

**Sprint**

Together with NEXTEL

**Sprint Nextel**

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**J. Todd Clapp**

Supervisor - Regulatory Reporting

August 15, 2006

Ms. Blanca S. Bayó, Director  
Division of the Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: **Regulatory Assessment Fee Audit, RAF Audit Control No. 05-244-4-1**  
**Sprint Nextel Corporation Response**

Dear Ms. Bayó:

Sprint Nextel Corporation ("Sprint Nextel"), on behalf of its subsidiaries Sprint Communications Company L.P and ASC Telecom, Inc., provides the enclosed preliminary responses to portions of the above-captioned Regulatory Assessment Fee auditor's report dated June 21, 2006. Enclosed are the original and fifteen copies. I have also included an extra copy, which I would ask that you please date stamp for our files.

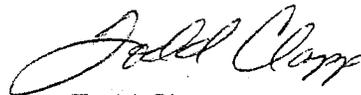
As you know, Sprint Nextel has spun off its former incumbent local exchange business to a newly-formed parent company, Embarq Corporation ("Embarq"). As such, Embarq will respond separately to portions of the report addressing the entities it now operates (identified as Sprint Florida, Incorporated and Sprint Payphone Services, Inc. in the report) and Sprint Nextel will address findings relating to its ongoing operations, specifically those of Sprint Communications Company L.P. and ASC Telecom, Inc. Embarq will respond to the findings that involve "SMNI," a former CLEC operation of Sprint Communications Company L.P. whose assets and customers were transferred to Embarq as part of the separation.

Sprint Nextel herein provides comments on Audit Finding Nos. 1 (except line items 2 & 8 in 2003 and line item 9 for 2004 which will be addressed by Embarq), 2, 3, and 8.

We have tried to be as responsive as possible to the concerns and issues raised in the audit report. However, this is the first time we have been subject to such a comprehensive audit, which is complicated somewhat by the recent separation of operating entities. Accordingly, we would very much appreciate the opportunity to provide additional follow-up information as needed, and to meet with staff in order to ensure a complete understanding of the audit issues.

Please feel free to contact me with any questions.

Sincerely,



Todd Clapp

cc: Christopher Holman, FL PSC  
Beth Salak, FL PSC  
Denise Vandiver, FL PSC  
Kathy Welch, FL PSC  
Ruth Young, FL PSC  
Douglas Nelson, Sprint Nextel

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**Audit Finding No. 1: Reconciliation of Warehouse Data Files to RAF Return (SCCLP (CLEC and IXC))**

Sprint Nextel wishes to address briefly three substantive aspects of this audit finding on behalf of Sprint Communications Company L.P.:

First, we would like to provide further information on the time frame of the factors for allocating intrastate and interstate revenue in the limited instances in which actual usage data is not available such as the "Non-Usage" and "Domestic" categories (see Line Item 1 - "Allocate CLEC"). As the Commission is aware, the practice of allocating traffic according to factors is common in the industry where a bundle of services is sold at a flat rate (not based on, for instance, long distance usage) or where billing systems or records do not provide adequate detail on the jurisdiction of the traffic. The audit finding does not question the integrity of the factors used, but notes that "[w]e have not determined when the studies were done" and that "studies may need to be done on a regular basis and not only at the product's initial offering." (see page 10, number 1, "Effect on Filing") The factors used for the time period of the audit were generated in 2002, about one year before the beginning of the period audited. Thus, we believe they are sufficiently proximate to the audit period. The factors were used primarily to allocate revenue from SCCLP services that are no longer offered. Thus, we do not anticipate a need to update the factors for these services for future reporting periods.

Second, we would like to address "internal use" revenue, which should not be subject to the regulatory assessment fee (see page 10, number 5, "Effect on Filing"). Although labeled "revenues," these amounts are not appropriately considered gross operating revenues derived from intrastate business. On the consolidated financial statements for the publicly-traded parent, such amounts (and costs to the affiliate) are negated. Further, network costs paid to an affiliate are unlikely to be considered costs that may be deducted from the regulatory assessment fee as payments to "another telecommunications company" under Rule 25-4.0161 and thus those amounts may be taxed twice. Sprint therefore asks that such internal use figures be excluded from the RAF assessment.

Third, Telecommunications Relay Service revenue is not subject to the regulatory assessment fee because it is a non-jurisdictional enhanced or information service. Specifically, Telecommunications Relay Service is a teletype service managed by Sprint Communications Company, L.P., which acts on the format of relayed communications, thereby permitting the hearing-impaired to utilize the public telephone system to communicate.

We would also like to provide a few clarifications and corrections with respect to the findings:

We would like to correct the auditor's statement that "data that is not coded to any state is in the non-usage category" (see page 7, Line Item 1 - "Allocate CLEC," Non-Usage Revenue) In fact, data that does not have a valid state code is assigned to the "ZZ"

“placeholder” code, after which it is allocated to individual states based on their proportionate share of the directly-assigned revenues.

Additionally, on page 9 of the Audit Report, Line Item 6 – “Year End Adjustments”, the report discusses year end adjustments that are made to the warehouse data. The report states: “The company said these adjustments are for products with negative balances. In Florida the Product 70 (Dedicated Toll Free) had an overall negative balance. The company said it had removed all negative balances. The reconciliation does not show this for 2003 and 2004.” This conclusion is incorrect, and the company would like to clarify that the negative balances were, in fact, removed. As Sprint stated in response to audit request #17D, in 2003 and 2004 an adjustment was made to remove a negative balance of \$10,727,465 for product 70. Since the opposite of a negative is a positive, removing this negative balance had the effect of increasing gross revenue. Thereafter, a further adjustment was made for 2004 to reconcile timing differences between billing systems and what was recorded on the company’s general ledger, thus reducing revenue by \$11,264,635.

Also on page 9 of the Audit Report, Line Item 7 – “Database in Federal 499 Format”, the report states: “The amounts of internal usage are \$1,960,341 and \$3,388,493 for 2003 and 2004, respectively.” This statement provides incorrect information in that it overstates the amount of internal usage revenue. The amounts shown for 2003 and 2004 are the total revenues for internal usage and all other non-telecom revenues. After removing other non-telecom revenues, the correct amounts for internal usage revenues are \$1,039,340.57 and \$1,556,540.21, respectively for 2003 and 2004.

Finally, although we would be happy to provide specific information in response to some comments in this finding, we were unable to do so because we are unclear what information is lacking or needs to be clarified. For instance, one comment states “[w]e would need to determine how the ‘Other Items’ line was distributed between interstate and intrastate.” (see page 10, number 3, “Effect on Filing”) Sprint Nextel believes it provided the auditor with this information, including detail on separating revenues between intrastate and interstate operations. We would request clarification of this issue so that we may provide further information if necessary.

**Audit Finding No. 2: Reseller Revenue - SCCLP**

Sprint Nextel has reviewed Commission rules, relevant statutes and court decisions and believes that its revenues from sales of excess network capacity are not subject to the Florida regulatory assessment fee because such revenues do not constitute revenues to Sprint Nextel "from calls originating and terminating within Florida" as set forth in Form PSC/CMP 153.

**Audit Finding No. 3: Decrease in Long Distance Intrastate Revenue in 2003 Return (SCCLP - IXC)**

This Audit Finding does not appear to affect the RAF filing. However, Sprint Nextel reserves the right to provide further information if indeed staff recommends a change to the assessment amount based on this finding.

### **Audit Finding No. 8: Amounts Paid to Others – SCCLP (IXC)**

On page 21 of the Audit Report in the discussion of amounts paid to others, it states that the auditor could not tie the access expense used in the calculation to the income statement. Sprint agrees with this statement and provides the following explanation:

The income statement includes expenses in addition to access expense on the income statement line. The total access expense for 2003 per the income statement is \$2,297,962,780. The amount remaining after removal of other expenses is 94% of the total, or \$2,160,560,834. Similarly, the total access expense for 2004 per the income statement is \$2,279,457,214, while the amount remaining after removal of other expenses is 95% of the total, or \$2,171,073,623. Calculating the Florida RAF using the amount per the income statement (which includes other expenses) would result in an overstatement of access expense.

The Audit Report states that “Since the company has not provided documentation using actual bills, the deduction may need to be disallowed.” In response, Sprint Nextel notes that there currently is no requirement to document this amount with actual bills, and that devising a system to accurately track the jurisdiction of access expenses paid to others would require a tremendous effort and would be very costly to the company. Access expense (amounts paid to others) is not recorded on the books by state because access expense invoices are paid to companies based on usage across the company’s total region, not by state. Accordingly, Sprint Nextel cannot determine access expense by state and then by jurisdiction (interstate and intrastate) but instead calculates the amount paid to others by determining the percentage of total company access expense to total company revenues.

The Company’s methodology of determining amounts paid to others for any state is reasonable. This methodology is used for all state reporting purposes. Sprint does not believe it is reasonable to disallow the entire deduction, as suggested by the Audit Report, since it is irrefutable that Sprint pays a substantial amount to other carriers for the provision of the underlying services it provides to its customers.