

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Statement to Review State Universal Service Policies

Docket UT-100562

**SPRINT NEXTEL CORPORATION'S RESPONSE TO
THE WUTC'S QUESTIONS CONCERNING
APPROPRIATE UNIVERSAL SERVICE POLICIES IN WASHINGTON**

**Kristin L. Jacobson, Regulatory Counsel
Sprint Nextel Corporation
201 Mission Street, Suite 1500
San Francisco, CA 94105
Telephone: 707-816-7583
Facsimile: 415-684-7339
Email: kristin.l.jacobson@sprint.com**

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Sprint Nextel Corporation (“Sprint Nextel”) respectfully submits the following response to the Commission’s May 26, 2010 data request regarding its “Statement to Review Universal Service Policies” in the State of Washington.

WUTC Question 1: What is the role of the public switched telecommunications network operated by incumbent local exchange carriers (ILECs) in providing universal service in the state of Washington?

Sprint Nextel Response Question 1: Monopoly universal voice service was achieved long ago, universal voice competition is essentially here now, and thanks to the forces of competition, the goal of universal broadband gets closer everyday. Indeed, in response to competition, most ILECs have leveraged their historical government supported ubiquitous monopoly network position into networks with modern capabilities, including high-speed internet access, feature-filled voice and data bundles, and video entertainment services. The goal must be bolder than universal broadband availability from the incumbent telephone company; the goal should be universal broadband competition. The removal of lingering regulatory impediments involving the incumbent telephone companies and the public switched telephone network can hasten the pace of arrival of universal broadband competition. Reducing historically inflated access rates and other outdated subsidies will free resources for competitive broadband innovation and create incentives for incumbents to aggressively deploy and market broadband services to their end users.

WUTC Question 2: Does the UTC need to address intrastate switched access rates to ensure universal service and the widespread availability of telecommunications services at reasonable rates in Washington? What statutory or rule changes are needed in order to do so?

Sprint Nextel Response Question 2: Yes. The consumer harms caused by high access rates are widely understood. Washington’s high intrastate switched access rates inflate the price of telecommunications services, impede full and fair competition, create costly non-productive market distortions and endless litigation, and create disincentives for incumbents to deploy and market broadband. Regardless of the role high switched access rates were intended to play in the past, they are now decidedly counterproductive to the goals of universal service.

WUTC Question 3: Should there be a Washington Universal Service Fund (WUSF)? If so, what factors should the State of Washington consider in weighing the need for establishing a WUSF?

Sprint Nextel Response Question 3: Universal service funds by their very nature distort markets and burden both consumers and business end users. Unless there is a demonstration of a need for support which cannot be met except by creating a remedy that will both distort the market and burden consumers and business end users, the Commission should refrain from pursuing such a remedy. The burden of proof of a need

that cannot be remedied without taxing other carriers and their customers must lie squarely on the entity that requests support.

Commenting parties are encouraged to address the following factors:

WUTC Question 3(a): trending reductions to incumbent carrier's intrastate access charge revenues,

Sprint Nextel Response Question 3(a): Revenues from inflated intrastate access charges are clearly declining. However, the mere fact that incumbent switched access revenues are declining by itself provides no basis for consideration of any new support mechanism. Forward-looking incumbents have known for a very long time that inflated switched access revenues were unsustainable. Many have been adjusting their businesses accordingly, by eliminating inefficiencies and diversifying their businesses. This, of course, does not mean that the incumbents will voluntarily give up this immensely profitable scheme. Because the termination of traffic delivered by other carriers to the incumbents' user customers is one of their remaining functional monopolies, it is no surprise that the incumbents will cling to their grossly inflated switched access rates for as long as regulators allow. But as switched access revenues are in decline due to the popularity of mobile services, the internet, and other communications mediums, it is no surprise that incumbents are trying to convince regulators to move the historical switched access cash cow to new revenue-guarantee mechanisms. While a revenue guarantee through a universal service fund would certainly help the incumbent telephone company, the Commission's focus needs to be on Washington consumers and businesses. The best course for consumers and businesses is to continue the exposure of inflated access charges to the rigors of the marketplace. To the extent a carrier wishes to maintain its historical revenue level, it should do so through services it sells to its own end users and not through imposing an anti-competitive tax on other carriers and their end user customers.

WUTC Question 3(b): the need for comprehensive or streamlined earnings review including determination of the effective intrastate or overall rates of return of recipients of WUSF funding,

Sprint Nextel Response Question 3(b): As mentioned above, any provider which seeks to tax its competitors and their customers through WUSF should be required to demonstrate a real need which can be met in no other way. Simply pointing to the amount of revenue you are accustomed to collecting from other carriers and their customers is not a demonstration of need.

WUTC Question 3(c): revenues from regulated services,

Sprint Nextel Response Question 3(c): All carriers should rely primarily on revenues from their end user customers, whether the end user

services are regulated or unregulated, rather than burdening their competitors' customers. To the extent a carrier needs to increase regulated end user rates, it should be permitted to do so and in this way expose this revenue to the rigors of the market.

WUTC Question 3(d): revenues from both regulated and unregulated services,

Sprint Nextel Response Question 3(d): As mentioned above, incumbent LECs have leveraged their ubiquitous, monopoly position to become capable of providing many services beyond the limited basic exchange and exchange access revenue of the past. The availability of these additional revenue opportunities must be considered if the Commission wishes to provide the proper incentives to the incumbents. It is as simple as this - collecting a check from competitors for performing a simple monopoly function like traffic termination, or from a USF administrator simply for having a customer, is far easier for an ILEC than aggressively deploying and marketing end user services. If the Commission wants to increase broadband adoption and lower broadband prices, it should increase the incentive for ILECs to sell more of their broadband capabilities to end users. As incumbents are weaned off their reliance on government-based support – whether that support comes from high access rates or USF mechanisms that force other carriers to subsidize the ILECs - the incumbents will have to turn more attention to generating business from their end user customer base, for example, by lowering the price of DSL or bundled services to attract more of their end user customers to these services. This will clearly benefit Washington consumers and businesses alike.

WUTC Question 3(e): carrier of last resort obligations of potential WUSF recipients,

Sprint Nextel Response Question 3(e): The vast majority of Washington citizens enjoy the ability to select a “carrier of first preference”. The goal should be to take measures necessary to ensure that no Washington citizen is stuck with a “carrier of last resort”.

WUTC Question 3(f): any other factors that should be used in determining the need for establishing a WUSF.

Sprint Nextel Response Question 3(f): Eliminating or minimizing the burden on Washington consumers and businesses must take priority over the interests of an incumbent to be protected from competition or made whole through a revenue guarantee mechanism.

WUTC Question 4: What is the role of the National Broadband Plan in evaluating the need for a WUSF? If Congress and the Federal Communications Commission (FCC) implement the recommendations in the National Broadband Plan, what would be the role

of a state USF? What are the possible effects on Washington consumers of the changes to federal rules contemplated in the National Broadband Plan if there is no state universal service fund? Does the National Broadband Plan alleviate or intensify the need for Washington to address intrastate access charge reform and universal service issues at this time?

Sprint Nextel Response to Question 4: The NBP confirms that high access charges impede broadband. The NBP does not require any state to establish a state USF. The proposed reduction in access charges will benefit Washington consumers. A state USF, particularly one that favors incumbent company interests over all others, will burden consumers and distort the market. The need for intrastate access rate reductions was long overdue well before the NBP was published.

WUTC Question 5: If the UTC addresses intrastate access charge reform, to what extent is there a need for a WUSF to replace some or all intrastate access charge revenues of ILECs in order to preserve and advance the telecommunications network in the State of Washington? Are statutory changes necessary in order to do so?

Sprint Nextel Response to Question 5: Any carrier seeking a replacement of access revenue through a WUSF must bear the burden of proving a need that cannot be addressed in a way that does not involve taxing other carriers' customers.

WUTC Question 6: What direct benefits, if any, will there be to consumers in Washington by addressing intrastate switched access and universal service reform? If intrastate access charge reform is implemented, how will access charge cost reductions realized by current interexchange carriers in Washington be flowed through to Washington consumers?

Sprint Nextel Response to Question 6: Because the carriers have a monopoly position in the provision of switched access, there is no market force that will cause an incumbent to voluntarily lower its switched access rate. However, because there are multiple competing carriers whose costs are all directly inflated by the imposition of high switched access rates, reducing the high switched access rates will reduce the costs imposed on competing carriers, and the competitive market will require those carriers to turn their reduced costs to end users through lower prices and competitive investment.

WUTC Question 7: Should intrastate switched access reform apply to all providers of intrastate switched access in Washington? What statutory or rule changes would be necessary?

Sprint Nextel Response to Question 7: Yes. Switched access rates of all LECs should be reduced to the level of switched access charges that wireless carriers collect.

WUTC Question 8: Assuming implementation of the National Broadband Plan, is there a need for a state WUSF during the period in which federal universal service support transitions to support for broadband?

Sprint Nextel Response to Question 8: No transitional funding is necessary unless a provider seeking to burden other carriers' customers through a WUSF can actually demonstrate a need that cannot be met any other way.

WUTC Question 9: If a WUSF is established, what should be the criteria for eligibility to draw from the fund? How should the size of the fund be determined? What should be the basis of the amount of support to be received?

Sprint Nextel Response to Question 9: Any fund must not favor a given provider or technology, so any support must be made equally available to any service provider. Because consumers ultimately bear the burden, any fund should be strictly limited by limiting a) the amount of time the fund is in effect, b) limiting it to only those lines which are incapable of producing more than basic local voice revenue, and c) limiting the scope -- in any area in which there is one service provider providing service without imposing WUSF burdens on other carriers and their customers and without imposing switched access charge burdens on other carriers and their customers, no WUSF should be available to any provider in that area and switched access charges should be replaced with a reciprocal compensation mechanism under which rates are no higher than economic cost.

Frankly, the best way to ensure that a fund promotes competition and helps consumers, is to provide support directly to consumers. In this way consumers can select the service provider and technology that best meets their needs. So, for example, if the commission decides to create \$5 per month support in a given area, it should provide a \$5 voucher directly to the consumers in those areas to be used toward the purchase of service from the provider of their own choosing.

WUTC Question 10: What, if any, is an appropriate contribution basis for a WUSF? To what extent should other telecommunications providers, including wireless and VoIP service providers (nomadic and fixed) contribute to a WUSF? If so, on what basis should they contribute?

Sprint Nextel Response to Question 10: Any WUSF should be funded through general Washington state tax revenues. If a WUSF is justified, then the elected officials of the state should willingly incorporate that program with the other government programs funded by general taxes. Taxing one group of telecommunications providers in order to subsidize another will distort the marketplace and lead to inefficient outcomes.

WUTC Question 11: What is the role of carrier of last resort in a state universal service fund? Should any carrier that receives support from the universal service fund be required to assume the obligations of carrier of last resort with respect to traditional voice services, with respect to broadband service, or both? Should the fund support more than one provider per geographic area? How should "area" be defined?

Sprint Nextel Response to Question 11: The vast majority of Washington citizens enjoy the ability to select a “carrier of first preference”. The goal should be to take measures necessary to ensure that no Washington citizen is stuck with a “carrier of last resort”. In any geographic area where there is more than one carrier, there is no need for universal service support.

WUTC Question 12: Should a state universal service fund include a local rate benchmark? If so, for what purpose and how should it be determined?

Sprint Nextel Response to Question 12: Because consumers ultimately bear the burden of a fund, a “benchmark” is often considered as a tool to limit the amount by which contributing carriers and their customers are required to enrich receiving carriers. In order to provide an incentive for recipients to turn to increase adoption of broadband services, any benchmark should recognize the revenue available from selling broadband and other services. A “local-only” benchmark weakens the incentive of recipients to increase broadband adoption.

WUTC Question 13: Should there be a transition period from the current state universal service mechanism to a new WUSF? If so, how long should the transition period be?

Sprint Nextel Response to Question 13: There should be as little delay as possible in eliminating the harms caused by the high access rates and WUSF.

WUTC Question 14: Currently intrastate universal service support consists of at least two elements that are incorporated into intrastate access charges billed to intrastate interexchange carriers (the Universal Service rate element that is billed by all LECs on both originating and terminating intrastate interexchange usage and the Interim Terminating Access Charge (ITAC) that is billed only on terminating minutes by some carriers but not all). The administration of the traditional USF is currently performed by the Washington Exchange Carrier Association (WECA); but the LECs each administer their own ITACs. Should WECA continue to administer all of the ITACs in conjunction with the Traditional USF? Should WECA continue to administer any USF (traditional or otherwise)? Should the WECA Board be expanded to include the interests of contributors?

Sprint Nextel Response to Question 14: If any WUSF is limited and made competitively and technology neutral as described in responses above, then fund administration is a fairly insignificant issue. If however, the fund is large and designed to make substantial distributions primarily to incumbent LECs instead of consumers, then administration by a neutral entity, instead of by an ILEC affiliate is now the case, would be more appropriate.

WUTC Question 15: In designating entities to be eligible for WUSF funding, should there be an eligible telecom carrier (ETC) designation process that is distinct from the existing federal ETC designation process, or should they be combined?

Sprint Nextel Response to Question 15: No carrier, including the incumbent, should be assumed automatically eligible, and the criteria for eligibility should be the same for all. Use of the federal ETC designation criteria should suffice.

WUTC Question 16: What other kind of oversight, if any, should the UTC have over administration of the WUSF?

Sprint Nextel Response to Question 16: For any incumbent that receives support – which will come only after demonstrating an actual need which could not be met any other way than burdening other carriers and their customers - the UTC should require an annual renewal demonstration of proof that the incumbent has a continuing actual need for support that cannot be met in any other way than by burdening other carriers and their customers.