Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	))	CC Docket No. 96-45
	)	
1998 Biennial Regulatory Review - Streamlined Contributor Reporting Requirements Associated with Administration Of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms	)))))))	CC Docket No. 98-171
	)	
Telecommunications Services for Individuals With Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990	)))	CC Docket No. 90-571
	)	
Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size	))))	CC Docket No. 92-237 NSD File No. L-00-72
	)	
Number Resource Optimization	)	CC Docket No. 99-200
	)	
Telephone Number Portability	)	CC Docket No. 95-116
	)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170

COMMENTS OF SPRINT CORPORATION

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Sprint Corporation ("Sprint"), on behalf of its local, long distance and wireless divisions, submits its Comments on the Further Notice of Proposed Rulemaking, released February 26, 2002 (FCC 02-43) in the above referenced dockets ("FNPRM").

I. INTRODUCTION AND SUMMARY

In its Notice of Proposed Rulemaking ("NPRM") in this docket, released on May 8, 2001 (16 FCC Rcd 9892 (2001)), the Commission initiated this proceeding to reform the Universal Service Fund ("USF") assessment methodology. In the FNPRM, the Commission seeks comments on some of the proposals it received in response to its NPRM. Specifically, the Commission requests additional comment "on whether to assess contributions based on the number and capacity of connections provided to a public network… [and] on whether a connection-based assessment approach would ensure the long-term stability, fairness, and efficiency of the universal service contribution system in a dynamic telecommunications marketplace." FNPRM ¶ 2.

Since the Commission's adoption of the billed end-user revenue assessment regime, the telecommunications environment has changed dramatically. In particular, many factors have contributed to the reduction in the revenues of the traditional interexchange carriers ("IXCs"). Long distance rates have fallen far more sharply than traffic has increased, thereby lowering overall revenues. The entry of the RBOCs into the long distance market has transferred significant amounts of interstate and international revenue from the incumbent IXCs to these new IXCs. In addition, increased use of Internet e-mail services has reduced the number of interstate calls that are placed with IXCs; and, as the technology improves, many callers could switch to Voice over Internet ("VoIP"). Finally, the emergence of "all distance" mobile wireless calling plans encourages customers to place more calls using their mobile wireless phones. The impact of these market changes was not contemplated when the original funding mechanism was adopted, and the original mechanism is not sustainable. The system is in urgent need of reform, and Sprint urges the Commission to act expeditiously.

Sprint supports a connection-based methodology under which the Commission would set per-connection charges for end-user connections which are billed by the carrier providing the connection and remitted directly to USAC. In its comments in response to the NPRM, Sprint proposed such a connection-based methodology which would retain the current ratio of contribution between the wireline and the mobile wireless market segments and which would assign a per-connection charge to each segment.[1] Sprint believes that its proposal outlines a recovery process that is fair and equitable to all providers. Moreover, the Sprint proposal, if adopted, would result in consumer assessments that are less likely to fluctuate and are more understandable than the current recovery mechanism.

If the Commission does not accept the Sprint plan as the best resolution of the underlying problem, Sprint urges the Commission to adopt the USF Coalition proposal, but with a three-year phase-in for mobile wireless connections." The USF Coalition's proposal, if adopted on a flash-cut basis, would present an overnight increase of more than 100 percent in the mobile wireless industry's USF assessment. Only a measured transition to the USF Coalition proposal will cushion the impact of the proposed increase – which is substantial – on mobile wireless companies and ultimately, mobile wireless consumers.

[1] *See*, Sprint Comments filed June 25, 2001, pp. 8-16.

Under either per-connection methodology, the Commission should adopt a "collect and remit" system, and it should exclude dedicated access used to provide Internet access services from contributing to the USF.

Sprint believes the Commission has the legal authority to institute a connection-based mechanism under § 254 of the Act. In addition, Sprint supports: (1) a uniform line-item description on customers' bills; (2) the exemption of the connections that are being resold; (3) the assessment of connection fees on private network connections; and (4) quarterly reporting of connections. Because time is of the essence, Sprint urges the Commission to adopt immediately a new connection-based methodology without referring it to the Federal-State Joint Board on Universal Service.

II. A CONNECTION-BASED RECOVERY MECHANISM SHOULD BE ADOPTED BECAUSE IT IS MORE STABLE, FAIR AND EFFICIENT

Sprint agrees with the benefits of a connection-based recovery mechanism which the Commission identifies in the FNPRM. In particular, Sprint believes that "a connection-based assessment approach would ensure the long-term stability, fairness, and efficiency of the universal service contribution system in a dynamic telecommunications marketplace." ¶ 2. A per-connection methodology, under which the Commission specifies an amount per connection which must be collected by the carrier providing the connection to the end user, will be more stable over time than the current revenue-based system; it will be equitable to consumers who all benefit from universal service; it will be easier for consumers to understand than the current collection method; and it will be more cost-efficient from the standpoint of those who ultimately bear the costs of universal service programs – consumers -- than the current method.

The lack of stability of the current collection assessment methodology has led the Commission to seek to reform it. In its FNPRM, the Commission stated: "Our primary goal in considering possible reforms of the current assessment system is to ensure the stability and sufficiency of the universal service fund as the marketplace continues to evolve." ¶ 15. Stability was not an issue when billed revenues of all carriers were increasing. However, with the overall revenue base declining and the size of the fund increasing, the contribution factor is increasing. The contribution base (less 1% for uncollectibles) increased from $18.955 billion in the first quarter of 2000 to a high of $20.960 billion in the fourth quarter of 2000, from which it has declined to $19.027 billion the second quarter of 2002. Thus, the current contribution base is approximately $2 billion (9 percent) less than it was eighteen months ago. During the same time period, the total program collection requirement has grown from $1.114 billion in the first quarter of 2000 to $1.385 billion in the second quarter of 2002, or approximately 24 percent. As a result, the contribution factor increased from 0.055360 in the third quarter of 2000 to 0.072805 in the second quarter of 2002, a 31.5 percent increase.[2]

It is becoming more and more difficult for IXCs with decreasing revenues to recover the costs of their payments into the system. As the Commission recognized (¶ 13), the growth in IP telephony may reduce the assessable revenue base – indeed it could induce IXCs to switch to IP telephony and could lead to an upward spiral in the contribution factor for those IXCs that do not do so. In addition, bundled offerings of interstate and intrastate services, enhanced services and/or CPE make it difficult to ensure

[2] *See*, FCC's Public Notices proposing the quarterly Universal Service Contribution Factor, CC Docket No. 96-45.

that the inherently difficult and often arbitrary task of separating the revenue from such bundles into component parts is performed in a fair and consistent fashion by all carriers.

Under a per connection mechanism, the basis for the charges -- the number of connections -- should be more stable and predictable. Historically, line counts are not subject to the extreme fluctuations that are being experienced currently in billed revenues, and USAC should be able to predict with a high degree of accuracy the revenue it will receive from the various types of connections. Adjustments, to the extent they are needed, can be made quickly to the per connection fee to ensure the fund's revenue requirements are met.

In devising the optimum assessment methodology, the Commission must recognize that, although the contribution obligation falls directly on carriers, it is ultimately consumers who foot the bill. Moreover, experience has shown that carriers usually recover from customers on the same basis as the USF is assessed on them.[3] Therefore, the Commission must devise an assessment methodology that most equitably and efficiently allocates the cost across all customers. The two basic options are: (1) a revenue- or usage-based assessment and (2) a connection-based assessment. In order to be equitable to consumers, the assessment methodology should correspond to the benefits derived from universal service.

The benefits that the public derive from universal service are not a direct function of either the volume of calls or the size of the bill. A residential customer who places

[3] For a time AT&T recovered its USF costs through a flat charge, but it changed to a percentage of revenue charge under pressure from the Commission. *See,* Access Charge Reform, et al., 15 FCC Rcd 12962, 13067-68 (¶ 244) (2000) (subsequent history omitted).

only one call per month, but calls another end user that receives universal service support, derives more benefit from universal service than a large business making thousands of calls, but none to USF-supported customers. The salient point is that, although not every customer benefits from universal service, and it is difficult to measure any one customer's benefit, there is always a potential benefit to each end user from universal service and the connection of more end users to the public network. A connection-based methodology is more equitable to all consumers because it reflects this potential benefit which is derived from universal service and which is equally available to all end users.

Sprint believes that a per-connection charge on end users' bills will be more understandable for consumers than the current system, because it should remain relatively constant over time and will be similar to other per-line charges currently on consumers' bills. For example, residential customers whose connections are provided by local exchange carriers currently pay the flat rate Federal Subscriber Line and Non-Primary Subscriber Line charges and local exchange company Federal Universal Fund surcharges. Multi-line business customers are assessed a charge covering the Presubscribed Interexchange Carrier Charge by most IXCs. A flat USF charge will be understood by customers to be another connection-based assessment. Unlike the present USF recovery system under which carriers may, for entirely legitimate reasons, charge their customers a percentage that differs from the Commission's contribution factor, the end-user connection charge proposed by Sprint would charge the same amount for each type of connection without any change in the charge by the individual carrier.

Collection of a connection-based fee by the carrier that provides the connection to the end user will be more efficient than collection by any other service provider, and therefore will hold down administrative and collection costs, which ultimately consumers bear. Since many carriers already apply per connection charges to their customers on their bills, the cost of adding an additional line item based on billing logic similar to that in place for other charges should be relatively modest. Carriers that are not providing these end-user connections may not have accurate or up-to-date information about the number or type of lines an end user has, and they may lack information about the customer's line(s) if the customer "dials-around" using a 1010XXX code to reach that carrier. In addition, IXCs may not send bills each month to customers that have no usage during that month. It would cost the IXC more to collect the charge from the customer with no usage than the amount of the charge itself. Therefore, the carrier providing the connection, which has complete information about its customers' lines and which bills its customers for their connection(s) each month, should be responsible for contributing to (and collecting for) USF and thereby meet the Commission's objective to "minimize the regulatory costs of complying with universal service obligations." ¶ 15.

Because a connection-based methodology is inherently simpler than the revenue-based system, it will reduce the costs incurred by carriers to produce their reports for USAC and will enhance consistency across carriers. Currently, carriers are required to report their billed revenues on a quarterly and annual basis. In order to report interstate and international billed end-user revenues properly, carriers must segregate interstate and international basic service revenues on which they must pay from all other products and services which are excluded, such as intrastate services, enhanced services, resold services, customer premises equipment, and non-telecommunications services. Allocation factors are generally used to separate intrastate revenues from interstate and international revenues. Carriers must separate the cost of interstate and international services which are parts of bundled offerings and buckets of minutes, and they must identify all amounts for services being resold by resellers that contribute to the USF based on their end user revenues. Because the quarterly reports must be submitted to USAC within a month of the end of the quarter and because actual figures may not be available in time for the quarterly reports, some estimates must be made. All the separations, allocations and estimations are extremely complex and costly to produce, especially for large carriers offering a wide variety of products to millions of customers. Clearly, there is room for discretion and the possibility of errors in each step of the process. The connection-based method will eliminate a substantial amount of this underlying analysis, reduce the reporting requirements and ensure greater consistency across the reporting carriers.

Fundamental to the adoption of a connection-based assessment on end users is the definition of "connection." The Commission proposes to define a "connection" as "a facility that provides an end user with independent access to a public network, regardless of whether that connection is circuit-switched, packet-switched, or a leased line (*e.g.*, special access)." ¶ 41.

Sprint believes that the Commission should clarify that a "connection" should be all connections used for providing telecommunications services.[4] Given the increased ability of modern technology for private line (including data) networks to "leak" into the

[4] End users should not be charged multiple times for the same connection if they are obtaining different services provided by multiple carriers over the same connection because the end users do not obtain multiple universal service benefits.

public switched network, the impossibility of policing any exclusions, and the economic incentives end users would have to misrepresent the uses to which their connections are put in order to avoid fees, this definition should include all private line connections for telecommunications services, not only those to the public switched network. This definition would exclude connections used for dedicated Internet access services. As the Commission has previously observed, USF contributions are currently not required on the basis of revenues from the provision of Internet services. *See*, the Commission's April 10, 1998 Report to Congress in this docket, 13 FCC Rcd 11501 (1998), at ¶¶ 66 ff. In particular, in ¶ 68 (*id*. at 11534), the Commission noted that "[i]n those cases where an Internet service provider owns transmission facilities, and engages in data transport over those facilities in order to provide an information service, we do not currently require it to contribute to universal service mechanisms." Accordingly, Sprint does not believe it would be appropriate to count, as "connections" eligible for USF assessment, connections used to provide dedicated Internet access services regardless of the transmission medium (e.g., cable modem, DSL line, satellite or fixed wireless line). It may also be noted that the Commission has requested further comment on this issue in *Appropriate Framework For Broadband Access To the Internet Over Wireline Facilities,* CC Docket No. 02-33, Notice of Proposed Rulemaking released February 15, 2002 (FCC 02-42).[5]

[5] In that NPRM, the Commission, inter alia, tentatively concluded that the provision of Internet access services over a dedicated broadband facility was an information service provided via telecommunications and did not include a telecommunications services component. *Id*. at 17. Although there is dictum in the NPRM that if a telecommunications carrier offers broadband Internet access to end-users for a single price, it must contribute to universal service (*id*. at para. 72), that dictum rests on a misconstruction of the *CPE/Enhanced Service Bundling Order,* 16 FCC Rcd 7418 (2001). As the passage from that order quoted in the NPRM clearly states, that order

For multi-line businesses, the assessment should be based on the maximum capacity of the connection. This methodology would be the most simple and straightforward to implement. Further, if multi-line businesses did not contribute on a capacity basis, lower volume customers would bear the burden of the higher capacity used by the multi-line businesses. The three tiers identified by the Commission[6] are appropriate and consistent with the connections multi-line business customers currently utilize for access to a public network.

For mobile wireless contributors, the contribution should be based on the number of activated telephone handsets, as the Commission suggests. ¶ 45. Each activated handset has a unique telephone number and connects the end user to the public switched network. Thus, the number of activated handsets corresponds to the number of end user connections to the network.

III. SPRINT'S CONNECTION-BASED PROPOSAL MAINTAINS THE CURRENT RELATIVE CONTRIBUTION BETWEEN THE WIRELINE AND MOBILE WIRELESS INDUSTRY SEGMENTS

As the Commission recognizes (¶ 60), Sprint's proposal is a connection-based methodology which differs from the USF Coalition proposal[7] in a fundamental way.

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only addressed how to allocate revenues when telecommunications services and CPE or enhanced services are offered as a bundled package, and did not address the offering of an information service simply through "telecommunications."

[6] Tier 1: <1.544 Mbps assessed the "base factor"; Tier 2: ≥1.544 Mbps and <45 Mbps assessed the "base factor times 5; Tier 3: >45 Mbps assessed the "base factor" times 40. ¶ 52.

[7] Under the USF Coalition proposal, a per-connection charge of $1.00 would be assessed on all residential, single-line business and mobile wireless connections. Contributions for multi-line business lines would be calculated to recover the remaining universal service funding needs. ¶ 31.

Specifically, the Sprint proposal is designed to maintain the relative contribution burdens of wireline and mobile wireless carriers. Sprint offered such an approach due to its view that the USF Coalition proposal unfairly and abruptly shifts much of the USF funding burden to mobile wireless carriers and, in effect, to mobile wireless consumers. The Sprint plan allows for the benefits of connection-based assessment but avoids the imposition of a sudden increase on mobile wireless customers.[8]

Because Sprint's proposal seeks to retain the relative contributions of the wireline and mobile wireless industries, it maintains the current mobile wireless interstate allocation, which in turn is based on the 15 percent safe harbor factor adopted by the Commission in the *Wireless Safe Harbor Order*.[9] The Commission specifically asks whether Sprint's proposal would "import distortions currently present in the revenue-based system" and whether disparate treatment of mobile wireless and wireline

[8] Sprint proposes to calculate the per-connection charge for the wireline (local exchange carrier and interexchange carrier) and the wireless (including CMRS) segments by assigning a share of the total USF requirement to each segment and then dividing the segment-specific requirement by the number of connections in it. More specifically, the industry segment revenue (interstate and intrastate) is multiplied by the segment-specific interstate factor (the proportion interstate revenues to total revenues) to calculate the segment-specific interstate revenue. (For simplicity, assume two segments: wireless and wireline. Wireless interstate revenue = A; Wireline interstate revenue = B.) The total fund requirement ($5.5 billion) is divided by the sum of the segment-specific interstate revenue for the two segments to arrive at a contribution factor. (Contribution Factor CF = $5.5 billion/(A+B).) This contribution factor is then multiplied by the sum of the segment-specific interstate revenue to determine the segment-specific contribution amounts, and a per connection contribution is calculated by dividing the segment-specific contribution amounts by the number of wireline and wireless connections. ((CF x A)/Total Wireless Numbers = Wireless Per Line Assessment; (CF x B)/Total Wireline Numbers = Wireline Per Line Assessment.)

[9] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, 13 FCC Rcd 21252, 21255, ¶ 6 (1998) ("*Wireless Safe Harbor Order*").

connections would create an uneconomic incentive for customers to migrate to certain services. ¶ 61.

As the Commission is well aware, many mobile wireless carriers, including Sprint, widely advertise innovative and consumer-friendly "all-distance" calling plans. Based on the emergence and acceptance of attractive offers that include large buckets of minutes with "free long-distance," Sprint believes that it is reasonable to conclude that wireless subscribers today are more inclined to use their wireless phones for all kinds of calling, including interstate.[10] At the same time, many wireless companies continue to offer pricing plans that impose extra charges for long-distance calls and others have chosen to focus on local-only services in direct competition with local exchange carriers.[11] When local-only wireless and existing toll offerings are combined with the increase in wireless usage overall,[12] it is difficult to determine to what extent the growth in wireless usage overall equates with growth in wireless interstate calling. As noted in Sprint's earlier comments in this proceeding, as of yet there is no record evidence that supports a particular percentage of wireless interstate traffic. Accordingly, it is difficult to determine how much interstate traffic has actually moved from wireline to wireless networks or that otherwise justifies a move from the current safe-harbor amount.[13] Nevertheless, Sprint does not believe that its proposal produces an end-user rate for

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[10] *Sixth Annual CMRS Competition Report*, 16 FCC Rcd 13350, 13371 (2001).

[11] *Id.* at 13381-13383.

[12] *Id.* at 13377-13383.

[13] Sprint hopes that such record evidence will be offered in response to the FNPRM.

mobile wireless customers which would cause customers to switch services solely on the basis of the end-user USF assessment.If the Commission determines that the current safe harbor is no longer realistic but lacks the record to establish a new safe harbor, Sprint urges the Commission to adopt the proposal described below.

IV. ALTERNATIVELY, THE USF COALITION PROPOSAL SHOULD BE MODIFIED TO REDUCE THE BURDENS ON CERTAIN CARRIERS AND CUSTOMERS

If the Commission determines that mobile wireless and wireline connections should be treated in a similar fashion, Sprint urges the Commission to avoid immediately burdening the mobile wireless industry and its customers with what would amount to an overnight doubling of the average mobile wireless consumer's monthly USF assessment. Instead, Sprint proposes that the per-line charge for mobile wireless customers be increased gradually over a three-year period. At the end of the transition period, the per-connection rate for mobile wireless customers will be equivalent to the assessment imposed upon wireline residential and single-line business customers. Sprint submits that such a transition would reduce the rate shock on mobile wireless end users. Based on the Commission's estimate that mobile wireless providers currently contribute approximately $0.46 per connection (¶ 59), the transitional rates would be as follows.

Year 1:	$0.595
Year 2:	$0.730
Year 3:	$0.865
Year 4:	$1.000

Sprint is also concerned about the impact of the USF Coalition proposal on ISDN users. The application of a per-connection charge on ISDN users would disproportionately burden them and discourage use of ISDN services. The Commission faced the same issue with the assessment of the Presubscribed Interexchange Carrier Charge ("PICC") on ISDN customers in the Access Charge Reform proceeding.[14] There the Commission stated that it had "set the SLC for PRI ISDN to be up to five times the amount assessed multi-line business subscribers, because that figure reflects the ratio of non-traffic sensitive loop costs associated with PRI ISDN service to non-traffic sensitive costs associated with other multi-line business loops." *Id.* at 16618. Finding no evidence that an assessment of five PICCs for PRI ISDN service was inappropriate, the Commission allowed the local exchange carriers to assess this amount. Here, as well, the assessment should be five USF multi-line charges for PRI ISDN service.

V. COLLECT AND REMIT IS CENTRAL TO THE PER CONNECTION PROPOSALS

The Commission solicits "comment on whether to replace the current universal service contribution methodology with a 'collect and remit' system." ¶101. As an initial matter, Sprint opposes any continuation of the current billed end-user revenue methodology, with or without a 'collect and remit' system. However, Sprint urges the Commission to adopt a "collect and remit" system in conjunction with the connection-based methodology. The "collect and remit" methodology has been implemented successfully by several states for their state universal service funds, including Nevada, Texas, Kansas, Nebraska, Wyoming an Oregon. In addition, "collect and remit" systems are used by many states to collect taxes and other fees.

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[14] *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure,* CC Docket Nos. 96-262, 94-1, 91-213, First Report and Order, 12 FCC Rcd 15982 (1997) (*First Report and Order*); Second Order on Reconsideration and Memorandum Opinion and Order, 12 FCC Rcd 16606, 16617 (1997) (*Second Order on Reconsideration*).

In most states, the "collect and remit" system does not require carriers to track each dollar that is collected for remission to the state. Rather, the process is simplified as follows. Each carrier identifies the total amount of the tax or fee that is billed each month, and each carrier determines on a quarterly basis the amount of uncollectibles it is experiencing and develops a percentage of uncollectibles to total billed revenue. This percentage is then applied to the carrier's billed tax or fee amounts, and the amount paid by the carrier is the total billed amount less a percentage for uncollectibles. The percentage that each carrier deducts from total billed revenues is identified when the revenue is remitted. If a carrier's percentage is higher than the norm, the state may call for an audit or request supporting documentation. States receiving payments from many carriers can easily identify those carriers that are "outliers" in terms of their uncollectible rate.

This "collect and remit" system has many advantages. The Commission can require all carriers to charge their end users the same connection-based charge, so there is no competitive disadvantage to any carrier. The collection amount and the methodology remain simple for customers to understand. Also, the Commission can establish the connection charges based on an estimated uncollectible percentage, which can be changed as more experience is gained with the connection-based methodology. The risk of shortfall is thereby minimized.

Absent a "collect and remit" system, each carrier must be allowed to adjust the per-connection rate in order to compensate for its uncollectibles and administrative costs. Since uncollectible rates and administrative costs vary by carrier, the customers will be faced with different charges from different carriers. Unfortunately, without a "collect and remit" system, the simplicity of a single per connection charge will be lost.

VI. THE COMMISSION HAS AMPLE LEGAL AUTHORITY TO INSTITUTE A CONNECTION-BASED ASSESSMENT MECHANISM

In ¶¶ 65-68 of the FNPRM, the Commission inquires whether a connection-based assessment methodology is consistent with the requirements of § 254(d) which states that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service." 47 U.S.C. § 254(d). Sprint believes that the connection-based assessment is fully consistent with § 254 of the Act.

An assessment method which requires providers of connections to end users to collect and remit a fixed charge from the end users is equitable and nondiscriminatory. Each connection to the public network affords an end user uniform access to the public network for local, intrastate, interstate and international calling; and a fixed charge set by the Commission that applies to every end user with a particular type of connection is clearly equitable to all. No carrier – nor its end users -- is discriminated against if all are assessed exactly the same amount for a particular type of connection.

Further, a per-connection assessment system does not penalize one provider of connections over another because each provider of a particular type of connection will be required to apply the same fee to its customers. In contrast, the current revenue-based methodology with a six-month lag affords new entrants into the long-distance market with rapidly growing revenues a significant advantage. These new entrants generally charge their customers the current USF contribution factor; but because they pay on their revenues reported six months ago, they are charging their customers far more than they actually pay into the fund. On the other hand, carriers with decreasing revenues must pay based on their revenues which were much higher six months earlier and must charge their customers more than the current Contribution Factor to make up the difference. A connection-based methodology will eliminate this inequity.

A per connection assessment is also "specific, predictable, and sufficient." Both the carriers that pay the assessment and the end users who ultimately bear this cost know exactly what rate is to be applied to each type of connection. The number of connections is stable over time and predictable because end users who have wireline connections keep them for long periods of time. Customers may change their locations, but they retain a connection. The Commission's statistics on the percentage of households that have telephone service and the number of telephone lines support the fact that connections are relatively stable.[15] The Commission has ample historical data to predict the growth in the number of wireline connections. Any change in the historical trends are likely to be minimal and certainly very small in the near term. Although mobile wireless connections have experienced much greater growth over the past few years, the Commission can predict the growth in the number of such connections in the short term based on historical trends and industry financial information. Therefore, as long as the total collection requirement remains relatively stable, the Commission should be able to predict with a

[15] *See*, FCC's Industry Analysis Division, Trends in Telephone Service, August 2001. Table 8.1 shows that the annual growth rate in access lines between 1995 and 1999 varied between 3.2 percent and 5.0 percent.

high degree of accuracy the per-connection assessment rate which is sufficient to meet the USF's requirements.

The assessment will be collected by carriers that provide interstate services because end user connections used to originate and terminate interstate services are provided by most common carriers. For example, local exchange carriers and competitive local exchange carriers provide wireline connections which can be used to originate and terminate local, intrastate, interstate and international telecommunications services. IXCs offer dedicated wireline access connections to business end users for high-capacity services from the customers' premises. Mobile wireless providers' connections are used for "all distance" calling.

There are, however, certain categories of common carriers that do not provide connections to end users and that would not contribute under the per-connection mechanism. Examples of such carriers include those that provide only wholesale service, those that provide only prepaid card, collect or operator services, or those that provide only non-voice services. However, the bare fact that some providers of interstate services would not pay under the per-connection methodology does not run afoul of the statute. Indeed, under the current methodology, wholesale providers (no matter how large the size of their interstate revenues) whose customers all contribute to the USF are excluded, as are large international service carriers whose percentage of interstate revenue is less than 12 (formerly 8) percent of their total interstate and international revenues, and small carriers falling within the "de minimis" exception. In short, § 254(d) does not require (and has never been read to require) all carriers providing interstate services to contribute to federal universal service funds. What it does require is the establishment of a "specific, predictable and sufficient mechanism" for funding universal service and "equitable and nondiscriminatory" contributions under that mechanism by carriers providing interstate services. As discussed above, the per-connection mechanism is far superior to the current revenue mechanism in terms of specificity, predictability and sufficiency, and by requiring all carriers providing connections to contribute under this mechanism on an "equitable and nondiscriminatory basis," the requirements of § 254(d) are fully satisfied.

VII. OTHER ISSUES ON WHICH THE COMMISSION REQUESTS COMMENT

A. Referral of Issues to the Federal-State Joint Board on Universal Service

The Commission states that "if a significant change in the contribution methodology seems warranted, we would refer one or more issues and the record developed in this proceeding – through a traditional referral or some alternative means – to the Joint Board for its input on an expedited basis." ¶ 30. Sprint does not believe that it is necessary to have the Joint Board review the connection-based assessment methodology. Section 254(a)(1) of the Act states that the Commission will refer to the Federal-State Joint Board "a proceeding to recommend changes to any of its regulations in order to implement sections 214(e) and this section, including the definition of the services that are supported by Federal universal service support mechanisms and a specific timetable for completion of such recommendations." Under § 254(d), the Commission is the entity designated to establish the mechanism to ensure the preservation and enhancement of universal service. Individual states and NARUC have an opportunity to express their views in response to the FNPRM. Given the urgent need for change, Sprint urges the Commission to reform the mechanism independently and without seeking an "expedited" review by the Joint Board.

B. Labeling the Line Item

The Commission seeks comment on whether to require carriers that impose a separate line item on customer bills to describe the line item as "Federal Universal Service Fee." ¶ 103. Without conceding the Commission's jurisdiction, as a general matter, to dictate language that appears on carriers' bills, in these unique circumstances Sprint does not oppose the use of a uniform line-item description in conjunction with its per-connection proposal. As discussed above, under that proposal, the carriers would contribute to USF based on a collect and remit system in which each carrier, for a given type of connection, would impose a uniform, FCC-mandated charge for the connection. Under this scenario, a uniform description would minimize customer confusion and would reflect the mandated nature of the charge itself.. The Commission should, however, afford carriers the flexibility to abbreviate the name if necessitated by constraints in a particular carrier's billing system.

C. Carriers That Resell Connections Should Be Exempt From the Connection Charge

Carriers provide their end users connections to the public network using their own facilities and the facilities of other carriers. In event that another carrier's facilities are used, the carrier directly serving the end user should be the carrier to contribute to the USF. In order to avoid a double-payment of the USF fee on a connection, resellers should be permitted to notify the underlying carrier that they are collecting and remitting the required USF fee and therefore they should not be charged. Similar to the current practice, the underlying carrier should be permitted to exclude the lines provided to resellers from their contribution base of connections.

D. Treatment of Private Networks

The Commission "seek[s] comment on whether and how interstate telecommunications connections to private networks should be assessed under the connection-based assessment methodology." ¶ 43. Sprint believes that the special access lines used for private networks should continue to be assessed under the connection-based methodology by the carrier providing the special access facilities. Private networks for telecommunications services provide an alternative to and compete with the public network. Further, the exclusion of certain connections because they are components of private networks will lead inevitably to gamesmanship and afford carriers discretion over whether or not to assess a customer the USF connection charge.

E. Reporting Requirements for USF and Other Programs

The Commission asks whether contributors should report their connections on a monthly basis. Sprint believes that quarterly reporting should be sufficient.[16] Because line counts are generally stable, monthly reporting is not warranted and will add to the carriers' costs. In addition, adjustments to the USF fee by the Commission should not be made more frequently than on a quarterly basis. Indeed, customer confusion would be minimized if change were made annually. Therefore, quarterly reporting should be sufficient.

[16] However, immediately upon adopting a per-connection system, the Commission should require carriers to file a report of their connections to enable USAC to develop initial per-connection charges based on the most current and complete available information.

Carriers should report the number of end user connections that are billed a USF charge each month by the type of connection the end-user has. Any line count based on facilities in place might be erroneous because connections may be installed before the customer's request and initial billing date and may remain in place after a customer disconnects service.

The Commission notes that the revenue-based reporting requirements for TRS, NANP, LNP and regulatory fees would continue. Sprint urges the Commission to revise the basis for these funds to use the same mechanism as it determines should be used for the USF. The Form 499A is complex and time-consuming to produce, and the costs associated with producing it ultimately must be recovered from consumers. Thus, one basis for all would be most efficient.

VIII. CONCLUSION

The current USF assessment system is clearly "broke." The per-connection methodology, which meets the requirements of the Act, will be more stable, fair and efficient than the current billed-revenue based method. Reform is critically important to ensure the sustainability of the fund and to eliminate the current inequities in the recovery mechanism. Therefore, Sprint urges the Commission to act expeditiously to reform the USF assessment system.

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April 22, 2002

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **COMMENTS OF SPRINT CORPORATION** was sent by hand or by United States first-class mail, postage prepaid, on this the 22nd day of April, 2002 to the parties on the attached page.

/s/
Christine Jackson

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