



3065 Cumberland Circle
Atlanta, GA 30339
Telephone: (404) 859-8506
Fax: (404) 859-8018

Chanthina R. Bryant
Attorney
State Regulatory - South

November 4, 1993

VIA AIRBORNE

Mr. Steve Tribble
Director, Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Fletcher Building
Tallahassee, Florida 32399-0850

RE: Comprehensive Review of the Revenue Requirements and Rate
Stabilization Plan of Southern Bell Telephone and
Telegraph Company; Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing with the Commission are an original and
fifteen (15) copies of Sprint Communications Company Limited
Partnership's Testimony in the above-referenced matter. Also
enclosed is a 5-1/4" high-density diskette in WordPerfect 5.1
format. Please return a filed-stamped copy in the enclosed return
self-addressed envelope.

Sincerely,

Chanthina R. Bryant

Chanthina R. Bryant
Attorney, State Regulatory

ACK ✓
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APP _____
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EAC cc: Parties of Record

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12022 NOV-88

FPSC-RECORDS/REPORTING

**DIRECT TESTIMONY OF FRED ROCK
ON BEHALF OF
SPRINT COMMUNICATIONS COMPANY LIMITED PARTNERSHIP**

1 Q. Please state your name, business address and
2 occupation.

3 A. My name is Fred I. Rock and my business address is
4 7171 W. 95th Street, Overland Park, KS 66212. I
5 am employed by Sprint Communications Company
6 Limited Partnership ("Sprint") as Manager -
7 Regulatory Access Planning.

8

9 Q. Will you briefly state your educational background?

10 A. I received a Masters Degree in Business
11 Administration from Rockhurst College, Kansas City,
12 Missouri in 1993 and a Bachelor of Science Degree
13 in Accounting from Kansas State University in 1983.
14 I am a Certified Public Accountant in the State of
15 Kansas.

16

17 Q. Please state your previous work experience in
18 telecommunications.

19 A. I began working for the Sprint Long Distance
20 Division in July, 1992 where I have the
21 responsibility of monitoring state and federal
22 regulatory activity relating to access services in
23 several Bell Operating Company regions, including
24 the BellSouth region. Prior to my current
25 position, I was employed by United Telephone -

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12022 NOV-88

1100 RECORDS/REPORTING

1 Midwest for four years. At United, my
2 responsibilities included revenue budgets,
3 financial analysis, and service costing and
4 pricing.

5

6 Q. What is the purpose of your testimony?

7 A. Sprint believes that Southern Bell's access rates,
8 especially for switched services, continue to be
9 priced to include large contributions which are
10 borne by access customers without reference to cost
11 causation. Southern Bell's proposal to reduce
12 switched local transport rates by merely \$10
13 million is insufficient given the level of
14 "contribution" received from switched access
15 customers and the level of revenue reduction and
16 customer credits being considered in this
17 proceeding. Sprint urges the Commission to correct
18 this oversight by requiring Southern Bell to
19 allocate a portion of the \$49 million customer
20 credit to switched access rate reductions in
21 addition to the \$10 million local transport
22 reduction proposed by Southern Bell. Sprint also
23 believes the Commission should require a portion of
24 future overearnings be allocated to switched access
25 rate reductions to the point where these rates are
26 priced closer to long-run incremental cost.

27

1 In addition, I address the issue of "percent
2 interstate usage" ("PIU") factors and support
3 making test period adjustments necessary to reflect
4 any known customer PIU changes that would have an
5 impact on intrastate revenue and intrastate revenue
6 requirement.

7
8 Q. What is Sprint's interest in this proceeding?

9 A. Sprint is a facilities-based interexchange carrier
10 ("IXC") and a major purchaser of Southern Bell
11 provided access services in Florida. During 1993,
12 for example, Sprint will pay Southern Bell
13 approximately \$90 million in access charges, of
14 which some 40 percent is jurisdictionally
15 intrastate. Southern Bell currently provides more
16 than 99 percent of Sprint's access connections in
17 its franchised territory. Sprint believes that the
18 long-term viability of IXC competition will depend,
19 to some extent, on reducing the grossly inflated
20 cost of switched access services. Sprint also
21 believes that Southern Bell's long-term viability
22 will depend to some extent, on its ability to
23 reduce its access rates and compete effectively
24 with alternative access vendors ("AAVs"). As the
25 smallest of the major three long distance carriers,
26 Sprint is concerned about any potential attempt by

1 Southern Bell, faced with competition, to shift its
2 revenue needs away from its largest access
3 customers to smaller access customers through
4 access rate restructuring.

5

6 Q. Are access rates currently priced above cost?

7 A. Yes. Access rates are priced significantly greater
8 than the underlying economic costs associated with
9 providing access services. This mismatch of access
10 rates and costs is evidenced by the fact that IXCs,
11 such as Sprint, pay dramatically different prices
12 for access services that have the same underlying
13 economic costs.

14

15 Q. Can you provide some examples of this price-cost
16 mismatch?

17 A. Yes. Sprint pays Southern Bell in Florida
18 approximately 5.61 cents per minute on each end of
19 an intrastate switched access call, but pays
20 approximately 3.00 cents per minute per end for an
21 equivalent interstate call. Fundamentally, there
22 is no difference in the economic costs associated
23 with providing interstate or intrastate access
24 services, but yet, the per minute price of
25 intrastate switched access services is nearly
26 double the interstate price. Granted, a portion of

1 the interstate revenue requirement is recovered via
2 the subscriber line charge ("SLC"), but my estimate
3 based on information from BellSouth's Federal
4 access filings is that the SLC is roughly
5 equivalent to 1.7 cents per interstate access
6 minute. Therefore, even if Southern Bell had an
7 intrastate SLC to generate a comparable level of
8 revenue, intrastate switched access rates would
9 continue to exceed interstate rates by almost 1.0
10 cent or 33 percent.

11
12 While interstate switched access charges are priced
13 well below intrastate levels, Sprint believes that
14 interstate switched access charges are also set
15 well above the underlying economic costs of
16 providing the service. Consider, for example, LEC
17 provided local transport service, which is one of
18 the elements of switched access charges intended to
19 cover the costs of transmitting calls between a LEC
20 end-office and an IXC's point of presence ("POP").
21 The table accompanying my testimony (Exhibit FIR-1)
22 shows Southern Bell's interstate rates for three
23 (3) types of transport service, local transport via
24 switched access, special access transport for DS-1
25 service and special access transport for DS-3
26 service.

1 The final number represents Sprint's estimate of
2 the long-run incremental cost ("LRIC") of providing
3 transport services using DS-3 facilities (the row
4 labeled "Dark Fiber Transport w/ Electronics").
5
6 Sprint believes that Southern Bell, in most
7 instances, provides transport service, whether for
8 switched or special access type services, at DS-3
9 levels. In fact, BellSouth filed information in
10 the FCC's local transport proceeding (FCC Docket
11 91-213) indicating that more than 85 percent of
12 BellSouth's interoffice facilities utilize fiber
13 technology (DS-3) for transmission. Assuming 85
14 percent is also true for Florida, transport is
15 provided at primarily the DS-3 level. Therefore,
16 the underlying cost of providing transport service,
17 expressed on a per minute of use basis, is probably
18 somewhere between the Sprint estimated LRIC level
19 of .023 cents and a level slightly higher than the
20 BellSouth DS-3 implied per minute rate of .072
21 cents. Compare this rate to Southern Bell's
22 current intrastate transport rate per minute of
23 1.54 cents (assuming Commission approval of
24 Southern Bell's pending time-of-day elimination
25 filing). This differential leads Sprint to
26 conclude that rates for Southern Bell switched

1 access elements, in this example, local transport
2 service, are generally priced far above the
3 underlying economic cost of providing access
4 services. It is not clear why LEC access elements
5 are priced so much higher than the underlying
6 economic cost of the service.

7

8 Q. How do Southern Bell's Florida switched access rates
9 compare to rates in other BellSouth states?

10 A. Using all BellSouth States, the average price for
11 BellSouth intrastate switched access services is
12 4.66 cents (see attached Exhibit FIR-2). This
13 means Southern Bell's Florida rate (5.61 cents) is
14 20 percent above the average. Specifically, the
15 Florida rate is 98 percent higher than the Georgia
16 rate of 2.84 cents, 65 percent higher than the
17 Mississippi rate of 3.41 cents, and 60 percent
18 higher than the Louisiana rate of 3.50 cents. In
19 fact, only North Carolina and South Carolina rates
20 exceed the current Florida switched access rates in
21 the BellSouth Region.

22

23 Q. How would consumers benefit from lower access
24 prices?

25 A. Generally, Sprint believes the impact of competitive
26 forces for Florida toll service marketshare should

1 allow end-users to benefit greatly in the form of
2 reduced toll rates resulting from reductions in
3 intrastate access rates.

4
5 Generally, high access costs inflate long-distance
6 prices. However, the interLATA "price leader",
7 primarily AT&T, has apparently decided to sacrifice
8 some level of operating margin on intrastate toll
9 in Florida in order to retain a dominant share of
10 the market. For example, a 3 minute daytime
11 intrastate toll call from Tallahassee to Orlando
12 using Sprint MTS service, primarily a "price
13 follower", costs the end-user the same 72 cents
14 that it costs to make a similar interstate toll
15 call from Tallahassee to Atlanta. (The distance to
16 Atlanta and Orlando from Tallahassee is
17 approximately the same - 260 miles.) However,
18 Sprint pays Southern Bell approximately 5.61 cents
19 per minute on each end of an intrastate long-
20 distance call, compared to 3.00 cents per minute
21 for interstate long-distance calls originating or
22 terminating in Florida. This means that the 3
23 minute call from Tallahassee to Orlando, for
24 example, "costs" Sprint almost 34 cents in access
25 compared to 18 cents or almost half of that for the
26 equivalent 3 minute call from Tallahassee to

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Atlanta.

Contrast this with the situation in Texas and other states that have a large disparity between interstate and intrastate access rates comparable to Southern Bell in Florida. In Texas, where intrastate switched access rates are more than double the interstate rate, similar 3 minute calls result in the end-user paying almost 35% more for the intrastate call than the interstate call. Given that access is such a significant portion of an IXC's costs, this shows IXCs are willing to squeeze operating margins to keep and attract Florida toll business. Given this analysis, it seems likely that competitive forces would continue to pass access reductions, resulting from pricing closer to cost, on to the end-users in the form of even lower toll rates.

In summary, if LEC access services, especially switched access services, are priced closer to cost, competitive forces in the long-distance market should force downward pressure on toll prices. This would, in turn, benefit Florida customers.

Q. Why should Southern Bell include reductions in

1 access charges within its \$49 million customer
2 credit?

3 A. Two factors should influence the decision on how to
4 distribute the \$49 million customer credit. First,
5 the source or existence of any credit should be
6 recognized by reducing rates associated with those
7 services achieving higher than average demand
8 growth because, absent this growth, there would be
9 no credits to disburse. Second, Southern Bell
10 should be required to reduce rates for those
11 services which are currently priced above LRIC.
12 And as a corollary to this second point, the credit
13 distribution among services priced higher than LRIC
14 should be roughly proportional to the difference
15 between current prices and LRIC. This "crediting
16 rule" should govern all instances of rate
17 reductions.

18
19 According to information provided by Southern Bell
20 in other dockets, there is only one service priced
21 below LRIC, and that is basic residential service.
22 Therefore, all other services should be considered
23 for rate reductions associated with the customer
24 credit.

25
26 In order to determine this distribution, Southern

1 Bell should be required to categorize services into
2 logical groupings and determine the appropriate
3 price and LRIC associated with each service. Based
4 on the price/cost relationship, Southern Bell can
5 then determine the appropriate services to be
6 targeted for price reductions.

7
8 We can illustrate how this process might work with
9 the following example: Assume Southern Bell
10 provides only two services that meet the price
11 compared to LRIC test, intraLATA toll and switched
12 access service. Assume further that the LRIC
13 associated with intraLATA toll service is 5 cents
14 per minute while the average revenue for intraLATA
15 toll service is 10 cents per minute. Assume that
16 the LRIC associated with switched access service is
17 2 cents per minute and the average revenue is 6
18 cents per minute. Now, if both toll service and
19 switched access service demand levels outpace the
20 average revenue growth rate for Southern Bell
21 services, (assume switched access demand grew 8
22 percent, intraLATA toll demand grew 7 percent, and
23 overall revenue growth for the period was 4
24 percent) the crediting rule that Sprint proposes
25 suggests switched access service prices must be
26 reduced to 4 cents per minute (two times LRIC - the

1 current intraLATA toll price/LRIC ratio), before
2 intraLATA toll prices are reduced. If intraLATA
3 toll demand growth was lower than average (say, 3
4 percent for this example), then all of the credit
5 allowance would be used to reduce switched access
6 prices, in this example.

7
8 As indicated earlier, Sprint believes switched
9 access prices are priced much higher than the
10 relevant cost of providing switched access service.
11 Indications are that access demand growth exceeds
12 the average growth in revenue enjoyed by Southern
13 Bell. Access revenues should, therefore, be
14 targeted for a portion of the credit.

15
16 Q. Should the Florida Public Service Commission ("PSC")
17 follow this allocation methodology for future
18 revenue reductions?

19 A. Yes. Outside of the preferred across-the-board LRIC
20 costing and pricing application for all services,
21 allocations of future customer credits should
22 target services with the highest contribution
23 levels using the same methodology described above.

24
25 Q. Do you agree with Southern Bell's proposed reduction
26 of the switched local transport rate element?

1 A. Yes. Southern Bell has targeted the access service
2 currently most vulnerable to competitive entry for
3 a \$10 million reduction. It is not surprising that
4 Southern Bell would propose this reduction given
5 the FCC has required Southern Bell to allow third
6 parties to interconnect for the purposes of
7 providing local transport to IXCs for interstate
8 switched access traffic. The Florida PSC is also
9 looking at the issue for intrastate switched
10 traffic.

11
12 Sprint supports competition for access services.
13 At the same time, Sprint believes that Local
14 Exchange Company ("LEC") access rates should be
15 cost-based, i.e. priced at LRIC, to allow them to
16 fairly compete with potential interconnectors.
17 Though not necessarily cost-based, the proposed
18 reduction will take local transport a step closer
19 to cost.

20
21 Q. Are there any other issues you would like to address
22 in this proceeding?

23 A. Yes. I would like to address the issue of percent
24 interstate usage ("PIU") and the impact of known
25 changes by IXCs on test period revenues and revenue
26 requirement.

1 From Sprint's viewpoint, the Florida PSC and
2 Southern Bell have lead the nation in an effort to
3 get access customers to accurately report the
4 jurisdiction of access services purchased from
5 Southern Bell and all LECs in Florida. Sprint
6 applauds these efforts since inaccurate PIUs create
7 an unwarranted cost advantage for access customers
8 who misreport as well as causing the jurisdictional
9 misallocation of LEC revenues and revenue
10 requirement.

11
12 The impact of access charges allocated to the
13 incorrect jurisdiction are threefold. First,
14 access demand is jurisdictionally misappropriated
15 by the LEC. Second, since access rates differ by
16 jurisdiction, the LEC may overstate or understate
17 its total company level revenues as well as the
18 associated revenue requirement. And third, IXCs
19 that are misbilled are put at a competitive
20 advantage or disadvantage compared to an IXC whose
21 bill accurately reflects the jurisdictional nature
22 of access purchased from the LEC.

23
24 Q. How should changes in PIU resulting from an audit or
25 other investigation during the test period be
26 reflected by Southern Bell?

1 A. Southern Bell should adjust test period access
2 revenues to reflect the PIU changes resulting from
3 the investigation of an IXC. This impact is known
4 and measurable. In addition, the test period
5 revenue requirement should be adjusted to account
6 for the shift of jurisdictional demand and the
7 resulting cost shifts.

8

9 Q. Would you please summarize your testimony?

10 A. Yes. Sprint is a major customer of Southern Bell
11 provided access. Currently, Southern Bell charges
12 for access are priced far above cost. Sprint would
13 like to see those charges reduced so that rates
14 more accurately reflect the underlying costs. In
15 turn, competitive pressures in the long-distance
16 marketplace should create downward pressure on
17 intrastate toll prices. Sprint believes that the
18 best way to achieve more cost-based access prices
19 is to target a major portion of the current \$49
20 million customer credit and any future credits to
21 reductions in switched access rates. Sprint also
22 recommends that Southern Bell should include the
23 revenue and revenue requirement impact of any known
24 PIU changes to its test period.

25

26

1 Q. Does this conclude your testimony?

2 A. Yes, it does.

3

4

5

6

**BellSouth's Interstate Monthly Recurring Charges
for Various Transport Services per
Equivalent DS-1 Transport (1 Mile) Expressed
on a Per Minute of Use Basis**

<u>Service</u>	<u>Charge</u>
Switched Access	\$0.00610
DS-1 Service	\$0.00117
DS-3 Service	\$0.00072
Dark Fiber Transport w/ Electronics ¹	\$0.00023

1. DS-1 and DS-3 costs includes the tariff charge for 1 DS-1 or DS-3 channel term and 1 mile of channel mileage.²
2. DS-3 cost also includes the tariff charge for 3:1 mux.
3. Assumed capacity per DS-1 is 216,000 minutes.
4. Cost of Dark Fiber Transport determined using information from FCC Docket 88-136 (In the matter of Local Exchange Carriers Individual Case Basis DS-3 Service Offerings CC Docket 88-136).

¹ Long Run Incremental Cost

² Month to month rates

SWITCHED ACCESS RATE COMPARISON (FGD) CURRENT RATES

RATE ELEMENTS	INTERSTATE	ALABAMA	FLORIDA	GEORGIA	KENTUCKY	LOUISIANA	MISSISSIPPI	N CAROLINA	S CAROLINA	TENNESSEE
OCCL	\$0.01000	\$0.02648	\$0.02620	\$0.01000	\$0.00000	\$0.01000	\$0.01000	\$0.03290	\$0.03350	\$0.018610
TCCL	\$0.01853	\$0.02648	\$0.03660	\$0.01285	\$0.00000	\$0.01851	\$0.01851	\$0.04410	\$0.04595	\$0.035195
TRANSPORT										
0 - 1	\$0.00610	\$0.00640	\$0.01600	\$0.00644	\$0.00644	\$0.00610	\$0.00610	\$0.00670	\$0.00610	\$0.00610
1 - 3		\$0.00810								
1-8/3-8	\$0.00610	\$0.01160	\$0.01600	\$0.00644	\$0.00644	\$0.00610	\$0.00610	\$0.00790	\$0.00610	\$0.00610
8 - 16	\$0.00701	\$0.01360	\$0.01600	\$0.00741	\$0.00741	\$0.00701	\$0.00701	\$0.00900	\$0.00701	\$0.00701
16 - 25	\$0.00828	\$0.01810	\$0.01600	\$0.01107	\$0.01107	\$0.00826	\$0.00826	\$0.01020	\$0.00826	\$0.00826
25 - 37		\$0.02110								
25-50/37-50	\$0.00998	\$0.02420	\$0.01600	\$0.01335	\$0.01335	\$0.00995	\$0.00995	\$0.01140	\$0.00995	\$0.00995
>50/50-100	\$0.01165	\$0.02870	\$0.01600	\$0.01564	\$0.01564	\$0.01162	\$0.01162	\$0.01270	\$0.01162	\$0.01162
>100				\$0.01564		\$0.01162	\$0.01162	\$0.02250	\$0.01162	\$0.01162
LS1	\$0.00839	\$0.01260	\$0.01770	\$0.01052	\$0.00862	\$0.01371	\$0.00839	\$0.01140	\$0.01442	\$0.01750
LS2	\$0.00839	\$0.01260	\$0.01770	\$0.01052	\$0.00862	\$0.01371	\$0.00839	\$0.01140	\$0.01442	\$0.01750
INFO SURCHARGE (PER 100 MOU)	\$0.03740	\$0.03760			\$0.04318				\$0.03741	
COMPOSITE FGD ORIGINATING	\$0.02486	\$0.05106	\$0.04618	\$0.02696	\$0.01549	\$0.02981	\$0.02449	\$0.05220	\$0.05439	\$0.042210
COMPOSITE FGD TERMINATING	\$0.03339	\$0.05106	\$0.07030	\$0.02981	\$0.01549	\$0.03832	\$0.03300	\$0.06340	\$0.06684	\$0.058795
COMPOSITE FGD ORIGINATING & TERMINATING	\$0.05826	\$0.10211	\$0.11648	\$0.05677	\$0.03098 ***	\$0.06813	\$0.05749	\$0.11560	\$0.12124	\$0.101005

*RATES BECAME EFFECTIVE 10-16-93.

**TIME OF DAY DISCOUNTS APPLY ON ORIGINATING SWITCHED ACCESS

***DOES NOT INCLUDE NTS-RRR.

NOTE: COMPOSITE RATES INCLUDE CARRIER COMMON LINE, LOCAL TRANSPORT 1-8, LOCAL SWITCHING 2 AND INFORMATION SURCHARGE (PER 100 MOU). THE NC TCCL SURCHARGE OF \$0.0008 IS INCLUDED IN THE TCCL RATE. RATES MAY NOT ADD DUE TO ROUNDING AND MAY VARY DEPENDING UPON THE MILEAGE BAND USED.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the within and foregoing Testimony in Docket No. 920260-TL; "COMPREHENSIVE REVIEW OF THE REVENUE REQUIREMENTS AND RATE STABILIZATION PLAN OF SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY" via first class mail, by depositing same with sufficient postage and properly affixed and properly addressed to:

Vicki Gordon Kaufman
McWhirter Grandoff et al
315 S. Calhoun St., Ste 716
Tallahassee, FL 32301

Joseph Gillan
FIXCA
P. O. Box 547276
Orlando, FL 32854-7276

Marshall Criser
Southern Bell
150 S. Monroe St., Ste 400
Tallahassee, FL 32301

Richard M. Melson
Hopping Boyd et al
P. O. Box 6526
Tallahassee, FL 32314

Michael J. Henry
MCI Telecommunications Corp
780 Johnson Ferry Road
Suite 700
Atlanta, GA 30342

Charles J. Beck
c/o Florida Legislature
111 W. Madison Street
Room 812
Tallahassee, FL 32399

Michael W. Twomey
Dept of Legal Affairs
Room 1603 The Capitol
Tallahassee, FL 32399-1050

Kenneth W. Buchman
Buchman & Buchman
212 N. Collins Street
Plant City, FL 33566

John J. Dingfelder
Assistant County Attorney
P. O. Box 1110
Tampa, FL 33601

Kenneth A. Hoffman
Messer Vickers et al
215 S. Monroe St Ste 701
Tallahassee, FL 32302

Benjamin H. Dickens, Jr.
Blooston Mordkofsky
2120 L. Street, N.W.
Washington, DC 20037

Michael W. Tye
AT&T Communications
106 E. College Aveune
Suite 1410
Tallahassee, FL 32301

Douglas S. Metcalf
Comm Consultants Inc
P. O. Box 1148
Winter Park, FL 32790-1148

Donald L. Bell
104 East Third Avenue
Tallahassee, FL 32303

Charlotte Brayer
AARP
275 John Knox Road EE102
Tallahassee, FL 32303

Harris B. Anthony
BellSouth Telecommunications
150 W. Flagler St., Ste 1910
Miami, FL 33130

Robin Norton
FL Public Service Commission
101 E. Gaines Street
Fletcher Building
Tallahassee, FL 32301

Michael Fannon
Cellular One
2735 Capital Circle NE
Tallahassee, FL 32308

Doug Lackey
BellSouth Telecommunications
4300 Southern Bell Center
Atlanta, GA 30375

Laura L. Wilson
FL Cable Television Assoc
310 N. Monroe Street
Tallahassee, FL 32302

Patrick K. Wiggins
Wiggins & Villacorta
P. O. Drawer 1657
Tallahassee, FL 32302

Monte Belote
FL Cons Action Network
4100 W. Kennedy Blvd. #128
Tampa, FL 33609

Dan B. Hendrickson
P. O. Box 1201
Tallahassee, FL 32302

This 4th day of November, 1993.

SPRINT COMMUNICATIONS COMPANY
LIMITED PARTNERSHIP

BY: Chanthina R. Bryant
Chanthina R. Bryant
Attorney, State Regulatory