



Sandwich Isles has included in the NECA pool – and indeed, for which it has already received two years’ worth of pool settlements – have not actually been paid, and in fact may never be paid.<sup>4</sup> Accordingly, and because it does not have the ability unilaterally to adjust those prior payments to Sandwich Isles, NECA requests that the Commission (1) clarify that the lease expenses to be included in the pool “must be actually paid during the relevant carrier accounting cycle,” and (2) with such clarification, authorize NECA to adjust Sandwich Isles’ prior pool settlements to reflect only those “actually paid” expenses.<sup>5</sup>

It is entirely proper for NECA to seek the Commission’s support in resolving this issue. Although NECA files its tariff on behalf of its pool members, the tariff belongs to NECA, and it thus bears the responsibility for proposing rates that are just and reasonable. As the Bureau stated in the *Declaratory Ruling*, “NECA’s Commission-established role requires it to ensure . . . that its tariff filings comply with Commission rules.”<sup>6</sup> That includes compliance with applicable accounting requirements.<sup>7</sup>

And under basic accounting principles, there also can be no question as to the propriety of the relief NECA seeks – and the impropriety of Sandwich Isles’ actions. As NECA explains, GAAP accounting requirements provide that “in order for an expense to be properly booked as a current accrued liability, the company must intend to pay such a liability within the normal business cycle.”<sup>8</sup> Sandwich Isles has not even come close to satisfying this standard. To the contrary, NECA found in its review of Sandwich Isles’ financial records that although the

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<sup>4</sup> Petition at 5

<sup>5</sup> Petition at 10-11.

<sup>6</sup> *Declaratory Ruling*, ¶27.

<sup>7</sup> *Id.*

<sup>8</sup> Petition at 6 (footnote omitted).

company had listed its lease obligations “as a current accrued liability/accounts payable,” a substantial portion of that liability had remained unpaid for over two years, and there was no schedule for paying those unpaid amounts.<sup>9</sup>

This is not simply an academic exercise in accounting. Sandwich Isles’ actions directly, and negatively, affect rate payers. As NECA notes, ratepayers “should only be required to pay for the ‘used and useful’ value of the services they receive.”<sup>10</sup> Yet, given Sandwich Isles’ inventive application of accounting principles, ratepayers now not only must bear the burden of lease obligations that are in fact not “used and useful” and thus should never have been accepted into the NECA pool, but of lease “payments” that Sandwich Isles has not actually paid – and apparently doesn’t contemplate paying at any time in the foreseeable future.

The Commission must act expeditiously to correct this problem. The first step in that process is to grant NECA’s Petition, clarify that the only lease “payments” that may be recovered through the NECA pool pursuant to the *Declaratory Ruling* are those that Sandwich Isles actually has paid within the relevant carrier accounting cycle, and authorize NECA to adjust its prior payments to Sandwich Isles to give effect to that clarification. The second step is to act on AT&T’s Application for Review and reverse the *Declaratory Ruling*.

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<sup>9</sup> *Id.* at 5.

<sup>10</sup> *Id.* at 9.

Accordingly, the Petition for Clarification and/or Declaratory Ruling should be granted.

Respectfully submitted,

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