COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE INTRASTATE	)	ADMINISTRATIVE
SWITCHED ACCESS RATES OF ALL	)	CASE NO.
KENTUCKY INCUMBENT AND COMPETITIVE	)	2010-00398
LOCAL EXCHANGE CARRIERS	)	

COMMENTS OF SPRINT NEXTEL

Sprint Communications Company L.P. ("Sprint"); Sprint Spectrum, L.P. and SprintCom, Inc. d/b/a Sprint PCS ("Sprint PCS"); Nextel West Corp., Inc. ("Nextel"); and NPCR, Inc., d/b/a Nextel Partners ("Nextel Partners") (collectively, "Sprint Nextel") submits initial Comments in accordance with the Commission's ("Commission") Order ("Order"), dated November 5th, 2010. Sprint Nextel reserves the right to expand and further elaborate on these Comments and other policy issues articulated by the Commission in its Order during the course of this proceeding .

Switched access is a monopoly. All carriers that wish to compete against a local exchange carrier ("LEC"), either incumbent LEC ("ILEC") or competing LEC("CLEC"), in the retail market use the LEC's switched access to terminate non-local calls to the LEC customers. Indeed, many LECs insist on imposing switched access charges on wireless providers for calls that cross Metropolitan Trading Area ("MTA") boundaries despite the fact that wireless providers do not collect switched access charges for traffic originated by other carriers' customers. Carriers cannot compete on an equal footing in the retail telecommunications market as long as this asymmetrical compensation arrangement remains.

ILEC access prices in Kentucky and in numerous other jurisdictions were established at levels that greatly exceeded the cost of providing access with the intention of subsidizing the price of basic local service in a regulated monopoly setting. Today, these inflated fees simply act as a means to unduly enrich LECs and hinder competition. The interplay between ILEC local service rates and intrastate access rates was established long before ILECs developed the ability to collect revenues from numerous other services provisioned over the same common network on which they provide local voice service and exchange access. ILECs within their service territories now offer wireline long distance, numerous new calling features, broadband and video services. These services are often bundled together to provide the consumer's complete service needs. The average retail revenue per customer an ILEC collects over its common network continues to expand. The historic trend of retail revenue growth and the potential for further growth in the future makes the collection of excessive access overcharges from competing carriers unnecessary and anti-competitive. ILECs can and should collect the costs of providing retail services from the customers purchasing those retail services instead of burdening competitors by charging inflated rates for monopoly switched access. This change is essential to developing a level competitive playing field for all service providers.

Beyond the changes described above within the ILEC's business, the telecommunications market has experienced other dramatic changes. Wireless service has gone from a convenience to a necessity for most consumers. Cable television providers have expanded their service portfolio to include all-distance cable telephony service in most parts of their franchise footprints. More households than not have highspeed internet connections. And finally, the long distance market has completely changed.

Significant market changes have greatly diminished the role of stand-alone long distance service providers. First, the ILECs gained the ability nationally to sell in-region long distance services and quickly recognized the value of bundling the long distance service with local voice service. Second, the IXCs lost the ability to purchase cost- based unbundled network elements (commonly referred to as UNEs) as a package to offer their own package of local and long distance voice service. Third, wireless carriers began offering voice packages in blocks of time that did not distinguish local and long distance. Finally, cable providers recognized they possessed the technology necessary to add voice service over their networks built for video service, and began offering all distance packages of voice service. All of these factors combined to cause stand-alone long distance offerings from IXCs to lose favor in the market. Intermodal competitors, wireless and cable telephony providers, that were able to match the ILECs' total voice package gained favor. Because ILECs have the ability to offer long distance in combination with the legacy local voice service, a majority of ILEC local voice customers now purchase long distance service from their ILEC or its affiliated long distance provider. Competition is no longer segmented between local and long distance. Most consumers purchase a voice service to meet their needs for all-distance calling.

While burdening all long distance service providers equally with excessive access rates may have been tenable at a time when the long distance service provider and the local service provider were separate entities, this is no longer the case. All of these changes have created a market where high switched access rates can not be competitively neutral as access charges were when they were created. In today's market the carrier that can charge the highest switched access rates can use the proceeds to: 1) create artificially low rates for its own retail services in order to harm competition; 2) invest in non-regulated services like broadband and video in order to gain a competitive advantage over carriers which must invest in these capabilities with their own funds without the benefit of overcharges collected from competitors; and 3) enrich the shareholders and executives of the telephone company at the expense of their competitors. In contrast, the payers of high access rates are left with fewer resources to invest in competitive innovations and experience low or negative margins if they match the ILECs' subsidized prices. The payer of excessive access rates is simply being forced to fund its competitor. The wholesale access services are impacting competitive choice. Customers are choosing their voice services in the market based on distortions caused by the flow of above cost access charges.

Ultimately, all intercarrier compensation charges should be set at the incremental cost of providing one more minute on an existing network. Sprint Nextel believes the Commission can and should at least take a long overdue step toward that goal within this proceeding. Sprint Nextel recommends that each ILEC be required to set its intrastate switched access rate and structure for each individual access element equal to the equivalent interstate switched access rate and structure. This recommendation includes the elimination of the Non-Traffic Sensitive Revenue Requirement charges.

Sprint Nextel also believes CLEC switched access rates must be controlled. CLECs possess monopoly power for the switched access services charged to carriers connecting to its end users just like ILECs. Each CLEC's intrastate switched access rates should mirror its interstate switched access rate and structure for each individual access element.

Sprint Nextel supports the public policy goal of universal service. But the old ways of implicit subsidies and explicit competitor-to-competitor, ILEC exclusive wealth transfer funds make no sense in today's telecommunications market. Today, ILECs are not the only service providers in most parts of Kentucky. Nationally, it has been shown that only 14.9% of households rely solely on landline service for voice communications needs. This same study found that 24.5% of households rely on wireless service exclusively.[1] Wireless providers are also offering plans designed for customers with limited means and basic service needs. Sprint Nextel believes the proliferation of competition provides something better for consumers than a ubiquitous monopoly. The vast majority of Kentucky citizens enjoy the benefit of choice. And as ILEC voice service prices are permitted to increase so that ILECs generate revenue from their own retail service offerings and reduce the burden placed on other carriers and their customers, the benefits of competition will expand.

ILECs can offset the reduced burden they place on other carriers by rationalizing the rates charged for basic local retail service. Sprint Nextel recommends benchmarking the ILECs' local service rates to at least the AT&T local service rates and to other ILECs nationally. It is worth noting that in a recent access proceeding, the Pennsylvania Office of Consumer Advocate produced a study that showed basic local service remains

[1] *See* Stephen J. Blumberg, Ph.D., and Julian V. Luke, "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July – December 2009", Centers for Disease Control white paper (released May 12, 2010).

affordable within the non-BOC ILEC service areas for residential customers at $23.14 net of fees and taxes.[2]

Rational local retail service rates and the continued expansion of retail revenues from services provisioned over the common local network provide ample opportunity for the ILECs to manage the transition away from burdening other carriers with bloated intrastate switched access rates. Merely shifting inflated access revenue to an explicit fund such as a Kentucky Access Replacement Fund will do nothing to eliminate the harm to competition and Kentucky consumers. These type of funds simply shift the access overcharges from inflated retail service charges customers pay to inflated surcharges those same customers pay. Separate identification of an overcharge on other carriers' bills does not eliminate the undue competitive advantage ILECs enjoy from the collection of overcharges whether those overcharges come directly from other carriers through a switched access invoice or funneled through a fund administrator. The other carriers' customers' bill are still inflated and the ILECs still collect the overcharges.

In summary, reform of the intrastate switched access rates is long overdue. Rationalizing rates will enhance the development of competition and benefit the consumers of Kentucky. Setting intrastate switched access rates equal to its interstate rates is a modest, reasonable first step for this proceeding. ILECs can and should be permitted to offset the reduction in the burden they place on other carriers through rationalizing the retail prices of services provided to their own customers. The plethora of other retail services provisioned on the ILECs common network provide ample

[2] Pennsylvania Public Utility Commission Docket No. I-00040105, Phase I, *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers, and the Pennsylvania Universal Service Fund*, Statement 2.0, Direct Testimony of Roger D. Colton on behalf of the Pennsylvania Office of Consumer Advocate, Schedule RDC-5.

opportunity for the ILECs to manage the transition away from bloated intrastate switched access rates. Subsidy funding of the ILEC business is simply not necessary. Whether overcharges are imposed in the form of high access rates or an explicit fund, they are still overcharges that other carriers' customers must pay to the detriment of competition and consumers. The subsidy systems established more than 25 years ago in the monopoly era is anti-competitive and must be reformed for the benefit of Kentucky consumers.

In recognition of the foregoing, Sprint Nextel requests that the Commission adopt all of its recommendations in this proceeding. Sprint Nextel looks forward to sponsoring testimony on the issues discussed above and other policy issues identified in the Commission's Order in this proceeding.

Submitted this 17th day of December, 2010.

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