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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February 28, 2003

CONTENTS

I. INTRODUCTION AND SUMMARY 2

II. ANY SYSTEM THAT IS REVENUE-BASED IS UNSUSTAINABLE 4

III. THE COMMISSION SHOULD ADOPT A CONNECTION-BASED PROPOSAL WHICH RECOVERS USF COSTS DIRECTLY FROM THE END USER USING A FLAT CHARGE 6

- **A. Alternative 1 Without A Revenue-Based Minimum Commitment Has Received Broad Support And Is Consistent With The Requirements Of Section 254(d) 7**
- **B. Alternative 2 Is Inequitable And Discriminatory 12**
- **C. A Modified Alternative 3, A Contribution Methodology Based On Assigned Numbers, Would Be Efficient And Equitable, And Is Sprint's Preferred Solution 15**

IV. CONCLUSION 18

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COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint"), on behalf of its incumbent LEC, competitive LEC/long distance and wireless divisions, hereby submits its Comments on the Report and Order (Order) and Second Further Notice of Proposed Rulemaking (*Second Further Notice*), released December 13, 2002 (FCC 02-329) in the above-referenced dockets.

I. INTRODUCTION AND SUMMARY

Recognizing that support for a connection-based Universal Service Fund (USF) recovery methodology is widespread across industry segments and that four state members of the Federal-State Joint Board on Universal Service recommended use of a connection-based system (Order, ¶ 4), the Commission requests comments on three alternative proposals to replace the current revenue-based system. Under the first, a flat, monthly charge would be assessed on residential, single-line business, payphone, mobile wireless and pager connections, while a tiered assessment would be applied to multi-line business connections. A minimum contribution based on annual interstate revenues would be required from carriers having more than $100,000 in such revenues, and carriers that provide end-user connections would be allowed to "offset their connection-based assessment against their minimum contribution." *Second Further Notice*, ¶ 78. The second alternative would assess both the switched access and the interstate transport provider, as well as providers of non-switched connections; in addition, it would apply a revenue-based assessment on interstate telecommunications services that are not directly tied to connections. *Id.*, ¶ 86. The Commission offers two variations on this proposal, which would apply revenue-based assessments either (1) to all wireline switched transport providers or (2) to all wireline transport providers except those which provide both access and transport. *Id.*, ¶ 92. The third proposal would assess providers of switched connections based on their number of working telephone numbers and special access and private lines based on capacity. *Id.*, ¶ 96. The Commission also seeks comment on whether the modifications to the revenue-based methodology it adopted in

its Order "are sufficient to ensure the long-term viability of universal service as the telecommunications marketplace evolves." Order, ¶67.

The methodology the Commission devises must support universal service in an efficient and competitively equitable manner and must ensure a sustainable contribution base as technology changes and the marketplace evolves. Sprint continues to believe that a connection-based methodology, similar to those presented as alternatives 1 and 3, best meets these criteria, and either one would provide a balanced and non-discriminatory alternative for contributions to the USF. Both approaches will minimize administrative costs if responsibility for the collection is placed on the carrier that has a direct relationship with the customer for the provision of the local access connection, or the NANP number, and that is billing the customer every month. These alternatives are competitively equitable because fixed charges will be the same across all carriers for comparable connections. A broad base of end user connections will provide a stable contribution base and ensure the sustainability of the fund. Further, a connection-based methodology will reduce customer confusion and eliminate many of the problems inherent in the revenue-based system that the Commission has summarized in the Order (¶ 3). Finally, a connection-based approach is fully consistent with section 254(d)'s requirement that every provider of interstate telecommunications service contributes on an equitable basis.

As discussed below, Sprint adamantly opposes the continuation of a revenue-based system because of the inequities and discrimination inherent in it. Sprint supports a connection-based methodology which applies the recovery charge to the end user based

on either the local end-user connection or telephone number (Alternatives 1 and 3). Sprint believes, however, that the numbers proposal is simpler to understand and easier to implement and administer, and therefore Sprint prefers this alternative. Unlike the numbers plan described by the Commission, Sprint would not subject private lines and special access facilities to additional assessments. Sprint continues to object to any alternative based on the SBC/BellSouth proposal (Alternative 2) because of its inefficiencies, complexities and inherent arbitrariness. Sprint also opposes a mandatory minimum contribution based on a percentage of revenues, but would support a flat, mandatory fee applied to all carriers.

II. ANY SYSTEM THAT IS REVENUE-BASED IS UNSUSTAINABLE

The changes to the current system adopted by the Commission in its Order do not cure the fundamental flaws associated with a revenue-based universal service contribution methodology.[1] Specifically, the methodology continues to be inequitable and discriminatory because it carves out particular categories of service providers to which the USF burden does not apply, while subjecting other carriers to significant USF costs. The lack of competitive neutrality is exemplified by the exemption of carriers that provide predominantly or exclusively international services, which seriously disadvantages carriers that provide a full range of long distance carriers. Carriers that focus on international services can avoid USF contributions if their revenues from

[1] Sprint has discussed the reasons why a revenue-based USF recovery mechanisms is not sustainable in its Comments filed April 22, 2002, Reply Comments filed May 13, 2002, and Ex Parte filings dated July 19, 2002 and December 3, 2002 in the above-captioned proceedings.

interstate services are less than 12 percent, yet carriers that offer a full range of domestic and international services must contribute on the basis of all their interstate and international revenues, which subject them to a marked, and arbitrary, cost disadvantage in competing with predominantly international carriers. There is no sound public policy reason for tilting the playing field in this fashion.

The exemption of IP telephony from contributing to the USF places conventional voice carriers at a serious competitive disadvantage and may create distortions that will undermine the sustainability of the fund. At the extreme, under current Commission policy,[2] a carrier can avoid USF obligations by merely converting an ordinary call into and out of IP protocol for a portion of its transmission. By continuing to exempt VoIP revenues from the USF contribution base, the Commission is discriminating on the basis of a technology choice and is giving IXCs a powerful inducement to switch to IP telephony simply to avoid USF contributions, thereby reducing the revenue base and producing an upward spiral in the contribution factor. Clearly, this result must be avoided.

The current revenue-based method also suffers from the lack of a rational way to treat the increasingly popular bundles of interstate and intrastate telecommunications services, equipment and non-telecommunications services. In order to allocate a portion of the bundle to the interstate/international jurisdiction, essentially the bundles must be taken apart. The FCC suggested in its *CPE/Enhanced Services Bundling Order*[3] that the

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[2] *Federal –State Joint Board on Universal Service, Report to Congress,* 13 FCC Rcd 11,501 (1998).
[3] 16 FCC Rcd 7418, 7447 (2001)

allocation be made based on the current rates of the unbundled components "with no discount from the bundled offering being allocated to telecommunications services." This approach is completely antithetical to the concept of the bundle, which affords customers a cost advantage for using one carrier for multiple services. In that regard, some carriers may not offer each component of a bundle separately, and in such cases, there is simply no way to allocate the bundled price to USF-subject services. And even if there were separate component prices, some carriers may make allocations to the interstate jurisdiction that improperly afford more favorable treatment to their customers. It would be extremely difficult and costly for the Commission to identify such misallocations.

Although the Commission's recent modifications to the revenue-based method resolve a few of the problems with the original methodology, the ones which remain will destabilize the universal service contribution system in the immediate future. Thus, Sprint urges the Commission to adopt a connection-based methodology, and to do so promptly.

III. THE COMMISSION SHOULD ADOPT A CONNECTION-BASED PROPOSAL WHICH RECOVERS USF COSTS DIRECTLY FROM THE END USER USING A FLAT CHARGE

In its *Second Further Notice*, ¶ 70, the Commission summarized the many benefits of a connection-based methodology that have been identified by its proponents. Sprint agrees that these benefits would be achieved under two of the connection-based proposed methodologies outlined by the Commission: the proposal to apply a flat charge for each end-user connection (Alternative 1) and the "proposal to assess providers of

switched connections based on their number of working telephone numbers" (Alternative 3). *Id.*, ¶ 72. The remaining proposal (Alternative 2), under which both access and transport providers would be assessed, has serious deficiencies which render it inefficient and inequitable. Each proposal is discussed below.

A. Alternative 1 Without a Revenue-Based Minimum Commitment Has Received Broad Support and Is Consistent with the Requirements of 254(d)

As discussed above, Sprint has expressed its support for a connection-based methodology in numerous filings in the above-captioned proceedings. Fundamental to Sprint's support is its belief that such recovery mechanisms are fully consistent with the requirements of Section 254(d). As Sprint explained in its May 13, 2002 Reply Comments (at 9-12), Congress gave the Commission the responsibility of determining a "specific, predictable, and sufficient mechanism" for USF support. As discussed above, the flaws in the revenue-based contribution mechanisms will quickly lead to an upward spiral in the contribution factor that would soon be so large as to threaten the viability of the USF programs themselves. The Commission cannot divorce the support programs from the methodology used to fund those programs. Only through a relatively stable, technologically neutral, and competitively neutral contribution methodology can the stability and sufficiency of the USF programs themselves be assured.

The fact that a connection-based assessment methodology exempts carriers that do not provide physical connections or numbers does not render it inequitable or discriminatory so long as the carrier's obligation is passed through to end users on the same basis. On the contrary, by "taxing" the connection itself, all carriers are free to compete for services provided by those connections on an equal basis. The connection-

based approach avoids the inequity created by exempting some carriers' revenue streams (*e.g.*, international revenues by international specialist carriers or voice revenues by VoIP providers) while taxing the functionally equivalent revenue streams of competing carriers (*e.g.* , full service carriers, carriers using non-IP protocols for voice services). Under a connection plan, providers of connections will compete on an equal footing, and providers of services using those connections will compete on a level playing field as well. Connections afford end users access to the public switched network for the placement of interstate and international calls, and the application of a per-connection charge is based on each end user's ability to originate and terminate such calls. Thus, a methodology which requires all carriers providing interstate services to contribute on an "equitable and nondiscriminatory" per-connection basis would fully satisfy the requirements of Section 254(d).

Sprint does not oppose, in concept, coupling a connection-based contribution plan with a requirement that all carriers providing interstate service must also make a fixed contribution to the USF. However, the minimum, revenue-based contribution proposed by the Commission is inequitable and discriminatory. Under the Commission's proposal, carriers with more than $100,000 in annual interstate telecommunications revenues would be required to make a minimum contribution of one percent of such revenues, but carriers assessing a connection-based charge would be permitted to reduce their revenue-based contribution by their connection-based contributions. Such carriers would thereby be afforded a significant advantage. On the other hand, carriers that must contribute one percent of their revenues are unlikely to be able to absorb this additional cost, and

therefore they would be forced to pass this cost along to their customers as a surcharge. Clearly, such carriers will be competitively disadvantaged.

Further, it would be inequitable and discriminatory for certain carriers – those providing both end-user connections and long distance interstate services that are required to charge their end users the fixed connection based fee – to avoid an assessment based on annual interstate revenues which their competitors providing only long distance service are forced to pay. The discrimination against carriers that do not provide end-user connections renders this form of a minimum contribution unlawful.

Finally, because the minimum contribution requirement is revenue-based, it suffers from the numerous problems associated with the current system. These problems are exacerbated by the Commission's proposal to apply the requirement on all interstate revenues, rather than on end-user revenues. This will result in resellers being charged the USF contribution by their underlying carrier and in their having to contribute themselves to the fund.

Although Sprint believes a pure connection-based mechanism fully satisfies Section 254(d), Sprint would not oppose a fixed contribution, not based on revenues, which all carriers providing interstate services must make to the USF, irrespective of whether they collect a per-connection charge from their end users. This requirement would treat all carriers equally and would not suffer from the problems associated with the Commission's revenue-based proposal.

Sprint agrees with the Commission's proposal to assess providers of residential, single-line business, payphone and mobile wireless connections the same monthly per-

connection charge.[4] Each type of service affords customers access to the public switched network; and an equal charge is equitable, as well as competitively neutral, straightforward to implement, and easy to understand. Because the same contribution rate would be assessed irrespective of whether the connection is wireline or wireless, customer confusion will be minimized.

The definition of connections to which the assessment will be applied is critical to the sustainability of the fund. Sprint believes that the Commission's proposed definition of connections as "facilities that provide end users with access to an interstate public or private network, regardless of whether the connection is circuit-switched, packet-switched, wireline or wireless, or leased line" is a good one because it will encompass all connections used for providing telecommunications services. *Second Further Notice*, ¶ 76. The Commission also notes that a voice connection provided by a cable telephone provider would be included under this definition. *Id.*, fn. 167. Sprint agrees that such connections must be included in the base of connections to which an assessment is applied because they provide access to the public switched network and to eliminate them would undermine the sustainability of the fund.

[4] For now, Sprint does not object to charging multi-line business connections at a higher rate than that for residential and single-line connections. However, the Commission should not accept, as a given, that it is sound policy to charge more per-line for multi-line business lines than for residential customers who purchase multiple lines or for customers who purchase a single line. To the extent such a policy is grounded on universal service concerns, those concerns should be addressed by explicit support programs rather than by implicit cross-subsidies. Though Sprint is not suggesting at this time that the distinctions between multi-line business lines and other voice-grade connections be abolished, it believes the Commission should at least begin to rethink the rationale for this distinction and analyze the implications of eliminating this distinction.

Sprint agrees that high-capacity business connections should be assessed at varying amounts based on capacity. However, Sprint does not support the Commission's proposed multi-line business tiers and associated assessments (*Id.*, ¶ 81), which are significantly higher than those proposed by CoSUS, because they will incent the customer to purchase multiple lower speed circuits rather than one higher speed circuit. Inefficient use of facilities would result. For example, under the Commission's proposal, a customer that purchases one T-1 1.5 Mbps circuit would pay an assessment equal to 16 times the Tier 1 rate, while a customer that purchases three 512 Kbps circuits would pay only 3 times the Tier 1 rate. Depending on the Tier 1 assessment, customers may find it more economical to have multiple 512 Kbps circuits rather than one T-1. While the CoSUS proposal would create a similar incentive, the differential is much less. The replacement of higher speed circuits with lower speed ones might lead carriers to increase the prices of lower speed circuits. The USF contribution rates should not be driving inefficiencies in the use of facilities or force carriers to manipulate their rates. Furthermore, Sprint believes that the simpler the structure, the easier it will be for customers to understand, and having the break points of the structure correspond to commonly used circuit sizes will make the USF contribution requirements easier to explain.

As noted, the Commission's proposed multi-line business assessments are higher than those proposed by CoSUS. Such higher assessments may lead to customers switching to their own private facilities to meet their high capacity communications requirements. Because private facilities would not be subject to USF requirements, their

use would decrease the funding base. Thus, the Commission must take care not to set the assessment at a level which will reduce the number of connections.

B. Alternative 2 Is Inequitable and Discriminatory

The Commission's second proposal, which is based on the methodology proposed by SBC and BellSouth, is really not a connection-based method at all, but rather a peculiar mix of connection and revenue concepts which would split the assessment between switched access and interstate transport providers and which would assess non-switched connections. Interstate telecommunications services not directly related to connections (*e.g.*, dial-around services and prepaid cards) would be assessed based on revenues. Two variations suggested by the Commission would apply a revenue-based assessment to either all wireline switched transport providers or wireline transport providers other than those which provide both transport and access.

Sprint identified numerous problems and inefficiencies with having interexchange carriers contribute on a per-connection basis for switched lines in its September 17, 2002 *Ex Parte,* pp. 2-5. There Sprint discussed the line information which IXCs must obtain from local exchange carriers in order for them to bill their customers. Unlike the local exchange carriers, IXCs do not know the number or type of line a customer uses, and costly enhancements to the LECs' Customer Account Record Exchange ("CARE") systems would be required in order to transmit this information to the IXCs. The IXCs would also need new software to bill their customers properly. IXCs could be placed at a significant competitive disadvantage vis-à-vis the LECs that provide both local and long distance services if the LECs are permitted to charge the IXCs for the CARE information.

Therefore, should the Commission adopt this proposal, LECs should not be permitted to charge the IXCs for the required information.

The need for line information provided by the LECs would introduce a lag into the recovery process. Not only must the LEC identify each IXC's presubscribed lines and transmit this information to the IXC, but the IXCs must then match the information with their customer base and render their bills. During this period required for processing and billing, the IXCs will experience customer churn and will be unable to bill those customers that have switched to another carrier. Indeed, customers may be incented to switch carriers frequently to avoid the USF charge.

Undoubtedly there will be problems with the LEC line data provided to the IXCs. Currently, Sprint has problems with the information transmitted to it concerning multi-line business lines which IXCs require in order to bill PICC charges. PICC data cannot be used because some carriers whose PICCs are zero do not transmit the data and the others with PICC charges provide the data in arrears with their access bills.[5] Clearly, this alternative is unworkable.

Sprint has emphasized in its prior filings that transport providers do not bill customers who do not use their services during a particular month or who, because of credits or promotions, owe the carrier nothing. It would be extremely inefficient and clearly inequitable to demand that carriers send out a bill for the sole purpose of collecting the USF fee when the costs to the transport provider of preparing and sending

[5] Indeed, the Commission references the *CALLS Order* in footnote 187 in which the inefficiencies and increased transaction costs associated with assessing interexchange carriers based on presubscribed lines are discussed.

the bill, collecting the revenue and reporting it, as well as the cost to the consumer of the stamp and check, would far outweigh the revenue collected. It would be much more efficient to have the LEC bill the entire connection-based charge. There is simply no logic to incurring unnecessary costs during this time of scarce resources and capital.

Finally, an IXC per connection charge would encourage customers to un-PIC their lines in order to avoid the charge. A reduction in the base of connections directly translates into increases in the per-connection charge.

The use of a revenue-based assessment for IXCs whose transport is not part of a switched connection on a presubscribed basis, such as dial-around carriers, while allowing carriers that provide transport on a presubscribed basis to use a connection-based assessment, is competitively inequitable. This proposal retains all the flaws of a revenue-based system for certain IXCs, while affording others the benefits of the connection-based methodology, and it penalizes customers using multiple carriers. Further, it would be extremely difficult to determine what revenue-based assessment would correspond equitably to the connection-based rate. A hybrid revenue-based/ connection-based methodology will drive low-volume customers to carriers charging a revenue-based fee, while high-volume customers will be incented to use a presubscribed carrier that assesses a flat fee. Thus, there could be a serious distortion of the market by having mixed methods of assessment.

The Commission offers two variations to the second alternative. In the first, the wireline switched access provider would be assessed on a per-connection basis, while all wireline switched transport providers would be assessed on the basis of interstate end-

user revenues. This revenue-based proposal is flawed for the same reasons that any revenue-based system is flawed.

Under the second variation, wireline carriers that provide both access and transport would be assessed a connection-based charge, while carriers that provide transport only would be assessed on a revenue basis. This proposal creates additional inequities between carriers that provide transport only and those that provide both access and transport. As discussed above, any revenue-based assessment on carriers that provide transport only will create a disincentive for high-volume customers to use them because they will be able to determine the breakeven point between the connection-based charge applied by the access and transport carriers and the transport-only carriers' revenue-based charge. Thus, non-LEC transport providers would be placed at a substantial competitive disadvantage when competing against carriers that provide both local and long distance services. Further, this proposal would be extremely difficult for consumers to understand. Fundamentally, this alternative creates unacceptable competitive distortions and should not be adopted.

C. A Modified Alternative 3, A Contribution Methodology Based on Assigned Numbers, Would Be Efficient and Equitable, And Is Sprint's Preferred Solution

The third proposal set forth by the Commission "would assess providers on the basis of telephone numbers assigned to end users (assigned numbers), while assessing special access and private lines that do not have assigned numbers on the basis of

capacity of those end-user connections." *Id.,* ¶ 96, fn. omitted. Sprint supports a numbers-based methodology pursuant to which assessments would be collected from a broad range of service providers, including the LECs, CLECs (including cable companies), IXCs and wireless carriers. This approach is competitively neutral, as customers would pay the same amount for an assigned telephone number irrespective of whether the number is provided by a LEC, a CLEC or a wireless carrier. Similarly, the assessment for toll free numbers would be the same whether an IXC, LEC or CLEC is the Resp Org and responsible for collecting the fee from the end user.[6] Centrex customers should also be assessed the same fee for each assigned telephone number. The same flat assessment requirement should also be applied to numbers associated with pagers, as they represent the same resource as any other assigned telephone number.

This numbers-based methodology should be implemented without assessing additional amounts on special access and private lines, because telephone numbers are often associated with these facilities. For example, a T-1 special access line, used to transport calls from a PBX to a long distance carrier, carries calls that originate or terminate on business lines with assigned numbers. To assess the T-1 access line on the basis of capacity will effectively double-charge the business customer for its telephone numbers. Although the per-number assessment will increase slightly, eliminating a

[6] Because end users should not be charged the USF fee until their service has been activated at the Service Control Point, working numbers should be used as the basis of the assessment.

capacity-based assessment will simplify the methodology and allow for faster implementation.[7]

Sprint believes that the working telephone numbers approach can be implemented relatively quickly and that the addition of a line item to the local access provider's bill would not require significant systems development. However, if the Commission were to adopt a capacity-based assessment for private lines and special access facilities, additional time would be required to modify billing systems.

The Commission requests comment on how ported telephone numbers would be addressed under this methodology. Order, ¶ 97. Sprint believes that the end user that is billed for the telephone number should pay the assessment, whether or not the number has been ported; and the carrier that bills that end user should remit the assessment. For telephone numbers that are not ported, but rather are provided by competitive local exchange carriers (CLECs) using UNE-P and resold services, the CLEC should be the carrier to remit the assessment which its end user pays. The local exchange carrier providing the UNE-P or resold service to the CLEC should, therefore, reduce the number of telephone numbers on which it is assessed by the numbers provided to CLECs.

The Commission also requests comment on whether lower assessment rates should be assigned to LECs that are not participating in 1,000 block number pooling. Order, ¶ 97. Local exchange carriers do not always have control over the size of the blocks assigned to them. Therefore, there should be no differentiation in the assessment

[7] If the Commission decides to adopt a capacity-based assessment, Sprint urges it to utilize the CoSUS proposal because the assessment will be lower than that associated with the Commission's proposal.

rates based on the size of the block. Rather, each assigned number should be assessed the same fee regardless of the size of the block.

Sprint does not believe that a minimum contribution is required with this alternative methodology. The large and steadily increasing base of numbers provided by a wide range of carriers will ensure the sustainability of the fund. As discussed above, the exemption of certain carriers that do not provide numbers does not render the methodology inequitable or discriminatory. If, however, the Commission determines that a minimum contribution should be imposed, Sprint urges the Commission to adopt a flat fee rather than a revenue-based fee for the reasons discussed above.

Sprint believes that this alternative, as modified above, presents the most equitable, efficient and sustainable methodology. Because it is simple and straightforward, administrative costs of implementing it will be minimized, and it will cause the least customer confusion. Further, it will provide a stable base for the USF funding requirements. Thus, Sprint urges the Commission to adopt a modified numbers-based approach.

IV. CONCLUSION

Significant reform is critically important to ensure the long-term sustainability of the fund. Although the USF assessment is applied to carriers, it ultimately must be recovered from their customers. A per-connection methodology, which is competitively neutral and which applies a consistent amount across the board, will not bias customers' selection of carriers and is the most fair to customers and efficient to administer.

Therefore, Sprint urges the Commission to adopt either the per-connection USF recovery mechanism based on telephone numbers, or alternatively, one based on end-user connections, immediately.

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February 28, 2003

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Comments of Sprint Corporation in CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, and 98-170 was delivered by electronic mail, Hand Delivery. Or U.S. First Class Mail, postage prepaid, on this 28th day of February 2003 to the parties listed below.

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