

1 **BEFORE THE PUBLIC SERVICE COMMISSION**

2 **SPRINT-FLORIDA, INCORPORATED**

3 **DIRECT TESTIMONY**

4 **OF**

5 **BRIAN K. STAIHR**

6
7 **Q. Please state your name, title, and business address.**

8 A. My name is Brian K. Staihr. I am employed by Sprint Corporation as Senior Regulatory
9 Economist in Sprint's Department of Law and External Affairs. My business address is
10 6450 Sprint Parkway, Overland Park, Kansas 66251.

11
12 **Q. Please briefly describe your educational background and work experience.**

13 A. I hold a B.A. in Economics from the University of Missouri-Kansas City, and an M.A.
14 and Ph.D. in Economics from Washington University in St. Louis. My field of
15 specialization is Industrial Organization, including Regulation.

16
17 I began working with Sprint's Regulatory Policy Group in 1996. In my current position
18 I am responsible for the development of state and federal regulatory and legislative
19 policy for all subsidiaries of Sprint Corporation, including Sprint's various incumbent
20 local telephone companies, its wireless entities, and its long distance and competitive
21 local exchange carrier services. I am also responsible for the coordination of policy
22 across business units. My specific responsibilities include 1) ensuring that Sprint's
23 policies are based on sound economic reasoning, 2) undertaking or directing
24 economic/quantitative analysis to provide support for Sprint's policies, 3) advocating

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1 those policies, and 4) conducting original research. The specific policy issues that I
2 address include universal service, pricing, costing (including cost of capital), access
3 reform, reciprocal compensation and interconnection, local competition, and more.
4 In my position I have testified before Congress on telecommunications issues, and my
5 research has also been used in congressional oversight hearings. I have appeared before
6 the Florida Public Service Commission, the Texas Public Utilities Commission, the
7 Kansas Corporation Commission, the New Jersey Board of Public Utilities, the
8 Pennsylvania Public Utility Commission, the North Carolina Utilities Commission, the
9 Public Service Commission of South Carolina, the Public Service Commission of
10 Nevada, the Illinois Commerce Commission, the Oregon Public Utility Commission, the
11 California Public Utilities Commission, the Georgia Public Service Commission, the
12 New Mexico Public Service Commission, the Commonwealth of Virginia State
13 Corporation Commission, and the Missouri Public Service Commission. I have also
14 worked extensively with the Federal Communication Commission's staff and presented
15 original research to the FCC.

16
17 In January 2000 I left Sprint temporarily to serve as Senior Economist for the Federal
18 Reserve Bank of Kansas City. There I was an active participant in the Federal Open
19 Market Committee process, the process by which the Federal Reserve sets interest rates.
20 In addition, I conducted original research on telecommunication issues and the effects of
21 deregulation. I returned to Sprint in December 2000.

22
23 For the past nine years, I have also served as Adjunct Professor of Economics at Avila

1 University in Kansas City, Missouri. There I teach both graduate and undergraduate
2 level courses.

3
4 Prior to my work in Sprint's Regulatory Policy Group, I served as Manager-Consumer
5 Demand Forecasting in the marketing department of Sprint's Local Telecom Division.
6 There I was responsible for forecasting the demand for services in the local market,
7 including basic local service, and producing elasticity studies and economic and
8 quantitative analysis for business cases and opportunity analyses.

9
10 **Q. What is the purpose of your testimony in this proceeding?**

11 A. The purpose of my testimony is to put forth Sprint's position regarding Arbitration Issue
12 Number One: Security Deposits on behalf of Sprint-Florida, Incorporated.

13
14 **Q. Please briefly summarize Sprint's position on Arbitration Issue Number One.**

15 A. Sprint believes the interconnection agreement should contain language stating that all
16 competitive local exchange carriers ("CLECs") that have not established a satisfactory
17 payment history should be required to submit a security deposit. Once the CLEC has
18 established a satisfactory payment history, in the form of twelve consecutive months of
19 on-time payments, the CLEC can request that the deposit be returned with interest.

20
21 **Q. What is the economic rationale for requiring a security deposit?**

22 A. The economic justification for the security deposit Sprint proposes for this
23 interconnection agreement is the same as the justification for any security deposit: the

1 need to mitigate the risk that accompanies uncertainty caused by asymmetric

2 information, which I explain in more detail below.

3 *

4 **Q. Does Sprint include provisions for obtaining a security deposit in its standard**
5 **interconnection agreements?**

6 A. Yes. Sprint's proposed security deposit language is standard for all Sprint
7 interconnection agreements. It is required of all CLECs. All CLECs are subject to
8 submitting a deposit based on their established payment history and are entitled to have
9 the deposit returned after one year of satisfactory payments. This requirement has been
10 a regular component of literally hundreds of interconnection agreements that Sprint has
11 been a party to nationwide over the past few years.

12

13 **Q. So Sprint is not requesting anything of KMC that is does not request of all other**
14 **CLECs?**

15 A. That is correct. Sprint's standard interconnection agreement language is clear that a
16 security deposit is required if the CLEC has not evidenced at least twelve months of
17 satisfactory, on-time payments to Sprint, which Sprint considers concrete information
18 demonstrating the credit-worthiness of the contracting party. This deposit provision
19 exists to provide a needed degree of assurance when Sprint is faced with uncertainty
20 regarding the long-term stability of the CLEC, or uncertainty regarding the ability or
21 intent of the CLEC to adhere to its contractual obligations.

22

23 **Q. Is there any evidence that Sprint's concern regarding its need for assurance, in the**

1 **form of security deposits, is justified?**

2 A. Yes. In the past Sprint has had to write-off uncollectibles from several CLECs that were
3 unable to fulfill their contractual obligations. In some cases this was due to the
4 company filing bankruptcy, in other cases the company simply went out of business,
5 essentially disappearing and leaving Sprint with no recourse. These write-offs represent
6 very real costs to Sprint, measured in millions of dollars.

7

8 **Q. From an economic point of view, is there any support for the notion that security**
9 **deposit requirements should be made reciprocal? That is, if Sprint requires a**
10 **security deposit of KMC (or any CLEC) then KMC (or any CLEC) should require**
11 **a security deposit of Sprint?**

12 A. In economic terms, the only conceivable justification for reciprocal security deposit
13 requirements would be if KMC (or any CLEC) encountered the same degree of
14 uncertainty regarding Sprint that Sprint encounters regarding KMC. This is obviously
15 not the situation we have in Florida today. As an incumbent local exchange carrier
16 ("ILEC"), Sprint operates under the obligation to interconnect with CLECs and the
17 obligation to offer to provide the terms and conditions of interconnection agreements
18 equally to all requesting CLECs. KMC has no comparable obligations. As carrier of
19 last resort, Sprint has an obligation to provide service to all customers requesting
20 service. KMC has no comparable obligation. Sprint in Florida simply does not have the
21 option of refusing to provide service or ceasing operations. KMC does have this option.

22

23 Furthermore, there is uncertainty that Sprint faces regarding KMC's financial situation

1 and long-term stability. It is generally known in the industry that KMC underwent a
2 major financial restructuring last year (2003). Although this restructuring possibly
3 allowed KMC to avoid a legal declaration of bankruptcy, and although I have no doubt
4 that KMC hopes this restructuring will produce a degree of financial stability that has
5 (apparently)-eluded the company in the past, there is certainly no guarantee of any type.
6 A large cloud of financial uncertainty still hangs over KMC. The same simply cannot
7 be said for Sprint.

8
9 Furthermore, this cloud of uncertainty is made even more severe by the fact that KMC is
10 not a publicly-traded company. When a company is publicly traded, as Sprint is, its
11 operations are subject to much more scrutiny by a larger number of parties than a
12 privately-held company. Its financial information is publicly available, and its financial
13 stability is monitored on a regular basis. Sprint's financial stability is monitored on a
14 regular basis by stock analysts and bond rating firms. As far as it is possible to tell, it
15 appears that KMC's is not. To suggest that Sprint presents the same degree of
16 uncertainty to KMC that KMC presents to Sprint is simply inaccurate.

17
18 **Q. In other states have Commissions recognized the asymmetric nature of this**
19 **uncertainty?**

20 A. Yes. As Nevada Commission Staff economist Dr. Yasuji Otsuka recently explained,
21 under the 1996 Telecom Act incumbent local exchange carriers (ILECs) and
22 competitive local exchange carriers (CLECs) are treated differently and have different
23 obligations. ILECs are obligated to provide interconnection, to unbundle their network

1 elements, to offer collocation in their central offices, to resell their retail services.

2 CLECs are not. Dr. Otsuka writes...

3 "Given these asymmetric duties imposed on incumbent carriers, duties which
4 are designed to assist competitive carriers when entering markets and
5 competing with incumbent carriers, it appears that the financial risk associated
6 with these additional duties is greater to incumbent carriers than to competitive
7 carriers. Staff believes that security deposits do not need to be reciprocal."¹

8
9 **Q. Aside from the fact that KMC represents a degree of uncertainty to Sprint—which**
10 **Sprint does not represent to KMC—are there practical reasons why Sprint should**
11 **be allowed to charge a security deposit?**

12 A. Yes. Because all CLECs are able to opt into agreements that ILECs have made with
13 other CLECs, if Sprint does not require a security deposit from KMC then it has in
14 essence forfeited the ability to require a security deposit from any CLEC. Every other
15 CLEC, regardless of its credit history or financial stability or long-term viability, can
16 demand the same terms given to KMC and refuse to pay a security deposit. Similarly, if
17 deposit requirements were made reciprocal, all other CLECs could demand that Sprint
18 pay a deposit despite the fact that, as in the case of KMC, the CLEC faces essentially no
19 uncertainty regarding Sprint's ability to adhere to the contractual agreement.

20
21 **Q. Does this conclude your testimony?**

22 A. Yes it does.

¹ Direct Testimony of Dr. Yasuji Otsuka on behalf of Nevada Commission Staff, in Docket No. 03-8009, filed October 6, 2003.