies.

By way of example, Sprint offers the effect on two Texas wire centers of calculating support at a study area:

> ENCLTXEC, Southwestern Bell, FLEC of $200.98, under 300 lines;
> DRZTTXXB, GTE Southwest, Inc. FLEC of $200.54, under 300 lines.

Under a study area approach, using a cost benchmark of 115% and assuming states contribute $2.00 per line toward meeting universal needs, Southwestern Bell receives no funding to make available to new entrants in this high cost wire center while GTE receives over $25 million, a portion of which is made available to new entrants in the wire center.[16] Conversely, under a wire center approach, using the same 115% cost benchmark and the same state contribution of $2.00 per line, both companies receive high cost funding which may be made available to new entrants serving these high cost wire centers.

[16] GTE Texas currently has 492,782 access lines that fall into high cost areas such as DRTTXXB. Consequently, a $25 million federal contribution translates to over $50.00 per line of explicit universal service support.

VII Sprint's Proposed Plan for Federal Universal Service Support for Non-Rural LECs

As previously discussed, Sprint fully supports the Joint Board's and Commission's objective to not materially expand the federal universal service support for non-rural companies, but does not agree that it is appropriate or necessary to resort to the use of study area average cost to achieve that objective. Sprint's plan, rather, preserves the principle that costs should be calculated at the wire center or below[17], but equally produces a federal universal service fund for non-rural companies that is not significantly larger than the existing federal fund. Sprint's proposed plan, in summary, is the following:

1. Federal support should be available only for wire centers whose costs are 150% or greater than the nationwide average cost per line.
2. Initially, only 37.5% of the costs exceeding that threshold should be eligible for federal support.
3. States will be responsible for funding their internal universal service needs up to an amount equivalent to $1.00 per access line per month. That is, federal universal service support will be available to companies in a state only to the extent that the support need defined in step 2 above exceeds the amount a state could raise through a $1.00 monthly charge per access line.

The 150% threshold represents, in Sprint's view, a reasonable level to which local rates in a state could rise without being inconsistent with the "comparability" standard. No federal support should be provided to any wire center whose costs are less than the 150% threshold

[17] The Commission also sought comment on the use of UNE zones to calculate costs for universal service purposes. Sprint believes that a properly designed UNE deaveraging plan could reasonably be used for universal service. However, few if any states have adopted any type of UNE deaveraging, nor are they required to until six months after the date of implementation of the Commission's Universal Service Fund. (*See, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-98, Stay Order rel. May 7, 1999). Consequently, UNE zones are not today a practical alternative for federal Universal Service Fund purposes today.

level. Of course, individual states are free to determine that local rates at that level are not affordable or are otherwise not desirable. However, that is an individual state determination. To the extent that a state does decide to maintain local rates below the level indicated by 150% of the nationwide average costs, it should fund that subsidy exclusively through an intrastate universal service fund.

The second component of the Sprint proposal is to define only 37.5% of the costs exceeding the 150% threshold as potentially eligible for federal universal service support. The 37.5% reflects two considerations. First, the average cost per access line calculation includes costs (in particular, the non-traffic sensitive loop and switch port costs) that presently are allocated to, and recovered from, the interstate jurisdiction. In Section VIII below, Sprint will address the need for a separate interstate universal service fund to make explicit the subsidies currently embedded in interstate access rates. To also include those interstate costs in a federal universal service fund to support rate comparability between the states would result in a company receiving more federal support for intrastate costs than it actually required. Sprint believes that 25% is a reasonable approximation of the costs currently borne by the interstate jurisdiction.

Second, the 75% of those costs not already borne by the federal jurisdiction should not initially all be eligible for federal universal service support. This reflects, in part, the fact that local competition has not yet evolved to the point where the immediate elimination of all intrastate implicit subsidies is essential to the preservation of universal service. Thus, an immediate and substantial increase in federal universal service funding is not essential. Rather, Sprint would urge the Commission to take "one step at a time", developing a long term framework for federal universal support, but transitioning to the full level of support over a period of time, and coincident with states' initiatives to remove intrastate implicit subsidies.

More fundamentally, however, Sprint is concerned with the expansion of federal universal service support for non-rural companies absent any measure of the possible federal support that may be required for rural companies. Simply put, neither the Commission nor the Joint Board nor Sprint knows today the universal service funding needs of rural companies, and, therefore, the potential "ultimate" size of the federal universal service fund. Prudence dictates that the initial level of funding for non-rural companies be set at conservatively low levels so as not to inflate the federal universal service fund to a level that will make it difficult to accommodate the support needs of rural companies once those needs are determined. Consequently, Sprint advocates that of those costs for wire centers exceeding 150% of the nationwide average, half of the 75% of those costs not borne already by the interstate jurisdiction— that is, 37.5%--should be eligible for federal universal service support.

The third component of Sprint's plan is the amount of universal service needs that states can support internally. Sprint believes that $2.00 per access line is a reasonable approximation of this amount[18]. However, for the reasons articulated above, it is not necessary or even desirable to set this variable at its maximum level. In particular, it would be unreasonable to require states to use the entirety of what is determined to be their ability to support universal service within their states (i.e., the $2.00 per line per month advocated by Sprint) to support only non-rural companies. Thus, consistent with Sprint's proposal to limit

[18] Sprint's advocacy of the $2.00 per line per month as a standard for defining the level of universal service support a state can bear should emphatically not be interpreted to mean that any increase in local rates and/or state universal service assessments exceeding that level would jeopardize universal service. To the contrary, Sprint believes that basic local rates up to at least 150% of the nationwide average costs would not, particularly considering the support available to low income households, undermine the goal of universal service support. Sprint's position is that states can support universal service assessments equivalent to $2.00 per access line per month in addition to either rebalancing rates up to a maximum level of 150% of the nationwide average (roughly, $30) or imposing an additional universal service fund charge to fund the difference between that rate level and existing rates, or some combination thereof.

eligibility for federal support to 50% of the full support need, so should the contribution expected from the states be limited to 50% of the full amount.

VIII Adjustments to Interstate Access Charges.

At ¶128, the Commission requests input regarding how it should adjust interstate access charges to reflect increases in federal USF support provided to non-rural carriers. Sprint has consistently endorsed the rebalancing of interstate access charges. Specifically, Sprint asserts that the Commission must target access charge reductions to those rates that are today above cost – those rates being charged for switched, traffic sensitive services. Similarly, non-traffic sensitive costs should be recovered solely through non-traffic sensitive rates. Further, the Commission must deaverage subscriber line changes ("SLCs"). Finally, the artificial distinctions created to establish primary, non-primary and multi-line business rates must be abolished.

Adoption of the rebalancing package would work hand in hand with Section 254's directive to make implicit subsidies explicit, for as rates are rebalancing, implicit subsidies will disappear from the rates. Removal of implicit subsidies will, in turn, minimize the overall size of the universal service fund. Moreover, as a result of the rebalancing, support, therefore, would only need to be provided to those areas where the SLC would reach a level that would render service "unaffordable".

Any universal service fund designed to make explicit the subsidies implicit in interstate access should be considered as separate and apart from the high-cost fund being considered pursuant to the Joint Board's recommendation. The purpose of the latter fund is to provide

federal funds to help keep intrastate rates reasonably comparable, whereas the former would be specifically designed to address interstate rates[19].

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July 23, 1999

[19] The interstate fund's source should be interstate and international retail revenues.

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