

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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

REPLY 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 reply to Comments submitted in response to the Federal-State Joint Conference’s Request for Comment.¹

In its Comments, Sprint argued that changes to the *Phase II Accounting Order* are premature and unwarranted. The reforms adopted in that order were well supported by the record and nothing has occurred since adoption of the order to suggest that the reforms allowed accounting irregularities or allowed ILECs to be less than truthful or thorough in meeting their accounting and reporting obligations. As Verizon stated:

Moreover, the financial difficulties and accounting irregularities presented by Enron, WorldCom and Global Crossing, while they are of serious public concern, simply do not implicate the *regulatory* accounting and ARMIS reporting requirements being reviewed by the Joint Conference. The problems highlighted by these companies are not something unique to the telecommunications industry – much less, to a handful of specific Class A carriers – and cannot be used to justify retaining or adding FCC regulations.²

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 Comments of Verizon to Joint Conference Request for Public Comment (“Verizon”) at p. 8. [Emphasis supplied.]

The specific items the *Request for Comment* sought comment on are changes to Class A accounts arising from the *Phase II Accounting Order*.³ As Sprint noted in its comments, mid-sized ILECs were granted relief from Class A accounts prior to the *Phase II Accounting Order*.⁴ Accordingly, the relief previously granted to mid-sized ILECs is not an issue addressed by the *Request for Comments* and should not be subject to further consideration. ITTA agrees with Sprint and points out that:

In a series of recent orders, the Commission has properly granted midsize carriers limited, but much-needed, relief from its most burdensome accounting and reporting rules. The Commission took these steps after carefully considering evidence that these accounting and reporting requirements place a disproportionate burden on midsize carriers that substantially outweighed the limited benefits such requirements might produce. ITTA concurs with the Commission's conclusions and submits that nothing has changed since the Commission took action that would call these conclusions into doubt.⁵

In its comments Sprint also argued that the “public interest” standard in Section 11 of the Communications Act [47 U.S.C. § 161] supports the FCC's retention of accounts used solely by the States. The RBOCs strenuously argue the opposite, claiming that the FCC has no statutory authority to maintain accounts and rules simply to assist the

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 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 Comments of the Independent Telephone and Telecommunications Alliance (“ITTA”) at p. 2. See also, WorldCom Comments at p. 4: “[h]owever, the 1998 and 2000 biennial

states and that Section 11 requires repeal of accounts no longer used by the FCC.⁶ However, other parties agree with Sprint that the Commission can, and should, retain accounts utilized by the State. These parties point to Section 220 of the Act [47 U.S.C. § 220] that requires the Commission to consult with state commissions before modifying any accounting rule.⁷ AT&T also correctly points that accounting modifications pursuant to Section 11 have little to do with whether state or federal regulators are using certain data to carry out their responsibilities.⁸

Section 11 requires the Commission to repeal or modify rules only if two conditions are present: (1) the Commission finds that there exists “meaningful economic competition” and (2) the Commission finds that “as a result” of that “meaningful economic competition” the existing regulation is “no longer necessary in the public interest” 47 U.S.C. § 161. The fact that a particular regulatory account is used only by states obviously does not mean that these conditions are satisfied.

The RBOCs argue for elimination of all accounting rules and reporting requirements because of the alleged competitive nature of the marketplace and because of price cap regulation.⁹ The arguments merit little serious consideration. Claims of a competitive marketplace and a need for a level playing field are greatly exaggerated. NASUCA makes this point abundantly clear in its discussion of the *AT&T Non-dominance Order*¹⁰ in which the Commission held AT&T to be non-dominant because it had less than a 60 percent market share, it lacked control of bottleneck facilities, it faced

review orders generally strike a reasonable balance between the needs of regulators and any burdens placed on the ILECs.”

⁶ See e.g., Comments of SBC Communications, Inc. (“SBC”) at p. 6 and Verizon at pp. 7-12.

⁷ See e.g., WorldCom at p. 2 and Comments of AT&T Corp. at p.9.

⁸ AT&T at p. 9.

⁹ See e.g., Comments of BellSouth to Joint Conference Request for Public Comment (“BellSouth”) at p. 4 and SBC at p. 5.

at least two full-fledged facilities based competitors, and because customers had numerous choices of carriers.¹¹ NASUCA then correctly points out that “none of these factors can be found in the current local exchange market, particularly for residential customers.”¹²

Likewise, the RBOCs’ claim that price cap regulation, and its elimination of the connection between cost and rates, justifies elimination of accounting rules and reporting requirements fails to pass the red-faced test. As the North Carolina Staff explains, price cap regulation only lessens the need for regulatory accounting, it does not eliminate it.¹³

Regulatory accounting plays a less significant role today than it did when ILECs were regulated under rate of return regulation and revenue requirements were established on the basis of each individual LEC’s cost of service. Under alternative forms of regulation, such as price caps, the same direct link between an ILEC’s costs and rates does not exist. However, the absence of that direct link between costs and rates does not mean that regulatory accounting and financial reporting requirements are no longer appropriate. On the contrary, accounting and financial information provides regulators with important data on how well alternative forms of regulation are functioning as the industry moves towards competition. Until competition replaces regulation in preventing monopoly profits, regulatory accounting and financial reporting requirements should be retained. Elimination of meaningful regulatory accounting and financial reporting requirements should follow the establishment of a fully competitive telecommunications market, not precede it.

¹⁰ *In the Matter of the Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier*, 11 FCC Rcd 3271 (1995).

¹¹ Comments of the National Association of State Utility Consumer Advocates (“NASUCA”) at p. 9.

¹² *Id.* See also AT&T at p. 10 and for additional input on carrier’s dependence on RBOC facilities and the lack of robust competition in the local and special access markets, Sprint invites the Commission’s attention to Sprint’s Comments filed April 5, 2002 in the UNE Triennial Review docket, CC Docket No. 01-338, Sprint’s Comments filed January 22, 2002 in the Special Access Performance Measurement docket, CC Docket No. 01-321, and Sprint’s Comments filed April 8, 2002 in the *Phase II Further Notice* proceeding, CC Docket No. 00-199.

¹³ Comments of the North Carolina Utilities Commission – Public Staff (“North Carolina Staff”) at p. 4.

Alternatively, BellSouth argues that if the Commission does not eliminate accounting rules and reporting requirements for the RBOCs, the Commission should extend such rules and requirements to all carriers.¹⁴ However, as noted above, the Commission has already lessened the accounting and reporting requirements for midsized ILECs, and there is no reason to reconsider such decision now. As to competitive carriers, *e.g.* IXCs, CLECs, CMRS, there is simply no justification for BellSouth's argument. Competitive carriers lack market power and control over bottleneck facilities. The scrutiny necessary for the dominant RBOCs is neither needed nor desirable. In short, there are no benefits to be gained from adding such regulatory burdens to nondominant, competitive carriers.

In a similar vein, Verizon continues to argue that the information gathered from the RBOCs in the ARMIS 43-07 (Infrastructure) report should be reported by all carriers, but in a less burdensome manner, on Form 477.¹⁵ However, as Sprint pointed out in its

Phase II Further Notice comments:

Clearly, an obligation to file the infrastructure information in the Local Competition and Broadband Data Gathering Program must be limited to the mandatory price cap ILECs. Today, the voluntary price cap ILECs are not required to file ARMIS 43-07 and report the infrastructure information. Imposing a new obligation on them to report this information, through any vehicle, would substantially increase those ILECs' regulatory burden.¹⁶

Finally, AT&T argues for reconsideration of the Commission's decision to decrease the threshold for external sales from 50% to 25% when determining the

¹⁴ BellSouth at p. 4.

¹⁵ Verizon at p. 14.

¹⁶ Comments of Sprint Corporation, CC Docket No. 00-199, April 8, 2002 at p. 10.

prevailing price under the Commission's affiliate transaction rules.¹⁷ However, as Sprint pointed out in its comments in this proceeding, the Commission's decision to decrease the threshold was fully supported by the record and no petition for reconsideration on this issue was filed, nor has any record evidence been presented to suggest that the Commission's decision was in error.

In conclusion, there is no need, at this time, for further reform to the Commission's accounting rules and reporting requirements. The commenters in this proceeding have presented no new information to suggest otherwise.

Respectfully submitted,

SPRINT CORPORATION

 //s//

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¹⁷ AT&T at p. 20.

CERTIFICATE OF SERVICE

I, Joyce Y. Walker, hereby certify that I have on this 19th day of February 2003, served via U.S. First Class Mail, postage prepaid, or Hand Delivery, a copy of the foregoing letter," In the Matter of Federal-State Joint Conference on Accounting Issues, filed this date with the Secretary, Federal Communications Commission, to the persons listed below.

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