

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
)
Federal-State Joint Conference on) WC Docket No. 02-269
Accounting Issues)

COMMENTS OF SPRINT CORPORATION

Sprint Corporation, on behalf of its incumbent local exchange (“ILEC”), competitive LEC (“CLEC”)/long distance, and wireless divisions, respectfully submits its Comments in response to the Federal-State Joint Conference’s Request for Comment.¹

I. INTRODUCTION.

In the *Request for Comment*, the Joint Conference notes that recent financial misdeeds and shortcomings spurred the Commission into convening the Joint Conference.

Recently there has been increased public concern over the adequacy of financial accounting. The Commission convened the Joint Conference to engage in a thorough analysis of the Commission’s accounting requirements to ensure that regulatory accounting information is adequate and truthful and to ensure that information captured in regulated accounts is both necessary and sufficient for regulatory purposes.²

The Joint Conference commences this analysis by seeking specific comments on a number of issues that were just addressed in the *Phase II Accounting Order and Phase II*

¹ Public Notice, *Request for Comment, Federal-State Joint Conference on Accounting Issues*, WC Docket 02-269, DA 02-3449, released December 12, 2002.

² *Request for Comment* at p. 2.

*Further Notice*³. The Joint Conference also seeks comments on several broader questions regarding whether additional requirements should be adopted or whether existing requirements should be eliminated.

I. Further reform of the federal accounting and ARMIS requirements is premature and unwarranted.

Sprint believes that any further reform of the federal accounting and ARMIS reporting requirements is premature. As Sprint pointed out in its comments on the *Phase II Further Notice*:

The Accounting Order will become effective six months after publication in the Federal Register (which occurred February 6, 2002) and approval by the OMB. However, carriers were allowed to implement Part 32 accounting changes as of January 1, 2002.⁴

Sprint believes it is far too soon after adoption of the *Phase II Accounting Order* to undo the adopted reforms or adopt new ones. As Sprint further pointed out in its *Phase II Further Notice* comments, numerous questions must be answered before any further reforms are adopted:

Have the changes produced the desired result of eliminating obsolete and burdensome requirements? Or, have the changes left gaps in the regulatory process? Is the information needed to assess whether the ILECs, and in particular the RBOCs, are meeting their statutory obligations, especially their Section 251, and for the RBOCs their Section 251, 271 and 272 obligations, still available?⁵

³ 2000 Biennial Regulatory Review –Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Amendments to the Uniform System of Accounts for Interconnection; Jurisdictional Separations Reform and Referral to the Federal-State Joint Board; Local Competition and Broadband Reporting, Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286; Further Notice of Proposed Rulemaking in CC docket Nos. 00-199, 99-301, and 80-286, 16 FCC Rcd 19913 (2001) (“*Phase II Accounting Order and Phase II Further Notice*”).

⁴ Comments of Sprint Corporation to the *Phase II Further Notice*, filed April 8, 2002 at fn. 2.

⁵ *Id.*, at pp. 3-4.

These questions have still not been answered, nor has the Commission or industry had sufficient experience under the rules to develop a record through which the questions can be answered.

Further, additional reforms or changes to the *Phase II Accounting Order* are not warranted. Sprint is unaware of any allegations that the reforms adopted in the *Phase II Accounting Order* created holes in the federal regulatory accounting regime. Indeed, allegations of financial misdeeds or perceived misdeeds involving ILECs, the only carriers subject to the accounting rules and ARMIS requirements, have been rare. In fact, Sprint is not aware of any such allegations against mid-sized ILECs such as Sprint, particularly under the new rules.

III. The Commission should not reconsider any of the specific *Phase II Accounting Order* changes specified in the *Request for Comment*.

As a preliminary matter, Sprint notes that Items 1-4 and 6 of the specific items in the *Request for Comment* address Class A accounts.⁶ Mid-sized Class A ILECs utilize Class B accounts for accounting and reporting purposes. This relief from Class A accounting and reporting requirements was provided prior to the *Phase II Accounting*

⁶ Items 1 and 2 both ask whether the Commission should reinstate certain Class A accounts – Account 5230 Directory revenues, Account 6251 [sic] Depreciation Expense – Telephone Plant in Service, Account 6562 Depreciation Expense – Property Held for Future Telecommunications Use, Account 6563.1 Amortization Expense – Capital Leases, Account 6563.2 Amortization Expense – Leasehold Improvements, Account 6564 Amortization Expense – Intangible, and Account 6565 Amortization Expense – Other. Issue 3 involves reconsider of the consolidation of Class A Accounts 6621 through 6623 and Issue 4 deals with reconsidering changing “Sheath Kilometer” to “Loop Sheath Kilometer” on Table II of ARMIS 43-07. Item 6 seeks comments on adding accounts to USOA that the Commission rejected in the *Phase II Accounting Order*, including Optical Switching, Switching Software, Loop and Interoffice Transport, Interconnection – Revenue, Interconnection – Expense, Universal Service Support Revenue, and Universal Service Support Expense.

Order.⁷ The *Request for Comment* specifically stated that the “Joint Conference seeks specific comment on a number of the issues that were addressed in the Phase II Order.”⁸

Accordingly, to the extent that the Joint Conference ultimately recommends, or the Commission adopts, changes to these particular items from the *Phase II Accounting Order*, such changes should only apply to Class A accounts and only to the large ILECs that are still required to use Class A accounts for accounting and reporting purposes. Reforms adopted prior to the Phase II Accounting Order are not the subject of the Joint Conference’s analysis.

The Commission developed an extremely thorough record for the *Phase II Accounting Order*. Comments and Reply Comments were filed by representatives of all types of carriers – large ILECs, mid-sized ILECs, ILEC competitors – both IXC and CLECs, end-user associations, and over twenty (20) state commissions and consumer agencies. The Commission’s decisions were well supported and there is currently nothing to suggest that, only fifteen (15) months later, the Commission was in error.

Issue 5 in the *Request for Comment* does not seek changes with regard to Class A accounts, but rather seeks comment on whether the Commission should reconsider any of the changes to the affiliate transaction rules that were adopted in the *Phase II Accounting Order*. In that Order, the Commission ordered several significant changes to the affiliate transaction rules, including:

⁷ In the *ARMIS Reductions Report and Order*, 14 FCC Rcd 11443 (1999) mid-sized ILECs were permitted to file financial ARMIS reports at a Class B level and in the *Accounting Reductions Report and Order*, 14 FCC Rcd 11396 (1999) mid-sized ILECs were allowed to submit CAMs based on Class B accounts.

⁸ *Request for Comment* at p. 3.

- revised the affiliate transactions rules so that ILECs are not required to do a fair market comparison for asset transfers that total less than \$500,000;
- permitted carriers to use the higher or lower of cost or market valuation as a ceiling or floor in valuing transactions with affiliates;
- eliminated the need to do a fair market valuation in situations where third party sales amount to greater than 25 percent of total sales volume for that asset or service; and
- eliminated the CAM filing requirements and the biennial attestation requirement for mid-sized ILECs.

None of these changes should be reconsidered. As with the Class A account changes, each of these changes was thoroughly supported by the record. No Petitions for Reconsideration were filed challenging these changes,⁹ and nothing has occurred since the Order to suggest that the cost of rescinding these changes is justified by the benefit, if any, of re-imposing these obligations.

With regard to eliminating the fair market value comparison test for asset transfers, the Commission simply extended to asset transfers the same treatment as previously granted to service transfers. The Commission had previously eliminated the fair market value comparison test for service transfers in the *Phase 1 Report and Order*¹⁰

⁹ Only two Petitions for Reconsideration were filed and neither challenged the Affiliate Transaction changes. A Joint Petition for Reconsideration was filed by BellSouth, Verizon, and SBC seeking elimination on the newly created wholesale and retail subaccounts in Account 6620, seeking a change of loop sheath Kilometers to Sheath Kilometers in ARMIS 43-07, and a change so that broadband infrastructure reporting would occur through Form 477, not through ARMIS. SBC also filed a separate Petition for Reconsideration dealing with rather the advanced services separate affiliate it was required to establish pursuant to its Ameritech/SBC Merger Order was subject to the accounting and reporting rules as a dominant carrier.

¹⁰ *Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1*, CC Docket No. 99-253, *Report and Order*, 15 FCC Rcd 8690 (2000) (“*Phase 1 Report and Order*”).

because “the administrative cost and effort of making such a determination would outweigh the regulatory benefits of a good faith determination of fair market value”¹¹ In the Phase II Accounting Order, the Commission decided that the same was true for asset transfers and there is nothing that suggests that this decision was in error.

Similar record support was developed for each of the other affiliate transaction revisions adopted. With regard to establishing a floor and ceiling for recording affiliate transactions, the Commission found that the proposal “would not harm ratepayers because it would permit the regulated carrier to either pay less or charge more to the nonregulated affiliate for the service or asset.”¹² And, in support of allowing the use of a prevailing price when 25 percent of the sales are to non-affiliated third-parties, the Commission stated: “[w]e are skeptical that it is a sustainable strategy for a firm significantly to underprice transactions with 25 percent of its customers in order to be able to record transactions at that price with an affiliate.”¹³

Finally, the elimination of CAM filing requirements and biennial attestation audits provides a significant benefit to mid-sized ILECs through significantly reduced administrative costs without harming regulators, ratepayers, or competitors.

While mid-sized carriers no longer will be required to annually file a CAM, they, like all other carriers, must be prepared to produce documentation of how they separate regulated from nonregulated costs to the Bureau, upon request.¹⁴

In summary, the affiliate transaction revisions were fully supported by the record; were not challenged in petitions for reconsideration and no allegations have surfaced to

¹¹ *Phase II Accounting Order* at para. 87

¹² *Id.* at para. 92.

¹³ *Id.*, at para. 94.

¹⁴ *Id.*, at para. 190.

indicate that the revisions have lead ILECs to commit financial misdeeds. In short, reconsideration of these revisions is not warranted.

IV. The Joint Conference also seeks comment on broader issues.

In the Request for Comment, the Federal-State Joint Conference also seeks comment on several broader issues. At this time, Sprint will limit its comments to Issue 2: Whether, in light of the Communications Act’s Biennial Review clause, the FCC has the authority to maintain accounts used solely by the states. The Biennial Review clause appears in Section 11 of the Act (47 U.S.C. § 161) and states, in part, that the “Commission ... shall determine whether any such regulation is no longer necessary in the public interest” Sprint believes that there are instances where the “public interest” requires the Commission to maintain accounts used solely by the states.

As Sprint argued in its *Phase II Further Notice* comments:

The Commission notes (para. 207) that elimination of Class A accounts are ARMIS filings may cause severe problems for state regulators that rely on that information. The Commission suggests a three year transition period during which the state regulators will undertake responsibility for collecting the information themselves. However, such action could also cause severe problems for ILECs that operate in multiple states. Today those ILECs have one set of reporting requirements and have the systems and people in place to comply with those requirements. If the states adopt their own requirements the likelihood is that the ILECs, instead of complying with one set of requirements, will have numerous, divergent requirements to follow, necessitating the creation of new systems and implementation of new training programs. Such additional regulatory burdens are antithetical to the Commission’s stated purpose of providing regulatory relief.”¹⁵

Such additional burdens will not be limited just to the ILECs. State regulators will also have an increased burden in developing new requirements to replace those that are in

¹⁵ Comments of Sprint Corporation in response to the Phase II Further Notice, filed April 8, 2002, at pp. 7-8.

existence today. Such increased burden cannot be justified by any offsetting benefit and is not in the public interest.

V. CONCLUSION.

Sprint believes that changes to the *Phase II Accounting Order* are premature and unwarranted. The reforms adopted in the order, just fifteen months ago, were well supported by the record. Nothing has occurred since adoption of the order to suggest that the reforms were ill-conceived or produced holes in the federal regulatory accounting and reporting regime.

Respectfully submitted,

SPRINT CORPORATION

//s//

Richard Juhnke
Jeffrey L. Lindsey
401 9th St., NW, Suite 400
Washington, DC 20004
(202) 585-1915

Craig T. Smith
6450 Sprint Parkway
Overland Park, KS 66251
(913) 315-9172

January 31, 2003