

# CALLS REMAND

RESPONSE to MOPC/NASUCA



# CALLS USF REMAND

- MOPC/NASUCA Errors
  - imply cost model is basis for price cap permitted revenue
  - continue impermissible implicit subsidies
  - inappropriately manipulate model, extrapolate, and omit lines to understate cost and subsidy needs



# CALLS USF REMAND

- MOPC/NASUCA calculation of “subsidy need” (self-styled cost model results less SLC revenue) attempts to replace FCC price cap regulation with its own cost estimate as the basis for determining permitted revenue
  - Price cap LEC rates and permitted revenue levels are determined by the FCC’s price cap regulations (not MOPC/NASUCA’s manipulated version of the FCC’s non-rural USF cost model)
  - MPOC/NASUCA use of its own, erroneous, understated cost estimates to “size” the interstate access fund for price cap carriers is wholly inappropriate



# CALLS USF REMAND

- MOPC/NASUCA's proposed fund size would result in the continuation of implicit subsidies
  - The \$650M CALLS USF replaces implicit subsidies embedded in rates with an explicit, portable, competitively neutral subsidy mechanism
  - The \$650M CALLS USF reflects USF needs to replace implicit subsidies throughout the duration of the CALLS plan taking into consideration SLC caps at the end of the CALLS transition
  - The MOPC/NASUCA suggested fund size would result in higher residential and single-line business end user rates as well as greater implicit subsidy payments by carriers and other end users
    - For Sprint's telco customers alone, NASUCA/MOPC proposed USF would increase PR and SLB SLCs by \$15M and increase implicit subsidies from NPR and MLB SLCs, PICC, and CCL by \$30M



# CALLS USF REMAND

- MOPC/NASUCA manipulate the FCC cost model, extrapolate, and omit lines to produce artificially low costs and understate subsidy need
  - Removal of “traffic sensitive” loop costs and “redundant structure”
    - erroneous, unilateral manipulations of the Commission cost model
    - exclusion of feeder and transmission portions of loop understates cost
    - overstatement of structure sharing understates cost
  - Extrapolation of non-rural results to rural companies
    - faulty assumption that impact on rural companies would be directly proportional to impact on non-rural companies
    - unworkable as a practical matter
  - Omissions
    - completely ignore high cost NPR and MLB lines with costs that exceed respective NPR and MLB SLC caps
      - Based on FCC model wire-center cost results, Sprint has at least 261,439 NPR and MLB lines (3.7% of Sprint’s total lines) with costs that exceed the SLC caps



## **Maryland Office of People's Counsel / NASUCA Cost Manipulations**

### **1. Removing Traffic Sensitive Loop Costs from the Total Loop Costs**

In comments filed on January 24, 2002 in the SLC cap proceeding, NASUCA contends that “the feeder and transmission portion of the digital loop carrier are the traffic sensitive components of the loop”. Based on faulty characterization of these necessary loop components as 100% traffic sensitive, NASUCA proposes that the costs associated with the feeder and transmission portion of the loop be excluded from costs used to determine changes in the SLC. Their basis for excluding feeder and transmission facilities is based on the rationale that the addition of digital loop carrier systems into the network results in 100% traffic sensitive facilities that are shared by multiple end users.

Traffic sensitive costs are those costs that increase with corresponding increases in usage. This definition does not apply to NGDLC network architecture. The topology of a forward looking network requires that customers located more than 12,000 feet from the central office be served by fiber fed NGDLC. The NGDLC is sized based on the number of subscribers served. The cost of the loop fiber feeder and the NGDLC is incurred regardless of usage levels generated by the subscribers it serves. NGDLC architecture is simply the forward looking standard for serving customers located more than 12,000 from the central office and it's cost is not a function of usage incurred by the customers it serves. In fact, the only incremental costs that result from NGDLCs with high usage are costs associated with upgrading the optical capacity of the NGDLC and additional DS1 transceivers at the Central Office Terminal that would be required due to increased traffic traversing the fiber feeder portion of the loop. The combined increase in these two cost components is less than 1% of the combined costs of DLC electronics and fiber feeder and is insignificant to the cost of the entire loop. Furthermore the FCC, in paragraph 789 of it's Order issued in Docket No. 96-325 states that “outside plant between a customer's premise and

ports on incumbent LEC switches is typically either physically separate for each individual customer, or has costs that can easily be apportioned among end users. We therefore conclude that costs associated with unbundled loops should be recovered on a flat rated basis.”

In reference to excluding transmission costs from the non-traffic sensitive portion of the loop, NASUCA advocates that a forward looking model be used to determine if an increase in the SLC is warranted. In a forward looking network, all NGDLCs are fiber fed. The same number of fibers will be required regardless of the NGDLC capacity or the traffic generated by customers served by that NGDLC. As a result, fiber feeder investment will be constant for any given NGDLC regardless of whether it is served by a DS3 or an OC-48.

## **2. Removing Redundant Structure Costs from the Model Outputs**

NASUCA contends that the Synthesis Model creates a separate feeder and distribution network and does not allow the two networks to share structure. NASUCA further states that, according to a recent Bell South – Florida study, approximately 13% of all feeder and distribution share common structure and it is necessary to remove the dual network from the model cost estimation process.

It should be noted that NASUCAs sharing percentage was based on a formula developed by James Stegeman of CostQuest Associates, Inc.. However, in his testimony submitted in Georgia Docket No. 5825-U, Mr. Stegeman states that he believes this same formula has an error that leads to the double counting of routes where feeder copper and feeder fiber are on the same path. Mr. Stegeman further states that “this double counting will lead to an overstatement of shared route miles”. Consequently, by using the Stegeman formula that even Mr. Stegeman subsequently determined to be erroneous, NASUCA is overstating the percentage of shared route miles. This approach assumes that structure is always shared in any instance in which feeder and distribution share the same route. Sharing will rarely occur with underground feeder or on aerial structure for copper feeder without adjustments to pole size and spacing. Furthermore, sharing

can only occur in buried plant when the feeder and distribution facilities are being placed at the same time. Given these caveats, it should not be assumed that feeder and distribution share the same structure simply because they follow the same path. Thus, NASUCAs proposed adjustment, which assumes 100% structure sharing for common feeder and distribution routes is obviously flawed and systematically understates costs.

In reference to NASUCAs comments regarding the Synthesis model's dual network, HCPM constructs a minimum distance network using a modification of the Prim algorithm which minimizes the aggregate distance between all the customer nodes (i.e. NGDLC locations) and the central office. HCPM default inputs account for optimized routing and maximized structure sharing where possible. Furthermore, it is Sprint's position that the intercompany structure sharing allocation for outside plant (i.e. percent of structure investment assigned to telephone vs. other utilities) has been consistently understated. This understated percentage results in understated outside plant investment assigned to telecommunication services and should negate any overstatement of investment that may result in the event the costs generated by HCPM do not fully reflect reductions associated with structure sharing.

**Sprint Local Telephone Companies  
Impact of Reducing Explicit USF Receipts From \$650M to \$336M**

|                                 | Subscriber Line Charge (SLC) |               |                | Prescribed Interconnection |            |              | Carrier Common Line |             | Explicit USF Receipts |               |               |                 |
|---------------------------------|------------------------------|---------------|----------------|----------------------------|------------|--------------|---------------------|-------------|-----------------------|---------------|---------------|-----------------|
|                                 | Primary Residential,         | Non Prim Res, | MLB, ISDN PRI, | Carrier Charge (PICC)      |            |              | Originating         | Terminating | Actual                | MOPC/NASUCA   |               |                 |
|                                 | SLB & Lifeline               | ISDN BRI      | Centrex        | MLB & ISDN PRI             | Centrex    | 7/2/2002     |                     |             | Proposal              | Difference    |               |                 |
| Florida - United & Centel (U&C) | \$ -                         | \$ -          | \$ 473,681     | \$ 7,686,786               | \$ 375,828 | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 16,690,126 | \$ 8,627,511  | \$ (8,062,615)  |
| Indiana - United                | \$ 80,742                    | \$ 142,647    | \$ -           | \$ 616,603                 | \$ 22,649  | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 3,074,795  | \$ 1,589,432  | \$ (1,485,362)  |
| Nevada - Centel                 | \$ 388,320                   | \$ 105,347    | \$ 1,366,160   | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 1,415,862  | \$ 731,892    | \$ (683,970)    |
| No. Carolina - U&C              | \$ 3,488,376                 | \$ 435,747    | \$ 1,616,428   | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 10,165,789 | \$ 5,254,931  | \$ (4,910,858)  |
| Ohio - United                   | \$ 1,406,501                 | \$ 402,353    | \$ 1,412,390   | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 6,999,084  | \$ 3,617,988  | \$ (3,381,096)  |
| Eastern (Tier I&II) - United    | \$ 3,933,279                 | \$ 514,258    | \$ 929,304     | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 11,350,439 | \$ 5,867,304  | \$ (5,483,135)  |
| New Jersey                      | \$ 75,417                    | \$ 38,715     | \$ 83,406      | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 311,026    | \$ 160,776    | \$ (150,249)    |
| Pennsylvania                    | \$ 3,857,862                 | \$ 475,543    | \$ 845,898     | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 11,039,413 | \$ 5,706,527  | \$ (5,332,886)  |
| Midwest (Tier I&II) - U&C       | \$ 1,321,298                 | \$ 159,224    | \$ 162,142     | \$ 6,235,303               | \$ 283,260 | \$ 2,081,954 | \$ 1,326,697        | \$ -        | \$ -                  | \$ 27,248,404 | \$ 14,085,329 | \$ (13,163,075) |
| Kansas                          | \$ -                         | \$ -          | \$ -           | \$ -                       | \$ -       | \$ 943,455   | \$ 1,322,461        | \$ -        | \$ -                  | \$ 4,690,590  | \$ 2,424,674  | \$ (2,265,916)  |
| Minnesota                       | \$ 937,749                   | \$ 120,493    | \$ 40,597      | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 2,833,939  | \$ 1,464,928  | \$ (1,369,011)  |
| Missouri                        | \$ -                         | \$ -          | \$ -           | \$ 2,481,612               | \$ 214,361 | \$ 0         | \$ 0                | \$ -        | \$ -                  | \$ 7,379,484  | \$ 3,814,626  | \$ (3,564,859)  |
| Nebraska                        | \$ 383,549                   | \$ 38,731     | \$ 121,545     | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 1,278,769  | \$ 661,025    | \$ (617,744)    |
| Texas                           | \$ -                         | \$ -          | \$ -           | \$ 3,753,691               | \$ 68,899  | \$ 911,092   | \$ -                | \$ -        | \$ -                  | \$ 10,586,105 | \$ 5,472,202  | \$ (5,113,903)  |
| Wyoming                         | \$ -                         | \$ -          | \$ -           | \$ -                       | \$ -       | \$ 227,407   | \$ 4,237            | \$ -        | \$ -                  | \$ 479,517    | \$ 247,874    | \$ (231,644)    |
| Northwest (Tier II) - United    | \$ -                         | \$ -          | \$ -           | \$ 1,332,016               | \$ 120,223 | \$ 35,531    | \$ 0                | \$ -        | \$ -                  | \$ 3,099,698  | \$ 1,602,306  | \$ (1,497,393)  |
| Oregon                          | \$ -                         | \$ -          | \$ -           | \$ 569,579                 | \$ 25,042  | \$ 35,531    | \$ -                | \$ -        | \$ -                  | \$ 1,304,454  | \$ 674,303    | \$ (630,152)    |
| Washington                      | \$ -                         | \$ -          | \$ -           | \$ 762,437                 | \$ 95,181  | \$ 0         | \$ 0                | \$ -        | \$ -                  | \$ 1,795,244  | \$ 928,003    | \$ (867,241)    |
| Southeast (Tier I&II) - U&C     | \$ 4,638,229                 | \$ 533,209    | \$ 1,582,302   | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 13,540,875 | \$ 6,999,591  | \$ (6,541,284)  |
| South Carolina                  | \$ 562,971                   | \$ 80,195     | \$ 230,414     | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 1,777,272  | \$ 918,713    | \$ (858,559)    |
| Tennessee                       | \$ 617,359                   | \$ 48,059     | \$ 360,741     | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 1,794,819  | \$ 927,783    | \$ (867,036)    |
| Virginia                        | \$ 3,457,899                 | \$ 404,955    | \$ 991,147     | \$ -                       | \$ -       | \$ -         | \$ -                | \$ -        | \$ -                  | \$ 9,968,784  | \$ 5,153,094  | \$ (4,815,689)  |
| Sprint LTC                      | \$ 15,256,746                | \$ 2,292,784  | \$ 7,542,407   | \$ 15,870,708              | \$ 801,961 | \$ 2,117,485 | \$ 1,326,697        | \$ -        | \$ -                  | \$ 93,585,073 | \$ 48,376,284 | \$ (45,208,789) |
|                                 |                              |               |                |                            |            |              |                     |             |                       | 336/650       | 51.69%        |                 |

Sprint SLC Summary

| Company                                                                | Loop + Port | SLC<br>=25% of Loop + Port | Source Tab            | Total Access     | SLC Above                              | SLC Above                     | % above<br>\$9.20 | % above<br>\$7 |
|------------------------------------------------------------------------|-------------|----------------------------|-----------------------|------------------|----------------------------------------|-------------------------------|-------------------|----------------|
|                                                                        |             |                            |                       | Lines - EOY 2001 | \$9.20 -- Mult-<br>Line Bus<br>Ignored | \$7 - Res<br>Lines<br>Ignored |                   |                |
| Sprint Florida, Inc.                                                   | \$ 30.44    | \$ 7.61                    | Florida               | 2,134,429.00     | 21,491.00                              | 40,976.00                     | 1.0%              | 1.9%           |
| United Telephone of Indiana, Inc.                                      | \$ 39.16    | \$ 9.79                    | Indiana               | 269,499.00       | 7,078.00                               | 12,008.00                     | 2.6%              | 4.5%           |
| United Telephone Company Of Kansas                                     | \$ 47.01    | \$ 11.75                   | Kansas United         | 75,038.00        | 4,713.00                               | 4,074.00                      | 6.3%              | 5.4%           |
| United Telephone Company Of Eastern Kansas (includes SE and SC Kansas) | \$ 73.38    | \$ 18.34                   | Kansas Other          | 59,154.00        | 4,936.00                               | 4,394.00                      | 8.3%              | 7.4%           |
| Sprint Minnesota, Inc.                                                 | \$ 36.86    | \$ 9.21                    | Minnesota             | 169,804.00       | 4,011.00                               | 3,634.00                      | 2.4%              | 2.1%           |
| Sprint Missouri, Inc.                                                  | \$ 36.83    | \$ 9.21                    | Missouri              | 265,726.00       | 7,090.00                               | 10,952.00                     | 2.7%              | 4.1%           |
| Carolina Telephone and Telegraph                                       | \$ 31.24    | \$ 7.81                    | North Carolina CTT    | 1,191,341.00     | 110.00                                 | 99.00                         | 0.0%              | 0.0%           |
| Central Telephone Company of North Carolina                            | \$ 29.50    | \$ 7.37                    | North Carolina Centel | 281,330.00       | 3,171.00                               | 4,311.00                      | 1.1%              | 1.5%           |
| United Telephone of the West - Nebraska                                | \$ 46.99    | \$ 11.75                   | Nebraska              | 29,004.00        | 1,951.00                               | 884.00                        | 6.7%              | 3.0%           |
| The United Telephone Company of New Jersey                             | \$ 25.63    | \$ 6.41                    | New Jersey            | 232,909.00       | 326.00                                 | 3,089.00                      | 0.1%              | 1.3%           |
| United Telephone of Ohio, Inc.                                         | \$ 30.76    | \$ 7.69                    | Ohio                  | 621,273.00       | 8,598.00                               | 10,899.00                     | 1.4%              | 1.8%           |
| United Telephone of the Northwest - Oregon                             | \$ 41.76    | \$ 10.44                   | Oregon                | 74,281.00        | 2,753.00                               | 3,753.00                      | 3.7%              | 5.1%           |
| United Telephone Company of Pennsylvania, Inc.                         | \$ 34.47    | \$ 8.62                    | Pennsylvania          | 399,837.00       | 8,945.00                               | 12,561.00                     | 2.2%              | 3.1%           |
| United Telephone Company of the Carolinas, Inc.                        | \$ 37.87    | \$ 9.47                    | South Carolina        | 102,049.00       | 2,896.00                               | 4,136.00                      | 2.8%              | 4.1%           |
| United Telephone-Southeast, Inc. - TN                                  | \$ 25.79    | \$ 6.45                    | Tennessee             | 244,105.00       | 790.00                                 | 1,624.00                      | 0.3%              | 0.7%           |
| Central Telephone Company Of Texas d/b/a Sprint                        | \$ 27.96    | \$ 6.99                    | Texas Centel          | 230,406.00       | 5,054.00                               | 7,321.00                      | 2.2%              | 3.2%           |
| United Telephone Co Of Texas, Inc. d/b/a Sprint                        | \$ 45.46    | \$ 11.36                   | Texas United          | 167,881.00       | 7,292.00                               | 13,544.00                     | 4.3%              | 8.1%           |
| Central Telephone Company of Virginia, Inc.                            | \$ 35.00    | \$ 8.75                    | Virginia Centel       | 302,607.00       | 7,156.00                               | 11,333.00                     | 2.4%              | 3.7%           |
| United Telephone-Southeast, Inc. - VA                                  | \$ 39.83    | \$ 9.96                    | Virginia United       | 111,357.00       | 2,199.00                               | 2,474.00                      | 2.0%              | 2.2%           |
| United Telephone of the Northwest - Washington                         | \$ 40.41    | \$ 10.10                   | Washington            | 86,991.00        | 3,924.00                               | 3,236.00                      | 4.5%              | 3.7%           |
| United Telephone of the West - Wyoming                                 | \$ 61.38    | \$ 15.34                   | Wyoming               | 7,172.00         | 1,403.00                               | 250.00                        | 19.6%             | 3.5%           |
|                                                                        |             |                            |                       | 7,056,193.00     | 105,887.00                             | 155,552.00                    | 1.5%              | 2.2%           |