

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)	
)	
Federal-State Joint Conference on Accounting Issues)	WC Docket No. 02-269
)	
2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase II)	CC Docket No. 00-199
)	
Jurisdictional Separations Reform and Referral To the Federal-State Joint Board)	CC Docket No. 80-286
)	
Local Competition and Broadband Reporting)	CC Docket No. 99-301
)	

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 NPRM, issued December 23, 2003 in the above-referenced proceeding, seeking comment on the recommendation of the Federal-State Joint Conference on Accounting Issues.¹

I. Introduction

The Joint Conference was convened by the Commission on September 5, 2002 “to provide a forum for an ongoing dialogue between the Commission and the states in order to ensure that regulatory accounting data and related information filed by carriers are adequate,

¹ Letter from Federal-State Joint Conference on Accounting Issues to Marlene H. Dortch, Secretary, FCC (Oct. 9, 2003) and the attached Recommendation by Joint Conference, *In the Matter of Federal-State Joint Conference on Accounting Issues*, WC Docket No. 02-269 (“Joint Conference Recommendation”) which were attached to the NPRM as Appendix A.

truthful, and thorough.”² The resulting Joint Conference Recommendation establishes three categories of recommendations for the Commission’s consideration: (1) maintaining or adding accounts and/or subaccounts to the Part 32 accounting requirements; (2) modifying certain aspects of the Commission’s affiliate transaction rules; and (3) modifying and clarifying certain ARMIS reporting requirements. Additionally, in the NPRM, the Commission asks for comment on an implementation issue.

Sprint will address each category and the Commission’s implementation issues in turn but, before turning to specifics, Sprint notes that any further reform of the federal accounting rules and ARMIS reporting requirements is unwarranted. Sprint is unaware of any allegations, substantiated or not, that the Commission’s recent accounting and reporting reforms created holes in the federal regulatory accounting regime that allow carriers to be less than thorough and truthful. Indeed, allegations of accounting 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.

II. The Joint Conference recommendations dealing with Part 32 accounts and subaccounts only impact the RBOCs.

As the Commission points out, “[T]he new accounts proposed by the Joint Conference for Part 32, and those proposed for reinstatement in Part 32, would apply only to Class A accounts.”³ Mid-sized Class A ILECs utilize Class B accounts for accounting and reporting purposes. This relief from Class A accounting and reporting requirements was granted in the

² Federal-State Joint Conference on Accounting Issues, WC Docket No. 02-269, 17 FCC Rcd 17025, 17025-27 (2002).

³ NPRM at para. 11.

ARMIS Reductions R&O.⁴ The Joint Conference Recommendation has not proposed any changes to this regime. Accordingly, to the extent that the Commission adopts any of the recommended changes to Part 32 accounts, such changes will only apply to Class A accounts and only to the large ILECs – the RBOCs – that are still subject to using Class A accounts for accounting and reporting purposes.

III. No changes to the Commission's affiliate transaction rules are warranted.

The Joint Conference Recommendation first deals with three affiliate transaction issues that were addressed in the Phase II Accounting Order.⁵ There, the Commission:

- 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;
- gave carriers the flexibility to use the higher or lower of cost or market valuation as a ceiling or floor in valuing transactions with affiliates; and
- 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.

None of these changes should be reversed. 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

⁴ 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.

⁵ *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”).

consumer agencies. The Commission's decisions were well supported and there is currently nothing in the record of this proceeding that demonstrates that the Commission was in error.

More specifically, the Joint Conference Recommendation proposes no changes to the FCC's decision to eliminate the requirement for a comparison between net book cost and fair market value for the first \$500,000 of asset transfers and Sprint agrees. The Commission had previously eliminated the fair market value comparison test for service transfers in the Phase I Report and Order⁶ 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"⁷ 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.

The Joint Conference Recommendation proposes that the Commission's rule change establishing a floor and ceiling for recording affiliate transactions should be reversed. Sprint opposes this recommendation. In adopting the change, the Commission acknowledged that it could potentially have an anti-competitive effect; however, the Commission determined that the benefits outweighed the risks and stated that the change "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."⁸

Furthermore, the Joint Conference Recommendation expresses concern that the "discretionary" pricing relief granted by this change could lead to "unrestrained opportunities for manipulation of costs, revenues, and earnings – precisely the type of problems that gave rise to

⁶ *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").

⁷ Phase II Accounting Order at para. 87

⁸ *Id.* at para. 92.

this Joint Conference.”⁹ However, Sprint does not believe that the “opportunities” noted by the Joint Conference Recommendation would provide any true or sustainable corporate advantage. Further, the Joint Conference Recommendation does not cite even one instance of an ILEC taking advantage of such opportunities. Should the abuse the Joint Conference is concerned about occur, Sprint believes it should be addressed on a case-by-case basis rather than saddling the ILEC industry with an onerous burden on the basis that some ILEC may someday take advantage of the “opportunity”.

The Joint Conference Recommendation also proposes eliminating the use of a prevailing price when 25 percent of the sales are to non-affiliated third-parties that was adopted in the Phase II Accounting Order and returning instead to a 50 percent test. Sprint also opposes this recommended change. When the Commission lowered the required non-affiliate sales from 50 percent to 25 percent it 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.”¹⁰ Sprint is unaware of any instances of an ILEC attempting to so underprice as a sustainable strategy and the Joint Conference Recommendation has not pointed to any such incident or alleged incident.

The affiliate transaction rule changes adopted by the Commission in the Phase II Accounting Order were fully supported by the record and were not challenged in petitions for reconsideration. Further, no allegations have surfaced to indicate that the revisions have lead to problems or allowed ILECs to commit accounting misdeeds. In short, reconsideration of these revisions is not warranted.

⁹ Joint Conference Recommendation at p. 23.

¹⁰ *Id.*, at para. 94.

The Joint Conference Recommendation also addresses a Commission change to the affiliate transaction rules that was adopted prior to the Phase II Accounting Order -- the centralized services exception (which allows services provided by an affiliate that solely serves other affiliates to be valued at fully distributed cost). The Joint Conference Recommendation proposes the elimination of the centralized services exception, thereby making such transactions subject to the general rule requiring a fair market value comparison with fully distributed cost. Sprint strenuously opposes this proposal.

The centralized service exception was adopted by the Commission in 1996 in the Accounting Safeguards Order.¹¹ As with the Phase II Accounting Order, the Accounting Safeguards Order was based on a thorough record. Some thirty-three parties filed comments and over twenty parties filed reply comments. These parties represented a broad cross-section of ILECs, state commissions, IXCs, and others. To date, Sprint is unaware of, and the Joint Conference Recommendation does not point to, any instance of abuse stemming from this rule change. The substantial burdens, as more fully described below, that eliminating the centralized services exception would cause, should not be imposed simply because of what might happen.

The sharing of a centralized pool of corporate services across affiliate entities is a long-standing, commonly accepted business practice prevalent in many industries, including telecommunications. The essential purpose of this practice is to achieve significant cost efficiencies and productive results through sharing specialized resources, which ultimately should benefit all customers.

¹¹ Report and Order, *In re Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996*, 11 FCC Rcd. 17,539 (1996) (“Accounting Safeguards Order”).

Many of the centralized services are so unique to an affiliated group that no fair market value readily exists and it would be neither practical nor cost effective to develop a fair market value. Unfortunately, the additional cost to comply with this regulatory burden would cause ILECs to be increasingly disadvantaged in a more competitive, technologically advanced, and ever changing marketplace.¹²

Additionally, the Joint Conference Report expresses concern (but no specific facts or incidents) that the centralized services exception will allow an ILEC to justify excessive wholesale rates. Sprint disagrees. ILEC wholesale rates pursuant to Section 252(d) are subject to rigorous state commission proceedings open to CLECs and others. If such abuse is occurring, it should be addressed in those proceedings, not in an FCC rule.

Finally, the Joint Conference Recommendation proposes that the Commission apply its affiliate transaction rules to transactions between ILECs within the same holding company. Sprint disagrees. There is no record of ILECs using transfer pricing between ILECs to manipulate costs, revenues, and earnings to justify this change. If evidence of such abuse comes to light, Sprint believes it should be dealt with on a case-by-case basis.

Additionally, accounting for transactions between two ILECs at the higher of fully distributed cost or fair market value produces a dilemma. According the rules, the selling ILEC would need to record the higher cost whereas the purchasing ILEC would have to record the lower cost. This would produce asymmetrical pricing records and problems in consolidating financial results and would require a system to prepare continuous adjustments. As noted, there

¹² While competition in the telephone exchange service market is developing extremely slowly, it is developing. *See*, Local Telephone Competition: Status as of June 30, 2003, Industry Analysis and Technology Division, Wireline Competition Bureau, December 2003, at p. 1 noting that there was a 9% growth in CLEC market size during the first half of 2003.

is simply nothing in the record that justifies that burden of investing in and developing such a system.

Currently, Sprint accounts for intra-ILEC transfers at cost. This basis conforms to GAAP requirements and is the most equitable transfer method. Accordingly, Sprint opposes subjecting ILEC to ILEC transfers within the same holding company to the Commission's affiliate transaction rules.

IV. The Joint Conference Recommendation deals with reporting and ARMIS issues.

In the Phase II Accounting Order the Commission added certain infrastructure information, specifically dealing with hybrid fiber-copper loop interface locations, to be reported on ARMIS 43-07. In the accompanying Phase II Further Notice, the Commission sought comment on whether this information should be collected on Form 477 instead.¹³ The Joint Conference Recommendation does not support this change to Form 477 and neither does Sprint. Today ARMIS 43-07 is solely an obligation of the mandatory price cap ILECs. Just as there is no reason to require other ILECs to complete ARMIS 43-07, no justification has been supplied to support requiring ARMIS 43-07 information, albeit on a different form, by any other ILEC.

V. The Conference also seeks comment on an implementation issue in addition to the issues raised in the Joint Conference Recommendation.

Previously the Commission delayed implementation of certain Phase II Accounting Order changes in order to provide the Joint Conference time to consider them.¹⁴ The Commission seeks comment on whether it should further delay implementation until January 1, 2005, which is the next date to coincide with the start of a fiscal year as opposed to June 30, 2004. Sprint endorses the further delay in implementation until January 1, 2005. Accounting and reporting

¹³ Phase II Accounting Order at para. 211.

¹⁴ See, Order, *Federal-State Joint Conference on Accounting Issues*, 17 FCC Rcd 23243 (2002); and Order *Federal-State Joint Conference on Accounting Issues*, 18 FCC Rcd 12636(2003).

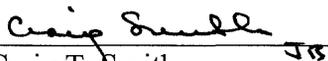
changes are typically applied to an entire accounting or reporting period to ensure consistent reporting of information for that period. Following this approach allows users of this information to perform thorough and accurate comparisons when analyzing information reported in a consistent manner. Applying different accounting and reporting requirements to carriers in the same accounting or reporting period will result in reporting inconsistencies for the entire period, thus diminishing the usefulness and relevance of the information reported.

VI. Conclusion

The changes recommended by the Joint Conference Recommendations to the federal accounting rules and ARMIS reporting requirements are unwarranted. Sprint is unaware of any allegations, substantiated or not, that the Commission's recent accounting and reporting reforms created holes in the federal regulatory accounting regime that allow carriers to be less than thorough and truthful.

Respectfully submitted,

SPRINT CORPORATION

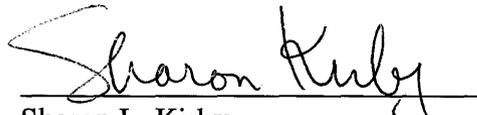

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January 30, 2004

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **COMMENTS OF SPRINT CORPORATION** was sent via electronic mail on this 30th day of January 2004 to the below-listed parties.


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