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September 19, 2008

EX PARTE

Dana Shaffer
Chief, Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: Petition of Verizon For Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's Recordkeeping and Reporting Requirements, WC Docket No. 07-273; Petition of AT&T Inc. For Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules, WC Docket No. 07-21

Dear Ms. Shaffer:

As required by the Commission's recent *Recordkeeping and Reporting Forbearance Order*[1] and the *AT&T Cost Assignment Forbearance Order*,[2] please find here Verizon's Compliance Plan. If you have any questions, please contact me.

Sincerely,

Ann D Berkowitz

Attachment

cc: Marcus Maher
Amy Bender

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[1] *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's ARMIS Reporting Requirements; Petition of Verizon For Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's Recordkeeping and Reporting Requirements, et al.*, Memorandum Opinion and Order and Notice of Proposed Rulemaking, WC Docket Nos. 01-139, 07-273 (rel. Sept. 6, 2008).

[2] *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules,* Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008), *pet. for recon. pending.*

COST ASSIGNMENT FORBEARANCE COMPLIANCE PLAN OF VERIZON

(ILEC Operations)

Filed with the Federal Communications Commission: September 19, 2008

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VERIZON[1] COMPLIANCE PLAN

I. INTRODUCTION AND SUMMARY.

As required by the Commission's *Recordkeeping and Reporting Forbearance Order*,[2] Verizon's Compliance Plan ("Compliance Plan" or "Plan") included here describes how Verizon will comply with continuing accounting requirements under the Act and the Commission's rules. The Compliance Plan satisfies the conditions of forbearance set by the Commission in the *Recordkeeping and Reporting Forbearance Order*, ¶¶ 27, 30, and also the forbearance conditions in the *AT&T Cost Assignment Forbearance Order*, ¶ 31, which the Commission applied with equal force to Verizon. It includes these components:

- A description of how Verizon will maintain its accounting procedures and accounting data in a way that Verizon will be able to provide information to the Commission in a timely manner if the Commission properly seeks such information in the future pursuant to its statutory authority.
- A description of how Verizon will maintain accounting data in those few study areas where Verizon receives rural high cost universal service support (high cost loop and/or local switching support) sufficient to request and justify the support.

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[1] The Verizon companies participating in this filing ("Verizon") are the wholly owned incumbent local exchange carrier ("ILEC") subsidiaries of Verizon Communications Inc.

[2] *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's ARMIS Reporting Requirements; Petition of Verizon For Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's Recordkeeping and Reporting Requirements, et al.*, Memorandum Opinion and Order and Notice of Proposed Rulemaking, WC Docket Nos. 01-139, 07-273 (rel. Sept. 6, 2008) ("*Recordkeeping and Reporting Forbearance Order*"); *see also Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules*, Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008) ("*AT&T Cost Assignment Forbearance Order*"), *pet. for recon. pending.*

- A description of Verizon's imputation methodology demonstrating that its access charge imputation processes are consistent with section 272(e)(3) of the Act and the *Non-Dominant Order*,[3] and related procedures to ensure compliance with these requirements. 47 U.S.C. § 272(e)(3).
- A description of Verizon procedures to ensure compliance with section 254(k) of the Act, together with a certification executed by a Verizon executive, attesting that Verizon will comply with the requirements of section 254(k) in the absence of the Commission's cost assignment rules and will provide to the Commission information necessary to establish such compliance upon receipt of an appropriate request. 47 U.S.C § 254(k). Verizon will also designate a single point of contact for section 254(k) compliance.
- A description of Verizon's transition process away from the Commission's cost assignment rules and implementation of the procedures in Verizon's Compliance Plan.

II. MAINTENANCE OF ACCOUNTING PROCEDURES AND DATA FOR FUTURE COMMISSION USE.

Verizon proposes generally to follow the same approach proposed by AT&T[4] in order to satisfy the Commission's requirement that Verizon "maintain its accounting procedures and data in a manner that will allow it to provide useable information on a timely basis if requested by the Commission. . ." *AT&T Cost Assignment Forbearance Order*, ¶ 31. In the event the

3 *Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements*, Report and Order and Memorandum Opinion and Order, 22 FCC Rcd 16440 (2007) ("*Non-Dominant Order*").

4 *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules*, AT&T Compliance Plan, WC Docket Nos. 07-21, 05-342, at 11-13 (filed July 24, 2008).

Commission determines that allocated cost data is necessary for an appropriate federal regulatory purpose Verizon will be prepared to produce sufficient data on a timely basis.

First, as required by the *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost Assignment Forbearance Order*, Verizon will continue to maintain its books in accordance with the Uniform System of Accounts ("USOA") in Part 32 of the Commission's rules, except for forborne sections 32.23 and 32.27 pertaining to non-regulated activities and affiliate transactions. *Id.*, ¶ 12. Verizon will continue to properly record all of its ILEC company investment, expense, cost, and revenue information into the accounts prescribed by the USOA. USOA recording itself "discloses the results of operational and financial events in a manner that enables both the companies' management and regulatory agencies to assess these results" in a standardized way. *AT&T Cost Assignment Forbearance Order*, ¶ 3. This process ensures that much of the accounting data that exists today will continue to be available to the Commission upon appropriate request. And the Commission, as it always has, retains the ability to audit and examine certain Verizon records.[5]

Second, Verizon will maintain its most recent cost allocation results and calculate corresponding ratios by USOA account for non-regulated, state, interstate, and each Part 69 rate element using data from the calendar year immediately preceding the date Verizon's Compliance Plan is approved by the Bureau. If the Commission were in the future to request this cost allocation information or attendant data, Verizon, like AT&T, would provide the information using these ratios, while reserving the right to update the ratios to track significant accounting or regulatory changes after Verizon's Compliance Plan is approved. In evaluating whether to

[5] *See* 47 U.S.C. § 220(c) ("The Commission shall at all times have access to and the right of inspection and examination of all accounts, records, and memoranda, including all documents, papers, and correspondence now or hereafter existing, and kept or required to be kept by such carriers. . .").

undertake such an updating Verizon would assess the reliability of existing ratios and the relative burden of an updating process.

Third, if the Commission appropriately seeks cost information necessary for a federal regulatory purpose beyond data that can be derived from the preserved information described above, Verizon can perform a special economic cost study to respond to the request. Verizon will perform such a study to the extent it is not unreasonably burdensome.

Fourth, Verizon will retain sufficient data and documentation of the company's present accounting methods and procedures used to allocate costs. This includes Verizon's most recently filed Cost Allocation Manual ("CAM") under 47 C.F.R. § 64.903, training materials, guidelines, and system documentation, used to allocate costs as of the date of approval of this Plan. Such materials will be assembled and maintained by individuals who are familiar with cost allocation subject matter. Verizon will further maintain in an electronic medium additional appropriate copies of systems, spreadsheets, and software necessary for cost assignments.

Finally, with respect to affiliate transactions specifically, 47 C.F.R. § 32.27, going forward Verizon will record and price such transactions in accordance with Generally Accepted Accounting Principles ("GAAP") or appropriate accounting standards that may modify or replace GAAP in the future. Verizon will also retain sufficient data and documentation of the company's present accounting methods and procedures used for affiliate transactions. This includes necessary training materials, guidelines, and system documentation as of the date of approval of this Plan. Such materials will be assembled and maintained by individuals who are familiar with affiliate transaction subject matter.

III. RURAL USF HIGH COST SUPPORT ACCOUNTING.

Verizon receives support from two rural high cost Universal Service Fund ("USF") mechanisms – high cost loop support and/or local switching support – in small Verizon study areas in eight states. These study areas include Verizon ILECs in Arizona, California, Idaho, Illinois, Indiana, Nevada, South Carolina, and Virginia. In some cases other, "non-rural" Verizon ILECs also operate in these states. Collectively, Verizon rural ILECs in these areas have approximately 270,000 switched access lines, which is less than one percent of Verizon's total switched access lines of approximately 42 million. Switched access line counts in these rural study areas range from only about 7,000 lines in Arizona to approximately 120,000 lines in Idaho. Verizon receives approximately $70,000 in monthly high cost loop support in two of these study areas (in Arizona and Idaho), and approximately $450,000 in monthly local switching support in seven of these study areas. Verizon will follow the approach described below to the extent it continues to receive rural high cost support in a study area.

The Commission's rules primarily rely on regulated cost data (post-Part 64) for purposes of calculating high cost loop and local switching support. 47 C.F.R. §§ 36.613 & 36.621-36.622, 54.301. Only a small measure of the service activity in Verizon's rural study areas is currently associated with non-regulated services. Verizon will follow the approach described above and will freeze its cost allocation factors by USOA account to determine regulated amounts for Commission purposes, including calculations for rural USF support. Additionally, rural high cost support calculations require certain pre-separated Part 36 categorized cost data. Verizon will calculate frozen category percentages by dividing categorized cable and wire facilities ("CWF") investment by total CWF investment, and dividing categorized switching investment by total switching investment. Verizon will assign a proportionate share of plant-related accumulated deferred taxes based on total plant balances. The dial-equipment minutes factor used in the local switching support calculation has been frozen since 2000, and will remain frozen. Finally, since Verizon will no longer produce special studies for separations purposes, it will forego an allowance for interstate cash working capital in its support filings.

This approach is a reasonable method to perform the relatively minor cost allocations still necessary for Verizon ILECs in these rural study areas to receive high cost loop and local switching support. Two other Verizon ILECs, one in Michigan and one in Pennsylvania, are also considered to be rural carriers for purposes of federal high cost USF support. These companies do not currently receive any high cost loop or local switching support. Verizon will maintain and report cost data for these companies in the same way described above should they receive high cost loop or local switching support in the future. All other Verizon ILECs are considered to be "non-rural" carriers under the Commission's USF rules.

IV. COMPLIANCE WITH SECTION 272(e)(3) AND THE *NON-DOMINANT ORDER*.

Verizon ILECs are required by section 272(e)(3) of the Act and the *Non-Dominant Order* to charge affiliated interexchange carriers amounts for access services that are no less than the same charges to unaffiliated interexchange carriers. 47 U.S.C. § 272(e)(3); *Non-Dominant Order*, ¶ 100. Today, Verizon long distance affiliates provide in-region long distance services; these services are not integrated with Verizon ILECs. As a result of the *Non-Dominant Order*, such long distance affiliates no longer operate as fully-separated affiliates under 47 U.S.C. § 272(b). Verizon charges such affiliates rates for tariff- or contract-based access services that are no less than rates charged to unaffiliated interexchange carriers for such services. *Non-Dominant Order*, ¶ 100. The *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost*

Assignment Forbearance Order do not change Verizon's section 272(e)(3) compliance obligations in this area, and Verizon will continue its current practices.

Verizon has developed several processes and internal controls that support compliance with these requirements. For example:

- Verizon ILECs bill Verizon long distance affiliates for access services using the same processes used to bill non-affiliated long distance carriers for these services.
- Verizon provides regular training and notices to its employees about non-discrimination and fulfillment requirements that apply to transactions between long distance affiliates and Verizon ILECs.
- Verizon employees responsible for complying with the pricing requirements of section 272(e)(3) with respect to access service arrangements with long distance affiliates can and do seek the advice and assistance of Verizon legal or compliance department employees with affiliate transaction and regulatory compliance training and knowledge.

These processes and internal controls apply to both tariff- and contract-based access services. The *Non-Dominant Order* also provides for additional transparency with new special access phase 1 service contract purchases from Verizon ILECs.

> Section 69.727(a)(iii) of our rules requires that a price cap LEC cannot provide contract tariff services to either a section 272 separate affiliate or a rule 64.1903 affiliate until after it 'certifies to the Commission that it provides service pursuant to that contract tariff to an unaffiliated customer.' To ensure that equivalent protection is in place in the event the BOCs provide in-region, long distance services directly, we require that each AT&T, Verizon, and Qwest incumbent LEC provide such a certification to the Commission prior to providing contract tariff services to itself or to any affiliate that is neither a section 272 nor a rule 64.1903 separate affiliate for use in the provision of any in-region, long distance services.

Non-Dominant Order, ¶ 101. Verizon has adopted processes and internal controls to ensure that these certification requirements are satisfied, and these controls are now also set up to prohibit any Verizon ILEC provision of service under these new special access service contracts unless and until any required submission of Commission certifications is complete. As intended by the terms of the *Non-Dominant Order*, these certifications will be verifiable and enforceable by the Commission.

Moreover, to the extent Verizon integrates in-region, interLATA long distance services, Verizon ILECs will, as required by the *Non-Dominant Order*, impute to themselves the highest applicable rate for access services. *Non-Dominant Order*, ¶ 100. Verizon has existing processes and internal controls on imputations that will be followed here and will ensure that Verizon satisfies the Commission's imputation requirements with access services provided under either tariff or contract.

Non-regulated services provided by Verizon ILECs that involve imputations today include, for example, national directory assistance services and interstate and intrastate interLATA long distance calling over Verizon's fiber to the premise platform. To perform these imputations, Verizon accounting and product management employees first generally determine the appropriate recurring and non-recurring local exchange access amounts and the local exchange access volumes during the relevant period. Verizon accounting personnel use this data to then determine and prepare journal entries that debit imputation amounts calculated at applicable rates to the non-regulated revenue account 5280, and record the corresponding credit amounts to the appropriate Part 32 regulated revenue accounts. These imputation amounts are coded such that Verizon personnel and auditors, both internal and external, are able to identify them on Verizon's books and in supporting workpapers.

Periodic training and ongoing employee communications ensure that Verizon accounting employees are notified when new services come online that may require imputations. When such products and services requiring an imputation are identified, Verizon accounting employees work with Verizon ILEC product management teams to identify local exchange services purchased from Verizon ILECs by unaffiliated entities with tariff, contract, or other terms that may inform the imputation. A Verizon accounting manager then reviews and must approve the imputation methodology to ensure compliance with Verizon's obligations under the Act, the Commission's rules, and other applicable accounting standards, if any. Verizon accounting personnel consult with Verizon legal or compliance employees as appropriate.

In the future, Verizon will ensure compliance with the requirements of section 272(e)(3) and the *Non-Dominant Order* as described above. As the market and the Commission move away from tariffed-based access services in favor of contract services, these same Verizon section 272(e)(3) safeguards will continue to apply as they are applicable today. This includes those safeguards that ensure appropriate imputations. Upon the Bureau's approval of this Compliance Plan Verizon will also conduct employee training and communication to reinforce these requirements and to ensure awareness of Verizon's compliance obligations.

V. COMPLIANCE WITH SECTION 254(k).

As required by the *AT&T Cost Assignment Forbearance Order*, ¶ 31, Verizon's first annual certification attesting to compliance with Verizon's obligations under section 254(k) of the Act in the absence of cost assignment rules is attached to this Compliance Plan. The certification is signed by a Verizon executive and also attests that that Verizon will provide information to the Commission necessary to establish section 254(k) compliance upon an appropriate request.

The Commission has already determined for some carriers that an annual certification is a suitable indicator of compliance. *See* 47 C.F.R. § 64.905. Thus, the attached certification itself largely satisfies Verizon's obligations under section 254(k) and the conditions of forbearance in the *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost Assignment Forbearance Order*. Section 254(k) provides that "[a] telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition." 47 U.S.C. § 254(k). The Commission has previously indicated that this requirement is intended to prevent ILECs from gaining an unfair advantage in markets for services that are competitive by assigning excessive costs to non-competitive services.[6]

As an initial matter, it is difficult to identify an ILEC service that today is still not subject to competition. More important, the Commission's price cap regime eliminates any incentive to assign excessive costs to non-competitive services. Price caps "sever[ed] the direct link between regulated costs and prices" long ago. *Cost Assignment Forbearance Order,* ¶¶ 8, 17 (quoting *Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier I Local Exchange Company Safeguards*, Report and Order, 6 FCC Rcd 7571, ¶ 55 (1991), *vacated in part sub. nom., California v. FCC*, 39 F.3d 919 (9th Cir. 1994), *cert denied*, 514 U.S. 1050 (1995); and *United States v. Western Elec. Co.*, 993 F.2d 1572, 1580 (D.C. Cir. 1993) ("[Price cap regulation] reduces any BOC's ability to shift costs from unregulated to regulated activities, because the increase in costs for the regulated activity does not automatically cause an increase in the legal rate ceiling.")).

Verizon thus has nothing to gain by shifting excessive costs to allegedly non-competitive services from either a market or regulatory perspective. Nonetheless, Verizon will continue to

6 *Implementation of Section 254(k) of the Communications Act of 1934*, Order, 12 FCC Rcd 6415 (1997).

comply with its section 254(k) obligations and will not allocate excessive costs to non-competitive services as verified by the attached certification. The Commission remains free to further investigate the veracity of Verizon's certification. *See, e.g.*, 47 U.S.C. § 220(c). In addition, as of the date of approval of this Compliance Plan Verizon will designate a single point of contact to ensure that appropriate Verizon employees are aware of and adhere to Verizon's obligations under section 254(k).

VI. FORBEARANCE TRANSITION.

Verizon intends to implement the forbearance relief granted in the *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost Assignment Forbearance Order* as soon as possible. In today's highly competitive communications market, all providers must take full advantage of the greatest possible efficiencies. The relief granted by the *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost Assignment Forbearance Order* will help Verizon move toward accounting systems that are more in keeping with those used by competitive businesses.

To that end, Verizon has already reviewed all of its accounting systems and cost assignment processes in light of the forbearance relief. Verizon has also reviewed and evaluated the *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost Assignment Forbearance Order* with its subject matter experts and expects to begin implementing most relief immediately upon the Bureau's approval of this Compliance Plan. Verizon expects a very short transition period. The forbearance relief will allow Verizon, in many cases, to stop performing activities that have no place in today's competitive market under the Commission's price cap regime.

More specifically, with respect to the preservation of accounting materials and data for future use by the Commission, Verizon's subject matter experts from its finance, legal, compliance, and information technology groups will implement the measures described above upon approval of this Plan. With respect to those few study areas where Verizon receives rural high cost loop and/or local switching support, Verizon will properly request support for those areas from the Universal Service Administrative Company using the same processes as Verizon always has, albeit with a simplified cost methodology. With respect to continuing requirements under sections 272(e)(3) and 254(k) of the Act and the *Non-Dominant Order*, most of the processes and internal controls necessary to comply with these requirements are already in place or were being developed prior to the *Recordkeeping and Reporting Forbearance Order*. Verizon will supplement these processes and internal controls as necessary, issue employee communications to reinforce the continuing nature of these requirements, and revise any standard operating procedures to reflect the Commission's decision to grant forbearance.

Except as otherwise described in this Plan, Verizon will no longer prepare cost allocation results under Parts 36, 64, and 69 of the Commission's rules and will not perform attendant studies used to determine allocation ratios immediately upon the Bureau's approval of Verizon's Compliance Plan. Likewise, upon approval Verizon will eliminate its CAM except to preserve it as of the date of approval of this Plan and will discontinue the CAM audit. Verizon has also already been preparing to transition away from the Commission's affiliate transaction rules under section 32.27 in favor of GAAP (or its successor) accounting for such transactions. Verizon will begin this transition immediately upon approval of this Plan.

Assuming timely evaluation and approval of this Compliance Plan, Verizon generally expects to implement the forbearance relief from the *Recordkeeping and Reporting Forbearance Order* and the *AT&T Cost Assignment Forbearance Order* by the end of this year.

VI. CONCLUSION.

Verizon's Compliance Plan satisfies the conditions of forbearance set by the Commission in the *Recordkeeping and Reporting Forbearance Order* and also the forbearance conditions in the *AT&T Cost Assignment Forbearance Order*.

SECTION 254(k) CERTIFICATION

I certify to the best of my knowledge, information, and belief that Verizon incumbent local exchange carriers will comply with their obligations under section 254(k) of the Communications Act of 1934, as amended, and Verizon incumbent local exchange carriers will maintain and provide to the FCC any cost accounting information necessary to establish such compliance if appropriately requested to provide such information.

Patrick A. Garzillo

Patrick A. Garzillo
Vice President - Finance, Verizon

Subscribed and sworn to me, a notary public in and for the State of New Jersey and the County of Somerset, on this 19th day of Sept., 2008.

My commission expires on 9/8, 2010.

[SEAL]

John J. Collins
(signature of notary public)

JOHN J. COLLINS
NOTARY PUBLIC
STATE OF NEW JERSEY
My Commission Expires Sept. 8, 2010