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

REPLY COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint"), on behalf of its incumbent LEC, competitive LEC/long distance and wireless divisions, hereby submits its Reply Comments on the Public Notice, *Commission Seeks Comment on Staff Study Regarding Alternative Contribution Methodologies*, FCC 03-31 (released February 26, 2003) *(Staff Study).*

As Sprint discussed in its April 18, 2003 Reply Comments, the Staff has prepared an extremely comprehensive model that incorporates numerous variables related to the various proposed methodologies and universal service projections and that can be used to evaluate alternative proposals and identify the impact of certain assumptions. Noting the model's calculation of the "Share of contributions by industry segment," several of the commenting parties argue that the reduction in the share borne by interexchange carriers (IXCs) raises issues concerning whether the number- and connection-based proposals would meet the "equitable and nondiscriminatory" requirements of Section 254(d) of the Act.[1] Such claims are based on the invalid assumption that the current distribution of the USF contribution to industry groups is the only correct one. This is simply not true, as there is no *prima facie* validity to the revenue-based approach. The percentage contribution of the industry segments is a function of the assessment methodology, and the fact that the percentages will change when a new methodology is adopted should hardly come as a surprise. In any event, it is irrelevant. What is important is that the Commission fixes the current, broken, unsustainable revenue-based methodology by adopting a number- or connection-based methodology.

[1] *See* Joint Reply Comments of SBC Communications Inc. and BellSouth Corporation at 12; National Association of State Utility Consumer Advocates Initial Comments on Staff Study on Contribution Mechanisms and Reply Comments on Contribution Mechanisms at 11-12; National Telecommunications Cooperative Association Initial Comments at 7; Reply Comments of NRTA and OPASTCO at 4; Reply Comments of The National Grange of the Order of Patrons of Husbandry at 3; Reply Comments of TracFone Wireless, Inc. and Comments on Staff Study at 27; Reply Comments of Verizon at 10; and Verizon Wireless Reply Comments on Second Further Notice of Proposed Rulemaking and Comments on USF Staff Study at 12-13.

In its pleadings, Sprint has advocated a number-based assessment. It believes that a number-based methodology which would apply an equal, non-discriminatory charge to all business and residential customers (excluding Lifeline and Link-UP customers) using telephone numbers would be the best of the alternative methodologies identified by the Commission.[2] Such an assessment, based on working telephone numbers (including toll free, 900 and 500 numbers) and collected from a broad range of interstate service providers—LECs, CLECs (including cable companies providing cable telephone), IXCs, CMRS providers and paging companies—is technically and competitively neutral and would be a sustainable contribution methodology.

It is important to note that in the *Staff Study* the share of contributions attributed to traditional IXCs does not include the contributions of those who have entered the local exchange market as CLECs and who offer local services bundled with their long distance services. As the CLEC business of IXCs grows, their contributions based on the numbers (or connections) provided to their CLEC customers will increase.[3] Because CLEC numbers (or connections) are not distinguished from the traditional LEC numbers (or

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[2] Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952 (2002).

[3] In its report released December 2002, Local Telephone Competition: Status as of June 30, 2002, the Industry Analysis and Technology Division of the Wireline Competition Bureau found that CLECs reported 21.6 million switched access lines in service, or 11.4% of the approximately 189 million lines. The growth in CLEC lines between December 2001 and June 2002 was 10%.

connections), the share of contributions from IXCs that also provide competitive local exchange services is not properly reflected in the model.

In its Initial Comments on the *Staff Study*, NTCA argues—incorrectly—that assessing universal service contributions on retail revenues is economically efficient. There are three key components to its argument (page 8):

- Assessments should be distributed "according to customer preferences, so that those elements of the PSTN [public switched telephone network] that are the most heavily consumed" would result in a greater contribution to the universal service fund.
- "There is no more efficient and accurate means of measuring customer preferences than their actual expenditures on the services, as measured by retail revenues."
- Through their expenditures, customers convey "how they value" those services that make use of the PSTN.

The first point suggests that higher consumption, or higher *usage* of the PSTN, should generate a higher contribution to USF. The second and third points suggest that expenditures reflect customers' preferences and the *value* that customers place on services that use the PSTN. Therefore higher *value* should generate higher contribution to USF.

From an economic point of view, the underlying foundation for NTCA's argument is correct: it is economically efficient that the value (or *benefits*) that consumers receive from the PSTN should play some role in assigning and recovering the *costs* associated with the PSTN. It is also possible to argue that *usage* is a reasonably acceptable proxy for *benefit*. That is, if one customer's usage is higher than another customer's usage then, all else held equal, the benefit that the customer receives from the PSTN is also greater.[4]

But the fatal flaw in NTCA's argument is its claim that both *usage* and *value* are accurately represented by expenditure. Consider the following two scenarios.

(1) Two IXC customers that have different interstate calling plans (with different per-minute charges) can call the exact same number of minutes in a month, incurring the same usage and deriving the same value from the PSTN, yet produce significantly different interstate revenues for that month.

(2) Two LEC customers that have the same subscriber line charge will pay the exact same revenue-based USF charge, even if one calls 100 minutes every day and the other never places or receives a single call. They will exhibit different usage and derive different value from the PSTN, yet their contributions are identical.

Quite simply, NCTA's suggestion that expenditure accurately reflects value (and usage) is completely incorrect in a world of flat-rate pricing, different per-minute rates, unlimited night-and-weekend minutes, and calling-plan price wars.

This last point is perhaps most illustrative of all because it clearly refutes NTCA's argument that "assessments based on retail revenue are self-correcting" as customers "vote with their purse" (*id.*, page 9). If a customer opts for a lower-priced calling plan but

[4] Of course, the simple (and accurate) argument to the contrary is that "all else is <u>not</u> held equal," and thus it can be argued that usage is very <u>poor</u> proxy for benefit. For example, it is easy to imagine a situation where a customer receives greater benefit from a single call to 911 than from a month of regular calling. It is also easy to imagine situations where usage provides no benefit, such as receiving calls from unwanted callers.

calls the same number of minutes in a month, did the customer derive less benefit from the PSTN? Are those minutes now less valuable to the customer? Did the customer's minutes decline? Clearly the answer is no; the change in expenditure in no way reflected a change in benefit, value, or usage.[5]

As mentioned above, Sprint agrees that the economically efficient position is to draw support for the PSTN from those who are in a position to benefit from the PSTN. But the *actual* amount of benefit that any customer derives from the services that use the PSTN is unknowable. It is a function of individual preferences and individual calling patterns, and therefore varies constantly. Furthermore, as long as markets are imperfect, and as long as products and services are differentiated, the relative differences in what consumers spend do not accurately reflect relative differences in value derived from the PSTN.

Given the fact that expenditure is such a poor proxy for benefit derived from the PSTN, the better approach is to base public support for the PSTN on the *potential* to derive benefit from the network. Unlike actual benefit, which is unknowable and not measurable, potential benefit is absolutely knowable. Setting aside capacity issues, the *potential* to derive benefit from the PSTN is equal across connections, and is equal across telephone numbers; two residential customers each of whom owns a connection and a phone number have exactly the same opportunity to derive benefit from the PSTN. That

[5] NTCA has confused the price a customer is willing to pay—also known as the reservation price (see *Principles of Economics*, Ruffin and Gregory, Harper Collins College Publishers, 1993)—with the market price. The reservation price does indeed reflect the benefit that an individual customer derives from the consumption of a good or service, but reservation prices have nothing to do with market prices.

is one reason why the number-based proposal advocated by Sprint (or a connection-based proposal) is superior to a revenue-based in terms of economic efficiency: it replaces a poor proxy for a variable that is unknowable with an accurate measure of a variable that is knowable.

The second reason the number-based proposal advocated by Sprint is superior, in terms of economic efficiency, is that it is non-distorting. By imposing the same assessment across telephone numbers, or across connections of equal capacity, the assessment plays no part in the competitive workings of the market. Thus, a number-based assessment will not influence a purchaser's decision as to the services provided over that phone and is therefore competitively neutral and non-distorting.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply 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 or U.S. First Class Mail, postage prepaid, on this 16th day of May 2003 to the parties listed below.

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