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Sprint

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EX PARTE

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MAY 12 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 12, 2000

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
The Portals, 445 Twelfth St., SW
Washington, D.C., 20554

RE: Coalition for Affordable Local and Long Distance Service (CALLS) Proposal - CC Docket Nos. 96-262, 94-1, 96-45, 99-249

Dear Ms. Salas,

Today, Dick Juhnke and I, representing Sprint, met with Debra Weiner and Sonja Rifken of the Office of General Counsel and Aaron Goldschmidt, Rich Lerner, and Jennifer McKee of the Competitive Pricing Division with respect to the above referenced matters. Specifically, we addressed the issue of targeting "X-Factor" access reductions. Contrary to claims made by some commenting parties in this proceeding, there are significant policy and economic rationale for targeting access reductions. Sprint argued that the data in the attached presentation provide powerful evidence of the need to target X-factor reductions in order to bring the rates for individual access elements in closer alignment with underlying costs. Without expressing Sprint's or anyone else's endorsement of the absolute values in the attached data, we believe the relative differences between the common line and switched traffic sensitive components are entirely valid.

Sprint requests that this information be made a part of the record in this matter. In accordance with FCC rules, I am filing copies of this letter in each of the dockets identified above. If there are any questions, please call.

Sincerely,

Pete Sywenki

Attachment

cc: Aaron Goldschmidt
Rich Lerner
Jennifer McKee
Sonja Rifken
Debra Weiner

"X-Factor" Targeting

- Targeting of X-Factor reductions as proposed by CALLS is a completely appropriate and necessary measure:
  - to correct for past differences in relative productivity of the access components not captured by the past practice of uniform X-Factor reductions
  - to bring access rates in line with underlying costs

"X-Factor" Targeting

- Since the inception of price caps, changes in costs of switching, transport, and loop have not been uniform
  - significant technological advancements in switching (e.g. analog to digital) and transport (e.g. development of fiber and SONET technology)
  - provision of mainly copper loop plant has not changed
- The C. A. Turner Telephone Plant Index reflects the relative cost changes in the components of telephone plant over time

The C.A. Turner Telephone Plant Index
Index Comparison From the Beginning of Price Caps to January 1998
For Switching, Loop and Transport

Index Design: The telephone plant index was designed as a generalized product which could be utilized by any of the various telephone operating companies to develop the reproduction cost of the company's property at the selected test year date. The index was contructed around the FCC Part 32 sytem of accounts.

1973 = 100	North Atlantic Region			South Atlantic Region			North Central Region			South Central Region			Plateau Region			Pacific Region		
	Jul-90	Jan-98	Change	Jul-90	Jan-98	Change	Jul-90	Jan-98	Change	Jul-90	Jan-98	Change	Jul-90	Jan-98	Change	Jul-90	Jan-98	Change
Digital Switching	38	26	-32%	38	26	-32%	38	26	-32%	38	26	-32%	38	26	-32%	38	26	-32%
Metallic Cable																		
Aerial	277	334	21%	273	335	23%	272	333	22%	279	339	22%	274	331	21%	273	332	22%
Underground	265	314	18%	262	314	20%	261	313	20%	266	317	19%	263	311	18%	262	311	19%
Buried	261	307	18%	259	307	19%	258	306	19%	262	309	18%	259	305	18%	259	305	18%
Fiber Cable																		
Aerial	89	94	6%	65	64	-2%	86	93	8%	90	96	7%	87	92	6%	87	92	6%
Underground	76	77	1%	74	77	4%	74	77	4%	77	79	3%	75	76	1%	74	76	3%
Buried	74	75	1%	73	75	3%	72	74	3%	75	76	1%	73	73	0%	73	73	0%
Circuit Equip - Digital	34	35	3%	34	35	3%	34	35	3%	34	35	3%	34	35	3%	34	35	3%

Notes: Generally, metallic cable is used in loop distribution, fiber cable is used in loop feeder and interoffice transport.

"X-Factor" Targeting

- Due to productivity differences between the access components, the practice of uniformly applying the X-factor has resulted in a significant disparity in the relative relationship of current access rates and cost
  - There is a much greater disparity between current traffic sensitive rates and estimates of cost than is the case with common line

Comparison of FCC Model esults with Current Interstate Access Revenue for Common Line and Traffic Sensitive Elements

	FCC Model Interstate Loop & Port and CL Mktg	Non-Rural Interstate Common Line per line revenue (less USF contrib)	% revenue to cost
Common Line	**$5.66**	**$6.09**	**108%**

	FCC Model Traffic Sensitive	Average Interstate Traffic Sensitive Rev per Minute	% revenue to cost
Traffic Sensitive	**$0.003179**	**$0.009677**	**304%**

Sources:
Common Line revenue and expense from J. Nakahata ex parte
FCC Model Traffic Sensitive from Synthesis Model results--switching, dedicated, and common transport divided by DEMs
Average Traffic Sensitive Rev per Minute from CALLS model filing

Comparison of Interstate Basket ROR
ARMIS 43-01 - Total Tier One Companies
1996 thru 1999

ARMIS row		Common Line*	Switched Traffic Sensitive
1090	Net Revenues	49,001,647	28,465,098
1910	Avg Net Investment	74,102,606	29,359,048
1915	Net Return	9,306,305	8,557,235
1920	Rate of Return	12.56%	29.15%

* Due to changes resulting from the 1997 Access Reform Order (e.g., recovery of marketing expense) a mismatch between revenue and allocated cost causes an overstatement of CL and understatement of TS returns. For example, in 1996 and 1997, the CL ROR was 9.15% and 8.26% respectively.