

As shown below, the SMT's forecast of toll-free demand is significantly understated, as is evident from review of actual demand, which has *increased* in each of the past 10 weeks. The downward bias in the demand forecast appears to be due in large measure to the one-time network grooming activities of a single large carrier. The SMT has also completely failed to justify any rate increase resulting from higher bad debt risk, and makes no attempt to demonstrate that existing tariff provisions relating to bad debt and discontinuance of service are insufficient to minimize bad debt exposure. Because the SMT has failed to demonstrate that its proposed rates are just and reasonable, the instant tariff transmittal should be rejected or, in the alternative, suspended for five months and set for investigation.

1. The SMT's Demand Forecast is Significantly Understated.

In the instant transmittal, the SMT has forecasted that CRA demand for calendar years 2002 and 2003 will be 3.3% and 15.0% lower, respectively, than it forecast in its previous transmittal.² This remarkable drop appears to be based in large part on the inclusion of an additional four months of actual demand data (for May-August 2002) in the SMT's new econometric analysis. However, this four-month period coincides precisely with the time that the largest Resp Org, WorldCom, was engaging in a one-time network grooming project. More recent data suggest that WorldCom has completed this project, and is now experiencing an increase in its demand for toll-free numbers.

Exclusion of this anomalous network grooming event would undoubtedly result in a demand forecast which is significantly higher than that contained in this tariff filing, since the quantity of toll-free numbers demanded by all other Resp Orgs combined has been steady or increasing moderately for the past year. Indeed, the downward bias of the

² Transmittal No. 21, filed May 31, 2002.

SMT's forecast is belied by the *upswing* in demand experienced in each of the past 10 weeks.

The BOCs speculate that "the significant reduction in demand experienced during 2001 and the first eight months of 2002 is likely attributable to the impact of the economic recession" (D&J, p. 4). Sprint disagrees. First, we would note that total CRA demand for 2001 exceeded that for 2000 by 24.2 million units (D&J, Table 3A). Although demand did soften somewhat between May-November 2001,³ it increased steadily from November 2001 through April 2002 (*id.*). Demand did drop between May-August 2002, the last "actual" data points included in the tariff filing (*id.*); however, Sprint believes that this decrease in total industry demand was disproportionately due to the network grooming efforts of a single carrier, WorldCom. As seen in Table 1 below, the very large returns to spare executed by WorldCom caused total industry demand numbers to plummet. In contrast, demand for toll-free numbers from all other Resp Orgs between October 2001-November 2002 has been stable/increasing modestly (see graph included in Attachment 1).

³ Demand at the year's lowest point (November 2001) was only .60% less than at its highest point (April 2001).

Table 1
Change in Non-Spare Toll Free Numbers

	WorldCom	Total Industry
May 2002	(618,833)	(575,276)
June 2002	(388,165)	(467,008)
July 2002	+2,076	(3,234)
Aug. 2002	(291,918)	(340,604)
Sept. 2002	(286,895)	(301,750)
Oct. 2002	(81,430)	+54,423
Nov. 2002	+51,486	+106,591
Total	(1,613,679)	(1,526,858)

Source: SMT monthly CD-ROM for non-spare numbers in the SMS database

Sprint believes that WorldCom's decrease in demand was a one-time occurrence, the result of WorldCom's efforts to spare out large volumes of toll-free numbers which may have been non-revenue producing⁴ but for which it was still paying the CRA. As the November 2002 numbers seem to indicate, it appears that WorldCom has completed its network grooming project, and that its demand for toll-free numbers is again on the upswing.

As noted above, demand for toll-free numbers by Resp Orgs other than WorldCom has been stable/increasing moderately over the past 12 months, and this situation, combined with WorldCom's recent return to more normal circumstances, has fueled an increase in net reserves (reserved numbers less numbers sent to spare) in each of the past 10 weeks. As seen in Table 2 below, the SMT's gloomy forecast is belied by the actual growth in demand for toll-free numbers:

⁴ A toll-free number may be non-revenue producing, but still be assigned to a subscriber. If the subscriber agrees to drop his number, the number can be returned to the spare pool after aging appropriately in disconnect status.

Table 2
Increase in Toll-Free Numbers in Use

Week Ending	Reserved During Week	Spared During Week	Numbers in Use Growth
9/14/2002	98,331	81,919	16,412
9/21/2002	127,978	58,091	69,887
9/28/2002	93,625	81,102	12,523
10/5/2002	102,759	68,922	33,837
10/12/2002	83,946	73,068	10,878
10/19/2002	86,607	59,006	27,601
10/26/2002	95,810	62,076	33,734
11/2/2002	87,435	67,015	20,420
11/9/2002	136,849	83,691	53,158
11/16/2002	103,306	99,596	3,710

Source: SMS/800 Number Administration Summary Report (provided by the SMS/800 help desk)

Information in this same report also shows that actual toll-free numbers in use have exceeded the demand forecasted by the SMT for September, October and November 2002 by a considerable margin (see Table 3 below). The actual trend is upwards, as opposed to the decline forecasted by the SMT – a decline which the SMT predicts will continue through August 2003 (see D&J, Table 3A):

Table 3
Toll-Free Numbers In Use

	Help Desk Weekly Report (Actual)*	Trans. #22, Table 3A (Forecast)	Difference
Sept. 2002	23,505,779	23,486,099	19,680
Oct. 2002	23,611,829	23,273,497	338,332
Nov. 2002	23,689,117	23,060,895	628,222
Total			986,234

*Values adjusted to correct mathematical error on the Number Administration Summary Report dated 5/28/02. Use of unadjusted numbers (*i.e.*, numbers as reported) shows that actual demand for September-November exceeded the forecasted amount by a total of 387,476 units. Although some of the difference in demand quantities may be attributable to differences in the date on which the data was gathered, that difference should be relatively small, and certainly not of the magnitude reflected in this table. Actual data are for weeks ending September 28, October 26, and November 16 (most recent available).

The impact of using actual demand numbers instead of the SMT's excessively low forecasted demand numbers is significant. For example, the 628,222 additional toll-free numbers in use (the difference between actual and forecasted demand for November 2002) would generate additional annual revenues of \$1.673 million at the currently effective CRA rate of \$.2219, or \$1.937 million at the proposed CRA rate.

There can be no dispute that the SMT's new forecast of toll-free number demand is fatally flawed because its econometric model did not adjust for an anomalous and significant event. That the forecast is inaccurate is confirmed by actual demand data provided by the SMT in other venues.⁵ Because the SMT has failed to justify its claimed demand quantities, its proposed rates cannot be found to be just and reasonable, and the

⁵ Indeed, the Commission may wish to investigate why the SMT used forecasted data for September-November 2002 when actual data were available at the time the tariff was filed.

tariff must be rejected or, at a minimum, suspended for five months and set for investigation.

2. The BOCs Have Failed to Justify the Need to Increase Rates Because of Bad Debt.

The BOCs have also proposed to increase rates to reflect higher-than anticipated bad debt expense experienced in the first nine months of 2002. They assert (D&J, p. 2) that they had budgeted \$455,000 per month for bad debt for services provided to bankrupt Resp Orgs, but that actual bad debt expense for January-September averaged \$671,500 per month.⁶ Any proposed rate increase based on increased bad debt risk should be rejected because of the lack of adequate documentation, and because the BOCs have failed to demonstrate that existing measures are insufficient to address the alleged problem.

The instant transmittal is notable for its lack of detail relating to the claimed increase in bad debt. There is no information about the amount of unpaid billings incurred by now-bankrupt companies prior to the date they filed for bankruptcy (pre-petition debt), and those incurred post-petition, or whether the courts handling those bankruptcies have provided the SMT with adequate assurance of payment for SMS/800 services provided post-petition.⁷ There is no explanation about whether the SMT expects the uncollectible rate to remain stable, increase or decrease. There is no information about the total bad debt cushion already included in the rate base, or whether that total

⁶ It is unclear whether "actual" bad debt includes debt from non-bankrupt Resp Orgs, or whether it includes billings in dispute by any Resp Org.

⁷ A bankruptcy filing does not necessarily mean that the carrier involved will never pay its pre-petition debt. To the extent that the SMT does in fact receive payment for the bad debt included in the proposed rate increase (or if its actual bad debt turns out to be lower than its projected bad debt for any other reason), it could well earn in excess of its claimed revenue requirement. The SMT does not, of course, make any provision here or elsewhere for flowing back any excess earnings in the form of lower tariffed rates.

amount covers the total actual bad debt experienced to date.⁸ The SMT does not even specify the dollar amount by which it is proposing to increase revenue requirement for bad debt. This blatant lack of justification is a clear violation of Section 61.38 of the Rules, and is sufficient grounds for rejection of this tariff filing.

Even if the BOCs had provided adequate documentation about the level of bad debt (which they have not), they have still failed to demonstrate that the alleged increase in bad debt was due to factors beyond their control. The terms of the currently effective SMS/800 tariff provides the SMT with sufficient protection against bad debt without increasing rates as proposed in the instant transmittal. For example, Section 2.4.1(B) specifies that the SMT will:

...require a Resp Org which has a proven history of late payments to the Company [the SMT], or does not have established credit, or has filed for bankruptcy, to make a deposit prior to or at any time after the provision of a service to the Resp Org to be held by the Company as a guarantee of the payment or rates and charges.... Such deposit may not exceed the actual or estimated rates and charges for the service for a two month period.

In addition, the SMT also will assess overdue payments a late payment charge equal to 1% over the lowest prime rate in effect in New York City on the first Monday following the payment due date, with interest compounded daily (Section 2.4.1(C)).

Finally, failure to remit payment can result in discontinuance of service (Section 2.1.8(A)):

If a Resp Org fails to comply with ... [Section] 2.4.1 following, including any payments to be made by it on the dates and times herein specified, the Company may, on thirty (30) days written notice...discontinue service and/or

⁸ The instant transmittal references only bad debt related to bankrupt Resp Orgs; presumably the total bad debt amount currently included in the SMS/800 revenue requirement exceeds the \$455,000 budgeted for bankrupt Resp Orgs.

refuse additional service to the noncomplying Resp Org at any time thereafter.

The BOCs are completely silent as to what actions they have taken using existing tariff protections to minimize their bad debt exposure. The BOCs also fail to provide any evidence to suggest that the measures already available to them are insufficient or ineffective at addressing any worsening bad debt problem. Rather than taking the unreasonable and drastic step of increasing rates assessed on all customers -- including in particular customers with no record of payment problems -- to recover claimed uncollectibles, the SMT should instead use existing measures to target the specific customers known to be a credit risk.

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Because the BOCs have failed to demonstrate that the proposed rate increases are just and reasonable, the instant tariff filing should be rejected, or, in the alternative, suspended for five months and set for investigation.

Respectfully submitted,

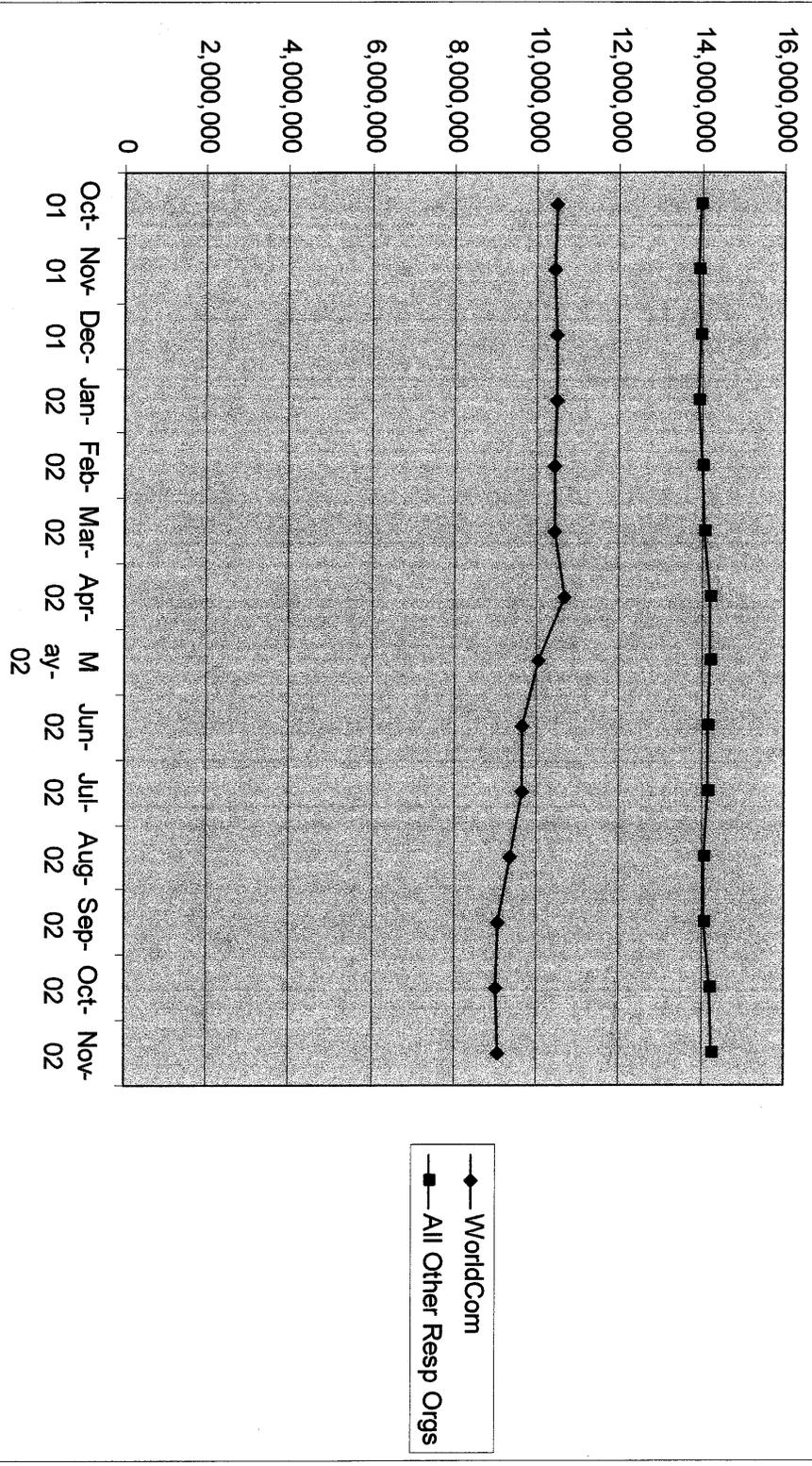
SPRINT COMMUNICATIONS CO., LP



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ATTACHMENT 1 DEMAND FOR TOLL-FREE NUMBERS



Source: SMT monthly CD-ROM of non-spare numbers

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **PETITION TO REJECT OR SUSPEND AND INVESTIGATE** of Sprint Communications Company L.P. was sent by fax or by e-mail on this the 22nd day of November, 2002, to the below-listed parties.


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November 22, 2002

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