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

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In the Matters of )  
Federal-State Joint Board on Universal Service )  
Petition for Forbearance from Enforcement of )  
Sections 54.709 and 54.711 of the Commission's )  
Rules by Operator Communications, Inc. )  
d/b/a Oncor Communications, Inc. )

CC Docket No. 96-45

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COMMENTS

Sprint Corporation hereby respectfully submits its comments in the above-captioned proceeding in response to the Further Notice of Proposed Rulemaking (FNPRM) released October 12, 2000 (FCC 00-359). As discussed briefly below, Sprint supports the proposal to compute and recover universal service fund (USF) contributions on the basis of current revenues.

**I. Federal USF Contributions Should Be Computed and Recovered Based On Current Year Revenues.**

In the instant FNPRM, the Commission has solicited comment on whether to amend its rules relating to contributions to the federal Universal Service Fund. Under the current system, a carrier's USF obligation is based on interstate and international end-user telecommunications revenues from the prior year; however, the majority of carriers recover their USF contributions based on current revenues. As the Commission notes, under this system, "carriers with decreasing interstate revenues may have a competitive disadvantage as compared to carriers with increasing interstate revenues" (para. 10, footnote omitted). Sprint agrees with this analysis, and therefore recommends that the rules be revised to base both USF contributions and USF cost recovery on current revenues.

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The current system does not comply with the competitive neutrality standard set forth in Section 254 of the Act, especially as regard the RBOCs. It seems a virtual certainty that the RBOCs will experience a rapid increase in their interstate revenues over the next several years, given their success to date (in New York and Texas) at winning long distance customers in their in-region territories and the high probability that they will obtain Section 271 authority in additional states over the next several years. The current system confers a double competitive benefit to the RBOCs -- their federal USF contributions are based on their lower, prior year revenue figures, which results in a USF obligation which is lower than it would be if current revenues were used; and their USF obligation is spread out over a higher base (current revenues), enabling the RBOCs to assess a lower USF surcharge (or in any case, incur lower USF costs per dollar of current revenues). Of course, the opposite will hold true for carriers whose interstate revenue base is declining; they have a higher USF obligation, which they must recover from a smaller base, resulting in a higher USF surcharge. The end result may well be a several percentage point differential in the interstate rates charged by the RBOCs and those charged by IXC's, due solely to federal regulatory rules. In the intensely competitive interexchange marketplace, with its razor-thin margins, a regulation-induced cost advantage of only a few percentage points can mean all the difference to the individual carriers competing in that marketplace.

Under the current rules, there is no catch-up mechanism to correct any competitive advantage or disadvantage. To the contrary, the competitive imbalance between RBOCs and IXC's will be exacerbated over time, as the RBOCs win an ever-increasing number of customers (and thus revenues) from IXC's. Furthermore, as the Commission itself recognizes (para. 11), the competitive advantage enjoyed by the RBOCs under the current system may well have ramifications in the local market as well, "by giving incumbent local exchange carriers entering the long distance

marketplace a competitive advantage in the provision of bundled local and long distance service offerings.” To avoid this situation, the Commission should revise its rules to provide for the computation of each carrier’s USF contributions on the basis of current revenues.

As is the case today, Sprint recommends that carriers continue to file Form 499 with USAC on a semi-annual basis. USAC would use this information to project current industry-wide interstate, international end user telecommunications revenues, and would divide USF program costs by the industry revenue figure to derive a USF contribution factor. Carriers would use the contribution factor to determine their total federal USF obligation; recover this obligation from their current interstate and international end-user telecommunications revenue base (in whatever fashion each individual carrier deems appropriate); and remit to USAC the funds so collected.

Sprint acknowledges that computing a USF contribution factor on the basis of forecasted industry revenues could result in an under- or over-recovery of USF costs.<sup>1</sup> This concern can be addressed by adoption of a quarterly true-up mechanism. To the extent that USF contributions remitted by carriers in any given quarter are less than total USF program costs, USAC can roll any shortfall into its USF contribution factor calculations for the following quarter. (If the shortfall results from a substantial differential between expected and actual contributions from one or more carriers, USAC would have the authority to audit that carrier’s USF calculations.) Similarly, any over-recovery of USF costs can be used to reduce the USF revenue requirement and the contribution factor for the following quarter. Sprint does not anticipate dramatic fluctuations (especially downwards) in total industry revenues in the period between the dates on which carriers would file their Form 499, although there could be shifts in revenues between carriers (which of

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<sup>1</sup> There will be a shortfall in the fund if actual revenues are lower than the forecasted amount, and an over-recovery if actual revenues are higher than forecasted.

course would not affect total industry USF contributions). Therefore, we do not expect any true-up amount to be substantial.

The Commission (or USAC) should not attempt to forecast or monitor current revenues by requiring the filing of Form 499 reports on more than a semi-annual basis. The process of completing an accurate Form 499 is so complex and resource-intensive that it would be a significant administrative burden to require more frequent reports.<sup>2</sup> In Sprint's case, for example, a detailed analysis is required to determine what portion of the revenues from each of its many service offerings must be included in USF computations. Because we do not anticipate that contributions will vary dramatically from USF revenue requirements (as noted above), Sprint believes that any necessary corrections can be achieved at far less cost and with equal accuracy through the true-up mechanism described above.

## **II. Conclusion.**

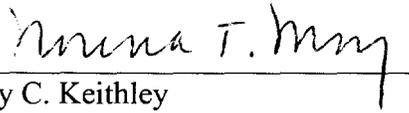
If competition in the interexchange market is to be maintained, and competition in the local market is to be fostered, the Commission should revise Section 54.709 and 54.711 of its Rules to provide for the computation and recovery of USF contributions on the basis of current revenues. This approach is competitively neutral in compliance with Section 254 of the Act.

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<sup>2</sup> The Commission also should not require carriers to file revenue information within 30 days from the close of a quarter (FNPRM, para. 24). Sprint cannot close its books for the quarter and perform the extensive analysis as to which of its revenues are subject to USF obligations in this short period.

Respectfully submitted,

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