HJR 153 FEASIBILITY STUDY, GENERIC QUESTIONS
ANSWERS OF CENTRAL TELEPHONE COMPANY OF VIRGINIA
AND UNITED TELEPHONE – SOUTHEAST, INC.
AUGUST 5, 2004

Q1 Please identify the major issues/questions that should be addressed by the HJR 153 feasibility study.

A. Sprint believes the threshold issue that must be addressed is how utilities will be reimbursed for the substantial expenses caused by the loss of useful life of current aerial assets, the cost of placing the currently existing overhead distribution lines underground and the ongoing cost involved with placing distribution lines underground where it would not otherwise be economical to do so. Under Virginia law, Sprint is a price regulated utility with no ability to pass on exogenous costs. A completely underground plant represents a level of service not reflected in Sprint's prices when it entered price regulation on January 1, 1995.

The proposal to move all distribution lines underground comes against a back-drop where basic telephone service in Virginia is significantly subsidized by intrastate access charges. However, these subsidies are unworkable in a competitive marketplace, and a recent administrative recommendation to the Commission has suggested that this subsidy be eliminated. Sprint believes rebalancing this subsidy over the upcoming years will create sizable increases in basic telephone rates.

Even with the ability to fund the proposal, Sprint sees as a major issue the balancing of the substantial costs and disruptions involved with moving all distribution lines underground versus the actual benefits that can be realized. Related to this question is whether such a cost-benefit analysis should be applied at once to all distribution lines in the state or whether such an analysis should be applied locally so that specific plant can be addressed in relation to local priorities and circumstances.

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Q2. Please describe the potential benefits to the public and utility companies associated with the undergrounding of overhead distribution lines.

A. Underground facilities provide greater protection to outside plant from extreme weather conditions such as wind and ice storms and can offer a more appealing appearance.

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Q3. Please describe the potential negative impacts on the public and utility companies associated with the undergrounding of overhead distribution lines.

A. There are negative impacts on the public and utility companies associated with underground versus aerial utility lines. While underground lines are certainly good to have in the middle of a major wind or ice storm, underground facilities are otherwise more vulnerable to cable cuts because of digging. Cable cuts that result from third-parties digging into Sprint's underground facilities is a year-round, serious problem for the company.

Installation costs for underground utilities are generally higher than for aerial utilities, and this is especially the case in rocky terrain and already highly developed areas that require a conduit system. In certain Sprint territories where there is rocky terrain, it can be nearly impossible to bury and even if successful, the depth might still pose an issue related to reliability. When trying to install new conduit systems in developed areas there is always the risk of damaging underground utilities already in place. Adding new plant to reinforce an already installed telephone facility is likewise more expensive in an underground environment.

Ongoing maintenance cost is less frequently needed for underground utilities than aerial systems, but when maintenance needs do occur in underground systems it is more costly and time consuming because the facilities are less accessible. The disruption to the public for maintenance on underground systems is greater because of the increased likelihood of closing off and digging up streets and roadways.

Repair of underground facilities can also take longer because traffic concerns must be addressed and all other underground utilities must first be located. In addition, more safety issues are associated with working on underground plant and more tools required. This can cause increased amounts of time to restore out of service situations.

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Q4. Please describe in detail the potential obstacles associated with the implementation of a program to relocate overhead distribution lines to underground (for example, statutory, regulatory, technological, economic, safety, and physical obstacles).

A. There are numerous serious obstacles involved with implementing the proposed program.

The major obstacle is economic and stems from the fact that Sprint has the following amount of undepreciated aerial assets in Virginia that would be turned into stranded investments with no clear means of recovery:

- Poles: $38,814,726
- Metallic Aerial Cable: $114,806,029
- Fiber Optic Aerial Cable: $16,036,083
  Aerial Drop: $19,737,248
- Aerial Wire: $2,961,811
- Total Aerial & Supporting Plant: $192,355,901

Included in these assets are 10,000 miles of Sprint aerial plant (drops not included). This aerial plant is attached to 125,000 power company poles in the state. (Power and cable television companies have close to 59,000 attachments to Sprint owned poles.)
The proposed program would wipe-out the remaining useful life of Sprint's aerial assets. Once the new underground plant is put in place, these aerial assets would have to be demolished and removed which is yet an additional cost.

The cost of Sprint replacing its aerial assets with underground plant statewide is difficult for the company to quantify given the short time frame involved and wide scope of the project. Roughly speaking, Sprint believes that its cost per mile to install underground plant is as follows:

- Trench and direct bury of cable: $30,000
- Saw through rocky terrain: $150,000
- Install conduit system in urban setting: $800,000

Sprint does not venture to guess what percentage of its 10,000 miles of aerial cable would be subject to which of the cost estimates stated above. However, a range of costs can be calculated where the minimum cost is estimated to be $300,000,000. This cost does not include the cost of burying customer drops.

Some of the additional obstacles include the challenges described in Sprint's responses to Questions #3 and #5.

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Q5. Please describe the process for identifying and securing right-of-way easements for the relocation of existing overhead distribution lines to underground. What property rights issues would be raised as a result?

A. In general, when a utility attaches it aerial plant to another company's poles, the attaching company is using the right-of-way permission granted to the company owning the poles and does not have any direct or independent right-of-way permission. If the attaching utility must relocate its aerial plant underground, then it will have to secure direct permission from the owner of the underlying right-of-way.

Sprint does not know the right-of-way status of the 125,000 power company poles to which it is presently attached in Virginia. If the power company right-of-way is with localities, then perhaps Sprint's current franchise agreements may make the process less difficult. However, Sprint believes that any power company pole right-of-way owned by private land-owners would be administratively burdensome and financially expensive to procure.

Sprint notes that the proposal would require it to bury customer drops since all poles would be removed, and this entails digging up customers' private yards. Sprint also notes that some rural roads do not have sufficient distance between the edge of the pavement and the ditch at the toe of the slope to permit burying on state right-of-way. Moreover, some Virginia DOT roadways are constructed on special use easements from the Federal Government and land usage permits cannot be conveyed.

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Q6. In order of importance, list the criteria that should be considered to determine whether the implementation of a program to relocate overhead distribution lines to underground is desirable.

A. As stated in response to Question #1, Sprint believes the threshold question is whether it can be reimbursed for the substantial expenses the proposal entails. Granted this, the question then becomes one of cost-benefit where Sprint's very preliminary estimates show a minimum of half a billion dollars of cost (loss of aerial plant useful life plus new underground plant) to relocate all its aerial plant in the state underground.

Q7. In order of preference, describe the potential options for funding the relocation of overhead distribution lines to underground and explain the basis of your recommendation.

A. Sprint's position is that this cost should not be made a part of its basic local telephone rates or a line item surcharge on its end-user customers' telephone bills.

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Q8 Should one or more pilot programs be conducted to determine more precisely the benefits, costs and obstacles associated with the implementation of a program to relocate overhead distribution lines to underground? If pilot programs should be conducted, how could and should the pilot programs be funded?

A. If a pilot program can be funded, then it may want to just focus on diversity for hospitals, military installations, critical industries and so forth.

Q9. Considering the costs, benefits and obstacles associated with the implementation of an undergrounding program, should the General Assembly require utilities to place all or a portion of existing and/or new overhead distribution lines underground? Alternatively, should such decisions be left to local government? Please explain your answer.

A. Sprint believes that utilities should not be required to place its plant underground but rather encouraged to do so as economically feasible to do. Importantly, Sprint's first choice in the planning, engineering, and construction of any new cable facility is already underground plant where it is economical. Over the past four years (2000-2003), the percent of Sprint's yearly capital expenditures and year-end investments spent for aerial facilities and their supporting structures reflect that direction:

	% YE Investment		% Yearly Capital Expenditures	
Year	Aerial	Buried	Aerial	Buried
2000	37.69%	62.31%	24.60%	75.40%
2001	37.15%	62.85%	23.92%	76.08%
2002	36.71%	63.29%	24.93%	75.07%
2003	36.12%	63.88%	21.72%	78.28%

Q10. What obstacles, if any, currently prevent a local government from enacting an ordinance establishing all or a part of the locality as an area in which: (a) existing overhead utility distribution lines must be relocated underground over some period of time; and/or (b) all new utility distribution lines must be located underground?

A. At least one obstacle that would prevent local governments from enacting ordinances requiring the relocation of existing above-ground facilities below-ground, or requiring the burial of new facilities is the prohibition against governmental entities taking private property for public use without just compensation under the Fifth and Fourteenth Amendments to the Constitution of the United States. (See *Chicago, B. & Q.R. Co. v. Chicago,* 166 U.S. 226 (1897)).

A taking of utility property would occur because the utilities required to relocate existing facilities underground would no longer be able to use those facilities currently in place. This action alone would greatly diminish, if not completely diminish the value of such facilities. This also does not consider the cost of removing these facilities. In addition, questions arise as to what party or entity should bear the cost of relocating these facilities. If a governmental entity passes an ordinance requiring relocation of facilities and expects the utility to bear the cost, this could have the effect of placing the burden directly on the utility's ratepayers through yet another surcharge on a customer's bill. It is Sprint's position that neither the utility nor its ratepayers should be expected to bear such a cost when neither is the cost-causer.

Moreover, an ordinance requiring the relocation of facilities to below ground would run afoul of Va. Code § 56-234. Under Section 56-234 a public utility is required to provide adequate service, and requiring underground facilities is not reasonably related to the provisioning of such service. Thus, when a utility is currently providing adequate service via its existing facilities, nothing more is required.

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Q11 For the specific purpose of funding the undergrounding of existing overhead utility distribution lines, what obstacles, if any, currently prevent a local government from levying a special tax on the residents and businesses of an area within the locality in which the local government has enacted an ordinance requiring the undergrounding of utility distribution lines? Would such a special tax assessment require specific new authorization from the General Assembly?

A. The specific purpose of funding the undergrounding of existing overhead facilities may be done by developing authority for local governmental entities to levy a tax on its residents and businesses to establish "utility districts" for the purpose of relocating facilities. In developing these "utility districts," the General Assembly may desire that a majority of local voters express their desire to have facilities relocated below-ground. In addition, any tax revenue generated by the establishment of a utility district should at a minimum be sufficient to reimburse a utility company in all of its relocation and removal efforts.

Q12. Interested parties are invited also to address all other legal and policy issues they believe relevant to this investigation.

A. The policy and legal issues that must be addressed are the equal protection of all utility ratepayers as well as the equal protection of taxpayers, the taking of private property without just compensation, and whether it is appropriate for anyone except the cost causers to be required to bear the expense of relocating a utility's facilities below-ground It is Sprint's position that neither a utility nor its ratepayers should be forced to accept a new burden, and that such a burden instead be borne by the individuals residing in the locality that desires the relocation of facilities underground.

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Q13. Please indicate below your desired level of participation in the feasibility study.

☐ *Placed on the distribution list for all correspondence.*

☐ *Considered as an active participant in the feasibility study.* If you wish to be considered as an active participant, please complete the following:

Field of expertise_____

Organization_____

A. Sprint plans to participate in the feasibility study.

Q14. If you are interested in participating as an active participant, would you be willing to serve also as a member of a subgroup to identify, research, and analyze specific issues and provide written summaries of specific topics of study?

A. Sprint will determine its level of involvement after the Commission's initial meeting on August 16, 2004.

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Q15. Please provide the following contact information:

A. Laura Sykora
Manager – Regulatory Affairs
14111 Capital Blvd
Wake Forest, NC 27587-5900
Mailstop NCWKFR0303
(919) 554-7323 voice
(919) 554-7595 fax
Laura.Sykora@mail.sprint.com

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Q16. Do you plan on attending the kickoff meeting in Richmond (specific location to be announced later) scheduled for 9:30 a.m., Monday, August 16, 2004?

A. Yes. Sprint has responded by fax to Timothy Lough that three Sprint representatives will be attending the meeting.