



February 13, 2009

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

Re: Ex Parte Communication

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;

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; and

Petition of Qwest Corporation for Forbearance from Enforcement of the Commission's ARMIS and 492A Reporting Requirements Pursuant to 47 U.S.C. § 160, WC Docket No. 07-204.

Dear Ms. Dortch:

Sprint Nextel Corporation ("Sprint") and T-Mobile USA, Inc. ("T-Mobile") urge the Federal Communications Commission ("Commission") to grant the two pending Applications for Review (one filed jointly by the AdHoc Telecommunications Users Committee ("AdHoc") and COMPTTEL, and the other filed jointly by the National Association of State Utility Consumer Advocates ("NASUCA") and the New Jersey Division of Rate Counsel ("NJ Rate Counsel")) (together, "Applicants")¹ filed pursuant to Section 1.115 of the Commission's Rules,² seeking to vacate the Wireline Competition Bureau's ("Bureau") approval of the three cost assignment

¹ Application for Review Of Action Taken Pursuant to Delegated Authority filed by the AdHoc Telecommunications Users Committee and COMPTTEL, WC Docket Nos. 07-21, 07-204, 07-273, (filed Jan. 30, 2009) (*Ad Hoc/COMPTTEL Application for Review*); and Application For Review of the Wireline Competition Bureau Approval of the Compliance Plans of AT&T, Verizon and Qwest filed by NASUCA and the New Jersey Division of Rate Counsel, WC Docket No. 07-21, (filed Jan. 29, 2009) (*NASUCA/New Jersey Rate Counsel Application for Review*) (together, *Applications for Review*).

² 47 C.F.R. § 1.115.

compliance plans filed by AT&T, Verizon, and Qwest.³ The Bureau exceeded its delegated authority by failing to explain its rationale for approving the three Bell Operating Company (“BOC”) compliance plans in violation of the Administrative Procedures Act (“APA”),⁴ and failing to satisfy the Commission’s requirements outlined in the *BOC Forbearance Orders*.⁵ Consequently, the Commission must vacate the Bureau’s approval and reverse it or, in the alternative, vacate the Bureau’s approval and remand the matter back to the Bureau for review consistent with its delegated authority.⁶

First, Sprint and T-Mobile concur with the Applicants that the Bureau’s public notice approval is arbitrary and capricious, and thus fails to comply with the APA. As the Applicants point out, well-settled legal precedent deems an agency decision arbitrary and capricious if the agency fails to provide reasoned explanations and analysis to support it.⁷ For example, according to the U.S. Supreme Court, “the agency must examine the relevant data and articulate a satisfactory explanation for its action, including a ‘rational connection between the facts found and the choice made’” to ensure that its action is not found arbitrary and capricious.⁸

The Bureau’s approval of the BOC cost assignment plans, however, consists of a one-page, one-paragraph Public Notice, which merely states in relevant part:

³ *Wireline Competition Bureau Approves Compliance Plans*, Public Notice, WC Docket Nos. 07-21, 07-204, 07-273, DA 08-2827, (rel. Dec. 31, 2008) (*Compliance Plan Approval Public Notice*).

⁴ 47 U.S.C. §§ 551 *et seq.*

⁵ *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 Nos. 07-21, 05-342, Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008) (*AT&T Cost Assignment Forbearance Order*), *pet. for recon. pending, pet. for review pending*, NASUCA v FCC, Case No. 08-1226 (D.C. Cir. filed June 23, 2008); *Service Quality, Customer Satisfaction, Infrastructure and Operating Data Gathering, et al.*, WC Docket Nos. 08-190, 07-139, 07-204, 07-273, 07-21, Memorandum Opinion and Order and Notice of Proposed Rulemaking, 23 FCC Rcd 13647 (2008) (*Verizon/Qwest Cost Assignment Forbearance Order*), *pet. for recon. pending, pet. for review pending*, NASUCA v. FCC, Case No. 08-1353 (D.C. Cir. filed Nov. 4, 2008) (together, *BOC Forbearance Orders*).

⁶ Section 10 of the Communications Act of 1934, as amended, and the APA require the Commission to reconsider its grant of the *BOC Forbearance Orders* as explained in Sprint’s pending Petitions for Reconsideration. In the meantime, however, Sprint and T-Mobile urge the Commission to grant the instant *Applications for Review*.

⁷ *Ad Hoc/COMPTEL Application for Review* at 4-6; *NASUCA/New Jersey Rate Counsel Application for Review* at 10.

⁸ *Motor Vehicles Mfrs. Ass’n v. State Farm Mut.*, 463 U.S. 29, 43 (quoting *Burlington Truck Lines, Inc. v. United States*, 371 U.S. 156, 168 (1962)).

After review of the compliance plans filed by AT&T, Verizon and Qwest, and the record of this proceeding, the Bureau approves the three plans effective immediately. We now find that AT&T, Verizon and Qwest have satisfied the condition that they obtain Bureau approval of the compliance plans describing in detail how they will continue to fulfill their statutory and regulatory obligations.⁹

In this case, the Bureau fails to articulate any explanation for its approval, let alone one making a “rational connection” between the facts and its decision to approve the BOC compliance plans. Instead, it makes a conclusory statement that it finds the BOCs have satisfied the condition, but provides no facts or analysis explaining exactly how it arrived at this conclusion. Indeed, the record is replete with facts and analysis supporting the opposite conclusion and the Commission is under an obligation to address the arguments placed before it.¹⁰ Consequently, the Bureau’s failure to provide any justification or rationale renders its decision approving the BOC compliance plans arbitrary and capricious.

Second, Sprint and T-Mobile agree with the Applicants that the Bureau exceeded its delegated authority by approving BOC compliance plans that fail to meet the requirements outlined in the Commission’s *BOC Forbearance Orders*. Under the *BOC Forbearance Orders*, the Commission delegated authority to the Bureau, “to approve the plan when the Bureau is satisfied that AT&T will implement a method of preserving the integrity of its accounting system in the absence of the Cost Assignment Rules.”¹¹ This particular element of the BOC compliance plans is critical “to ensure that accounting data requested by the Commission in the future will be available and reliable.”¹²

As Sprint and the Applicants have demonstrated, the BOC compliance plans suffer from serious deficiencies that fail to preserve the integrity of the accounting system and to produce available, reliable accounting data for the Commission. For the Commission’s convenience, Sprint and T-Mobile attach: (1) as Exhibit A Sprint’s August 18, 2008 comments outlining the failings of the AT&T compliance plan (which apply equally to Verizon and Qwest since they submitted virtually identical compliance plans); and (2) as Exhibit B Sprint’s September 15,

⁹ *Compliance Plan Approval Public Notice* at 1.

¹⁰ *Grand Canyon Air Tour Coalition v. FAA*, 154 F.3d 455, 468 (D.C. Cir. 1998) (“An agency must ... demonstrate the rationality of its decision making process by responding to those comments that are relevant and significant.”).

¹¹ *AT&T Cost Assignment Forbearance Order* at ¶ 31. The Commission “extended to Verizon and Qwest forbearance from the Cost Assignment Rules to the same extent granted AT&T in the *AT&T Cost Assignment Forbearance Order* and subject to the same conditions.” *Verizon/Qwest Cost Assignment Forbearance Order* at ¶ 27.

¹² *AT&T Cost Assignment Forbearance Order* at ¶ 21.

2008 *ex parte* letter explaining how it is unlikely the Commission will be able to obtain sufficient data on a timely basis. As described in greater detail in the attached filings, the BOC compliance plans merely halt ongoing allocations, update allocation ratios only when the BOCs deem it necessary, and maintain in a file drawer old Methods and Procedures (“M&P”) materials. As the Applicants indicate, the Bureau could not have reasonably decided to approve the BOC compliance plans given these and other fundamental shortcomings.

* * *

Given that the Bureau’s approval of the BOC compliance plans is arbitrary and capricious in violation of the APA and fails to follow the requirements the Commission established, the Bureau exceeded its delegated authority. Accordingly, Sprint and T-Mobile urge the Commission to act expeditiously on the pending *Applications for Review* to vacate and reverse the Bureau’s approval of the BOC compliance plans or, alternatively, vacate and remand the decision back to the Bureau for review consistent with the requirements of the APA and the *BOC Forbearance Orders*.

Respectfully submitted,

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EXHIBIT A

**Comments on the AT&T Compliance Plan
Filed by Sprint Nextel Corporation, COMPTEL, tw telecom inc.,
and One Communications Corp.
August 18, 2008**

Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of)	
)	
Petition of AT&T Inc. For Forbearance)	WC Docket No. 07-21
Under 47 U.S.C. § 160 From Enforcement)	
Of Certain of the Commission's Cost)	
Assignment Rules)	
)	
Petition of BellSouth Telecommunications,)	WC Docket No. 05-342
Inc. For Forbearance Under 47 U.S.C. § 160)	
From Enforcement of Certain of the)	
Commission's Cost Assignment Rules)	

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Dated: August 18, 2008

TABLE OF CONTENTS

I.	INTRODUCTION AND SUMMARY	2
II.	AT&T'S PROPOSED COMPLIANCE PLAN FAILS TO PRESERVE THE INTEGRITY OF ACCOUNTING PROCEDURES AND DATA	4
A.	The <i>AT&T Order</i> Requires AT&T's Plan to Generate Useable and Timely Data.....	4
B.	The Blueprint Plan Would Satisfy the <i>AT&T Order's</i> Requirements	4
C.	AT&T's Four-Part Preservation Proposal Would Fail to Produce Useable and Timely Cost Data	5
1.	AT&T Already is Required to Maintain USOA Books of Account.....	5
2.	CAM Cost Allocation Ratios Would Become Outdated and Any Updates Would Serve AT&T's Interests.	6
3.	Undefined Special Cost Studies Easily Could Be Manipulated to Advance AT&T's Interests.....	8
4.	The Proposed Affiliate Transactions Measures Would Not Provide the Data the Commission Needs to Confirm AT&T's Section 254(k) Compliance.....	10
III.	THE BLUEPRINT PLAN APPROACH OFFERS A MORE EFFICIENT AND EFFECTIVE ALTERNATIVE	12
IV.	CONCLUSION.....	14

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COMMENTS ON THE AT&T COMPLIANCE PLAN

Sprint Nextel Corporation, COMPTel, tw telecom inc., and One Communications Corp. (together "Commenters"), pursuant to the Commission's Public Notice released on July 31, 2008 (DA 08-1826), submit the following comments regarding AT&T's proposed cost assignment compliance plan (filed July 24, 2008) ("AT&T Plan"), which outlines how AT&T intends to comply with certain conditions that the Commission prescribed in the *AT&T Order*.¹ The Wireline Competition Bureau ("Bureau"), which is responsible for reviewing the AT&T Plan, must reject it. The AT&T Plan fails to comply with the Commission's mandate to preserve the integrity of Commission's accounting system in a way that would produce useable cost assignment data on a timely basis.

¹ *Petition of AT&T Inc. For Forbearance Under 47 U.S.C. § 160 From Enforcement Of Certain of the Commission's Cost Assignment Rules and Petition of BellSouth Telecommunications, Inc. For Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules*, WC Docket Nos. 07-21 and 05-342, Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008) (*AT&T Order*), *pet. for recon pending*. The statutory provisions, Commission rules, and related reporting requirements from which AT&T obtained forbearance collectively will be referred to herein as the "Cost Assignment Rules." The data the Cost Assignment Rules generate will be referred to herein as "cost assignment data."

I. INTRODUCTION AND SUMMARY

The Commission did not grant AT&T immediate, unconditional forbearance from the Cost Assignment Rules. Recognizing that the Commission needs continuing access to cost assignment data “for its use in rulemakings, adjudications or for other regulatory purposes,”² the *AT&T Order* expressly stipulates that AT&T is not entitled to forbearance from the Cost Assignment Rules *unless and until* it complies with certain conditions, which include filing and receiving Bureau approval of a compliance plan.³ The compliance plan must include, among other things, “a proposal for how it will 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”⁴ The compliance plan can be approved only “when the Bureau is satisfied that AT&T will implement a method of preserving the integrity of its accounting system in the absence of the Cost Assignment Rules.”⁵ Even a cursory review of the AT&T Plan shows that it fails to satisfy these requirements.

The Bureau’s responsibility is significant. The compliance plan it approves will, to a great degree, determine the extent to which the Commission can fulfill its statutory responsibility to ensure that AT&T, among other things, offers services over which it has unquestioned market power on just, reasonable and not unjustly or unreasonably discriminatory rates, terms and conditions. Failure to ensure a sufficiently detailed and reliable compliance plan will cause the Commission to abdicate its most fundamental statutory responsibilities.

² *AT&T Order* at ¶ 21.

³ *Id.* at ¶ 31. *See also id.* at ¶ 11.

⁴ *Id.* at ¶ 31 (emphasis added).

⁵ *Id.*

The “Blueprint For A Compliance Methodology Cost Assignment Plan” (“Blueprint Plan”),⁶ proposed by several parties to this proceeding fully accomplishes the objectives set forth in the *AT&T Order*. As its proponents have explained, the Blueprint Plan offers an ongoing, but streamlined, allocation system, which ensures the availability of reliable and sufficiently detailed cost assignment information on a timely basis.

The AT&T Plan does not achieve these objectives. The AT&T Plan merely halts ongoing allocations, updates allocation ratios only when AT&T deems it necessary, and maintains in a file drawer old Methods and Procedures (“M&P”) materials. In other words, AT&T seeks to “preserv[e] the integrity of [the FCC’s] accounting system” by doing away with ongoing regulatory cost allocations.⁷ AT&T seeks to ensure the availability of “usable” cost assignment information on a “timely” basis by promising to get around to developing a methodology sometime in the future. This is no “plan” at all; it is a cynical and dismissive refusal to comply with the requirements of the *AT&T Order*. In addition, the AT&T Plan fails to discuss how this information will be made publicly available. If the Bureau approves the AT&T Plan as proposed (resulting in forbearance from the Cost Assignment Rules), the Commission would never be able to use, let alone obtain on a timely basis, cost assignment data to “adjust our existing price cap regime,” consider “reforms moving forward” or for enforcement purposes.⁸ Accordingly, the public interest demands that the Bureau reject the AT&T Plan. Instead, the Bureau should require AT&T to develop a new plan modeled after the Blueprint Plan, which meets the relevant requirements of the *AT&T Order*.

⁶ “Blueprint For A Compliance Methodology Cost Assignment Plan” filed by AdHoc Telecommunications Users Committee, COMPTTEL, tw telecom inc. and One Communications Corp. on July 7, 2008 (Blueprint Plan).

⁷ *AT&T Order* at ¶ 31.

⁸ *Id.* at ¶ 19.

II. AT&T'S PROPOSED COMPLIANCE PLAN FAILS TO PRESERVE THE INTEGRITY OF ACCOUNTING PROCEDURES AND DATA.

A. The *AT&T Order* Requires AT&T's Plan to Generate Useable and Timely Data.

The *AT&T Order* “require[s] AT&T to implement a method of preserving the integrity – for both costs and revenues – of its accounting system in the absence of the Cost Assignment Rules to ensure that accounting data requested by the Commission in the future will be available and reliable.”⁹ The compliance plan also must explain how it will satisfy this condition.¹⁰ When the Commission requests the data, this system must produce useable information on a timely basis to ensure the Commission has the tools to carry out its statutory obligations.¹¹ A compliance plan developed under the Blueprint Plan methodology would satisfy this requirement. The AT&T Plan would not.

B. The Blueprint Plan Would Satisfy the *AT&T Order*'s Requirements.

Guided by the principles the Commission enunciated in the *AT&T Order*, the Blueprint Plan introduces a straightforward service-specific top-down approach, which simplifies the methodology the Commission's rules use today.¹² Current Cost Assignment Rule methodology starts with total company costs and divides all costs into progressively smaller discrete categories. In contrast, the Blueprint Plan methodology identifies and assigns the costs for the interstate access services for which results are required.¹³ This simpler and more direct methodology allows cost assignments to be determined in a manner that more accurately reflects the reasons why investments and expenses were incurred than do the present rules. The Blueprint

⁹ *Id.* at ¶ 21.

¹⁰ *Id.*

¹¹ *See id.*

¹² Blueprint Plan at 1-2.

¹³ *Id.* at 2.

Plan approach would impose fewer administrative burdens on reporting companies. It also would generate reliable data on an ongoing basis.¹⁴ Accordingly, the Blueprint Plan would greatly simplify AT&T's overall data collection obligations, while offering the consistency and accountability that will yield the useable and timely results that the Commission demands.

C. AT&T's Four-Part Preservation Proposal Would Fail to Produce Useable and Timely Cost Data.

Under its proposed compliance plan, AT&T would (1) maintain Uniform System of Accounts ("USOA") books of account; (2) freeze current Cost Allocation Manual ("CAM") audit-based cost allocation ratios by Part 32 account; (3) retain M&P materials to develop additional cost allocations, but perform special cost studies whenever AT&T unilaterally deems it necessary; and (4) keep M&P materials and use Generally Accepted Accounting Principles ("GAAP") for recording affiliate transactions. These actions will not accomplish the objectives set forth in the *AT&T Order*.

1. AT&T Already is Required to Maintain USOA Books of Account.

AT&T proposes to maintain USOA books of account for all regulated affiliates.¹⁵ AT&T claims that all of this data will remain available for inspection by the Commission or for reporting by AT&T to the Commission for regulatory purposes.¹⁶ The Commission, however, never granted AT&T forbearance from Part 32 of the Commission's rules (other than a few

¹⁴ In addition, as discussed in greater detail in the May 12, 2008 *Ex Parte* of tw telecom inc. (formerly Time Warner Telecom Inc.), Integra Telecom, Inc., One Communications Corp., COMPTel and Sprint Nextel Corporation, it is critically important that the information generated from the AT&T compliance plan (if and when approved) be publicly available in a searchable format to provide all interested parties complete access to such data.

¹⁵ AT&T Plan at 11.

¹⁶ *Id.*

exceptions), and AT&T is therefore already required to maintain USOA books of account.¹⁷ A promise to comply with *currently applicable regulations* cannot be considered to be part of a “compliance plan” designed to replace regulations that have been *eliminated* through forbearance.

2. CAM Cost Allocation Ratios Would Become Outdated and Any Updates Would Serve AT&T’s Interests.

Under its proposed compliance plan, AT&T would maintain its most recent calendar year’s CAM audit-based cost allocation ratios by Part 32 account as of the date the Bureau approves the compliance plan.¹⁸ In addition, if the Commission makes any future request for cost allocation data, AT&T “reserves the right” to update the ratios to take into account changes from the time they are frozen upon the compliance plan’s approval *only if* AT&T determines — unilaterally — that such changes render the ratios significantly less reliable *and* that such updates are not burdensome.¹⁹

Freezing the CAM ratios and giving AT&T sole discretion to determine whether and how to update them will not produce useable and timely cost assignment data upon which the Commission can rely for critical policymaking and enforcement purposes. First, the frozen CAM ratios will quickly become outdated. CAM audit-based cost allocation ratios are used for determining the appropriate assignment of costs between regulated and non-regulated services.²⁰ As AT&T’s non-regulated service offerings continue to increase relative to its regulated service offerings, the allocation of costs to non-regulated services can be expected to increase relative to the allocation of costs to regulated services. If the cost allocation ratios are frozen at today’s

¹⁷ *AT&T Order* at ¶ 21. The Blueprint Plan also uses Part 32 data to develop interstate cost data that the Commission will need.

¹⁸ *AT&T Plan* at 11-12.

¹⁹ *Id.* at 12.

²⁰ 47 C.F.R. § 64.903(a).

levels, cost data for non-regulated services will falsely reflect an increasingly smaller level of cost than is the case in reality. Although AT&T “reserves the right” to update the ratios, it is doubtful that AT&T would update them to correct this imbalance because such updates would not yield results in its favor. Accordingly, since frozen CAM ratios would not accurately reflect the then-current regulated/non-regulated ratio, the Commission could not rely on them to yield timely and useable data to fulfill its statutory and regulatory obligations.

Furthermore, even in the unlikely event that AT&T chooses to update the CAM ratios, the compliance plan fails to outline the methodology AT&T would use to update them. Consequently, AT&T would have complete discretion to determine how it would conduct such updates. The results, therefore, are likely to be biased and incorrect. Also, AT&T is silent on whether it would update all the ratios or just some of them. If AT&T can selectively modify certain ratios, then it will be able to move costs in the direction it wants. For example, AT&T could move costs to the regulated side that should more properly be assigned to non-regulated operations, simultaneously making regulated services appear less profitable (and thus in less need of regulation) and subsidizing its non-regulated services.

If, when, and how the CAM ratios are updated should not be a unilateral AT&T decision. AT&T’s proposal to retain wide discretion over the CAM ratios would give it both the incentive and ability to skew the results to its advantage. The Commission could not be assured that such CAM ratios would provide it timely, objective and thus useable data. Therefore, the Commission ultimately should determine the appropriate ratios, and other stakeholders should have the opportunity to provide input and suggest changes to such ratios.

The Blueprint Plan addresses cost allocations far more effectively than the AT&T Plan. Unlike the AT&T Plan, the Blueprint Plan would not freeze any allocations. Instead, under the

Blueprint Plan, AT&T would continue to allocate costs to the access elements on an on-going basis, based on reasonable allocation methods, including direct assignment wherever possible. This approach would keep the cost allocations current and ensure that every allocator is updated as needed, not just those that AT&T decided should be updated. The Commission and consumers will thus benefit because more accurate and up-to-date cost data will be maintained.

3. Undefined Special Cost Studies Easily Could Be Manipulated to Advance AT&T's Interests.

AT&T offers to perform special cost studies if the Commission seeks allocated cost assignment data based on factors other than the allocation factors mentioned above.²¹ This apparently refers to any allocation factors that are used to assign costs between the State and Interstate jurisdiction or within the Interstate jurisdiction to the access elements. To enable it to perform such special cost studies in the future, AT&T proposes to retain existing M&P documentation for allocating accounting costs (including training materials, operating practice manuals, cost and other allocation study guidelines and AT&T's CAM as it exists as of the date of the compliance plan's approval), which will be available to AT&T personnel "with familiarity with the subject matter."²² AT&T also proposes to retain on backup storage media copies of the electronic systems and software it currently uses.²³

Using undefined "special cost studies" to develop new allocation factors is ripe for misuse. Such misuse can arise simply because AT&T will have access to all of the relevant information, while the Commission and interested third parties will not. For example, if the Commission asks for cost assignment data after AT&T has not filed it in several years, there would be no recent historical data generated under the AT&T Plan that would allow the

²¹ AT&T Plan at 12.

²² *Id.*

²³ *Id.*

Commission or third parties to assess whether any deviation from pre-AT&T Plan historical data (still available in ARMIS) would be reasonable or not. Accordingly, without such data for comparison, there would be little way for third parties or the Commission to detect whether AT&T has done something that unreasonably benefits itself. The Commission would need to conduct a *de novo* review of the studies that AT&T performs, as it has done in the past with similar studies, before it could confirm whether such data is objective and thus useable.

Furthermore, AT&T's proposed preservation methods are insufficient. Simply keeping old M&P manuals and software in a file drawer will not preserve the integrity of the system. If the Commission finds it needs the data, it will prove extremely difficult for AT&T to re-activate its old system and apply those M&Ps after the fact to investments made in prior years. Without some form of ongoing allocation, it will get progressively more difficult for AT&T to make such allocations because it would need to categorize more new plant as the years pass. And even if AT&T could go back and allocate the new investment that had been made in the intervening years, it would be difficult for the Commission and third parties to assess the reasonableness of these allocations, for the reasons discussed above.

In addition, making the M&Ps available to personnel in the Controller Department "with familiarity with the subject matter" will not be useful if such personnel are not subject matter experts ("SMEs") in Part 36 (Separations) and Part 69 (Access Elements). Even if the personnel in the Controller Department are currently SMEs in Part 36 and Part 69, the reality is that they may move to different jobs inside or outside the company or may simply forget the complexities and nuances of the M&Ps and the Commission's rules over time. Consequently, the resources used to generate the data would likely diminish, and thus if any data could be generated at all, it almost certainly would be unreliable and therefore unusable. In addition, any attempt to gather

what little resources may remain and start from scratch to make sense of the M&Ps and apply them would prove extremely time-consuming and thus would fail to provide the Commission timely information to address critical policy issues facing the fast-paced communications marketplace. Without a doubt, AT&T will complain about the burdens that any Commission requests for the data would impose on it and seek to lessen any requirement that it comply with such requests.

Conversely, a compliance plan following the Blueprint Plan methodology would allocate relevant costs in a streamlined manner on an ongoing basis. Because the methodology is streamlined, it would significantly ease the administrative burden AT&T claims it bears under the Cost Assignment Rules. But, because the data would be developed on an ongoing basis, they will be more accurate and better able to reveal trends, anomalies, or abuses. Such streamlined, ongoing allocations would produce reliable, consistent and objective results because the personnel performing the allocations would maintain a familiarity with the allocation process and the data used to make those allocations.

4. The Proposed Affiliate Transactions Measures Would Not Provide the Data the Commission Needs to Confirm AT&T's Section 254(k) Compliance.

The Commission conditioned grant of forbearance on an annual certification that AT&T will comply with Section 254(k) in the absence of the Cost Assignment Rules and will maintain and provide any requested cost accounting information necessary to prove such compliance.²⁴ To comply with this requirement, AT&T proposes to retain documentation of its existing M&Ps

²⁴ *AT&T Order* at ¶¶ 30-1, 37.

for recording affiliate transactions pursuant to Section 32.27 and treat affiliate transactions in its accounting records in accordance with GAAP.²⁵

Merely retaining existing affiliate transaction M&Ps raises the same usability and timeliness issues that using M&Ps for special cost studies raises as previously discussed. Moreover, using GAAP will not preclude a regulated AT&T incumbent local exchange carrier (“ILEC”) from subsidizing its non-regulated affiliates. Recording all such transactions under GAAP means that asset transfers between a regulated AT&T ILEC and its non-regulated affiliates are recorded at net book value, and sales of services between a regulated ILEC and its non-regulated affiliates are recorded at market-based rates or “common costing standards.”

Although the Commission granted AT&T's forbearance petition in its entirety, including with regard to Section 32.27, the Commission did not find unreasonable or even question the logic underlying Section 32.27. That provision addresses asset transfers between AT&T's regulated ILECs and its unregulated affiliates. Those transactions offer AT&T an obvious opportunity to act on its incentive to engage in just the kind of “improper cost shifting” that the compliance plan must prevent.²⁶ Section 32.27 provides a sound methodology for addressing this problem. Section 32.27 requires asset transfers from a regulated AT&T ILEC to its non-regulated affiliates to be recorded at the *higher* of fair market value (“FMV”) or net book cost, while transfers to a regulated AT&T ILEC from its non-regulated affiliates are recorded at the *lower* of FMV or net book cost.²⁷ For sales of services from a regulated AT&T ILEC to its non-regulated affiliates, Part 32.27 requires that they be recorded at the *higher* of FMV or fully distributed cost. These provisions ensure that transactions between the regulated AT&T ILEC

²⁵ AT&T Plan at 12-13.

²⁶ See *AT&T Order* at ¶ 27.

²⁷ 47 C.F.R. § 32.27.

and its non-regulated affiliates do not benefit the non-regulated affiliates at the expense of the customers of the regulated ILEC. These protections would be lost under AT&T's proposal to use GAAP.

Using GAAP would render it essentially impossible to come back later and revalue such transfers at the more appropriate Section 32.27 level, and thus provide the Commission any usable information from that process. If the Commission wants to retain the integrity of such affiliate transactions data results, it will have to require something similar to Section 32.27 in AT&T's compliance plan. Otherwise, the data will not provide the information necessary to prove AT&T's compliance with its Section 254(k) obligations as required by the *AT&T Order*.²⁸ Rather, the data that AT&T will provide will shield it from Commission or public discovery that it is in fact cross-subsidizing its regulated services with its unregulated services, in violation of section 254(k) of the Act.

III. THE BLUEPRINT PLAN APPROACH OFFERS A MORE EFFICIENT AND EFFECTIVE ALTERNATIVE.

If it ever expects to obtain useable and timely cost assignment data from AT&T, the Commission must reject AT&T's proposal and demand that AT&T adopt a compliance plan modeled after the Blueprint Plan. The Blueprint Plan simplifies the cost assignment process, and thus would drastically reduce AT&T's current Cost Assignment Rule compliance burden. At the same time, the Blueprint Plan performs streamlined cost allocation on an ongoing basis, which will ensure that consistent, reliable and thus useable data is available to the Commission upon request in a timely manner.

In sharp contrast, the AT&T Plan lets its current system lie dormant for an indeterminate period of time. It freezes regulated/non-regulated cost allocation ratios, unless AT&T chooses to

²⁸ *AT&T Order* at ¶ 37.

update them; drops the state/interstate separations or access element allocations until the Commission asks for them and then re-invents them if it so chooses through special studies; and files nothing until asked. When the Commission does request cost data, AT&T would have to spend time and money scrambling to gather whatever cost assignment resources remain and get up to speed (if possible at that point) before it even begins to attempt to apply the Cost Assignment Rules, which it claims are so burdensome. Such a system does not appear to be an efficient, effective or objective methodology that would produce useable and timely information.

For example, consider the very real scenario where the Commission decides to recalibrate price caps in 2013 (although, to be sure, it should of course do so earlier).²⁹ Would the AT&T Plan provide the Commission useable and timely data it would need to perform this important regulatory function? At that point, the CAM cost allocation ratios (for regulated/non-regulated services) would be five years old, so they likely would not reflect actual 2013 regulated/non-regulated allocation ratios given the expected increase in non-regulated service offerings. For the state/interstate allocators, AT&T would have to conduct undefined special cost studies, which would likely be skewed as discussed above. In any event, the few technical resources and SME expertise AT&T would have left at that point would find it extremely challenging to go back and correctly assign costs and investments to the proper interstate access elements.

Unlike the AT&T Plan, the Blueprint Plan methodology would easily generate useable data in a timely manner. The Blueprint Plan would require some measure of allocation all along (although not to the degree of the Cost Assignment Rules), so the requisite expertise and resources would be immediately available to provide current and timely data to the Commission.

²⁹ In the *AT&T Order*, the Commission expressly states, “we do not concede, as AT&T urges, that there will never be any federal need for accounting information in the future to adjust our existing price cap regime or in consideration of reforms moving forward.” *AT&T Order* at ¶ 19.

At the same time, the Blueprint Plan would have eased AT&T's burden by requiring the assignment of costs only to the interstate access elements. The exact assignment of costs to the non-regulated or state jurisdictions would not be required, thus significantly reducing AT&T's compliance burden while simultaneously ensuring the Commission has the data it needs to meet its statutory obligations.

The same is true if the Commission wants to use cost assignment data for purposes of intercarrier compensation reform. Cost data would help the Commission ensure that it does not inadvertently perpetuate over-earnings, which may result in unnecessary increases in end user costs. For example, in an effort to keep ILECs whole, some intercarrier compensation proposals propose lowering access costs, raising end user prices and raising universal service fund ("USF") subsidies to cover any shortfall in access revenues. The reasonableness of such a proposal critically depends on whether existing rate levels are necessary to ensure that the ILECs are fairly compensated (*i.e.*, are earning reasonable returns). Under the AT&T Plan, earnings information would not be immediately available because special studies would be necessary. The information would be available, however, under a plan following the Blueprint Plan methodology, because the assignment of costs to the interstate access elements would have continued.

IV. CONCLUSION

The Bureau must reject the AT&T Plan and send AT&T back to the drawing board with a copy of the Blueprint Plan and instructions to model a new compliance plan after the Blueprint Plan. AT&T's three-part "preservation" plan ceases any meaningful activity that would preserve the integrity of the Commission's accounting system. Any cost preservation activity that AT&T may undertake would be subject to its biased discretion and would not yield usable and timely

results. If AT&T both designs the plan and determines the way that the plan is updated, there is little point in requiring a compliance plan, which served as the basis for the Commission's grant of forbearance, in the first place.

The *AT&T Order* envisioned something more substantive than AT&T's empty proposal. The Commission mandated a system that truly maintains the integrity of the Commission's accounting system, which is exactly what the Blueprint Plan would establish. The Blueprint Plan strikes the right balance by reducing AT&T's compliance burden, while producing the useable and timely data necessary to satisfy the Commission's statutory and regulatory needs.

Accordingly, the Bureau must reject the AT&T Plan and demand a plan that adopts the Blueprint Plan methodology.

Respectfully submitted,

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ATTORNEYS FOR TW TELECOM INC.
AND ONE COMMUNICATIONS CORP.

Dated: August 18, 2008

EXHIBIT B

Ex Parte Communication
Filed by Sprint Nextel Corporation
September 15, 2008



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September 15, 2008

Via Electronic Submission

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W., Room TW-A325
Washington, D.C. 20554

**Re: Ex Parte Communication
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. Dortch:

The Wireline Competition Bureau's ("Bureau") review of AT&T's cost assignment compliance plan proposal has significant ramifications – the plan it approves will determine whether the Federal Communications Commission ("Commission") will be able to obtain the timely and useable cost assignment data it needs from AT&T to meet its statutory oversight obligations. Moreover, the plan it approves for AT&T will set precedent for Verizon and Qwest, which recently received cost assignment forbearance relief on the condition that they file compliance plans as well.¹ AT&T's reply comments, however, highlight serious problems with its proposal. Its response further demonstrates not only that its proposal lacks substance and accountability, but also that any Commission attempt to obtain data under its proposal will likely be met with fierce resistance or even flat refusal. Accordingly, the Bureau must reject AT&T's fatally flawed proposal and demand a plan that will ensure that the Commission and other stakeholders will have access to timely, useable cost assignment data.

AT&T's response seems to ignore that the Commission has placed the burden on AT&T to satisfy the Bureau that it "will implement a method of preserving the integrity of its accounting system in the absence of the Cost Assignment Rules."² AT&T's misguided attack on

¹ See *Petition of AT&T for Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission's ARMIS Reporting Requirements*, Memorandum Opinion and Order and Notice of Proposed Rulemaking, WC Docket No. 07-139, FCC 08-203 (rel. Sept. 6, 2008) at ¶ 30.

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 and Petition of BellSouth Telecommunications, Inc. For Forbearance Under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules*, WC Docket Nos. 07-21 and 05-342, Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008) (*AT&T Cost Assignment Forbearance Order*) at ¶ 31 (emphasis added), *pet. for recon pending, pet. for review pending*, *NASUCA v. FCC*, Case No. 08-1226 (D.C. Cir. filed June 23, 2008). The statutory provisions, Commission rules, and related reporting requirements from which AT&T obtained forbearance collectively will be referred to

the “Blueprint For A Compliance Methodology Cost Assignment Plan” (“Blueprint”)³ is a thinly veiled attempt to divert the Bureau’s attention away from the true task at hand – to conduct a thorough and rigorous review of AT&T’s compliance plan. The purpose of the Blueprint is to offer an outline for an alternative approach that would retain timely and useable data the Commission said it needed, while simultaneously reducing AT&T’s burden. It is hardly a new cost assignment system and certainly does not undo the forbearance grant. The Blueprint uses existing assignment techniques, such as direct assignment where possible, and uses allocation only where necessary. In addition, it simplifies assignment by requiring assignment of costs only to the interstate access elements.

AT&T attacks the Blueprint in an attempt to distract the Bureau away from its own empty compliance plan proposal. As discussed in greater detail in earlier comments, AT&T’s plan merely halts ongoing allocations and maintains in a file drawer old Methods and Procedures (“M&P”) materials for making those allocations, while reserving for AT&T the right to update allocation ratios and conduct special studies whenever AT&T deems it necessary.⁴ Thus, this plan fails to preserve anything meaningful, and any action taken would be subject to AT&T’s sole discretion.

The Commission envisioned something more substantive than what AT&T is proposing. AT&T already is required by statute to provide the Commission data upon request. As the Commission noted in its *AT&T Cost Assignment Forbearance Order*, “[e]ven without the Cost Assignment Rules, the Act provides the Commission with ample authority – including Section 220 – to require AT&T to produce any accounting data that the Commission needs for regulatory purposes, including rulemakings or adjudications, in the future.”⁵ Indeed, the Commission invokes its statutory authority to obtain various types of data from carriers on a regular basis. Requiring a compliance plan *on top* of this general statutory requirement to produce data, however, clearly indicates that the Commission expects something more to ensure that this critical data will be available and reliable to serve its needs. The Commission expects AT&T to take affirmative, proactive measures to “implement a method of preserving the integrity – for both costs and revenues – of its accounting system.”⁶ AT&T’s current compliance plan proposal, however, would not implement anything. Its proposal would simply let its current system lie dormant and eventually wither away without any alternative measures in its place that would guarantee that the Commission will be able to obtain the data it needs.

Furthermore, AT&T’s response fails to address its plan’s lack of accountability. Specifically, AT&T claims that it cannot provide details regarding future cost allocation ratio updates and special cost studies it would perform at its own discretion because such actions would depend on a host of variables.⁷ While there are undoubtedly a number of scenarios under which cost studies would need to be updated or special studies would need to be performed, AT&T fails to respond to the fact that any process it undertakes using its proposed compliance plan would be *entirely subject to its own discretion* and thus vulnerable to manipulation.

herein as the “Cost Assignment Rules.” The data the Cost Assignment Rules generate will be referred to herein as “cost assignment data.”

³ “Blueprint For A Compliance Methodology Cost Assignment Plan” filed by AdHoc Telecommunications Users Committee, COMPTel, tw telecom inc. and One Communications Corp. on July 7, 2008 (“Blueprint”).

⁴ See Comments of Sprint Nextel Corporation, COMPTel, tw telecom inc., and One Communications Corp. (filed Aug. 19, 2008).

⁵ *AT&T Cost Assignment Forbearance Order* at ¶ 21.

⁶ *Id.*

⁷ AT&T Reply Comments at 5-7.

Accountability is necessary, regardless of the factors present. At a minimum, the compliance plan must include provisions for other parties to review and comment on any proposed updated studies, just as they now can review such updated studies in the Cost Allocation Manuals.

In addition, AT&T's telling response reveals that it has no intention of maintaining the data in a manner that the Commission required in the *AT&T Cost Assignment Forbearance Order*. AT&T apparently believes that taking any action to implement a compliance plan other than storing old software and manuals would be overly burdensome and costly. AT&T's stance should make it clear to the Bureau that if it approves AT&T's proposed plan as is, any future request the Commission makes for the data will likely be met with protest and claims that such requests are too costly and burdensome to satisfy.

Moreover, AT&T's rant about special access exemplifies exactly why access to cost assignment data under the compliance plan is so important. The Commission expressly stated that "we do not concede, as AT&T urges, that there will never be any federal need for accounting information in the future to adjust our existing price cap regime or in our consideration of reforms moving forward."⁸ If the data would show that AT&T's special access rate of return is continuing to rise even further above 100% (which given the recent history of AT&T's reported special access earnings we expect it would), then the Commission should want to revisit its price cap plan for AT&T. Indeed, such a review of its policy appears to be one of the very purposes for which the Commission felt it needed to have the data available in a timely and useable manner through the compliance plan.

AT&T's reply also foreshadows potential problems the Commission can expect down the road if tries to obtain cost assignment data under this plan. AT&T states that "none of these cost assignments matter" with respect to special access.⁹ Thus, it is reasonable to assume that any Commission request for what AT&T deems a "meaningless mass of data"¹⁰ for this purpose will likely be met with objections and excuses as to why the data cannot be provided. Therefore, it is critically important that Bureau act now while it has some leverage to ensure that AT&T's compliance plan is substantive and reliable enough to generate the data the Commission undoubtedly will need to satisfy its statutory responsibilities. Unless and until AT&T comes up with a real cost assignment compliance plan, the Bureau cannot approve AT&T's current proposal.

Respectfully submitted,

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⁸ *AT&T Cost Assignment Forbearance Order* at ¶ 19.

⁹ AT&T Reply Comments at 15.

¹⁰ *Id.* at 16.