Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
National Cable And Telecommunications	)	WC Docket No. 05-337
Association Petition For Rulemaking To	)	
Reduce Universal Service High-Cost	)	GN Docket No. 09-51
Support Provided To Carriers In Areas	)	
Where There Is Extensive Unsubsidized	)	RM-11584
Facilities-based Voice Competition	)	

REPLY COMMENTS OF SPRINT NEXTEL CORPORATION

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Executive Summary

In its initial Comments, Sprint Nextel Corporation ("Sprint") indicated its support of the National Cable and Telecommunications Association's ("NCTA") petition to cease Universal Service Fund ("USF") subsidies in areas where there is unsubsidized facilities-based voice competition. Sprint also proposed two additional steps the FCC should take to address Universal Service Funding in a broadband world. First, Sprint recommended that the current USF system recognize that multiple services are using the local loop and that 100% of the cost of this facility need not be attributed to the high cost fund. Instead, a portion of those costs should be recovered through the alternative revenue streams available to the ILEC through the provision of broadband and other services. Second, Sprint recommended that the FCC move away from carrier-based "supply side" funding, to more competitively neutral, customer-based, "demand side" funding for any new broadband subsidy system. Specifically, Sprint proposed that demand be stimulated in rural areas and among low income groups through creation of a coupon program that encourages consumer adoption of broadband (Sprint's Broadband User Kits ("BUCKs") plan).

Other carriers, however, have suggested that the Commission not only continue the current broken USF program, but expand it in ways that would both exacerbate the anti-competitive nature of the program and fail to address the underling problem of broadband adoption. The Broadband Now plan ("BNP") sponsored by several mid-sized ILECs, for example, should be rejected for several reasons. First, the cost model proposed for use in the BNP is based on circuit-switched, not Internet Protocol ("IP") technology, and thus will provide a flawed estimate of the costs of broadband service. Basing broadband funding on a cost model for the provision of old voice technologies would only ensure continued inefficient subsidies at the expense of consumers. Second, the BNP fails to acknowledge the significant broadband and entertainment service revenues these carriers will receive that far exceed the carrying costs on the modest capital investment contemplated by the ILECs. This, combined with the proposed BNP USF subsidy would produce windfall profits for the ILEC. Third, the BNP, as compared to Sprint's proposed BUCKs plan, would not spur the adoption of broadband service, only ensure the continued subsidy of specific businesses. Fourth, the BNP is not competitively neutral and is designed to favor incumbents. Fifth, increasing USF support through simple deaveraging of loop costs does not recognize that other uses of the broadband capable loops, such as broadband and entertainment services, would also provide a source of cost recovery. Sixth, the BNP and the flawed intercarrier compensation changes proposed with it, would continue to mask real economic costs and lead to faulty economic decisions by customers and suboptimal outcomes that harm the overall American economy.

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REPLY COMMENTS OF SPRINT NEXTEL CORPORATION

Sprint Nextel Corporation ("Sprint") hereby respectfully submits its Reply Comments on the National Cable and Telecommunications Association ("NCTA") Petition for Rulemaking to Reduce Universal Service High-Cost Support In Areas Where There Is Extensive Unsubsidized Facilities-based Voice Competition.[1] Sprint continues to agree with NCTA that the current high-cost USF system is broken and that USF subsidies to providers in areas where there is unsubsidized facilities-based voice competition should cease. Sprint also continues to support the additional reforms proposed in its initial comments.[2] Sprint urges the Commission to reject, however, the various proposals made by incumbent local exchange carriers to expand the distortions and perverse incentives of the existing USF system.

Comments on the NCTA proposal include suggestions that the Federal Communications Commission ("Commission") convert the current high-cost voice USF plan into a broadband

[1] Public Notice, Comment Sought on the National Cable & Telecommunications Association Petition for Rulemaking to Reduce Universal Service High-cost Support Provided to Carriers in Areas where there is Extensive Unsubsidized Facilities-based Voice Competition, DA 09-2558 (rel. Dec. 8, 2009).
[2] *See,* Comments of Sprint Nextel Corporation, GN Docket No. 05-337, WC Docket No. 09-51, RM-11584 ("Sprint Comments") (Jan. 7, 2010) (ILECs should exercise the pricing flexibility they possess (at 13), intercarrier compensation ("ICC") reform should occur and ICC should be based on either bill-and-keep or rates based on the Faulhaber methodology (at 24), and special access reform should occur to spur broadband deployment (at 27).

subsidy system supported by both voice and broadband customers,[3] that subsidies be redirected to areas where no wireline voice competition has developed,[4] that ILEC loop costs be de-averaged so that identified high cost areas would receive even more subsidy than they do under the current system,[5] and that the ILEC be granted privileged status that ensures continuing subsidies.[6] These proposals would all continue the unsustainably high levels of current USF support and even contemplate increased USF funding.

In contrast, the changes to the high-cost USF proposed by Sprint, including the demand side USF support to low income consumers in Sprint's Broadband User Coupon Kits ("BUCKs") plan,[7] would reduce the overall cost of the USF subsidy system, provide incentives to deploy broadband services and directly address the issue of consumer adoption in a competitively neutral manner. The ILEC proposals to continue the status quo of broad ILEC supply side funding through the high cost USF should be rejected as discriminatory among competitors, wrongly targeted at supply subsidies rather than demand stimulation, and rooted in the past rather than crafted for the present and future.

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[3] *See,* Comments of the Organization for the Promotion and Advancement of Small Telecommunications Companies, GN Docket No. 09-51, WC Docket No. 05-337, RM-11584 ("OPASTCO Comments") (Jan. 7, 2010) at 5 and *A National Broadband Plan for Our Future.* GN Docket No. 09-51; *High-Cost Universal Service Support,* WC Docket No. 05-337; *Federal-State Joint Board on Universal Service, CC Docket No. 96-45;* Developing A Unified Intercarrier Compensation Regime, *CC Docket No. 01-92,* Written Ex Parte to Marlene H. Dortch from Jeffrey S. Lanning, Century Link, Jan. 7, 2010, Attachment at 2 ("Broadband Now Ex Parte") (CenturyLink's Broadband Now proposal is supported in, Comments of CenturyLink on the National Cable Telecommunications Association's Petition For Rulemaking, GN Docket No. 09-51, WC Docket No. 05-337, RM-11584 ("CenturyLink Comments"), (Jan. 7, 2010).

[4] *See, e.g,* CenturyLink Comments at 2, Comments of AT&T, GN Docket No. 09-91, WC Docket No. 05-337, RM-11584 ("AT&T Comments") (Jan 7, 2010) at 9, and Comments of the United States Telecom Association, GN Docket No. 09-51, WC Docket No. 05-337, RM-11584 ("USTA Comments") (Jan. 7, 2010) at 3.

[5] *See, e.g.,* Comments of Qwest Communications International Inc., GN Docket No. 09-51, WC Docket No. 05-337, RM-11584, ("Qwest Comments") (Jan. 7, 2010) at 5, CenturyLink Comments at 4-5.

[6] *See, e.g.,* CenturyLink Comments at 3.

[7] *See,* Sprint Comments at 15-19.

I. Broadband Demand Stimulation Is Appropriate For USF Funding

Predictably, comments filed by ILECs universally call for continued USF subsidy funding of either voice service, broadband expansion, or both.[8] The original universal service program was developed in a time of monopoly and circuit-switched voice service where rural areas often lacked access to plain old telephone service ("POTS"). Thankfully, times have changed. ILEC monopolies are rapidly losing their government sanctioned monopoly status, universal voice service is a reality,[9] and the competitive market is resulting in choice for customers. Yet, even under these circumstances, ILECs cry for preferred status, a continuing subsidy of their voice service and a new subsidy of their broadband service. These calls for ever more subsidy and infinitely expanding USF contributions should be rejected.

In the broadband service context, even where broadband service is readily available from multiple suppliers, large portions of the population do not subscribe, either because they do not see adequate utility from the service or because they lack the financial resources to support purchase. Developing programs to support adoption of existing broadband service solves the under-adoption problem that plagues current broadband deployment and results in significant strides in broadband universal service. Throwing additional subsidy funding at broadband deployment does nothing to cure the under adoption problem in areas where deployment has occurred and is unnecessary, in any case, to incent broadband deployment in most areas.[10]

Sprint's BUCKs program addresses the broadband under-adoption problem caused by low income individuals lacking resources and encourages current suppliers to increase marketing of their broadband services to increase revenues. Increased demand incents increased supply, which will occur in most cases without government mandated subsidies if the competitive

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[8] *See, e.g.,* CenturyLink Comments at 4, Qwest Comments at 5, and USTA Comments at 9.
[9] Sprint Comments at 2.
[10] *Id.* at 15-16 and 27-28.

market is not distorted by unneeded USF broadband supply subsidies. Through the BUCKs program, demand will increase in both urban areas where broadband is undersubscribed and in rural areas where increased demand will often provide sufficient incentive to create a broadband offering.

There are already programs in place outside of the USF plan, including the $7.2 billion NTIA and RUS programs implemented in 2009 by the federal government, that meet broadband deployment subsidy needs through grants, low cost loans, and other deployment support.[11] And in areas where competitors to the voice service of ILECs have not appeared, significant high cost USF voice subsidies, which have been used to upgrade POTS lines to broadband in the past, will continue to be available under Sprint's proposal, as will the continuation of RUS loan and grant programs that existed before the most recent $7.2 billion in NTIA and RUS funding for broadband.

II. The Broadband Now Proposal Is Seriously Flawed

CenturyLink referenced the BNP proposal of several mid-sized ILECs in this proceeding and recommended its adoption.[12] The BNP is seriously flawed and should be rejected.

A. The Hybrid Cost Proxy Model Does Not Estimate Broadband Costs

The BNP seeks to compute a new level of broadband USF support based on the existing model used to compute USF for the larger carriers, the Hybrid Cost Proxy Model ("HCPM"). Despite the fact that the HCPM models a circuit-switched, not IP network, the only change the proponents of the BNP propose to this model is to run it at the wire center level rather than the state level. The effect of this one change will be to increase the total amount of USF support and (probably) to change its distribution among carriers. However, the HCPM modified in this

[11] Sprint Comments at 16.
[12] CenturyLink Comments at 2.

manner would produce cost results that bear no necessary resemblance to the alleged purpose of a broadband high cost USF.

The HCPM, even with this one modification, would produce cost results for a network that can provide voice service, not broadband service. It was designed to compute the costs of a forward looking circuit-switched network, not an IP network. The only feature of a broadband network reflected in the design of the HCPM was that the copper portion of the loop had to be short enough to provide digital subscriber line service. However, none of the electronics needed to provide broadband service were included, and the switches used were all circuit switches, not packet switches, with the location of the switches frozen at the existing ILEC circuit switch locations. A truly broadband capable network would be designed very differently from the network whose design is reflected in the HCPM. Merely changing the cost basis from the state level to the wire center level does nothing to reflect the major network change. The modified HCPM would yield no estimate of how much deployment of broadband supported by the fund would actually cost, resulting in no connection between the unknown costs of deployment and the revenue that would actually be generated by the fund.

B. Broadband Now Supporters Seek Profits From Subsidies

The BNP sponsors seek to comfort the Commission that they would do their part by investing $800 per line to extend their broadband networks to areas where they do not yet provide broadband service. Broken ILEC promises of broadband deployment litter the current landscape.[13] While it is encouraging that the ILEC offers to invest some of its own money, this offer is most attractive for ILEC investors who stand ready to reap the profit windfall that would come from such a subsidized investment.

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[13] The History, Financial Commitments and Outcomes of Fiber Optic Broadband Deployment in America: 1990 - 2004, New Networks Institute, Bruce Kushnick and Alexander Goldman, GN Dockets 09-47, 09-51, 09-137 and DA 09-2458, (Dec. 4, 2009).

An ILEC investment of $800 per line yields a carrying cost (return plus depreciation) of less than $20 a month, assuming a 10 year life for the equipment (which is probably conservatively short, given that a substantial portion of the investment would be in much longer lived fiber cable and the supporting structures) and an 11.25% rate of return. A broadband connection with 6 Mbps capacity is capable of providing both broadband and video services each of which could produce $50 per month in revenue. The ILEC is proposing to make an investment with a $20 monthly carrying cost for the opportunity of $100 or more in monthly revenue from customers who take the service. Under these circumstances, the expected return justifies a much larger investment by the ILEC and highlights why supply subsidies are not appropriate. Sprint believes that public subsidies are not appropriate where potential customer revenue appears to be sufficient to support deployment. Potential revenues from broadband and video services clearly support ILEC investment at much higher levels than the $800 they propose.

C. Broadband Now and USF Subsidies Do Not Appropriately Spur Broadband Demand and Adoption

Sprint believes that the current subsidy systems for ILECs are part of the problem with under adoption of broadband.[14] Broadband services are available in many ILEC areas yet adoption lags. One primary reason for this situation is that ILECs receive a significant subsidy whether they sell broadband or not. If they build broadband, the subsidy will come even if they don't try all that hard to sell broadband as a product. Sprint believes it is far better to provide adoption subsidies, through the BUCKs program, to customers and thus support demand, than it is to subsidize additional deployment by ILECs. An ILEC can simply gain additional revenue from subsidized deployment and need not work hard to gain additional revenue from actual

[14] Sprint Comments at 8-9.

subscriptions to broadband service. If customer demand exists, supply will be built. But the reverse is not true. If supply exists, and it is not marketed effectively (including being priced at an attractive level), the lack of demand will leave the increased supply largely idle, and this will result in nothing more than wasted USF subsidies.

The ILECs even go so far as to suggest that a new Network Advancement Mechanism ("NAM") be created to replace lost access revenues.[15] Creation of additional subsidy mechanisms is a major mistake, not a solution. Subsidies reduce incentives to compete and to market effectively. ILECs that are required to work for their daily bread, through deployment of new products and aggressive marketing of those products, simply work harder to satisfy customer desires. Giving ILECs another subsidy stream to replace lost access revenues does nothing to incent them to produce new products or to market them. In fact, new subsidy streams harm the modernization of the telecommunications network and make our entire nation less competitive.

Sprint explained this problem in its Comments in NBP Public Notice #25.[16] Because of investment in circuit switched technology and high revenue streams coming from circuit switched services such as terminating access, ILECs are slow to adopt IP technology and offer IP-based services to customers. The technological benefits of the reduced costs of voice over Internet Protocol ("VoIP") are delayed and customers pay more than they otherwise should for voice service. The creation of a new access replacement fund perpetuates the high cost of circuit switched access into the IP world and forces all of the industry to pay that cost.

Sprint believes that regulation should not have the effect of protecting any company from the advancement of technology. Sprint also believes that all companies reasonably bear the risk

[15] Broadband Now Ex Parte Attachment at 4.
[16] *See,* Comments of Sprint Nextel Corporation NBP Public Notice #25, GN Docket Nos. 09-47, 09-51, and 09-137 (Dec. 21. 2009)

and rewards of the availability of voice as an IP application over broadband networks. A reasonable opportunity to cover the cost of service does not include the "right to a subsidy" for technology that is no longer current. But a reasonable opportunity to cover cost does include the opportunity to offer additional services, such as broadband, video entertainment, and more, based on the new technology as it becomes available. Competitive providers making fuller use of the new IP technology should not be forced to subsidize the embedded cost of older technology that is no longer efficient. American competitiveness is seriously compromised by such subsidy systems, as the benefit of new technology is diminished by requiring those new technology offerings to provide unwarranted subsidies of the deployment costs of older technologies.

D. The Broadband Now Plan Is Not Competitively Neutral

The BNP promise to make subsidy funds available to any carrier in a competitively neutral fashion is hollow. The BNP would require that any competitive provider match the ILEC's current footprint in order to be eligible for the subsidy. It is much easier and cheaper for an ILEC to upgrade its existing network than for a competitor to undertake a greenfield build over that area so that it can match the ILEC footprint. Even cable companies, the wireline entities that often have partial coverage, are still disadvantaged under these circumstances by the existing footprint of the ILEC. Further, the greenfield builder would have to show that its costs were lower than those of the ILEC. It is difficult to imagine that any competitor building totally new plant could produce lower costs than an ILEC that can reuse significant portions of its existing plant, including existing fiber, buildings, rights-of-way, switches, and other facilities.

In cases where cable companies already provide competition in portions of the ILEC areas, they have in effect, "bid zero" in subsidies to provide comparable service. What the ILEC is attempting to do is rig the process so that a competitor cannot win in the market even where it has bid zero in subsidies because the ILEC would continue to receive a subsidy for a large area, even where it faced facilities-based competitors. Under these circumstances, a subsidy for only part of the area may be justified. And may is the operative word in this context. The fact is that it may well be that no subsidy is justified in any part of the area, and it is certainly the case that no subsidy is justified in any competitive areas, especially where a portion of the loop cost should be recovered from other services available over the loop.[17]

E. Deaveraging of USF Study Areas Is Not Enough

The BNP and other comments suggest that high cost USF funding be redirected to areas without wireline competitors.[18] Sprint agrees that areas with facilities-based competition should cease to receive high-cost USF funding. But, as Sprint explained in its comments, the presence of either a wireline or wireless voice competitor should be the trigger for removal of high-cost USF subsidy in ILEC areas.[19] Further, the subsidy in other areas should reflect reduction in loop cost allocations to the high-cost fund that recognize the use of the loop for broadband and other service purposes. This reduction both recognizes that the loop is used for multiple purposes and that other uses of the loop should bear a share of the cost, and it recognizes that such a reduction would incent ILECs to more aggressively offer additional services and market them with vigor to replace reduced subsidy revenues.

F. Subsidies Harm Rational Economic Decision Making

The current USF and intercarrier compensation ("ICC") subsidy system has distorted the economic signals concerning the purchase of communications services faced by consumers. In a rational economic environment, the best product at the best price wins customers. But in the

[17] Sprint Comments at 5-10. The Qwest proposal to shelter revenue from additional uses of the loop should be rejected. *See,* Qwest Comments at 7.
[18] *See, e.g.,* Qwest Comments at 5, CenturyLink Comments at 2 and 16 (noting "that USF reform is necessary and that such reform should include removing support from the lower-cost areas where competition has emerged" but claiming "cable operators often do not serve the same rural customers as ILECs (the same is true for wireless carriers as well))". In reality, wireless carriers serve at least 97% of the population and cover the vast majority of rural customers. See, Sprint Comments at 6, fn 9.
[19] Sprint Comments at 6.

communications services environment, price does not track cost, uneven subsidies abound, and customers make their choices based on false economics. Even with faulty economic signals, customers have cut the cord in over 20 percent of the cases and chosen wireless only service.[20]

But what would happen if real economic signals were to be given -- if all providers, both wireline and wireless, interconnected at bill-and-keep rather than wireline receiving access charges and wireless being denied access charge revenues? If bill-and-keep were to replace access charges, wireless carriers and their customers would make lower payments to wireline carriers and their customers in the form of access payment subsidies, and this would result in lower wireless prices. What would happen to ILEC wireline penetration under these circumstances if a level competitive playing field were to be crafted? What would happen to cable voice penetration versus ILEC penetration if the ILEC covered its costs of service from its own customers rather than from access subsidies and USF subsidies, and priced its service to cover its own costs in competition with cable companies? What would happen if ILECs were to cease suppressing voice as an IP application over broadband connections and price accordingly?

As the current ICC and USF subsidy systems are continued, the real competitive marketplace is distorted and customers are not given real choices based on real costs. And the result of false choices based on false costs is always economically suboptimal. Under these circumstances, government should take its hands off the scale that has previously weighed heavily in favor of ILECs with their old circuit-switched technology and, in an enlightened manner, empower customers and the market to make choices that lower costs, increase adoption, and increase American competitiveness.

[20] *See,* Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, January – June 2009, Stephen J. Blumberg, Ph. D., and Julian V. Luke, Division of Health Interview Statistics, National Center for Health Statistics (more than one of every five American homes, 22.7%, had only wireless telephones during the first half of 2009).

III. Conclusion

As proposed by NCTA, the Commission should modify the high-cost USF program to remove USF funding for ILECs in any area where wireline facilities-based competition has developed. The NCTA proposal should also be expanded to include Sprint's two additional USF reforms: (1) allocation of a portion of the costs of local loops to broadband and other services generating revenue for the ILECs, and (2) implementation of the BUCKs program to increase demand. The BNP presented by CenturyLink and other mid-sized ILECs should be rejected as expanding the problems associated with USF, not correcting them.

Respectfully submitted,

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January 22, 2010

Certificate of Service

I hereby certify that a copy of the foregoing Reply Comments of Sprint Nextel Corporation was served electronically or via US Mail on this 22nd day of January, 2010 to the parties listed below.

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