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September 30, 2010

**VIA HAND DELIVERY**

Honorable Mary W. Freeman, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

**RE: *Petition for Arbitration of Interconnection Agreement Between BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee and Sprint Spectrum L.P., Nextel South Corp., and NPCR, Inc. d/b/a Nextel Partners, Docket No. 10-00042***  
***and***  
***Petition for Arbitration of Interconnection Agreement Between BellSouth Telecommunications, Inc. d/b/a AT&T Tennessee and Sprint Communications Company L.P., Docket No. 10-00043***

Dear Chairman Freeman:

Enclosed for filing in the above-captioned matters please find two (2) originals and thirteen (13) copies of the Rebuttal Testimony of Sprint witnesses James R. Burt, Randy G. Farrar and Mark G. Felton. Please note that *Attachment RGF-5* to the Rebuttal Testimony of Sprint witness Randy G. Farrar is **CONFIDENTIAL AND PROPRIETARY**, has been marked **CONFIDENTIAL AND PROPRIETY**, and is being submitted **UNDER SEAL**.

An additional copy of this filing is enclosed to be filed-stamped for our records.

If you have any questions or require additional information, please let us know.

Respectfully submitted,

Melvin J. Malone

clw  
Enclosures  
cc: Parties of Record

**FOR PUBLICATION**  
**UNITED STATES COURT OF APPEALS**  
**FOR THE NINTH CIRCUIT**

PACIFIC BELL TELEPHONE COMPANY,  
DBA AT&T California,  
*Plaintiff-Appellant,*

v.

CALIFORNIA PUBLIC UTILITIES  
COMMISSION; MICHAEL R. PEEVEY;  
DIAN M. GRUENEICH; JOHN BOHN;  
RACHELLE CHONG; TIMOTHY ALAN  
SIMON,

*Defendants-Appellees.*

No. 08-15568

D.C. No.  
3:07-CV-01797-SI

PACIFIC BELL TELEPHONE COMPANY,  
DBA AT&T California,  
*Plaintiff-Appellee,*

v.

CALIFORNIA PUBLIC UTILITIES  
COMMISSION; MICHAEL R. PEEVEY;  
DIAN M. GRUENEICH; JOHN BOHN;  
RACHELLE CHONG; TIMOTHY ALAN  
SIMON,

*Defendants,*

and

CBEYOND COMMUNICATIONS, LLC,  
*Defendant-intervenor-Appellant.*

No. 08-15716

D.C. No.  
07-CV-01797-SI

ORDER AND  
AMENDED  
OPINION

Appeal from the United States District Court  
for the Northern District of California  
Susan Illston, District Judge, Presiding

Argued and Submitted  
October 6, 2009—San Francisco, California

Filed March 4, 2010  
Amended September 1, 2010

Before: Mary M. Schroeder, A. Wallace Tashima and  
Carlos T. Bea, Circuit Judges.

Opinion by Judge Bea

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**COUNSEL**

Scott K. Attaway, Kellogg, Huber, Hansen, Todd, Evans & Figel, P.L.L.C., Washington, DC, for the plaintiff-appellant.

Frank R. Lindh, California Public Utilities Commission, San Francisco, California, for the defendants-appellees.

Clay Deanhardt, Law Office of Clay Deanhardt, Orinda, California, for the intervenor-appellant.

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**ORDER**

The opinion filed on March 4, 2010 is amended as follows:

**Replace the following text on Slip Op. page 3398:**

Both the Seventh and the Eighth circuits recently rejected AT&T's position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm'n*, 530 F.3d 676 (8th Cir. 2008) ("*SWBT*"); *Ill. Bell Tel. Co. v. Box*, 526 F.3d

1069 (7th Cir. 2008) (“*Box P*”). We agree with our sister circuits.

**With:**

Both the Seventh and the Eighth circuits recently rejected AT&T’s position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm’n*, 530 F.3d 676 (8th Cir. 2008) (“*SWBT*”); *Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069 (7th Cir. 2008) (“*Box P*”);<sup>11</sup> *contra Michigan Bell Tel. Co. v. Lark*, 597 F.3d 370 (6th Cir. 2010). For the reasons that follow, we agree with the Seventh and Eighth Circuits and reject the reasoning advanced by AT&T and the Sixth Circuit in its recent 2-1 decision.

Judges Schroeder and Bea vote to deny the suggestion for rehearing en banc, and Judge Tashima so recommends. All judges vote to deny the petition for panel rehearing.

The suggestion for rehearing en banc has been circulated to the full court, and no judge has requested a vote on whether to rehear the matter en banc. Fed. R. App. P. 35(b).

Petitioner’s petition for panel rehearing and suggestion for rehearing en banc are denied.

No further filings will be accepted in this closed case.

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**OPINION**

BEA, Circuit Judge:

This case involves the balance the Telecommunications Act of 1996 (“the Act”) strikes between providing newer competi-

tors access to previously monopolistic telecommunications markets, on the one hand, and encouraging and protecting infrastructure investments of older, incumbent telecommunications providers on the other. We must interpret two provisions of the Act that impose requirements on older, incumbent local exchange carriers (“incumbent LECs”)—like appellant AT&T—to lease certain components of their existing infrastructure to rival newer, competitive carriers (“competitive LECs”)—like intervenor Cbeyond.

First, we must determine whether 47 U.S.C. § 251(c)(2) requires an incumbent LEC to lease its “entrance facilities” (wires that connect rival telephone systems) to a competitive LEC at regulated rates when the competitor wishes to use the “entrance facility” to permit its own customers to reach customers of the incumbent LEC.

Second, we must determine whether 47 C.F.R. § 51.319(e)(2)(ii)(B) (the “DS1 Cap Rule”), which limits to ten the number of low-capacity DS1 telephone lines an incumbent LEC must lease to a competitive LEC at regulated (low) rates along certain routes, is a limitation which also applies to any route, regardless whether the competitive LEC is “impaired” as to the alternative to such low-capacity lines: the competitive LEC’s own higher-capacity DS3 lines.

Properly to understand the terms used and the regulatory area into which we are about, some background would help.

## **BACKGROUND**

### **A. The Telecommunications Act of 1996**

Prior to 1996, local telephone service generally was provided by a local monopolist who offered services at prices regulated and imposed by a variety of governmental agencies. Such monopolist providers are commonly referred to as “incumbent local exchange carriers” or “incumbent LECs.” Con-

gress enacted the Act to deregulate the telecommunications market. *See generally Verizon Comms. Inc. v. FCC*, 535 U.S. 467, 475-76 (2002). But, to facilitate the entry of new participants into these local markets, the Act imposes on incumbent LECs two duties relevant in this case.

*Interconnection Duty at Regulated Rates.*

First, the Act imposes a duty on incumbent LECs to permit “interconnection.” Pursuant to 47 U.S.C. § 251(c)(2),<sup>1</sup> incumbent LECs must allow the competitive LEC to link its network to that of the incumbent LEC, so that customers of the competitive LEC may place calls to customers of the incumbent LEC. Without the ability to link its network to that of the incumbent LEC, the competitive LEC would have little prospect of selling its telephone services, to say nothing of competing for the customers of the incumbent LEC. A local telephone service is of little use if it cannot connect to other local telephone users.

*Lease of Network Parts at Regulated Rates.*

Second, the Act imposes a duty that incumbent LECs “unbundle”<sup>2</sup> parts of their network. Each such part of the incumbent LEC’s network is a “network element”. Pursuant to 47 U.S.C. § 251(c)(3),<sup>3</sup> incumbent LECs must permit competi-

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<sup>1</sup>47 U.S.C. § 251(c)(2) provides that each incumbent LEC has “the duty to provide, for the facilities and equipment of any requesting telecommunications carrier, interconnection with the local exchange carrier’s network.”

<sup>2</sup>“Unbundling” is the process of breaking apart something into smaller parts. An example is taking a bundled computer system and unbundling it into its individual pieces such as the PC unit, monitor, keyboard, and mouse, and then selling each of these items individually. In the context of this case, “unbundling” is the term used to describe the access provided by incumbent LECs so that other service providers (i.e., competitive LECs) can buy or lease portions of the incumbent LECs’ network elements, such as interconnection loops, to serve subscribers.

<sup>3</sup>47 U.S.C. § 251(c)(3) provides that incumbent LECs have: “The duty to provide, to any requesting telecommunications carrier for the provision

tive LECs to lease, at regulated cost-based rates, parts of the incumbent's network, such as telephone wires, call exchanges, and routing systems. This provision promotes competition by allowing a competitive LEC to enter the telephone service market without having first to overcome capital barriers to entry, i.e., without having to construct, at high cost, every component necessary to operate a network. *See Ill. Bell Tel. Co. v. Box*, 548 F.3d 607, 609-10 (7th Cir. 2008) ("*Box II*"). For example, a competitive LEC might enter a market by providing residential telephone service in two far-flung neighborhoods. Rather than having to lay its own wire to connect the two neighborhoods, the competitive LEC can, under § 251(c)(3), piggyback on the incumbent LEC's pre-existing network at regulated, cost-based rates. In this way, a competitive LEC may more easily and less expensively begin to establish its market presence.

However, before an incumbent LEC is obligated to lease network elements on an unbundled basis, the Federal Communications Commission ("FCC") must find that a refusal to deal would "impair" competition. Section 251(d)(2) requires the FCC to determine which network elements incumbent LECs must offer to a competitive LEC on an unbundled basis. 47 U.S.C. § 251(d)(2).

Once the FCC determines that a particular network element must be offered on an unbundled basis, a competitive LEC that wishes to lease the network element must negotiate with

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of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory in accordance with the terms and conditions of the agreement [negotiated in good faith by the incumbent LEC and competitive LEC pursuant to § 251(c)(1)] and the requirements of this section and section 252 of this title. An incumbent local exchange carrier shall provide such unbundled network elements in a manner that allows requesting carriers to combine such elements in order to provide such telecommunications service."



the incumbent LEC to determine price and other terms. 47 U.S.C. § 251(c)(1). If the negotiations come to an impasse or otherwise fail to produce an agreement, the parties must submit the dispute to binding arbitration.<sup>4</sup> The arbitrator's decision is subject to approval by the relevant state regulatory commission, usually the state public utilities commission. *Id.* If the parties have failed to agree on the lease price, the state regulatory commission may set a price that is "just and reasonable." *Id.* § 252(d)(1).

These "just and reasonable" rates must be based upon the Total Element Long Run Incremental Cost ("TELRIC") methodology. 47 C.F.R. § 51.505. The TELRIC methodology is based on what it cost the incumbent LEC to acquire the network elements; this historical cost method often results in prices that, under certain circumstances, can be highly favorable to the competitive LECs. *See Verizon Communications*, 535 U.S. at 489, 496-97 (upholding 47 C.F.R. § 51.505); *Box II*, 548 F.3d at 609.

The FCC's attempts to implement the incumbent LEC's unbundling obligations have a long history. The first three published rules were invalidated by the courts, in part,<sup>5</sup> and it was not until the FCC issued the Triennial Review Remand Order in 2005 (the "TRRO"), Order on Remand, *In the Matter of Unbundled Access to Network Elements: Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, 20 F.C.C.R. 2533 (Feb. 4, 2005), that the FCC's rules survived judicial review, *see Covad Comms. Co. v. FCC*, 450 F.3d 528 (D.C. Cir. 2006). Two predecessor orders, the relevant parts of which were not invalidated by

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<sup>4</sup>As the Seventh Circuit has noted, the "arbitration" is really the first stage in a regulatory proceeding, for it bears none of the traditional hallmarks of normal arbitration such as voluntary consent and finality. *See Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069, 1070 (7th Cir. 2008) ("*Box I*").

<sup>5</sup>*See Covad Comms. Co. v. FCC*, 450 F.3d 528, 533-534 (D.C. Cir. 2006) (describing history of invalidated FCC unbundling orders).

courts, are relevant to our analysis and are discussed in greater detail below: the 2003 Triennial Review Order (the “TRO”),<sup>6</sup> and the 1996 Local Competition Order (the “LCO”).<sup>7</sup>

## **B. Procedural History**

After the FCC issued the TRRO, AT&T—the incumbent LEC in California—sought to negotiate changes to its agreements with competitive LECs to bring their contracts into conformity with AT&T’s now-changed obligations. After negotiations broke down, AT&T brought a consolidated arbitration proceeding before the California Public Utilities Commission (“CPUC”). CPUC issued a decision favoring the competitive LECs on several disputed issues, and AT&T filed an action in federal district court seeking to set aside four of CPUC’s orders related to unbundling. Two of these orders are at issue on appeal:

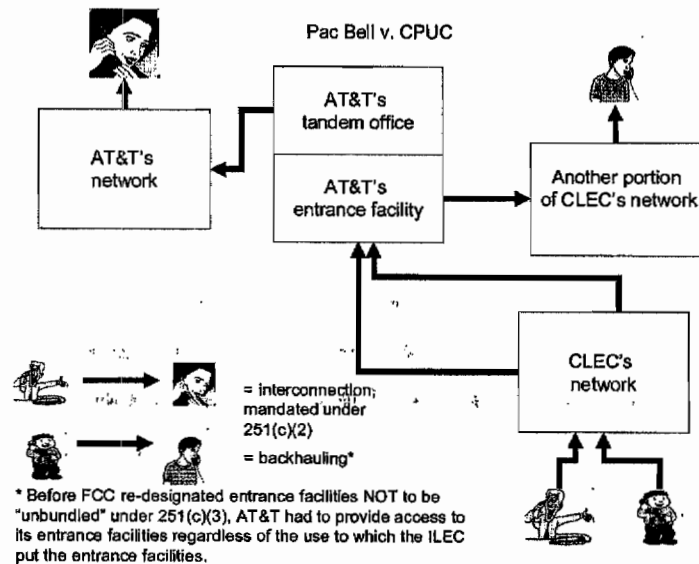
1. *Entrance Facilities*—CPUC ordered AT&T to lease entrance facilities to competitor LECs at TELRIC rates for the purpose of interconnection. An entrance facility is a “dedicated transport” (a wire) that connects one LEC’s “switch” (a computer that routes calls) to another LEC’s switch. In other words, an entrance facility is the high capacity wire that links telephone networks. Entrance facilities may be used for two distinct purposes. First, a competitive LEC can use an entrance facility for interconnection—that is, to link the competitive LEC’s network with that of the incumbent LEC so that the competitive LEC’s customers may reach the incumbent LEC’s customers. *See* TRRO ¶ 138-40; TRO ¶ 366-67.

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<sup>6</sup>Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, *Review of the Section 251 Obligations of Incumbent Local Exchange Carriers*, 18 F.C.C.R. 16978 (2003), *vacated in part by United States Telecom Ass’n v. FCC*, 359 F.3d 554 (D.C. Cir. 2004).

<sup>7</sup>First Report and Order, *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, 11 F.C.C.R. 15499 (1996) (subsequent history omitted).

Second, a competitive LEC can use an entrance facility for what the industry calls "backhauling." In the case of backhauling, the competitive LEC uses the entrance facility to permit its *own* customers to reach *one another* over the incumbent LEC's network. *See id.*<sup>8</sup> The following diagram illustrates the difference between interconnection and backhauling:



Under the TRRO, incumbent LECs are not obligated to offer entrance facilities on an unbundled basis under 47 U.S.C. § 251(c)(3). AT&T and the competitive LECs disputed, however, whether § 251(c)(2) obligates incumbent LECs to lease their entrance facilities to competitive LECs at TELRIC rates for the purposes of "interconnection" (*i.e.*, for the purpose of allowing competitive LEC customers to place

<sup>8</sup>Incumbent LECs are capable of screening out calls that would be used for backhauling. A computer identifies the destination of the call, and, if the call is bound for a customer of the competitive LEC, the computer can screen out the call.

calls to incumbent LEC customers). CPUC concluded that § 251(c)(2) requires incumbent LECs to lease entrance facilities to competitive LECs at TELRIC rates for interconnection. On cross motions for summary judgment, the district court confirmed CPUC's arbitral order on this point, and AT&T timely appealed.

2. *DS1 Transport*—CPUC also ruled that the DS1 Cap Rule applies only on routes where competitive LECs are not “impaired”<sup>9</sup> as to DS3 transport circuits. A “transport circuit” is a wire that carries telecommunications signals along “routes” between switching centers (computers that direct calls to other locations). TRRO ¶ 67. Transport circuits come in two grades relevant here: DS1 (low capacity) and DS3 (high capacity). A DS3 line can carry twenty-four times as many calls as a DS1 line but is more expensive to buy and install than DS1 lines. TRRO ¶ 129 n. 361. All parties agree that the FCC's rules cap the number of DS1 circuits competitive LECs may lease from incumbent LECs on an unbundled basis along routes where competitive LECs are not “impaired” as to higher capacity DS3 lines. Once a competitive LEC has sufficient traffic to justify leasing ten or more DS1 lines, it is economical for the competitive LEC to build, deploy, and install its own DS3 line. TRRO ¶¶ 71-73.

However, AT&T and the competitive LECs disputed whether this cap also applies to routes where the FCC had concluded that competitive LECs were “impaired” as to higher capacity DS3 lines. CPUC ruled in favor of the competitive LECs, and held that the cap did not apply along such

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<sup>9</sup>According to FCC regulations, a competitive LEC's ability to provide service is “‘impaired’ if, taking into consideration the availability of alternative elements outside the incumbent LEC's network, including elements self-provisioned by the requesting carrier or acquired as an alternative from a third-party supplier, lack of access to that element poses a barrier or barriers to entry, including operational and economic barriers, that are likely to make entry into a market by a reasonably efficient competitor uneconomic.” 47 C.F.R. § 51.317(b).

“DS3-impaired” routes. The district court disagreed, concluding that, under the plain language of the FCC’s rule, the DS1 Cap applies along all routes, and vacated the arbitral order on this point. Cbeyond filed a motion in the district court to join the action as an intervenor for the purpose of appeal.

### ANALYSIS

This court reviews *de novo* claims of error in a district court’s order determining whether an arbitrator’s decision complies with FCC regulations. *Verizon Cal., Inc. v. Peevey*, 462 F.3d 1142, 1150 (9th Cir. 2006). This court owes no deference to the arbitrator’s decision. *Id.* The parties may not challenge the validity of any final order of the FCC, including FCC regulations, in this action. 28 U.S.C. § 2342.<sup>10</sup>

#### A. Access to Entrance Facilities Under 47 U.S.C. § 251(c)(2).

[1] AT&T contends the district court erred by affirming the CPUC’s arbitral order permitting competitive LECs to lease entrance facilities from incumbent LECs under 47 U.S.C. § 251(c)(2), the interconnection provision. Both the Seventh and the Eighth circuits recently rejected AT&T’s position, and have concluded that FCC regulations authorize state public utilities commissions to order incumbent LECs to

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<sup>10</sup>Under the Hobbs Act, this court lacks jurisdiction to rule on a collateral attack of an FCC order. 28 U.S.C. § 2342; *see also US West Comms, Inc. v. Jennings*, 304 F.3d 950, 958 n.2 (9th Cir. 2002) (“Properly promulgated FCC regulations currently in effect must be presumed valid for the purposes of this appeal. The Hobbs Act, 28 U.S.C. § 2342, requires that all challenges to the validity of final orders of the FCC be brought by original petition in a court of appeals. The district court thus lacked jurisdiction to pass on the validity of the FCC regulations, and no question as to their validity can be before us in this appeal.”); *see also GTE S., Inc. v. Morrison*, 199 F.3d 733, 742-43 (4th Cir. 1999) (holding the court lacked jurisdiction to rule on the validity of FCC rules “including those relating to rulemaking” on review of district court order affirming state public utility’s arbitral decision relating to provisions of the Act).

lease entrance facilities to competitive LECs at regulated rates for the purpose of interconnection. *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm'n*, 530 F.3d 676 (8th Cir. 2008) (“*SWBT*”); *Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069 (7th Cir. 2008) (“*Box I*”);<sup>11</sup> *contra Michigan Bell Tel. Co. v. Lark*, 597 F.3d 370 (6th Cir. 2010). For the reasons that follow, we agree with the Seventh and Eighth Circuits and reject the reasoning advanced by AT&T and the Sixth Circuit in its recent 2-1 decision.

[2] Section 251(c)(2) provides that “each incumbent local exchange carrier has the . . . duty to provide, for the facilities and equipment of any requesting telecommunications carrier, interconnection with the local exchange carrier’s network.” 47 U.S.C. § 251(c)(2). The FCC defines interconnection as “the linking of two networks for the mutual exchange of traffic.” 47 C.F.R. § 51.5. In other words, interconnection provides a way for a competitive LEC’s customers to reach AT&T’s customers and vice versa. Section 251(c)(2)(B) specifies that incumbent LECs must offer competitive LECs such interconnection “at any technically feasible point within the [incumbent] carrier’s network.” 47 U.S.C. § 251(c)(2)(B). The FCC regulation also states that incumbent LECs must provide competitive LECs with “any technically feasible method of obtaining interconnection.” 47 C.F.R. § 51.321(a).

[3] The FCC calls entrance facilities “the transmission facilities that connect competitive LEC networks with incumbent LEC networks.” TRRO ¶ 136. As the term “entrance”

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<sup>11</sup>In *Box I*, the Seventh Circuit held that because entrance facilities were a “technologically feasible” means of handing off traffic between a competitive LEC and an incumbent LEC, an obligation to lease such facilities at TELRIC rates was within the scope of § 251(c)(2) and the implementing regulations. 526 F.3d at 1071-72. The Eighth Circuit reached the same conclusion in *SWBT*, 530 F.3d at 683-84. In *SWBT*, the Eighth Circuit stated: “If a [competitive] LEC needs entrance facilities to interconnect with an [incumbent] LEC’s network, it has the right to obtain such facilities from the [incumbent] LEC.” *Id.* at 684.

implies, entrance facilities provide a way for a competitive LEC's calls to enter AT&T's network and reach AT&T customers, a fact that AT&T concedes. For the competitive LECs to use the entrance facilities this way is interconnection.<sup>12</sup>

[4] That AT&T's entrance facilities can be used for a purpose besides interconnection (i.e., backhauling) does not change the result that 47 U.S.C. § 251(c)(2) mandates AT&T to provide competitive LECs access at regulated rates to its entrance facilities for *interconnection*. The parties disagree about the effect on this result of the FCC's finding in its TRRO that under a different subsection of the Act, § 251(c)(3),<sup>13</sup> competitive LECs are not impaired<sup>14</sup> in building entrance

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<sup>12</sup>AT&T seeks to distinguish the historical use of entrance facilities for interconnection by long distance service providers, which did not compete with AT&T, and the current use by competitive LECs, which do compete with AT&T. AT&T states that "entrance facilities in this case provides the same function" as entrance facilities did historically (i.e., connecting networks), but competitive LECs can feasibly interconnect with AT&T at a different point in AT&T's network, whereas the long distance providers could not. This contention does not survive the plain language of § 251(c)(2)(B), which requires an incumbent LEC to provide interconnection "at *any* technically feasible point within [its] network." (Emphasis added.)

<sup>13</sup>Section 251(c)(3) provides that incumbent LECs have "[t]he duty to provide, to any requesting telecommunications carrier for the provision of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory in accordance with the terms and conditions of the agreement and the requirements of this section and section 252 of this title. An incumbent local exchange carrier shall provide such unbundled network elements in a manner that allows requesting carriers to combine such elements in order to provide such telecommunications service."

<sup>14</sup>The Act tasks the FCC with deciding whether a particular network element, i.e., "a facility or equipment used in the provision of a telecommunications service," 47 U.S.C. § 153(29), is one that incumbent LECs must lease to competitive LECs at regulated rates, i.e., the element is "unbundled" under 47 U.S.C. § 251(c)(3). 47 U.S.C. § 251(d). To make that determination, the FCC must consider, at a minimum, two factors:

facilities and therefore that entrance facilities are not “unbundled network elements” that incumbent LECs like AT&T have a duty to provide competitive LECs *for any purpose*, including backhauling. TRRO ¶¶ 136-141.

As an initial matter, under general principles of statutory interpretation, the specific duty found in 47 U.S.C. § 251(c)(2) of providing interconnection facilities prevails over the general duty of providing network elements at unbundled rates, found in § 251(c)(3) (regardless whether that general unbundling duty exists as to entrance facilities). *See NLRB v. A-Plus Roofing, Inc.*, 39 F.3d 1410, 1415 (9th Cir. 1994) (“It is a well-settled canon of statutory interpretation that specific provisions prevail over general provisions.”).

Moreover, as the district court found, the TRRO reinforces that the duties of incumbent LECs under 47 U.S.C. § 251(c)(2) and § 251(c)(3) are independent. The TRRO states that the FCC’s finding that incumbent LECs need not lease entrance facilities as unbundled network elements under (c)(3) “does not alter the right of competitive LECs to obtain interconnection facilities pursuant to section 251(c)(2).” TRRO ¶ 140.

[5] AT&T contends TRRO Paragraph 140 does not require incumbent LECs to offer entrance facilities at TELRIC rates because the TRRO uses the term “interconnection facilities” instead of “entrance facilities” when it refers to the right under 47 U.S.C. § 251(c)(2) that is not altered by the TRRO’s determination that “entrance facilities” need not be unbundled under § 251(c)(3). First, although the FCC did not use the

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“whether — (A) access to such network elements as are proprietary in nature is necessary; and (B) the failure to provide access to such network elements would impair the ability of the telecommunications carrier seeking access to provide the services that it seeks to offer.” *Id.* The FCC thus makes an “impairment finding” as to that network element. *See Covad Comms.*, 450 F.3d at 534-45.



term “entrance facilities” in Paragraph 140, the paragraph appears in a section of the TRRO entitled “Entrance Facilities,” which solely discusses the effect of the FCC’s finding as to entrance facilities. Moreover, prior FCC rulings make clear that the interconnection obligation contained in § 251(c)(2) includes a duty to lease entrance facilities at TELRIC rates when such facilities will be used for the purposes of interconnection. The 1996 Local Competition Order (“LCO”) broadly defined the interconnection obligation to include a duty to offer unbundled network elements at TELRIC rates:

We conclude that, under sections 251(c)(2) *and* 251(c)(3), any requesting carrier may choose *any method of technically feasible interconnection* or access to unbundled elements at a particular point. Section 251(c)(2) imposes an interconnection duty at any technically feasible point; *it does not limit that duty* to a specific method of interconnection or *access to unbundled elements*.

LCO ¶ 549 (emphasis added); *see also* 47 C.F.R. § 51.321(a) (stating that incumbent LECs are required to offer “any technically feasible method of obtaining interconnection”).

[6] Though the LCO did not expressly state that entrance facilities were one of the “network elements” incumbent LECs were required to make available under 47 U.S.C. § 251(c)(2), the later Triennial Review Order (“TRO”) expressly interpreted the LCO to impose this obligation. The TRO stated:

In reaching [the determination that entrance facilities are not “network elements” subject to the unbundling obligation in § 251(c)(3)] we note that, to the extent that requesting carriers need facilities in order to ‘interconnect with the incumbent LEC’s network,’ section 251(c)(2) of the Act *expressly provides for*

*this* and we do not alter the Commission's interpretation of this obligation.

TRO ¶ 365. The TRO elaborated:

[C]ompetitive LECs often use transmission links including unbundled transport connecting incumbent LEC switches or wire centers in order to carry traffic to and from its end users. These links constitute the incumbent LEC's own transport network. However, in order to access UNEs [unbundled network elements], including transmission between incumbent LEC switches or wire centers, while providing their own switching and other equipment, competitive LECs require a transmission link from the UNEs on the incumbent LEC network to their own equipment located elsewhere. Competitive LECs use these transmission connections between incumbent LEC networks and their own networks both for interconnection and to backhaul traffic. Unlike the facilities that incumbent LECs explicitly must make available for section 251(c)(2) interconnection, we find that the Act does not require incumbent LECs to unbundle transmission facilities connecting incumbent LEC networks to competitive LEC networks for the purpose of backhauling traffic.

TRO ¶ 366. The TRO thus expressly interpreted the LCO to allow competitive LECs to lease entrance facilities or "transmission links" at TELRIC rates for the purpose of achieving interconnection. This interpretation of the LCO is reasonable and entitled to deference.<sup>15</sup> *Auer v. Robbins*, 519 U.S. 452,

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<sup>15</sup>Contrary to AT&T's assertion, this portion of the TRO was not vacated in *USTA II*, 359 F.3d 554. *USTA II* vacated only the TRO's conclusion that entrance facilities are categorically excluded from the definition of "network elements" under § 251(c)(3). *Id.* at 585. The court did not rule on the validity of the FCC's conclusion that, under § 251(c)(2), incumbent LECs are obligated to offer entrance facilities at TELRIC rates.

461 (1997) (An agency's interpretation of its own regulation is "controlling unless plainly erroneous or inconsistent with the regulation.")<sup>16</sup> Moreover, AT&T's contention that the TRO's interpretation of the LCO conflicts with the terms of 47 U.S.C. § 251(c)(2) is foreclosed because AT&T cannot challenge the validity of FCC orders in this proceeding. *See Jennings*, 304 F.3d at 958 n.2.

AT&T also contends CPUC's interpretation conflicts with the FCC's express findings that competitive LECs are not "impaired" as to entrance facilities. *See* TRRO ¶¶ 138, 139. But those FCC findings also expressly distinguished entrance facilities used for the purpose of interconnection and for backhauling. TRRO ¶¶ 138-140. In light of the different economic considerations associated with the use of entrance facilities for interconnection, on the one hand, and for backhaul, on the other, the FCC could reasonably conclude that different regulations were appropriate. Where a competitive LEC uses an interconnection facility for backhaul, only the competitive LEC benefits—both the originator and the recipient of the call are competitive LEC customers. But when the competitive LEC uses the entrance facility for interconnection, both competitor and incumbent benefit: the incumbent's customers can reach customers of the competitor, and vice versa. *See generally* LCO ¶ 162 ("In this situation . . . each gains value from

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<sup>16</sup>The specific statements in the TRO and the LCO that the obligation to provide facilities and equipment under § 251(c)(2) includes a duty to provide entrance facilities foreclose AT&T's interpretation of the term "interconnection facilities." AT&T relies on 47 C.F.R. § 51.5, which defines "interconnection" to exclude the "transport and termination of traffic." AT&T construes this language to exclude *any* duty under § 251(c)(2) to carry a competitive LEC's traffic. This conflicts with TRRO ¶ 140 itself, which explains that "interconnection facilities" are "for transmission and routing" of telephone calls. If the duty to provide "interconnection" did not include any duty to provide *any* transport of calls, then § 251(c)(2) would be meaningless because incumbents could physically link networks with the competitive LEC, but refuse to carry calls to the incumbent LEC's terminal customers, thus effectively locking the competitive LEC out of the market.

the interconnection arrangement.”); TRO ¶ 367 (“Our conclusion in this respect is buttressed by the fact that the economics of dedicated facilities used for backhaul between networks are sufficiently different from transport within an incumbent LEC’s network that our analysis must adequately reflect this distinction.”); *see also Box I*, 526 F.3d at 1071 (“What’s the point of specifying that [competitive] LECs cannot demand access to entrance facilities as unbundled network elements, AT&T inquires, if state commissions can turn around and require the same access at the same price anyway? The answer . . . is that [competitive] LECs do not enjoy the “same” access to entrance facilities under the state commission’s decision as they did before the FCC’s order. Until then, [competitive] LECs could use entrance facilities for both interconnection and backhauling.”).

[7] Accordingly, we agree with the district court and hold that, under 47 U.S.C. § 251(c)(2), incumbent LECs must lease entrance facilities at TELRIC rates to competitive LECs for the purpose of interconnection.

**B. Unbundled Access to DS1 Circuits Under 47 U.S.C. § 251(c)(3).**

[8] In its cross-appeal, Cbeyond contends the district court erred in vacating the CPUC’s order that required incumbent LECs to grant unbundled access to an unlimited number of DS1 transport circuits along routes on which competitive LECs are impaired as to DS3 transport circuits.<sup>17</sup> The district

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<sup>17</sup>AT&T incorrectly contends Cbeyond waived this issue by failing to raise it in the district court. This issue is (1) a pure question of law; and (2) was fully briefed in the district court by the CPUC. Accordingly, the issue has not been raised for the first time on appeal and this court can reach the issue. Even if the issue was presented for the first time on appeal, the court could reach the question. *See K&N Eng., Inc. v. Bulat*, 510 F.3d 1079, 1081 n.2 (9th Cir. 2007) (the court may, in its discretion, reach issues raised for the first time on appeal if the record is fully developed, the question is a pure question of law, and no prejudice will result).

court concluded that the plain language of the governing regulation, 47 C.F.R. § 51.319(e)(2)(ii)(B) (the “DS1 Cap Rule”),<sup>18</sup> limits a competitive LEC to a maximum of ten DS1 circuits along any route regardless whether the competitive LEC is impaired as to DS3 lines. We agree. Under the plain language of the regulation, the DS1 Cap Rule applies to *all* routes where DS1 circuits are available on an unbundled basis.

On appeal, Cbeyond contends the district court’s interpretation of the DS1 Cap Rule is contrary to the FCC’s findings in the earlier TRRO. Cbeyond concedes, however, that the language of the DS1 Cap Rule—47 C.F.R. § 51.319(e)(2)(ii)(B)—unambiguously limits to ten the number of DS1 circuits an incumbent LEC must offer at TELRIC rates on *any* route.

In general, the plain meaning of an administrative regulation controls. *Webb v. Smart Document Solutions, LLC*, 499 F.3d 1078, 1084 (9th Cir. 2007). Plain meaning, however, is “not the end of the inquiry.” *Id.* at 1086; *see also Safe Air for Everyone v. EPA*, 488 F.3d 1088, 1097 (9th Cir. 2007). The plain language of a regulation does not control if “clearly expressed administrative intent is to the contrary or if such plain meaning would lead to absurd results.” *Id.* (internal quotation marks and alterations omitted). “[T]he regulatory intent that overcomes plain language must be referenced in the published notices that accompanied the rulemaking process.” *Id.* A rule leads to absurd results only if it would be “patently inconceivable” that the agency intended the result. *Id.* at 1098.

[9] Here, there is no “clearly expressed administrative intent” in the published notices that accompanied the DS1 Cap Rule rulemaking process. Further, the DS1 Cap Rule as we read its plain text would not lead to absurd results. It is

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<sup>18</sup>The DS1 Cap Rule provides: “Cap on unbundled DS1 transport circuits. A requesting telecommunications carrier may obtain a maximum of ten unbundled DS1 dedicated transport circuits on each route where DS1 dedicated transport is available on an unbundled basis.”

perfectly conceivable the FCC meant what it said when it limited the number of DS1 circuits that a competitive LEC can lease on routes where the competitive LEC is impaired as to a higher capacity DS3 circuit. Where a competitive LEC is so impaired, it will have access to an incumbent's DS3 circuits on an unbundled basis. Hence, it would be more economical for the competitive LEC to lease a single DS3 line from the incumbent LEC, rather than eleven or more DS1 lines at greater cost. TRRO ¶ 128 ("This is consistent with the pricing efficiencies of aggregating traffic. While a DS3 circuit is capable of carrying 28 uncompressed DS1 channels, the record reveals that it is efficient for a carrier to aggregate traffic at approximately 10 DS1s."). The FCC expressly found that once a competitive LEC could aggregate sufficient traffic, the DS3 rules should apply: "When a carrier aggregates sufficient traffic on DS1 facilities such that it effectively could use a DS3 facility, we find that our DS3 impairment conclusions should apply." *Id.*

[10] It is hardly "patently inconceivable" that the FCC intended the DS1 cap to apply on all routes, even those where competitive LECs are impaired as to DS3 circuits. In such circumstance, the competitive LEC can obtain more economical DS3 circuits, and there is no reason why the FCC would have intended to permit competitive LECs to impose greater costs on incumbent LECs by allowing unlimited leases of DS1 circuits.

Cbeyond's contention that the DS1 Cap Rule conflicts with the terms of 47 U.S.C. § 251(c)(3) is foreclosed because Cbeyond cannot challenge the validity of the FCC orders in this proceeding. *See Jennings*, 304 F.3d at 958 n.2.

[11] Accordingly, we agree with the district court and hold that, under the plain language of the regulation, the DS1 Cap Rule limits to ten the number of DS1 lines an incumbent LEC must lease to a competitive LEC at TELRIC rates on all routes.

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**CONCLUSION**

For the all of the foregoing reasons, we affirm the district court's order confirming in part and vacating in part the CPUC's arbitral order.

**AFFIRMED.**

## **ATTACHMENT MGF-3**



## AT&T Inc. Financial Review 2009



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## Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:	2009	2008	2007	2006 <sup>2</sup>	2005 <sup>3</sup>
<b>Financial Data<sup>4</sup></b>					
Operating revenues	\$123,018	\$124,028	\$118,928	\$ 63,055	\$ 43,764
Operating expenses	\$101,526	\$100,965	\$ 98,524	\$ 52,767	\$ 37,596
Operating income	\$ 21,492	\$ 23,063	\$ 20,404	\$ 10,288	\$ 6,168
Interest expense	\$ 3,379	\$ 3,390	\$ 3,507	\$ 1,843	\$ 1,456
Equity in net income of affiliates	\$ 734	\$ 819	\$ 692	\$ 2,043	\$ 609
Other income (expense) – net	\$ 152	\$ (328)	\$ 810	\$ 398	\$ 398
Income taxes	\$ 6,156	\$ 7,036	\$ 6,252	\$ 3,525	\$ 932
<b>Net Income</b>	<b>\$ 12,843</b>	<b>\$ 13,128</b>	<b>\$ 12,147</b>	<b>\$ 7,361</b>	<b>\$ 4,787</b>
<b>Less: Net Income Attributable to Noncontrolling Interest</b>	<b>\$ (308)</b>	<b>\$ (261)</b>	<b>\$ (196)</b>	<b>\$ (5)</b>	<b>\$ (1)</b>
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 12,535</b>	<b>\$ 12,867</b>	<b>\$ 11,951</b>	<b>\$ 7,356</b>	<b>\$ 4,786</b>
<b>Earnings Per Common Share:</b>					
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 2.12</b>	<b>\$ 2.17</b>	<b>\$ 1.95</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>
<b>Earnings Per Common Share – Assuming Dilution:</b>					
<b>Net Income Attributable to AT&amp;T</b>	<b>\$ 2.12</b>	<b>\$ 2.16</b>	<b>\$ 1.94</b>	<b>\$ 1.89</b>	<b>\$ 1.42</b>
Total assets	\$268,752	\$265,245	\$275,644	\$270,634	\$145,632
Long-term debt	\$ 64,720	\$ 60,872	\$ 57,255	\$ 50,063	\$ 26,115
Total debt	\$ 72,081	\$ 74,991	\$ 64,115	\$ 59,796	\$ 30,570
Construction and capital expenditures	\$ 17,335	\$ 20,335	\$ 17,888	\$ 8,393	\$ 5,612
Dividends declared per common share	\$ 1.65	\$ 1.61	\$ 1.47	\$ 1.35	\$ 1.30
Book value per common share	\$ 17.34	\$ 16.42	\$ 19.15	\$ 18.58	\$ 14.09
Ratio of earnings to fixed charges	4.50	4.80	4.95	5.01	4.11
Debt ratio <sup>7</sup>	41.3%	43.7%	35.6%	34.1%	35.9%
Weighted-average common shares outstanding (000,000)	5,900	5,927	6,127	3,882	3,368
Weighted-average common shares outstanding with dilution (000,000)	5,924	5,958	6,170	3,902	3,379
End of period common shares outstanding (000,000)	5,902	5,893	6,044	6,239	3,877
<b>Operating Data</b>					
Wireless customers (000) <sup>4</sup>	85,120	77,009	70,052	60,962	54,144
In-region network access lines in service (000) <sup>5</sup>	49,392	55,610	61,582	66,469	49,413
In-region broadband connections (000) <sup>6,7</sup>	17,254	16,265	14,802	12,170	6,921
Number of employees	282,720	302,660	309,050	304,180	189,950

<sup>1</sup>Amounts in the above table have been prepared in accordance with U.S. generally accepted accounting principles.

<sup>2</sup>Our 2006 income statement amounts reflect results from BellSouth Corporation (BellSouth) and AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, for the two days following the December 29, 2006 acquisition. Our 2006 balance sheet and end-of-year metrics include 100% of BellSouth and AT&T Mobility. Prior to the December 29, 2006, BellSouth acquisition, AT&T Mobility was a joint venture in which we owned 60% and was accounted for under the equity method.

<sup>3</sup>Our 2005 income statement amounts reflect results from AT&T Corp. for the 43 days following the November 18, 2005, acquisition. Our 2005 balance sheet and end-of-year metrics include 100% of AT&T Corp.

<sup>4</sup>The number presented represents 100% of AT&T Mobility cellular/PCS customers.

<sup>5</sup>In-region represents access lines serviced by our incumbent local exchange companies (in 22 states since the BellSouth acquisition and in 13 states prior to that acquisition). Beginning in 2006, the number includes BellSouth lines in service.

<sup>6</sup>Broadband connections include in-region DSL lines, in-region U-verse High Speed Internet access, satellite broadband and 3G LaptopConnect cards.

<sup>7</sup>Prior period amounts restated to conform to current period reporting methodology.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

For ease of reading, AT&T Inc. is referred to as "we," "us," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry both in the United States and internationally, providing wireless and wireline telecommunications services and equipment as well as directory advertising and publishing services. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that equal or exceed 100% are not considered meaningful and are denoted with a dash.

### RESULTS OF OPERATIONS

**Consolidated Results** Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2010 in the "Operating Environment and Trends of the Business" section.

	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
Operating Revenues	\$123,018	\$124,028	\$118,928	(0.8)%	4.3%
Operating expenses					
Cost of services and sales	50,405	49,556	46,801	1.7	5.9
Selling, general and administrative	31,407	31,526	30,146	(0.4)	4.6
Depreciation and amortization	19,714	19,883	21,577	(0.8)	(7.9)
Total Operating Expenses	101,526	100,965	98,524	0.6	2.5
Operating Income	21,492	23,063	20,404	(6.8)	13.0
Income Before Income Taxes	18,999	20,164	18,399	(5.8)	9.6
Net Income Attributable to AT&T	12,535	12,867	11,951	(2.6)	7.7
Diluted Earnings Per Share	2.12	2.16	1.94	(1.9)%	11.3%

### OVERVIEW

**Operating income** decreased \$1,571, or 6.8%, in 2009 and increased \$2,659, or 13.0%, in 2008. Our operating income margin increased from 17.2% in 2007 to 18.6% in 2008 and decreased to 17.5% in 2009. Operating income in 2009 decreased primarily due to the decline in voice revenues and directory print advertising, an increase in pension and other postemployment benefits (OPEB) expense, and the higher cost of equipment sales in our Wireless segment attributed to the continued success of Apple iPhone. These changes were partially offset by lower employee-related costs due to workforce reductions, along with the continued growth in wireless service and wireline data revenue. In 2008, operating income increased primarily due to continued growth in wireless service and data revenues, along with a decrease in the amortization of merger-related intangibles.

**Operating revenues** decreased \$1,010, or 0.8%, in 2009 and increased \$5,100, or 4.3%, in 2008. Revenues in 2009 reflect the continuing decline in voice revenues and a decline in directory revenue driven by lower print revenue. These declines were partially offset by continued growth in wireless service revenue due to an increase in average number of customers of 9.4%, driven in part by the continued success

of Apple iPhone and an increase in wireline data revenue largely due to Internet Protocol (IP) data growth, including AT&T U-verse<sup>SM</sup> and broadband growth. Increases in 2008 reflect an increase in wireless subscribers and data revenues, primarily related to IP data, partially offset by the continued decline in voice revenues.

The declines in our wireline voice and advertising revenues reflect continuing economic pressures on our customers as well as competition. Total retail consumer voice connections decreased 11.4% in 2009. Business customers also disconnected switched access lines, reduced usage-based services and reduced print advertising. Customers disconnecting access lines switched to wireless, Voice over Internet Protocol (VoIP) and cable offerings for voice and data or terminated service permanently as businesses closed or consumers left residences. While we lose the voice revenues, we have the opportunity to increase wireless service or wireline data revenues should the customer choose us as their wireless or VoIP provider. We also continue to expand our VoIP service for customers who have access to our U-verse video service.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

**Cost of services and sales** expenses increased \$849, or 1.7%, in 2009 and \$2,755, or 5.9%, in 2008. The increase in 2009 was primarily due to higher upgrade costs and higher equipment costs related to advanced integrated devices, along with an increase in pension/OPEB expenses. Pension/OPEB expense increased due to lower-than-expected return on assets and an increase in amortization of actuarial losses, both primarily from investment losses in 2008. Partially offsetting these increases were decreases in employee-related costs primarily driven by workforce reductions. The increase in 2008 was primarily due to higher equipment costs related to increased sales of advanced integrated devices. Also increasing 2008 expenses was severance associated with announced workforce reductions and hurricane-related expenses affecting both the Wireless and Wireline segments.

**Selling, general and administrative** expenses decreased \$119, or 0.4%, in 2009 and increased \$1,380, or 4.6%, in 2008. The decrease in 2009 was primarily due to declines in employee-related costs (excluding pension/OPEB) due to workforce reductions, decreases in materials and supplies expense along with decreases in wireless advertising and promotions expense. These decreases were partially offset by an increase in pension/OPEB expense, and higher commissions, customer service costs and IT/Interconnect costs resulting from wireless subscriber growth along with increased support for data services and integrated devices. The increase in 2008 was primarily due to higher commissions and residuals due to the growth in wireless subscribers, and higher severance associated with announced workforce reductions. Partially offsetting these increases in 2008 were merger-integration costs recognized in 2007 and not in 2008.

**Depreciation and amortization** expenses decreased \$169, or 0.8%, in 2009 and \$1,694, or 7.9%, in 2008. The decrease in 2009 was primarily due to the declining amortization of identifiable intangible assets, primarily customer relationships, partially offset by increased depreciation resulting from capital additions. The decrease in 2008 was primarily due to lower amortization expense on intangible assets.

**Interest expense** decreased \$11, or 0.3%, in 2009 and \$117, or 3.3%, in 2008. Interest expense decreased slightly during 2009 due to an increase in interest charged during construction, which is capitalized instead of expensed. In 2008, interest expense declined primarily due to a decrease in our weighted-average interest rate and an increase in interest charged during construction, partially offset by an increase in our average debt balances.

**Equity in net income of affiliates** decreased \$85, or 10.4%, in 2009, primarily due to foreign currency translation losses at América Móvil S.A. de C.V. (América Móvil), Telefonos de México, S.A. de C.V. (Telmex) and Telmex Internacional, S.A.B. de C.V. (Telmex Internacional), partially offset by improved results at América Móvil. Equity in net income of affiliates increased \$127, or 18.4%, in 2008, primarily due to improved results from our investments in América Móvil, Telmex and Telmex Internacional, partially offset by foreign currency translation losses.

**Other income (expense) – net** We had other income of \$152 in 2009, other expense of \$328 in 2008 and other income of \$810 in 2007. Results for 2009 included a \$112 gain on the sale of investments, \$100 of interest and leveraged lease income, and \$42 of gains on the sale of a professional services business, partially offset by \$102 of asset impairments.

Other expense for 2008 included losses of \$467 related to asset impairments, partially offset by \$156 of interest and leveraged lease income. Other income for 2007 included \$810 related to a \$409 gain on a spectrum license exchange, \$215 of interest and leveraged lease income and a \$161 gain on the sale of non-strategic assets and investments.

**Income taxes** decreased \$880, or 12.5%, in 2009 and increased \$784, or 12.5%, in 2008. The decrease in 2009 was due to lower income before taxes and the recognition of benefits related to audit issues and judicial developments, while the increase in 2008 was primarily due to higher income before taxes. Our effective tax rate in 2009 was 32.4%, compared to 34.9% in 2008 and 34.0% in 2007. The decrease in our effective tax rate in 2009 was primarily due to the recognition of benefits related to audit issues and judicial developments. The increase in our effective tax rate in 2008 was primarily due to higher income before taxes, which resulted in a greater percentage of our income being taxed at marginal rates.

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## Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes, reviewing operating revenues, expenses (depreciation and non-depreciation) and equity income for each segment. We make our capital allocations decisions primarily based on the network (wireless or wireline) providing services. Interest expense and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Each segment's percentage of total segment operating revenue and income calculations is derived from our segment results table in Note 4 and reflects amounts before eliminations. We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The **Wireless segment** accounted for approximately 43% of our 2009 total segment operating revenues as compared to 39% in 2008 and 60% of our 2009 total segment income as compared to 46% in 2008. This segment provides wireless voice and advanced data communications services across the United States.

The **Wireline segment** accounted for approximately 52% of our 2009 total segment operating revenues as compared to 55% in 2008 and 36% of our 2009 total segment income as compared to 47% in 2008. This segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse<sup>SM</sup> TV, high-speed broadband and voice services (U-verse) and managed networking to business customers. Additionally, we offer satellite television services through our agency arrangements.

The **Advertising Solutions segment** accounted for approximately 4% of our 2009 and 2008 total segment operating revenues and 6% of our 2009 total segment income as compared to 7% in 2008. This segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising, Internet-based advertising and local search.

The **Other segment** accounted for approximately 1% of our 2009 total segment operating revenues as compared to 2% in 2008 and less than 1% of our 2009 and 2008 total segment income. This segment includes results from Sterling Commerce, Inc. (Sterling), customer information services, payphone, and all corporate and other operations. Also, included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated. During 2008, we announced our intention to discontinue our retail payphone operations previously included in this segment. Additionally, this segment includes our portion of the results from our international equity investments and charges of \$550 and \$978 associated with our workforce reductions in 2009 and 2008.

The following tables show components of results of operations by segment. We discuss significant segment results following each table. We discuss capital expenditures for each segment in "Liquidity and Capital Resources."

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

### Wireless Segment Results

	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
Segment operating revenues					
Service	\$48,657	\$44,410	\$38,678	9.6%	14.8%
Equipment	4,940	4,925	4,006	0.3	22.9
Total Segment Operating Revenues	53,597	49,335	42,684	8.6	15.6
Segment operating expenses					
Operations and support	34,561	32,481	28,585	6.4	13.6
Depreciation and amortization	5,765	5,770	7,079	(0.1)	(18.5)
Total Segment Operating Expenses	40,326	38,251	35,664	5.4	7.3
Segment Operating Income	13,271	11,084	7,020	19.7	57.9
Equity in Net Income of Affiliates	9	6	16	50.0	(62.5)
Segment Income	\$13,280	\$11,090	\$ 7,036	19.7%	57.6%

### Centennial Acquisition

In November 2009, we acquired Centennial Communications, Corp. (Centennial), a regional provider of wireless and wired communications services with approximately 865,000 customers as of December 31, 2009, and its operations have been included in our consolidated results since the acquisition date.

### Wireless Properties Transactions

In May 2009, we announced a definitive agreement to acquire certain wireless assets from Verizon Wireless (VZ) for approximately \$2,350 in cash. The assets primarily represent former Alltel Wireless assets. We will acquire wireless properties, including licenses and network assets, serving approximately 1.5 million subscribers in 79 service areas across 18 states. In October 2009, the Department of Justice (DOJ) cleared our acquisition of Centennial, subject to the DOJ's condition that we divest Centennial's operations in eight service areas in Louisiana and Mississippi. We are in the process of finalizing definitive agreements and seeking regulatory approvals to sell all eight Centennial service areas ultimately identified in that ruling. We anticipate we will close the sales during the first half of 2010. As of December 31, 2009, the fair value of the assets subject to the sale, net of related liabilities, was \$282. Since the properties we will acquire use a different network technology than our Global System for Mobile Communication (GSM) technology, we expect to incur additional costs to convert that network and subscriber handsets to our GSM technology.

### Dobson Acquisition

In November 2007, we acquired Dobson Communications Corporation (Dobson). Dobson marketed wireless services under the Cellular One brand and had provided roaming services to AT&T subsidiaries since 1990. Dobson had 1.7 million subscribers across 17 states, mostly in rural and suburban areas. Dobson was incorporated into our wireless operations subsequent to its acquisition.

### Wireless Customer and Operating Trends

As of December 31, 2009, we served 85.1 million wireless customers, compared to 77.0 million at December 31, 2008, and 70.1 million at December 31, 2007. Approximately 59% of our wireless customer net additions in 2009 were postpaid customer additions which were lower than the impact in the prior year, as we saw a significant increase in gross and net additions in our reseller customer business in 2009. Sales of emerging devices, such as netbooks and eReaders, are largely included in our reseller customer base. We expect continued growth in sales of emerging devices. Improvement in our postpaid churn levels since 2007 contributed to our net additions and retail customer growth in 2009 and 2008. This improvement was attributable to network enhancements, attractive products and services offerings, including Apple iPhone, customer service improvements, and continued high levels of advertising.

Gross customer additions were 21.4 million in 2009 and 2008. Postpaid customer gross additions have continued to increase due to attractive plan offerings and exclusive product offerings such as Apple iPhone, and unique quick messaging devices.

As the wireless industry continues to mature, we believe that future wireless growth will become increasingly dependent on our ability to offer innovative services, which will encourage existing customers to upgrade their current services and devices and will attract customers from other providers, as well as on our ability to minimize customer churn. Average service revenue per user (ARPU) in 2009 was flat compared to 2008 after increasing 1% in 2008 compared to 2007 primarily due to increased data services ARPU growth offsetting declining voice and other service ARPU. ARPU from postpaid customers increased 2.7% in 2009 and 3.7% in 2008, reflecting usage of more advanced handsets, such as Apple iPhone 3GS, by these customers, evidenced by a 23.5% increase in postpaid data services ARPU in 2009 and a 36.4% increase in postpaid data services ARPU in 2008. The continued increase in postpaid data services revenue was related to increased use of text messaging, Internet access, e-mail and other data services. We expect continued growth from data services, as more customers purchase advanced integrated devices and other emerging devices, such as netbooks, eReaders, and mobile navigation devices, and broadband laptop cards, and as we continue to expand our network. The growth in data services ARPU in 2009 was offset by a 6.7% decline in voice ARPU and the growth in data services ARPU in 2008 was partially offset by a 6.5% decline in voice and other service ARPU. Voice and other service ARPU in 2009 and 2008 declined due to lower access charges, roaming revenues, and long-distance usage. Increases in our FamilyTalk® and reseller customer base, which have lower ARPU than traditional postpaid customers, have also contributed to these declines. For 2009, roaming revenues were lower due to a decline in domestic roaming activity. For 2008, roaming revenues were lower due to acquisitions and rate negotiations as part of roaming cost savings initiatives, which slowed international growth, and lower regulatory cost recovery charges. We expect continued pressure on voice and other service ARPU.

The effective management of customer churn is also critical to our ability to maximize revenue growth and to maintain and improve margins. Customer churn is calculated by dividing the aggregate number of wireless customers who cancel service during each month in a period by the total number of wireless customers at the beginning of each month in that period. Our customer churn rate was 1.48% for 2009, down from 1.68% for 2008 and 1.67% for 2007. The churn

rate for postpaid customers was 1.16% for 2009 and 1.19% for 2008, down from 1.27% for 2007. The decline in postpaid churn reflects network enhancements and broader coverage, more affordable rate plans and exclusive devices, and free mobile-to-mobile calling among our wireless customers.

### Wireless Operating Results

Our Wireless segment operating income margin was 24.8% in 2009, 22.5% in 2008 and 16.4% in 2007. The higher margin in 2009 was primarily due to revenue growth of \$4,262, while the higher margin in 2008 was primarily due to revenue growth of \$6,651. Each revenue increase exceeded the corresponding operating expense increase of \$2,075 in 2009 and \$2,587 in 2008. The expense increase for 2008 is net of a decrease in depreciation and amortization of \$1,309.

**Service** revenues are comprised of local voice and data services, roaming, long-distance and other revenue. Service revenues increased \$4,247, or 9.6%, in 2009 and \$5,732, or 14.8%, in 2008. The increases consisted of the following:

- Data service revenue increases of \$3,539, or 33.4%, in 2009 and \$3,647, or 52.5%, in 2008. The increases were primarily due to the increased number of subscribers and heavier usage by subscribers of advanced handsets and other data-centric emerging devices, such as netbooks, eReaders, and mobile navigation devices. The increases in data service ARPU of 22.0% in 2009 and 33.8% in 2008 reflect this trend. Our significant data growth also reflects an increased number of subscribers using our 3G network. Data service revenues represented approximately 29.0% and 23.9% of our Wireless segment service revenues in 2009 and 2008.
- Voice and other service revenue increases of \$708, or 2.1%, in 2009 and \$2,085, or 6.6%, in 2008. The increase in 2009 was due to a 9.4% increase in the average number of wireless customers, down from 14.0% in 2008. Voice and other service ARPU declined 6.7% in 2009 and 6.5% in 2008.

**Equipment** revenues increased \$15, or 0.3%, in 2009 and increased \$919, or 22.9%, in 2008. The lower incremental increase in 2009 was due to lower traditional handset sales, offset by sales of more advanced integrated devices. The increase in 2008 was due to higher handset revenues, reflecting higher gross customer additions, and customer upgrades to more advanced devices.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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**Operations and support** expenses increased \$2,080, or 6.4%, in 2009, compared to an increase of \$3,896, or 13.6%, in 2008. The increase in 2009 was primarily due to the following:

- equipment cost increases of \$1,246, reflecting the higher cost of acquiring more advanced integrated devices compared to prior periods;
- Interconnect, universal service fee (USF) and reseller expense increases of \$426 due to higher network traffic and revenue growth;
- upgrade commissions and residual expense increases of \$313 due to sales and upgrades to more advanced devices;
- customer service cost increases of \$214 due to customer growth; and
- Finance, IT, and other administrative cost increases of \$306.

These increases were partially offset by selling expense decreases of \$337, attributable to lower traditional handset sales exceeding the impact of the sale of more advanced integrated devices and roaming expense decreases of \$165 due to usage and rate declines. Total equipment costs continue to be higher than equipment revenues due to the sale of discounted devices in connection with promotions.

The increase in 2008 was primarily due to the following:

- equipment sales expense increase of \$2,005;
- upgrade commissions and residual expense increases of \$745;
- selling expense increase of \$362 and customer service cost increase of \$159;
- USF increase of \$204 and reseller expense increase of \$145; and
- Finance, IT, and other administrative cost increases of \$538.

The increase in equipment sales expense, commission expense, and selling expense resulted from an increase in sales of higher-cost 3G devices, the introduction of Apple iPhone 3G handsets in 2008, an increase in the number of handset accessory sales, lower per-unit accessory costs compared to 2007, and higher handset upgrade volume. The increase in commission expense is also attributable to

higher commission rates. Interconnect and other costs also increased by \$141 due to increased usage and integration costs related to the 2007 acquisition of Dobson. The increase in reseller costs in 2008 was attributable to higher license, maintenance and other reseller costs, partially offset by cost reductions from the migration of network usage from the T-Mobile USA (T-Mobile) network in California and Nevada to our networks in these states.

These increases were partially offset by incollect roaming cost decreases of \$249 and network system cost decreases of \$132. The decrease in network system costs was the result of benefits from network and systems integration and cost-reduction initiatives of \$218, decreases in data processing and payroll costs of \$109, partially offset by incremental rents related to Dobson and general building expense increases of \$124, and hurricane and other incremental network cost increases of \$99.

**Depreciation and amortization** decreased \$5, or 0.1%, in 2009 and decreased \$1,309, or 18.5%, in 2008. Amortization expense decreased \$450, or 21.8%, in 2009 due to lower amortization of intangibles attributable to the BellSouth acquisition, partially offset by amortization of intangible assets attributable to subscribers added in the November 2009 acquisition of Centennial and the 2007 acquisition of Dobson. Depreciation expense increased \$445, or 12.0%, in 2009 due to ongoing capital spending for network upgrades and expansion, partially offset by certain network assets becoming fully depreciated.

Depreciation expense decreased \$539, or 12.7%, in 2008. Depreciation expense decreased \$695 in 2008 due to certain network assets becoming fully depreciated and decreased \$612 due to Time Division Multiple Access (TDMA) assets being depreciated on an accelerated basis through 2007. These decreases were partly offset by incremental depreciation on capital assets placed in service during 2008. Amortization expense decreased \$770, or 27.2%, in 2008 due to declining amortization of identified intangible assets, most of which are amortized using the sum-of-the-months-digits method of amortization, partially offset by Dobson intangible assets acquired by AT&T Mobility.

### Wireless Supplementary Operating and Financial Data

	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
Wireless Customers (000)	85,120	77,009	70,052	10.5%	9.9%
Net Customer Additions (000)	7,278	6,699	7,315	8.6	(8.4)
Total Churn	1.48%	1.68%	1.67%	(20) bps	1 bps
Postpaid Customers (000)	65,146	60,098	55,310	8.4%	8.7%
Net Postpaid Customer Additions (000)	4,323	4,634	3,982	(6.7)	16.4
Postpaid Churn	1.16%	1.19%	1.27%	(3) bps	(8) bps



## Wireline Segment Results

	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
Segment operating revenues					
Voice	\$33,082	\$38,198	\$41,630	(13.4)%	(8.2)%
Data	26,723	25,353	24,075	5.4	5.3
Other	5,865	6,304	5,878	(7.0)	7.2
Total Segment Operating Revenues	65,670	69,855	71,583	(6.0)	(2.4)
Segment operating expenses					
Operations and support	44,646	45,440	46,177	(1.7)	(1.6)
Depreciation and amortization	13,093	13,206	13,416	(0.9)	(1.6)
Total Segment Operating Expenses	57,739	58,646	59,593	(1.5)	(1.6)
Segment Operating Income	7,931	11,209	11,990	(29.2)	(6.5)
Equity in Net Income of Affiliates	18	19	31	(5.3)	(38.7)
Segment Income	\$ 7,949	\$11,228	\$12,021	(29.2)%	(6.6)%

### Operating Margin Trends

Our Wireline segment operating income margin was 12.1% in 2009, compared to 16.0% in 2008 and 16.7% in 2007. Results for 2009 and 2008 reflect revenue declines that exceeded expense declines. Our Wireline segment operating income decreased \$3,278, or 29.2%, in 2009 and decreased \$781, or 6.5%, in 2008. Our operating income continued to be pressured by access line declines due to economic pressures on our consumer and business wireline customers and competition, as customers either reduced usage or disconnected traditional landline services and switched to alternative technologies, such as wireless and VoIP. Our strategy is to offset these line losses by increasing non-access-line-related revenues from customer connections for data, video and voice. Additionally, we have the opportunity to increase Wireless segment revenues if customers choose AT&T Mobility as an alternative provider. Wireline operating margins are declining primarily due to reduced voice revenue, partially offset by continued growth in data revenue. Also contributing to pressure on our operating margins was increased pension/OPEB expense in 2009.

**Voice** revenues decreased \$5,116, or 13.4%, in 2009, and decreased \$3,432, or 8.2%, in 2008 primarily due to continuing economic pressures and declining demand for traditional voice and other legacy services by our consumer and business customers. Included in voice revenues are revenues from local voice, long-distance and local wholesale services. Voice revenues do not include VoIP revenues, which are included in data revenues.

- Local voice revenues decreased \$2,763, or 12.2%, in 2009 and decreased \$1,887, or 7.7%, in 2008. The decrease in 2009 was driven primarily by an 11.2% decline in switched access lines and a decrease in average local voice revenue per user. The decrease in 2008 was driven primarily by a loss of revenue of \$1,230 from a decline in access lines and by \$422 from a decline in our national mass-market customer base acquired from AT&T Corp. (ATTC). We expect our local voice revenue to continue to be negatively affected by increased competition from alternative technologies, the disconnection of additional lines and economic pressures.
- Long-distance revenues decreased \$2,133, or 15.3%, in 2009 and decreased \$1,195, or 7.9%, in 2008 primarily due to decreased demand from business and consumer customers, which decreased revenues \$1,583 in 2009 and \$532 in 2008, and a net decrease in demand for long-distance service, due to expected declines in the number of national mass-market customers, which decreased revenues \$546 in 2009 and \$677 in 2008.

**Data** revenues increased \$1,370, or 5.4%, in 2009 and increased \$1,278, or 5.3%, in 2008. Data revenues accounted for approximately 41% of wireline operating revenues in 2009, 36% in 2008 and 34% in 2007. Data revenues include transport, IP and packet-switched data services.

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IP data revenues increased \$1,969, or 17.8%, in 2009 and increased \$1,537, or 16.1%, in 2008 primarily driven by AT&T U-verse expansion and growth in IP-based strategic business services, which include Ethernet, virtual private networks (VPN), application and managed services. Strategic business service revenues increased \$603 in 2009 and \$741 in 2008, driven mostly by VPN, and U-verse video service increased \$980 in 2009 and \$402 in 2008. Broadband high-speed Internet access increased IP data revenues \$300 in 2009 and \$497 in 2008. The increase in IP data revenues in 2009 and 2008 reflects continued growth in the customer base and migration from other traditional circuit-based services.

Traditional packet-switched data services, which include frame relay and asynchronous transfer mode services, decreased \$536, or 20.8%, in 2009 and \$423, or 14.1%, in 2008. This decrease is primarily due to lower demand as customers continue to shift to IP-based technology such as VPN, DSL and managed Internet services, and the continuing economic recession. We expect these traditional, circuit-based services to continue to decline as a percentage of our overall data revenues.

**Other** operating revenues decreased \$439, or 7.0%, in 2009 and increased \$426, or 7.2%, in 2008. Major items included are integration services and customer premises equipment, government-related services and outsourcing, which account for more than 60% of total revenue for all periods. Equipment sales and related network integration revenues decreased \$405 in 2009 primarily due to economic pressures, and increased \$260 in 2008, driven by an increase in management services partially offset by reduced equipment sales and related network integration. Governmental professional services revenue decreased \$116 in 2009 driven by the divestiture of a professional services business in 2009 and increased \$100 in 2008 driven by growth across various contracts.

**Operations and support expenses** decreased \$794, or 1.7%, in 2009 and \$737, or 1.6 %, in 2008. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as salary, wage and bonus accruals. Costs in this category include our repair technicians and repair services, certain network planning and engineering expenses, operator services, information technology and property taxes. Operations and support expenses also include bad debt expense; advertising costs; sales and marketing functions, including customer service centers; real estate costs, including maintenance and

utilities on all buildings; credit and collection functions; and corporate support costs, such as finance, legal, human resources and external affairs. Pension and postretirement costs, net of amounts capitalized are also included to the extent that they are associated with these employees.

The 2009 decrease was primarily due to lower employee-related costs of \$918, primarily related to workforce reductions. Other cost reductions included decreases in traffic compensation (related to lower international long-distance revenues and lower volume of calls from our declining national mass-market customer base), including portal fees, of \$655, nonemployee-related expenses, such as bad debt expense, materials and supplies costs, of \$441 and \$134 related to contract services.

Partially offsetting these decreases was an increase in pension/OPEB expense of \$1,370 due to a lower-than-expected return on assets and an increase in amortization of actuarial losses, both primarily from investment losses in 2008. See Note 11 for more information related to pension/OPEB expense.

The major decreases in 2008 were \$633 in traffic compensation (related to lower international long-distance revenue, and lower volume of calls from our declining national mass-market customer base), including portal fees, and \$618 of pension/OPEB expense. Other cost reductions included decreases in other support cost of \$616 primarily due to higher advertising costs incurred in 2007 for brand advertising and rebranding related to the BellSouth acquisition and lower compensation expense of \$420 reflecting shifts of workforce levels to sales organizations.

Partially offsetting these decreases, operation and support expenses increased by \$1,135, related to higher nonemployee-related expenses, such as contract services, agent commissions and materials and supplies. Other increases were salary and wages of \$423; and higher cost of equipment sales and related U-verse network integration of \$60.

**Depreciation and amortization** expenses decreased \$113, or 0.9%, in 2009 and \$210, or 1.6%, in 2008. The 2009 decrease was primarily related to lower amortization of intangibles for the customer lists associated with ATTC, BellSouth and Yahoo! partially offset by the inclusion of Centennial related depreciation starting in the fourth quarter of 2009. The 2008 decline was a result of decreasing intangible amortization partially offsetting increased depreciation resulting from capital additions.

## Supplemental Information

**Telephone, Wired Broadband and Video Connections Summary** Our switched access lines and other services provided by our local exchange telephone subsidiaries at December 31, 2009, 2008 and 2007, are shown below and trends are addressed throughout this segment discussion.

(in 000s)	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
<b>Switched Access Lines<sup>1</sup></b>					
Retail consumer	26,378	30,614	35,009	(13.8)%	(12.6)%
Retail business <sup>2</sup>	20,106	21,810	22,795	(7.8)	(4.3)
<b>Retail Subtotal<sup>2</sup></b>	<b>46,484</b>	<b>52,424</b>	<b>57,804</b>	<b>(11.3)</b>	<b>(9.3)</b>
Percent of total switched access lines	94.1%	94.3%	93.9%		
<b>Wholesale Subtotal<sup>2</sup></b>	<b>2,826</b>	<b>3,068</b>	<b>3,527</b>	<b>(7.9)</b>	<b>(13.0)</b>
Percent of total switched access lines	5.7%	5.5%	5.7%		
<b>Payphone (Retail and Wholesale)<sup>3</sup></b>	<b>82</b>	<b>118</b>	<b>251</b>	<b>(30.5)</b>	<b>(53.0)</b>
Percent of total switched access lines	0.2%	0.2%	0.4%		
<b>Total Switched Access Lines</b>	<b>49,392</b>	<b>55,610</b>	<b>61,582</b>	<b>(11.2)</b>	<b>(9.7)</b>
<b>Total Retail Consumer Voice Connections<sup>6</sup></b>	<b>27,332</b>	<b>30,838</b>	<b>35,009</b>	<b>(11.4)</b>	<b>(11.9)</b>
<b>Total Wired Broadband Connections<sup>4</sup></b>	<b>15,789</b>	<b>15,077</b>	<b>14,156</b>	<b>4.7</b>	<b>6.5</b>
Satellite service <sup>5</sup>	2,174	2,190	2,116	(0.7)	3.5
U-verse video	2,065	1,045	231	97.6	—
<b>Video Connections</b>	<b>4,239</b>	<b>3,235</b>	<b>2,347</b>	<b>31.0%</b>	<b>37.8%</b>

<sup>1</sup>Represents access lines served by AT&T's Incumbent Local Exchange Carriers (ILECs) and affiliates.

<sup>2</sup>Prior period amounts restated to conform to current period reporting methodology.

<sup>3</sup>Revenue from retail payphone lines is reported in the Other segment. We are in the process of ending our retail payphone operations.

<sup>4</sup>Total wired broadband connections include DSL, U-verse High Speed Internet access and satellite broadband.

<sup>5</sup>Satellite service includes connections under our agency and resale agreements.

<sup>6</sup>Includes consumer U-verse Voice over IP connections.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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### Advertising Solutions Segment Results

	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
Total Segment Operating Revenues	\$4,809	\$5,502	\$5,851	(12.6)%	(6.0)%
Segment operating expenses					
Operations and support	2,922	2,998	3,066	(2.5)	(2.2)
Depreciation and amortization	649	789	924	(17.7)	(14.6)
Total Segment Operating Expenses	3,571	3,787	3,990	(5.7)	(5.1)
Segment Income	\$1,238	\$1,715	\$1,861	(27.8)%	(7.8)%

#### Operating Results

Our Advertising Solutions segment operating income margin was 25.7% in 2009, 31.2% in 2008 and 31.8% in 2007. The decrease in the segment operating income margin in both 2009 and 2008 was primarily the result of decreased operating revenues.

**Operating revenues** decreased \$693, or 12.6%, in 2009 largely driven by continuing declines in print revenue of \$774 and lower sales agency revenue of \$34 due to the sale of the independent line of business segment of the L.M. Berry Company. This decrease was partially offset by Internet advertising revenue growth of \$132. The ongoing economic recession has reduced demand for advertising and customers have continued to shift to Internet-based search services, although the recession has also curbed search usage by consumers. Operating revenues decreased \$349, or 6%, in 2008 largely driven by continuing declines in print revenue

of \$453 and lower sales agency revenue of approximately \$113 due to the sale of the independent line of business segment of the L.M. Berry Company. This decrease was partially offset by increased Internet advertising revenue of \$196.

**Operating expenses** decreased \$216, or 5.7%, in 2009 largely driven by decreases in depreciation and amortization expense of \$140, product related costs of \$74, advertising costs of \$44, and professional and contracted expense of \$17. These expense decreases were partially offset by an increase in pension/OPEB and other benefit costs of \$66. Operating expenses decreased \$203, or 5.1%, in 2008 largely driven by decreased depreciation and amortization of \$135 resulting from use of an accelerated method of amortization for the customer list acquired as part of the BellSouth acquisition, and lower employee, professional and contract related expenses. These expense decreases were partially offset by increased YELLOWPAGES.COM, LLC (YPC) expansion costs.

### Other Segment Results

	2009	2008	2007	Percent Change	
				2009 vs. 2008	2008 vs. 2007
Total Segment Operating Revenues	\$1,731	\$2,042	\$2,229	(15.2)%	(8.4)%
Total Segment Operating Expenses	2,678	2,986	2,040	(10.3)	46.4
Segment Operating Income (Loss)	(947)	(944)	189	(0.3)	—
Equity in Net Income of Affiliates	706	794	645	(11.1)	23.1
Segment Income (Loss)	\$ (241)	\$ (150)	\$ 834	(60.7)%	—

Our Other segment operating results consist primarily of Sterling, customer information services (primarily operator services and payphone), corporate and other operations. Sterling provides business-integration software and services.

**Operating revenues** decreased \$311, or 15.2%, in 2009 and \$187, or 8.4%, in 2008. The decrease in 2009 is primarily due to reduced revenues from our operator services, retail payphone operations and Sterling. The 2008 decline is

primarily related to lower revenues from operator services and retail payphone operations.

**Operating expenses** decreased \$308, or 10.3%, in 2009 and increased \$946, or 46.4%, in 2008. The changes were primarily due to charges of \$550 and \$978 associated with our workforce reductions in 2009 and 2008 as a result of the restructure of our operations from a collection of regional companies to a single national approach.

Our Other segment also includes our equity investments in international companies, the income from which we report as equity in net income of affiliates. Our earnings from foreign affiliates are sensitive to exchange-rate changes in the value of the respective local currencies. Our foreign investments are recorded under generally accepted accounting principles (GAAP), which include adjustments for the equity method of accounting and exclude certain adjustments required for local reporting in specific countries. Our equity in net income of affiliates by major investment is listed below:

	2009	2008	2007
América Móvil	\$505	\$469	\$381
Telmex	133	252	265
Telmex Internacional	72	72	—
Other	(4)	1	(1)
<b>Other Segment Equity in</b>			
<b>Net Income of Affiliates</b>	<b>\$706</b>	<b>\$794</b>	<b>\$645</b>

**Equity in net income of affiliates** decreased \$88 in 2009. Our investment in Telmex and Telmex Internacional decreased \$119, reflecting lower operating results and currency translation losses, partially offset by \$36 of improved operating results at América Móvil. The \$149 increase in 2008 reflects improved operating results at América Móvil, as well as lower depreciation and tax expenses, and improved results at Telmex and Telmex Internacional. On January 13, 2010, América Móvil announced that its Board of Directors had authorized it to submit an offer for 100% of the equity of Carso Global Telecom, S.A. de C.V. (CGT), a holding company that owns 59.4% of Telmex and 60.7% of Telmex Internacional, in exchange for América Móvil shares; and an offer for Telmex Internacional shares not owned by CGT, to be purchased for cash or to be exchanged for América Móvil shares, at the election of the shareholders.

## OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

**2010 Revenue Trends** We expect our operating environment in 2010 to remain challenging as the economic recession continues, competition remains strong and the federal regulatory framework may or may not remain receptive to investment. Despite this environment, we expect our operating revenues in 2010 to remain stable, reflecting continuing growth in our wireless and broadband/data services. We expect our primary driver of growth to be wireless, especially in sales and increased use of advanced handsets and emerging devices (such as netbooks, eReaders and mobile navigation devices) and that all our major customer categories will continue to increase their use of Internet-based broadband/data services. We expect continuing declines in traditional access lines and in advertising from our print directories. Where available, our U-verse services are proving effective in stemming access line losses, and we expect to continue to expand our U-verse service offerings in 2010.

**2010 Expense Trends** We expect a challenging operating environment for 2010. We will continue to focus sharply on cost-control measures, including areas such as organizational and systems integration. We will continue our ongoing initiatives to improve customer service and billing so we can realize our strategy of bundling services and providing a simple customer experience. We expect our 2010 operating income margin to be stable with the opportunity to improve margins, in the event the U.S. economy improves. We do not expect significant pension funding requirements in 2010. Expenses related to growth areas of our business, especially in the wireless area, will apply some pressure to our operating income margin.

**Market Conditions** During 2009, the securities and mortgage markets and the banking system in general experienced some stabilization compared with 2008 as the year progressed, although bank lending and the housing industry remained weak. The ongoing weakness in the general economy has also affected our customer and supplier bases. We saw lower demand from our residential customers as well as our business customers at all organizational sizes. Some of our suppliers continue to experience increased financial and operating costs. To a large extent, these negative trends were offset by continued growth in our wireless and IP-related services. While the economy appears to have stabilized at a weakened level at year-end, we do not expect a quick return to growth during 2010. Should the economy instead deteriorate further, we likely will experience further pressure on pricing and margins as we compete for both wireline and wireless customers who have less discretionary income. We also may experience difficulty purchasing equipment in a timely manner or maintaining and replacing warranted equipment from our suppliers.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. The losses associated with the securities markets declines during 2008 are not expected to have an impact on the ability of our benefit plans to pay benefits. We do not expect to make significant funding contributions to our pension plans in 2010. However, because our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), a continued weakness in the markets could require us to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. In addition, our policy on recognizing losses on investments in the pension and other postretirement plans accelerated the recognition of losses in 2009 earnings (see "Significant Accounting Policies and Estimates").

## OPERATING ENVIRONMENT OVERVIEW

AT&T subsidiaries operating within the U.S. are subject to federal and state regulatory authorities. AT&T subsidiaries operating outside the U.S. are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided, and regulation is generally limited to operational licensing authority for the provision of services to enterprise customers.

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In the Telecommunications Act of 1996 (Telecom Act), Congress established a national policy framework intended to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating regulatory burdens that harm consumer welfare. However, since the Telecom Act was passed, the Federal Communications Commission (FCC) and some state regulatory commissions have maintained certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. Where appropriate, we are pursuing additional legislative and regulatory measures to reduce regulatory burdens that inhibit our ability to compete more effectively and offer services wanted and needed by our customers. For example, we are supporting regulatory and legislative efforts that would offer new video entrants a streamlined process for bringing new video services to market and for offering more timely competition to traditional cable television providers. With the advent of the Obama Administration, the composition of the FCC has changed, and the new Commission appears to be more open than the prior Commission to maintaining or expanding regulatory requirements on entities subject to its jurisdiction. In addition, Congress, the President and the FCC all have declared a national policy objective of ensuring that all Americans have access to broadband technologies and services. To that end, Congress has charged the FCC with developing a National Broadband Plan and delivering that plan to Congress in early 2010. The Commission has issued dozens of notices seeking comment on whether and how it should modify its rules and policies on a host of issues, which would affect all segments of the communications industry, to achieve universal access to broadband. These issues include rules and policies relating to universal service support, intercarrier compensation and regulation of special access services, as well as a variety of others that could have an impact on AT&T's operations and revenues. However, at this stage, it is too early to assess what, if any, impact such changes could have on us.

In addition, states representing a majority of our local service access lines have adopted legislation that enables new video entrants to acquire a single statewide or state-approved franchise (as opposed to the need to acquire hundreds or even thousands of municipal-approved franchises) to offer competitive video services. We also are supporting efforts to update and improve regulatory treatment for retail services. Passage of legislation is uncertain and depends on many factors.

Our wireless operations operate in robust competitive markets but are likewise subject to substantial governmental regulation. Wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. The FCC has recognized the importance of providing carriers with access to adequate spectrum to permit continued wireless growth

and has begun investigating how to develop policies to promote that goal. While wireless communications providers' prices and service offerings are generally not subject to state regulation, an increasing number of states are attempting to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

AT&T has previously noted that the broadband marketplace is robustly competitive and that we do not block consumers from accessing the lawful Internet sites of their choice. We therefore believe that prescriptive "net neutrality" rules are not only unnecessary but also counterproductive to the extent they would restrict broadband Internet access providers from developing innovative new services for consumers and/or content and application providers. Nor do we believe that wireless providers should be prohibited from entering into exclusive arrangements with handset manufacturers or that government should regulate wireless early termination fees as is currently being proposed. It is widely recognized that the wireless industry in the United States is characterized by innovation, differentiation, declining prices and extensive competition among handset manufacturers, service providers and applications. For this reason, additional broadband regulation and new wireless requirements are unwarranted.

### Expected Growth Areas

We expect our wireless services and data wireline products to remain the most significant portion of our business and have also discussed trends affecting the segments in which we report results for these products (see "Wireless Segment Results" and "Wireline Segment Results"). Over the next few years, we expect an increasing percentage of our growth to come from: (1) our wireless service and (2) data/broadband, through existing and new services. We expect that our previous acquisitions will enable us to strengthen the reach and sophistication of our network facilities, increase our large-business customer base and enhance the opportunity to market wireless services to that customer base. Whether, or the extent to which, growth in these areas will offset declines in other areas of our business is not known.

**Wireless** Wireless is our fastest-growing revenue stream and we expect to deliver continued revenue growth in the coming years. We believe that we are in a growth period of wireless data usage and that there are substantial opportunities available for next-generation converged services that combine wireless, broadband, voice and video.

Our Universal Mobile Telecommunications System/High-Speed Downlink Packet Access 3G network technology covers most major metropolitan areas of the U.S. This technology provides superior speeds for data and video services, and it offers operating efficiencies by using the same spectrum and infrastructure for voice and data on an IP-based platform. Our wireless networks also rely on digital transmission technologies known as GSM, General Packet Radio Services and Enhanced Data Rates for GSM Evolution for data communications. As of December 31, 2009, we served 85.1 million customers. We have also announced plans to transition from 3G network technology to a higher

transmission speed technology called Long-Term Evolution. We expect to test this technology this year and then deploy it beginning in 2011, as we expect network equipment and handsets to become more widely available.

As the wireless industry continues to mature, we believe that future wireless growth will become increasingly dependent on our ability to offer innovative services that will encourage existing customers to upgrade their services, either by adding new types of services, such as data enhancements, or through increased use of existing services, such as through equipment upgrades. These innovative services should attract customers from other providers, as well as minimize customer churn. We intend to accomplish these goals by continuing to expand our network coverage, improve our network quality and offer a broad array of products and services, including exclusive devices such as Apple iPhone 3G and free mobile-to-mobile calling among our wireless customers. Minimizing customer churn is critical to our ability to maximize revenue growth and to maintain and improve our operating margins.

**U-verse Services** We are continuing to expand our deployment of U-verse high-speed broadband and TV services. As of December 31, 2009, we have passed 22.8 million living units (constructed housing units as well as platted housing lots) and are marketing the services to almost 72 percent of those units. Our deployment strategy is to enter each new area on a limited basis in order to ensure that all operating and back-office systems are functioning successfully and then expand within each as we continue to monitor these systems. Our rate of expansion will be slowed if we cannot obtain all required local building permits in a timely fashion. We also continue to work with our vendors on improving, in a timely manner, the requisite hardware and software technology. Our deployment plans could be delayed if we do not receive required equipment and software on schedule.

We believe that our U-verse TV service is subject to federal oversight as a "video service" under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Certain municipalities have delayed our request or have refused us permission to use our existing right-of-ways to deploy or activate our U-verse-related services and products, resulting in litigation. Pending negotiations and current or threatened litigation involving municipalities could delay our deployment plans in those areas. In July 2008, the U.S. District Court for Connecticut affirmed its October 2007 ruling that AT&T's U-verse TV service is a cable service in Connecticut. We have appealed that decision on the basis that state legislation rendered the case moot. Petitions have been filed at the FCC alleging that the manner in which AT&T provisions "public, educational, and governmental" (PEG) programming over its U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable

regulation were applicable to our U-verse services, or if the FCC, state agencies or the courts were to rule that AT&T must deliver PEG programming in a manner substantially different from the way it does today or in ways that are inconsistent with AT&T's current network architecture, it could have a material adverse effect on the cost, timing and extent of our deployment plans.

## REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant developments in our regulatory environment during 2009. While these issues, for the most part, apply only to certain subsidiaries in our Wireline segment, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a precise legal description of all of these specific issues.

**International Regulation** Our subsidiaries operating outside the U.S. are subject to the jurisdiction of regulatory authorities in the market where service is provided. Our licensing, compliance and advocacy initiatives in foreign countries primarily enable the provision of enterprise (i.e., large business) services. AT&T is engaged in multiple efforts with foreign regulators to open markets to competition, reduce network costs and increase our scope of fully authorized network services and products.

**Federal Regulation** A summary of significant 2009 federal regulatory developments follows.

**Net Neutrality** On October 22, 2009, the FCC adopted a Notice of Proposed Rulemaking (NPRM) seeking comment on six proposed "net neutrality" rules that are intended to preserve the "free and open Internet." The proposed rules apply to providers of "broadband Internet access service" and state that, subject to "reasonable network management," such a provider:

- May not prevent any of its users from sending or receiving the lawful content of the user's choice over the Internet.
- May not prevent any of its users from running the lawful applications or using the lawful services of the user's choice.
- May not prevent any of its users from connecting to and using on its network the user's choice of lawful devices that do not harm the network.
- May not deprive any of its users of the user's entitlement to competition among network providers, application providers, service providers and content providers.
- Must treat lawful content, applications and services in a nondiscriminatory manner.
- Must disclose such information concerning network management and other practices as is reasonably required for users and content, application and service providers to enjoy the protections specified in these rules.



The NPRM states that the proposed rules would apply to all platforms over which broadband Internet access services are provided, including mobile wireless broadband, while recognizing that different platforms involve significantly different technologies, market structures, patterns of consumer usage and regulatory history. The comment cycle on the NPRM concludes in the first quarter of 2010. We are unable to determine the impact of this proceeding on our operating results and financial condition at this time.

## **COMPETITION**

Competition continues to increase for telecommunications and information services. Technological advances have expanded the types and uses of services and products available. In addition, lack of or a reduced level of regulation of comparable alternatives (e.g., cable, wireless and VoIP providers) has lowered costs for these alternative communications service providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business.

### **Wireless**

We face substantial and increasing competition in all aspects of our wireless business. Under current FCC rules, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each of our service areas, which results in the potential presence of multiple competitors. Our competitors are principally three national (Verizon Wireless, Sprint Nextel Corp. and T-Mobile) and a larger number of regional providers of cellular, PCS and other wireless communications services. More than 95% of the U.S. population lives in areas with three mobile telephone operators and more than half the population lives in areas with at least five competing carriers.

We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed in the future. We compete for customers based principally on price, service offerings, call quality, coverage area and customer service.

### **Wireline**

Our wireline subsidiaries expect continued competitive pressure in 2010 from multiple providers, including wireless, cable and other VoIP providers, interexchange carriers and resellers. In addition, economic pressures are forcing customers to terminate their traditional local wireline service and substitute wireless and Internet-based services, intensifying a pre-existing trend toward wireless and Internet use. At this time, we are unable to quantify the effect of competition on the industry as a whole or financially on this

segment. However, we expect both losses of revenue share in local service and gains resulting from business initiatives, especially in the area of bundling of products and services, including wireless and video, large-business data services and broadband. In most markets, we compete with large cable companies, such as Comcast Corporation, Cox Communications, Inc. and Time Warner Cable Inc., for local, high-speed Internet and video services customers and other smaller telecommunications companies for both long-distance and local services customers.

Our wireline subsidiaries generally remain subject to regulation by state regulatory commissions for intrastate services and by the FCC for interstate services. In contrast, our competitors are often subject to less or no regulation in providing comparable voice and data services or the extent of regulation is in dispute. Under the Telecom Act, companies seeking to interconnect to our wireline subsidiaries' networks and exchange local calls enter into interconnection agreements with us. Any unresolved issues in negotiating those agreements are subject to arbitration before the appropriate state commission. These agreements (whether fully agreed-upon or arbitrated) are then subject to review and approval by the appropriate state commission.

In a number of the states in which we operate as an ILEC, state legislatures or the state public utility commissions have concluded that the voice telecommunications market is competitive and have allowed for greater pricing flexibility for nonbasic residential retail services, including bundles, promotions and new products and services. While it has been a number of years since we have been allowed to raise local service rates in certain states, some of these state actions have been challenged by certain parties and are pending court review.

In addition to these rates and service regulations noted above, our wireline subsidiaries (excluding rural carrier affiliates) operate under state-specific elective "price-cap regulation" for retail services (also referred to as "alternative regulation") that was either legislatively enacted or authorized by the appropriate state regulatory commission. Under price-cap regulation, price caps are set for regulated services and are not tied to the cost of providing the services or to rate-of-return requirements. Price-cap rates may be subject to or eligible for annual decreases or increases and also may be eligible for deregulation or greater pricing flexibility if the associated service is deemed competitive under some state regulatory commission rules. Minimum customer service standards may also be imposed and payments required if we fail to meet the standards.

We continue to lose access lines due to competitors (e.g., wireless, cable and VoIP providers) who can provide comparable services at lower prices because they are not subject to traditional telephone industry regulation (or the



extent of regulation is in dispute), utilize different technologies, or promote a different business model (such as advertising based) and consequently have lower cost structures. In response to these competitive pressures, for several years we have utilized a bundling strategy that rewards customers who consolidate their services (e.g., local and long-distance telephone, high-speed Internet, wireless and video) with us. We continue to focus on bundling wireline and wireless services, including combined packages of minutes and video service through our U-verse service and our relationships with satellite television providers. We will continue to develop innovative products that capitalize on our expanding fiber network.

Additionally, we provide local, domestic intrastate and interstate, international wholesale networking capacity and switched services to other service providers, primarily large Internet Service Providers using the largest class of nationwide Internet networks (Internet backbone), wireless carriers, Competitive Local Exchange Carriers, regional phone ILECs, cable companies and systems integrators. These services are subject to additional competitive pressures from the development of new technologies and the increased availability of domestic and international transmission capacity. The introduction of new products and service offerings and increasing satellite, wireless, fiber-optic and cable transmission capacity for services similar to those provided by us continues to provide competitive pressures. We face a number of international competitors, including Equant, British Telecom and SingTel as well as competition from a number of large systems integrators, such as Electronic Data Systems.

#### **Advertising Solutions**

Our Advertising Solutions subsidiaries face competition from approximately 100 publishers of printed directories in their operating areas. Competition also exists from other advertising media, including newspapers, radio, television and direct-mail providers, as well as from directories offered over the Internet. Through our wholly-owned subsidiary, YPC, we compete with other providers of Internet-based advertising and local search.

#### **ACCOUNTING POLICIES AND STANDARDS**

**Critical Accounting Policies and Estimates** Because of the size of the financial statement line items they relate to, some of our accounting policies and estimates have a more significant impact on our financial statements than others. The following policies are presented in the order in which the topics appear in our consolidated statements of income.

**Allowance for Doubtful Accounts** We maintain an allowance for doubtful accounts for estimated losses that result from the failure of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks

are assessed based on historical write-offs, net of recoveries, and an analysis of the aged accounts receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the bad-debt allowances are adjusted accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in uncollectible expense of approximately \$120.

**Pension and Postretirement Benefits** Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 11. One of the most significant of these assumptions is the return on assets assumption, which was 8.50% for the year ended December 31, 2009. In setting the long-term assumed rate of return, management considers capital markets' future expectations and the asset mix of the plans' investments. The actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. However, the dramatic adverse market conditions in 2008 have skewed the calculation of the long-term actual return; the actual 10-year return was 3.67% through 2009 and 4.21% through 2008, compared with 9.18% through 2007. The severity of the 2008 losses will make the 10-year actual return less of a relevant factor in management's evaluation of future expectations. In 2009, we experienced actual returns on investments much greater than what was expected, creating a reduction in pension and postretirement expense for 2010. Based on future expectations and the plans' asset mix, management has left unchanged the long-term assumed rate of return for 2010. If all other factors were to remain unchanged, we expect that a 1.0% decrease in the assumed long-term rate of return would cause 2010 combined pension and postretirement cost to increase \$639. Under GAAP, the expected long-term rate of return is calculated on the market-related value of assets (MRVA). GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the MRVA equally over a period of up to five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA in less than five years. This methodology did not have a material impact on our 2008 or 2007 combined net pension and postretirement costs.

Our assumed discount rate of 6.50% at December 31, 2009, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve comprised of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of \$2,065 and an increase in our postretirement benefit obligation of \$1,847. For the year ended December 31, 2008, we increased our discount rate by 0.50%, resulting in a decrease in our pension plan benefit obligation of \$2,176 and a decrease in our postretirement benefit obligation of \$2,154. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated post-retirement benefit obligation and postretirement benefit cost would be affected in future years. Note 11 also discusses the effects of certain changes in assumptions related to medical trend rates on retiree health care costs.

**Depreciation** Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 5. We assign useful lives based on periodic studies of actual asset lives. Changes in those lives with significant impact on the financial statements must be disclosed, but no such changes have occurred in the three years ended December 31, 2009. However, if all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of the largest categories of our plant in service (which accounts for more than three-fourths of our total plant in service) would result in a decrease of approximately \$2,420 in our 2010 depreciation expense and that a one-year decrease would result in an increase of approximately \$3,480 in our 2010 depreciation expense.

**Asset Valuations and Impairments** We account for acquisitions using the acquisition method as required by GAAP. Under GAAP, we allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values. The estimated fair values of intangible assets acquired are based on the expected discounted cash flows of the identified customer relationships, patents, tradenames and FCC licenses. In determining the future cash flows, we consider demand, competition and other economic factors.

Customer relationships, which are finite-lived intangible assets, are primarily amortized using the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The sum-of-the-months-digits method is a process of allocation, and reflects our belief that we expect greater revenue generation from these customer relationships during the earlier years of their lives. Alternatively, we could have chosen to amortize customer relationships using the straight-line method, which would allocate the cost equally over the amortization period. Amortization of other intangibles, including patents and amortizable tradenames, is determined using the straight-line method of amortization over the expected remaining useful lives. We do not amortize indefinite-lived intangibles, such as wireless FCC licenses or certain tradenames (see Note 6).

Goodwill and wireless FCC licenses are not amortized but tested annually for impairment, as required by GAAP. We conduct our impairment tests as of October 1. Goodwill is tested on a reporting unit basis, and our reporting units generally coincide with our segments, except for certain operations in the Other segment. The carrying amounts of goodwill, by segment (which is the same as reporting unit for Wireless, Wireline and Advertising Solutions), at December 31, 2009 were: Wireless \$35,037; Wireline \$31,608; Advertising Solutions \$5,731; and Other \$883. At December 31, 2008, the carrying amounts of goodwill by segment were: Wireless \$33,851; Wireline \$31,381; Advertising Solutions \$5,694; and Other \$903. Within the Other segment, goodwill associated with our Sterling operations was \$477 for 2009 and 2008. Additionally, FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. These annual impairment tests resulted in no material impairment of indefinite-lived goodwill or FCC licenses. If there are indications of significant decreases in fair value of these assets, testing may also be done more frequently than the annual test. There were no indications of a significant decrease in fair value in 2009. We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

Goodwill impairment testing is a two step process. The first step involves determining the fair value of the reporting unit and comparing that to the book value. If the fair value exceeds the book value, then no further testing is required. If the fair value is less than the book value, then a second step is performed.

In the second step, the fair values of all of the assets and liabilities of the reporting unit, including those that may not be currently recorded, are determined. The difference between the sum of all of those fair values and the overall reporting unit's fair value is a new implied goodwill amount that is compared to the recorded goodwill. If implied goodwill is less than the recorded goodwill, then an impairment to the recorded goodwill is recorded. The amount of this impairment may be more or less than the difference between the overall fair value and book value of the reporting unit. It may even be zero if the fair values of other assets are less than their book values. Goodwill is the only asset that may be impaired when testing goodwill.

As shown in Note 6, more than 98% of our goodwill resides in the Wireline, Wireless and Advertising Solutions segments. For each of those segments, publicly traded companies whose services are consistent with those primarily offered by the segment exist, giving a market indication of enterprise value. Enterprise value is the sum of a company's equity and debt values. One standard valuation technique is to determine enterprise value as a multiple of a company's operating income before depreciation and amortization. We determined

the multiples of the public companies and then calculated a weighted-average of those multiples. Using those weighted-averages, we then calculated fair values for each of those segments to determine if additional testing was required and, in all circumstances, no additional testing was required. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units and additional testing would still have not been required.

Consistent with prior years, we performed our test of the fair values of FCC licenses using a discounted cash flow model (the Greenfield Approach). The Greenfield Approach assumes a company is started, owning only the wireless FCC licenses, and then makes investments required to build an operation comparable to the one in which the licenses are presently utilized. We utilized a 17-year discrete period to isolate cash flows attributable to the licenses including modeling the hypothetical build out. The projected cash flows are based on certain financial factors including revenue growth rates, Operating Income Before Depreciation and Amortization (OIBDA) margins, and churn rates. Wireless revenue growth is expected to trend down from our 2008 growth rate of 15.6% to a long-term growth rate that reflects expected long-term inflation trends. Our churn rates are expected to continue declining from 1.68% in 2008, in line with expected trends in the industry but at a rate comparable with industry-leading churn. OIBDA margins should continue to increase from the 2008 level of 38.0% to more than 40.0%.

This model then incorporates cash flow assumptions regarding investment in the network, development of distribution channels and the subscriber base, and other inputs for making the business operational. The assumptions which underlie the development of the network, subscriber base and other critical inputs of the discounted cash flow model were based on a combination of average marketplace participant data and our historical results, trends and business plans. Operating metrics such as capital investment per subscriber, acquisition costs per subscriber, minutes of use per subscriber, etc. were also used to develop the projected cash flows. Since the cash flows associated with these other inputs were included in the annual cash flow projections, the present value of the unlevered free cash flows of the segment, after investment in the network, subscribers, etc., is attributable to the wireless FCC licenses. The terminal value of the segment, which incorporates an assumed sustainable growth rate, is also discounted and is likewise attributed to the licenses. The discount rate of 9.0% used to calculate the present value of the projected cash flows is based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity. The discount rate utilized in the analysis is also consistent with rates we use to calculate the present value of the projected cash flows of licenses acquired from third parties.

If either the projected rate of growth of cash flows or revenues were to decline by 1%, or if the discount rate were to increase by 1%, the fair values of the wireless FCC licenses, while less than currently projected, would still be higher than the book value of the licenses. The fair value of the licenses exceeded the book value by more than one-fourth.

We review other long-lived assets for impairment under GAAP whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group. In order to determine that the asset is recoverable, we verify that the expected future cash flows directly related to that asset exceed its fair value, which is based on the undiscounted cash flows. The discounted cash flow calculation uses various assumptions and estimates regarding future revenue, expense and cash flows projections over the estimated remaining useful life of the asset.

Cost investments are evaluated to determine whether mark-to-market declines are temporary and reflected in other comprehensive income, or other than temporary and recorded as an expense in the income statement. This evaluation is based on the length of time and the severity of decline in the investment's value. At the end of the first quarter of 2009 and at the end of 2008, we concluded the severity of decline had led to an other-than-temporary decline in the value of assets contained in an independently managed trust for certain BellSouth employee benefits.

**Income Taxes** Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 10 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

In 2007, we adopted new GAAP rules and began accounting for uncertain tax positions under those provisions. As required, we use our judgment to determine whether it is more likely than not that we will sustain positions that we have taken on tax returns and, if so, the amount of benefit to initially recognize within our financial statements. We regularly review our uncertain tax positions and adjust our unrecognized tax benefits in light of changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. These adjustments to our unrecognized tax benefits may affect our income tax expense. Settlement of uncertain tax positions may require use of our cash.

**New Accounting Standards**

**Revenue Arrangements with Multiple Deliverables** In October 2009, the Financial Accounting Standards Board (FASB) issued "Multiple-Deliverable Revenue Arrangements" (Accounting Standards Update (ASU) 2009-13), which addresses how revenues should be allocated among all products and services included in our sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence (VSOE) at the highest level, third-party evidence of VSOE at the intermediate level, and a best estimate at the lowest level. It replaces "fair value" with "selling price" in revenue allocation guidance, eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). The FASB permits early adoption of ASU 2009-13, applied retrospectively, to the beginning of the year of adoption. We are currently evaluating the impact on our financial position and results of operations.

**Software** In October 2009, the FASB issued "Certain Revenue Arrangements That Include Software Elements" (ASU 2009-14), which clarifies the guidance for allocating and measuring revenue, including how to identify software that is out of the scope. ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole." That type of software and hardware will be outside of the scope of software revenue guidance, and the hardware components will also be outside of the scope of software revenue guidance and may result in more revenue recognized at the time of the hardware sale. Additional disclosures will discuss allocation of revenue to products and services in our sales arrangements and the significant judgments applied in the revenue allocation method, including impacts on the timing and amount of revenue recognition. ASU 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). ASU 2009-14 has the same effective date, including early adoption provisions, as ASU 2009-13. Companies must adopt ASU 2009-14 and ASU 2009-13 at the same time. We are currently evaluating the impact on our financial position and results of operations.

See Note 1 for a discussion of recently issued or adopted accounting standards.

**OTHER BUSINESS MATTERS**

**Retiree Phone Concession Litigation** In May 2005, we were served with a purported class action in U.S. District Court, Western District of Texas (*Stoffels v. SBC Communications Inc.*), in which the plaintiffs, who are retirees of Pacific Bell Telephone Company, Southwestern Bell and Ameritech, contend that the telephone concession provided by the company is, in essence, a "defined benefit plan" within the meaning of ERISA, as amended. In October 2006, the Court certified two classes. The issue of whether the concession is an ERISA pension plan was tried before the judge in November 2007. In May 2008, the court ruled that the concession was an ERISA pension plan. We asked the court to certify this ruling for interlocutory appeal, and in August 2008, the court denied our request. In May 2009, we filed a motion for reconsideration with the trial court. That motion is pending. A trial on the appropriate remedy has been set for June 1, 2010. We believe that an adverse outcome having a material effect on our financial statements in this case is unlikely, but we will continue to evaluate the potential impact of this suit on our financial results as it progresses.

**NSA Litigation** Twenty-four lawsuits were filed alleging that we and other telecommunications carriers unlawfully provided assistance to the National Security Agency (NSA) in connection with intelligence activities that were initiated following the events of September 11, 2001. In the first filed case, *Hepting et al v. AT&T Corp., AT&T Inc. and Does 1-20*, a purported class action filed in U.S. District Court in the Northern District of California, plaintiffs alleged that the defendants disclosed and are currently disclosing to the U.S. Government content and call records concerning communications to which Plaintiffs were a party. Plaintiffs sought damages, a declaratory judgment, and injunctive relief for violations of the First and Fourth Amendments to the United States Constitution, the Foreign Intelligence Surveillance Act (FISA), the Electronic Communications Privacy Act, and other federal and California statutes. We filed a motion to dismiss the complaint. The United States asserted the "state secrets privilege" and related statutory privileges and also filed a motion asking the court to dismiss the complaint. The Court denied the motions, and we and the United States appealed. In August 2008, the U.S. Court of Appeals for the Ninth Circuit remanded the case to the district court without deciding the issue in light of the passage of the FISA Amendments Act, a provision of which addresses the allegations in these pending lawsuits (immunity provision). The immunity provision requires the pending lawsuits to be dismissed if the Attorney General certifies to the court either that the alleged assistance was undertaken by court order, certification, directive, or written request or that the telecom

entity did not provide the alleged assistance. In September 2008, the Attorney General filed his certification and asked the district court to dismiss all of the lawsuits pending against the AT&T Inc. telecommunications companies. The court granted the Government's motion to dismiss and entered final judgments in July 2009. In addition, a lawsuit seeking to enjoin the immunity provision's application on grounds that it is unconstitutional was filed. In March 2009, we and the Government filed motions to dismiss this lawsuit. The court granted the motion to dismiss and entered final judgment in July 2009. All cases brought against the AT&T entities have been dismissed. In August 2009, plaintiffs in all cases filed an appeal with the Ninth Circuit Court of Appeals.

Management believes these actions are without merit and intends to continue to defend these matters vigorously.

**Labor Contracts** As of January 31, 2010, we employed approximately 281,000 persons. Approximately 58 percent of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. Contracts covering approximately 120,000 collectively bargained wireline employees expired during 2009. As of January 31, 2010, the Company and approximately 86,000 employees, covered by these expired collectively bargained wireline contracts, have ratified new labor agreements. In the absence of an effective contract, the union is entitled to call a work stoppage.

For approximately 60,000 employees covered by ratified agreements, the agreements provide for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. For both wage and pension band increases, there is a potential cost-of-living increase based on the consumer price index for the third year. These agreements also provide for continued health care coverage with reasonable cost sharing.

For the remaining approximately 26,000 employees covered by ratified agreements, the agreement provides for a four-year term. The provisions of the tentative agreement are substantially similar to the provisions of the ratified agreements discussed above, with a wage increase in year four of 2.75 percent and a potential cost-of-living increase in year four instead of in year three.

On February 8, 2010, the Company and the CWA announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. The tentative agreement provides for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band

increases of 2 percent for each year of the agreement. These agreements also provide for continued health care coverage with reasonable cost sharing.

**Health Care Legislation** We provide a variety of medical and prescription drug benefits to certain active and retired employees under various plans. In 2009, the U.S. Senate and House of Representatives each passed comprehensive health care reform legislation. It is unclear if differences between these bills can be reconciled and a final bill passed in 2010. Among the major provisions of the bills are the taxation of the Medicare Part D subsidy, Medicare payment reforms, an excise tax on "Cadillac" plans as well as mandates for providing coverage and other requirements for delivery of health care to employees and retirees. The final outcome of the legislation could cause negative impacts to our results and bring uncertainty to our future costs.

**Environmental** We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. Although we are required to reference in our Forms 10-Q and 10-K any of these proceedings that could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more, we do not believe that any of them currently pending will have a material adverse effect on our results of operations.

## LIQUIDITY AND CAPITAL RESOURCES

We had \$3,802 in cash and cash equivalents available at December 31, 2009. Cash and cash equivalents included cash of \$437 and money market funds and other cash equivalents of \$3,365. Cash and cash equivalents increased \$2,010 since December 31, 2008. During 2009, cash inflows were primarily provided by cash receipts from operations and the issuance of long-term debt. These inflows were partially offset by cash used to meet the needs of the business including, but not limited to, payment of operating expenses, funding capital expenditures, dividends to stockholders, repayment of debt and payment of interest on debt. We discuss many of these factors in detail below.

### Cash Provided by or Used in Operating Activities

During 2009, cash provided by operating activities was \$34,445 compared to \$33,656 in 2008. Our higher operating cash flow reflects decreased tax payments of \$836, partially offset by reduced net income and increased interest payments of \$146. During 2009, our payments for current income taxes were lower than 2008 due primarily to changes in law impacting the timing of payments. The timing of cash payments for income taxes is governed by the IRS and other taxing authorities and differs from the timing of recording tax expense, which is reported in accordance with GAAP.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

The decrease in current tax payments was partially offset by an increase in audit-related payments in 2009.

We anticipate using approximately \$2,350 of cash in 2010 to complete the acquisition of various assets from Verizon that it was required to divest as part of its acquisition of Alltel.

During 2008, our primary source of funds was cash from operating activities of \$33,656 compared to \$34,242 in 2007. Operating cash flows decreased primarily due to increased tax payments of \$1,294 partially offset by improvement in operating income excluding depreciation. During 2008, tax payments were higher primarily due to increased income.

### Cash Used in or Provided by Investing Activities

During 2009, cash used in investing activities consisted of:

- \$16,595 in capital expenditures, excluding interest during construction.
- \$740 in interest during construction.
- \$787, net of cash acquired, related to the acquisition of Centennial.
- \$111 related to spectrum and licenses.
- \$85 related to other acquisitions.

During 2009, cash provided by investing activities consisted of:

- \$287 from dispositions of non-strategic assets.
- \$55 from the sale of securities, net of investments.
- \$51 related to other activities.

Our capital expenditures are primarily for our wireless and wireline subsidiaries' networks, our U-verse services, and support systems for our communications services. Total capital spending in 2009 was \$16,595, which was a \$3,081 decrease from 2008. Capital spending in our Wireless segment, excluding interest during construction, only increased 1% for 2009; the modest increase in capital spending reflected a 6% increase in network expenditures, tempered by reductions in non-network spending. Expenditures were used for network capacity growth, integration and upgrades to our Universal Mobile Telecommunications System/High-Speed Packet Access network, as well as for IT and other support systems for our wireless service. Capital expenditures in our Wireline segment, excluding interest during construction, which represented 64.3% of our capital expenditures, decreased 21% for 2009, reflecting decreased spending on U-verse services as the upgrades to our existing network become more mature. In addition, capital expenditures decreased due to less spending on wireline voice services, and lower DSL and High Capacity volumes. The Other segment capital expenditures were less than 2% of total capital expenditures for 2009. Included in the Other segment are equity investments, which should be self funding as they are not direct AT&T operations; as well as corporate, diversified business and Sterling operations, which we expect to fund using cash from operations. We expect to fund any Advertising Solutions segment capital expenditures using cash from operations. We expect total 2010 capital investment to be in the \$18 billion to \$19 billion range. This level of investment is framed by the

expectation that regulatory and legislative decisions relating to the telecom sector will continue to be sensitive to investment.

### Cash Used in or Provided by Financing Activities

We paid dividends of \$9,670 in 2009, \$9,507 in 2008 and \$8,743 in 2007, reflecting dividend rate increases. In December 2009, our Board of Directors approved a 2.4% increase in the quarterly dividend from \$0.41 to \$0.42 per share. This follows a 2.5% dividend increase approved by AT&T's Board in December 2008. Dividends declared by our Board of Directors totaled \$1.65 per share in 2009, \$1.61 per share in 2008 and \$1.47 per share in 2007. Our dividend policy considers both the expectations and requirements of stockholders, internal requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to approval by our Board of Directors.

During 2009, we received net proceeds of \$8,161 from the issuance of \$8,228 in long-term debt. Debt proceeds were used for general corporate purposes, including the repayment of maturing debt. Long-term debt issuances consisted of:

- \$1,000 of 4.85% global notes due in 2014.
- \$2,250 of 5.80% global notes due in 2019.
- \$2,250 of 6.55% global notes due in 2039.
- £750 of 5.875% global notes due in 2017 (equivalent to \$1,107 when issued).
- £1,100 of 7.0% global notes due in 2040 (equivalent to \$1,621 when issued).

We entered into cross-currency swaps to exchange the above foreign currency proceeds and the future principal and interest payments to U.S. dollars.

During 2009, debt repayments totaled \$13,236 and consisted of:

- \$8,633 in repayments of long-term debt (includes repayment of \$1,957 for Centennial debt).
- \$4,583 in repayments of commercial paper and short-term bank borrowings.
- \$20 in repayments of other debt.

At December 31, 2009, we had \$7,361 of debt maturing within one year, which included \$7,328 of long-term debt maturities and \$33 of other borrowings. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- \$1,000 of annual put reset securities issued by BellSouth Corporation can be put each April until maturity in 2021.
- An accreting zero-coupon note may be redeemed each May, excluding May 2011, until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007) is held to maturity, the redemption amount will be \$1,030.

We have a five-year credit agreement with a syndicate of



investment and commercial banks. In June 2009, one of the participating banks, Lehman Brothers Bank, Inc., which had declared bankruptcy, terminated its lending commitment of \$535 and withdrew from the agreement. As a result of this termination, the outstanding commitments under the agreement were reduced from a total of \$10,000 to \$9,465. We still have the right to increase commitments up to an additional \$2,535 provided no event of default under the credit agreement has occurred. The current agreement will expire in July 2011. We also have the right to terminate, in whole or in part, amounts committed by the lenders under this agreement in excess of any outstanding advances; however, any such terminated commitments may not be reinstated. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. There is no material adverse change provision governing the drawdown of advances under this credit agreement. This agreement contains a negative pledge covenant, which requires that, if at any time we or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under this agreement will be ratably secured, subject to specified exceptions. We must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) financial ratio covenant of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. We comply with all covenants under the agreement. At December 31, 2009, we had no borrowings outstanding under this agreement.

During 2009, the following other financing activities occurred:

- We received \$483 related to derivative collateral; \$261 was a return of collateral we posted to derivative counterparties in 2008 and \$222 was collateral we collected from counterparties in 2009.
- We paid \$275 to minority interest holders.
- We received proceeds of \$28 from the issuance of treasury shares related to the settlement of share-based awards.

We plan to fund our 2010 financing activities through a combination of cash from operations and debt issuances. The timing and mix of debt issuance will be guided by credit market conditions and interest rate trends. The emphasis of our financing activities will be the payment of dividends, subject to approval by our Board of Directors, and the repayment of debt.

#### **Other**

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our international equity investees. Our debt ratio was 41.3%, 43.7% and 35.6% at December 31, 2009, 2008 and 2007. The debt ratio is affected by the same factors that affect total capital.

Total capital increased \$2,665 in 2009 compared to a decrease of \$8,121 in 2008. The 2009 total capital increase was due to increased retained earnings and an increase in other comprehensive income, partially offset by a \$2,910 decrease in debt, all factors which lowered the debt ratio in 2009.

The primary factor contributing to the increase in our 2008 debt ratio was the \$16,677 increase in accumulated other comprehensive loss that reflected a decrease in retirement plans funded status and an increase in debt of \$10,876 related to our financing activities. Our stockholders' equity balance was down \$19,020 primarily due to the decrease in retirement plan funded status.

#### **CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES**

Current accounting standards require us to disclose our material obligations and commitments to making future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 8 and our operating lease payments in Note 5. Our contractual obligations do not include expected pension and postretirement payments as we maintain pension funds and Voluntary Employee Beneficiary Association trusts to fully or partially fund these benefits (see Note 11). In the ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, such as plant additions and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

Our contractual obligations as of December 31, 2009, are in the following table. The purchase obligations that follow are those for which we have guaranteed funds and will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contract. Since termination penalties would not be paid every year, such penalties are excluded from the table. Other long-term liabilities were included in the table based on the year of required payment or an estimate of the year of payment. Such estimate of payment is based on a review of past trends for these items, as well as a forecast of future activities. Certain items were excluded from the following table as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment.

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Substantially all of our purchase obligations are in our Wireline and Wireless segments. The table does not include the fair value of our interest rate swaps. Our capital lease obligations and bank borrowings have been excluded from the table due to the immaterial value at December 31, 2009. Many of our other noncurrent liabilities have been excluded from the following table due to the uncertainty of the timing of payments, combined with the absence of historical trending to be used as a predictor of such payments. Additionally, certain other long-term liabilities have been excluded since

settlement of such liabilities will not require the use of cash. However, we have included in the following table obligations which primarily relate to benefit funding and severance due to the certainty of the timing of these future payments. Our other long-term liabilities are: deferred income taxes (see Note 10) of \$23,803; postemployment benefit obligations (see Note 11) of \$27,849; and other noncurrent liabilities of \$13,350, which included deferred lease revenue from our agreement with American Tower of \$509 (see Note 5).

### Contractual Obligations

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations <sup>1</sup>	\$ 70,021	\$ 7,328	\$12,372	\$10,614	\$ 39,707
Interest payments on long-term debt	66,233	4,178	7,318	5,990	48,747
Operating lease obligations	20,534	2,429	4,322	3,560	10,223
Unrecognized tax benefits <sup>2</sup>	5,181	299	—	—	4,882
Purchase obligations <sup>3</sup>	10,228	2,890	4,095	2,549	694
Total Contractual Obligations	\$172,197	\$17,124	\$28,107	\$22,713	\$104,253

<sup>1</sup>Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity.

<sup>2</sup>The non-current portion of the unrecognized tax benefits is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time. See Note 10 for additional information.

<sup>3</sup>We calculated the minimum obligation for certain agreements to purchase goods or services based on termination fees that can be paid to exit the contract. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately \$404 in 2010, \$469 in the aggregate for 2011 and 2012, \$113 in the aggregate for 2013 and 2014 and \$3 in the aggregate, thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

### MARKET RISK

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. These risks, along with other business risks, impact our cost of capital. It is our policy to manage our debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including interest rate swaps, interest rate locks, foreign exchange contracts, and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We do not foresee significant changes in the strategies we use to manage market risk in the near future.

#### Interest Rate Risk

The majority of our financial instruments are medium- and long-term fixed rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 8 and 9. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of

interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

All our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance through cross-currency swaps, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. Likewise, periodically we enter into interest rate locks to partially hedge the risk of increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We expect gains or losses in our cross-currency swaps and interest rate locks to offset the losses and gains in the financial instruments they hedge.

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2009. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2009.



	Maturity							Fair Value 12/31/09
	2010	2011	2012	2013	2014	Thereafter	Total	
<b>Interest Rate Derivatives</b>								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount Maturing	—	\$3,200	\$3,050	\$1,750	—	\$1,000	\$9,000	\$399
Weighted-Average Variable Rate Payable <sup>1</sup>	3.1%	4.4%	4.8%	5.6%	6.1%	6.4%		
Weighted-Average Fixed Rate Receivable	5.8%	5.7%	5.3%	5.6%	5.6%	5.6%		

<sup>1</sup>Interest payable based on current and implied forward rates for One, Three or Six Month London Interbank Offered Rate (LIBOR) plus a spread ranging between approximately 36 and 654 basis points.

### Foreign Exchange Risk

We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions and cash flow streams, such as those related to issuing foreign-denominated debt, receiving dividends from foreign investments, and other receipts and disbursements.

Through cross-currency swaps, all of our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. We expect gains or losses in our cross-currency swaps to offset the losses and gains in the financial instruments they hedge.

In anticipation of other foreign currency-denominated transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Our policy is to measure the risk of adverse currency fluctuations by calculating

the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. We cover the exposure that results from changes that exceed acceptable amounts.

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. For foreign exchange contracts outstanding at December 31, 2009, the change in fair value was immaterial. Furthermore, because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying transactions.

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### Issuer Equity Repurchases

On December 10, 2007, our Board of Directors authorized a share repurchase plan of 400 million shares that expired at December 31, 2009. During 2009, we repurchased 133 thousand shares at a cost of \$3. We anticipate concentrating on reducing debt levels in 2010.

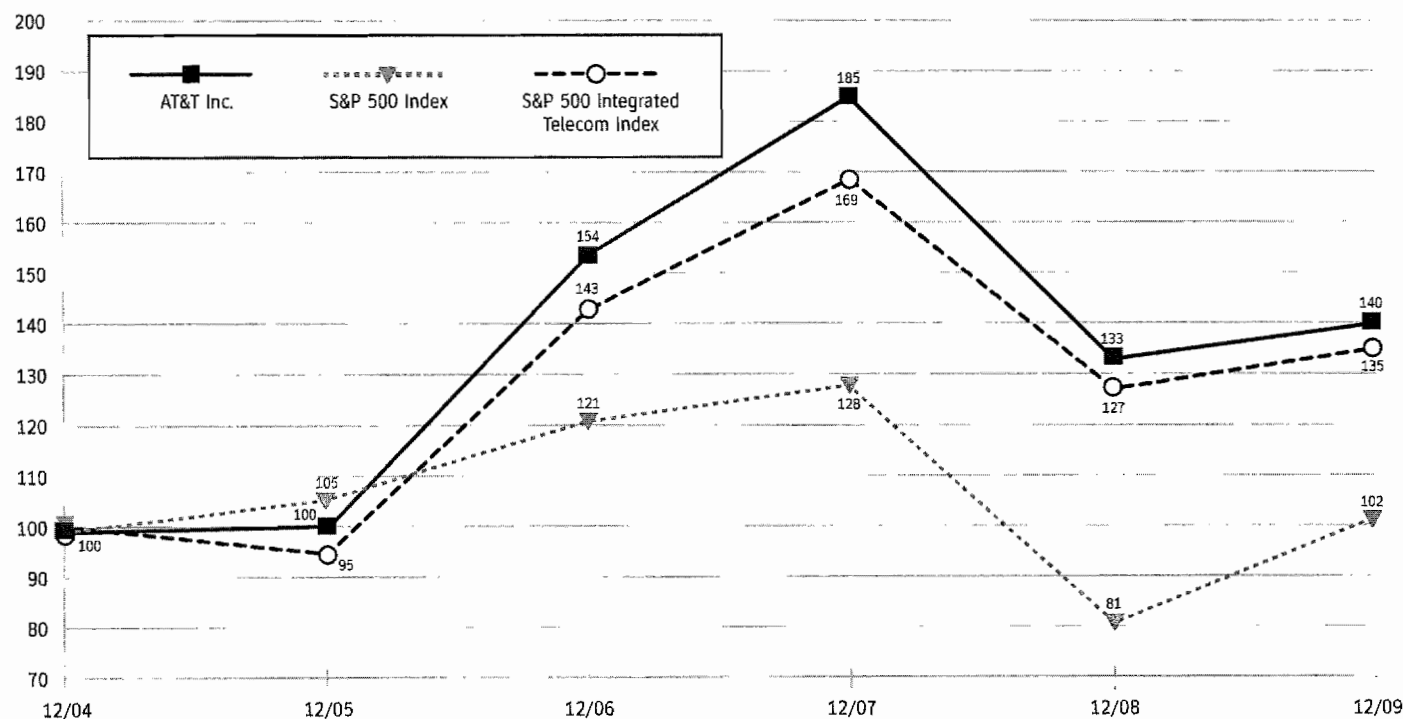
Purchase Period	Total Number of Shares Purchased	Average Price Paid per Share <sup>1</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
February 1, 2009 – February 28, 2009	133,334	\$25.16	133,334	0
Total	133,334	\$25.16	133,334	0

<sup>1</sup>Average Price Paid per Share excludes transaction costs.

### STOCK PERFORMANCE GRAPH

Comparison of Five Year Cumulative Total Return

AT&T Inc., S&P 500 Index, and S&P 500 Integrated Telecom Index



The comparison above assumes \$100 invested on December 31, 2004, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (Telecom Index). Total return equals stock price appreciation plus reinvestment of dividends.

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## RISK FACTORS

In addition to the other information set forth in this document, including the matters contained under the caption "Cautionary Language Concerning Forward-Looking Statements," you should carefully read the matters described below. We believe that each of these matters could materially affect our business. We recognize that most of these factors are beyond our ability to control and therefore we cannot predict an outcome. Accordingly, we have organized them by first addressing general factors, then industry factors and, finally, items specifically applicable to us.

### **A worsening U.S. economy would magnify our customers' and suppliers' current financial difficulties and could materially adversely affect our business.**

We provide services and products to consumers and large and small businesses in the United States and to larger businesses throughout the world. The current economic recession in the U.S. has adversely affected our customers' demand for and ability to pay for existing services, especially local landline service, and their interest in purchasing new services. Our suppliers are also facing higher financing and operating costs. Should these current economic conditions worsen, we likely would experience both a further decrease in revenues and an increase in certain expenses, including expenses relating to bad debt and equipment and software maintenance. We also may incur difficulties locating financially stable equipment and other suppliers, thereby affecting our ability to offer attractive new services. We are also likely to experience greater pressure on pricing and margins as we continue to compete for customers who would have even less discretionary income. While our largest business customers have been less affected by these adverse changes in the U.S. economy, if the continued adverse economic conditions in the U.S., Europe and other foreign markets persist or worsen, those customers would likely be affected in a similar manner.

### **Adverse changes in medical costs and the U.S. securities markets and interest rates could materially increase our benefit plan costs.**

Our pension and postretirement costs are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns in prior years on funds held by our pension and other benefit plans, which are reflected in our financial statements over several years. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. In calculating the annual costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. If actual investment returns, medical costs and interest rates are worse than those previously assumed, our annual costs will increase.

The FASB requires companies to recognize the funded status of defined benefit pension and postretirement plans as an asset or liability in our statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Therefore, an increase in our costs will have a negative effect on our balance sheet.

### **The ongoing uncertainty in global financial markets could materially adversely affect our ability and our larger customers' ability to access capital needed to fund business operations.**

The recent instability in the global financial markets and ongoing uncertainty affecting these markets have resulted in extreme volatility in the credit, equity and fixed income markets. This volatility has limited, in some cases severely, most companies' access to the credit markets, leading to significantly higher borrowing costs for companies or, in many cases, the inability of these companies to fund their ongoing operations. As a result, our larger customers, who tend to be heavy users of our data and wireless services, may be forced to delay or reduce or be unable to finance purchases of our products and services and may delay payment or default on outstanding bills to us. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. While we have been successful in continuing to access the credit and fixed income markets when needed, a financial crisis could render us unable to access these markets, severely affecting our business operations.

### **Changes in available technology could increase competition and our capital costs.**

The telecommunications industry has experienced rapid changes in the last several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wireline telephone service and enhanced the capabilities of wireless networks. In order to remain competitive, we have begun to deploy a more sophisticated wireline network and continue to deploy a more sophisticated wireless network, as well as research other new technologies. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

**Changes to federal, state and foreign government regulations and decisions in regulatory proceedings could materially adversely affect us.**

Our wireline subsidiaries are subject to significant federal and state regulation while many of our competitors are not. In addition, our subsidiaries and affiliates operating outside the U.S. are also subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Our wireless subsidiaries are regulated to varying degrees by the FCC and some state and local agencies. Adverse rulings by the FCC relating to broadband issues could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The development of new technologies, such as IP-based services, also has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us. In addition, increased public focus on alleged changes in the global climate has led to proposals at state, federal and foreign government levels to increase regulation on various types of emissions, including those generated by vehicles and facilities consuming large amounts of electricity.

**Increasing competition in our wireline markets could adversely affect wireline operating margins.**

We expect competition in the telecommunications industry to continue to intensify. We expect this competition will continue to put pressure on pricing, margins and customer retention. A number of our competitors that rely on alternative technologies (e.g., wireless, cable and VoIP) and business models (e.g., advertising-supported) are typically subject to less (or no) regulation than our wireline and ATTC subsidiaries and therefore are able to operate with lower costs. These competitors also have cost advantages compared to us, due in part to a nonunionized workforce, lower employee benefits and fewer retirees (as most of the competitors are relatively new companies). We believe such advantages can be offset by continuing to increase the efficiency of our operating systems and by improving employee training and productivity; however, there can be no guarantee that our efforts in these areas will be successful.

**Increasing competition in the wireless industry could adversely affect our operating results.**

On average, we have three to four other wireless competitors in each of our service areas and compete for customers based principally on price, service/device offerings, call quality, coverage area and customer service. In addition, we are likely to experience growing competition from providers offering services using alternative wireless technologies and IP-based networks as well as traditional wireline networks. We expect market saturation may cause the wireless industry's customer growth rate to moderate

in comparison with historical growth rates, leading to increased competition for customers. We expect that the availability of additional 700 MHz spectrum could increase competition and the effectiveness of existing competition. This competition will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service and effective marketing of attractive products and services, and cost management. These efforts will involve significant expenses and require strategic management decisions on, and timely implementation of, equipment choices, marketing plans and financial budgets.

**Equipment failures, natural disasters and terrorist attacks may materially adversely affect our operations.**

Major equipment failures or natural disasters, including severe weather, terrorist acts or other breaches of network or IT security that affect our wireline and wireless networks, including telephone switching offices, microwave links, third-party owned local and long-distance networks on which we rely, our cell sites or other equipment, could have a material adverse effect on our operations. While we have insurance coverage for some of these events, our inability to operate our wireline or wireless systems, even for a limited time period, may result in significant expenses, a loss of customers or impair our ability to attract new customers, which could have a material adverse effect on our business, results of operations and financial condition.

**The success of our U-verse services initiative will depend on the timing, extent and cost of deployment; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability and reliability of the various technologies required to provide such offerings.**

The trend in telecommunications technology is to shift from the traditional circuit- and wire-based technology to IP-based technology. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. Our competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively priced services, we are deploying a new broadband network to offer IP-based voice, data and video services. Using a new and sophisticated technology on a very large scale entails risks but also presents opportunities to expand service offerings to customers. Should deployment of our network be delayed or costs exceed expected amounts, our margins would be adversely affected and such effects

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could be material. Should regulatory requirements be different than we anticipated, our deployment could be delayed, perhaps significantly, or limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints, performance of suppliers, or other reasons, or the cost of providing such services becomes higher than expected, customers may decide to purchase services from our competitors, which would adversely affect our revenues and margins, and such effects could be material.

**Continuing growth in our wireless services will depend on continuing access to adequate spectrum, deployment of new technology and offering attractive services to customers.**

The wireless industry is undergoing rapid and significant technological changes and a dramatic increase in usage, in particular demand for and usage of data and other non-voice services. We must continually invest in our wireless network in order to continually improve our wireless service to meet this increasing demand and remain competitive. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum. We must maintain and expand our network capacity and coverage as well as the associated wireline network needed to transport voice and data between cell sites. Network service enhancements may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, regulatory permitting delays or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If the FCC does not allocate sufficient spectrum to allow the wireless industry in general, and the company in particular, to increase its capacity or if we cannot deploy the services customers desire on a timely basis or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

**Unfavorable litigation or governmental investigation results could require us to pay significant amounts or lead to onerous operating procedures.**

We are subject to a number of lawsuits both in the U.S. and in foreign countries, including, at any particular time, claims relating to antitrust, patent infringement, wage and hour, personal injury, and our advertising, sales and billing and collection practices. We also spend substantial resources complying with various government standards, which may entail related investigations. As we deploy newer technologies, especially in the wireless area, we also face current and potential litigation relating to alleged adverse health effects on customers or employees who use such technologies including, for example, wireless handsets. We may incur significant expenses defending such suits or government charges and may be required to pay amounts or otherwise change our operations in ways that could materially adversely affect our operations or financial results.

**A majority of our workforce is represented by labor unions. Absent the successful negotiation of certain agreements that expired during 2009, we could experience lengthy work stoppages.**

A majority of our employees are represented by labor unions as of year-end 2009. Labor contracts covering many of the employees expired during 2009. Approximately 75 percent of employees covered by expired contracts have ratified new agreements. We experienced a work stoppage in 2004 when the contracts involving our wireline employees expired, and we may experience additional work stoppages in 2010. A work stoppage could adversely affect our business operations, including a loss of revenue and strained relationships with customers, and we cannot predict the length of any such strike. We cannot predict what will be the provisions for a new contract nor the impact of a new contract on our financial condition.

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### CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of these factors are discussed in more detail in the "Risk Factors" section. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets.
- Changes in available technology and the effects of such changes, including product substitutions and deployment costs.
- Increases in our benefit plans' costs, including increases due to adverse changes in the U.S. and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates, and adverse medical cost trends and unfavorable health care legislation and regulations.
- The final outcome of Federal Communications Commission and other federal agency proceedings and reopenings of such proceedings and judicial review, if any, of such proceedings, including issues relating to access charges, broadband deployment, E911 services, competition, net neutrality, unbundled loop and transport elements, wireless license awards and renewals and wireless services.
- The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, unbundled network elements and resale and wholesale rates, broadband deployment including our U-verse services, net neutrality, performance measurement plans, service standards and traffic compensation.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.
- Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.
- The extent of competition and the resulting pressure on access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).
- The timing, extent and cost of deployment of our U-verse services; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- Our continued ability to attract and offer a diverse portfolio of devices, some on an exclusive basis.
- The availability and cost of additional wireless spectrum and regulations relating to licensing and technical standards and deployment and usage, including network management rules.
- Our ability to manage growth in wireless data services, including network quality.
- The outcome of pending or threatened litigation, including patent and product safety claims by or against third parties.
- The impact on our networks and business of major equipment failures, our inability to obtain equipment/software or have equipment/software serviced in a timely and cost-effective manner from suppliers, severe weather conditions, natural disasters, pandemics or terrorist attacks.
- Our ability to successfully negotiate new collective bargaining contracts and the terms of those contracts.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.
- Our ability to adequately fund our wireless operations, including payment for additional spectrum; network upgrades and technological advancements.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, to respond to competition and regulatory, legislative and technological developments.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

# Consolidated Statements of Income

Dollars in millions except per share amounts

	2009	2008	2007
<b>Operating Revenues</b>			
Wireless service	\$ 48,563	\$ 44,249	\$ 38,568
Voice	32,314	37,321	40,798
Data	25,454	24,373	23,206
Directory	4,724	5,416	4,806
Other	11,963	12,669	11,550
Total operating revenues	123,018	124,028	118,928
<b>Operating Expenses</b>			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	50,405	49,556	46,801
Selling, general and administrative	31,407	31,526	30,146
Depreciation and amortization	19,714	19,883	21,577
Total operating expenses	101,526	100,965	98,524
<b>Operating Income</b>	21,492	23,063	20,404
<b>Other Income (Expense)</b>			
Interest expense	(3,379)	(3,390)	(3,507)
Equity in net income of affiliates	734	819	692
Other income (expense) – net	152	(328)	810
Total other income (expense)	(2,493)	(2,899)	(2,005)
<b>Income Before Income Taxes</b>	18,999	20,164	18,399
Income taxes	6,156	7,036	6,252
<b>Net Income</b>	12,843	13,128	12,147
<b>Less: Net Income Attributable to Noncontrolling Interest</b>	(308)	(261)	(196)
<b>Net Income Attributable to AT&amp;T</b>	\$ 12,535	\$ 12,867	\$ 11,951
<b>Basic Earnings Per Share</b>	\$ 2.12	\$ 2.17	\$ 1.95
<b>Diluted Earnings Per Share</b>	\$ 2.12	\$ 2.16	\$ 1.94

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	2009	2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,802	\$ 1,792
Accounts receivable – net of allowances for doubtful accounts of \$1,205 and \$1,270	14,978	16,047
Prepaid expenses	1,572	1,538
Deferred income taxes	1,274	1,014
Other current assets	2,708	2,165
Total current assets	24,334	22,556
<b>Property, Plant and Equipment – Net</b>	100,093	99,088
<b>Goodwill</b>	73,259	71,829
<b>Licenses</b>	48,759	47,306
<b>Customer Lists and Relationships – Net</b>	7,420	10,582
<b>Other Intangible Assets – Net</b>	5,644	5,824
<b>Investments in Equity Affiliates</b>	2,921	2,332
<b>Other Assets</b>	6,322	5,728
<b>Total Assets</b>	<b>\$268,752</b>	<b>\$265,245</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Debt maturing within one year	\$ 7,361	\$ 14,119
Accounts payable and accrued liabilities	20,999	20,032
Advanced billing and customer deposits	4,170	3,849
Accrued taxes	1,696	1,874
Dividends payable	2,479	2,416
Total current liabilities	36,705	42,290
<b>Long-Term Debt</b>	64,720	60,872
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	23,803	19,196
Postemployment benefit obligation	27,849	31,930
Other noncurrent liabilities	13,350	14,207
Total deferred credits and other noncurrent liabilities	65,002	65,333
<b>Stockholders' Equity</b>		
Common stock (\$1 par value, 14,000,000,000 authorized at December 31, 2009 and 7,000,000,000 authorized at December 31, 2008; issued 6,495,231,088 at December 31, 2009 and 2008)	6,495	6,495
Additional paid-in capital	91,707	91,728
Retained earnings	39,366	36,591
Treasury shares (593,300,187 at December 31, 2009, and 602,221,825 at December 31, 2008, at cost)	(21,260)	(21,410)
Accumulated other comprehensive loss	(14,408)	(17,057)
Noncontrolling interest	425	403
Total stockholders' equity	102,325	96,750
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$268,752</b>	<b>\$265,245</b>

The accompanying notes are an integral part of the consolidated financial statements.



## Consolidated Statements of Cash Flows

Dollars in millions, increase (decrease) in cash and cash equivalents

	2009	2008	2007
<b>Operating Activities</b>			
Net income	\$ 12,843	\$ 13,128	\$ 12,147
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,714	19,883	21,577
Undistributed earnings from investments in equity affiliates	(419)	(654)	(297)
Provision for uncollectible accounts	1,763	1,796	1,617
Deferred income tax expense (benefit)	2,104	5,889	(240)
Net (gain) loss from impairment and sale of investments	—	517	(11)
Gain on license exchange	—	—	(409)
Changes in operating assets and liabilities:			
Accounts receivable	(454)	(1,421)	(1,491)
Other current assets	(355)	827	(1,020)
Accounts payable and accrued liabilities	2,372	(5,563)	672
Share-based payment excess tax benefit	—	(15)	(173)
Net income attributable to noncontrolling interest	(308)	(261)	(196)
Other – net	(2,815)	(470)	2,066
Total adjustments	21,602	20,528	22,095
<b>Net Cash Provided by Operating Activities</b>	<b>34,445</b>	<b>33,656</b>	<b>34,242</b>
<b>Investing Activities</b>			
Construction and capital expenditures:			
Capital expenditures	(16,595)	(19,676)	(17,717)
Interest during construction	(740)	(659)	(171)
Acquisitions, net of cash acquired	(983)	(10,972)	(2,873)
Dispositions	287	1,615	1,594
Sales of securities, net of investments	55	68	455
Sale of other investments	—	436	—
Other	51	45	36
<b>Net Cash Used in Investing Activities</b>	<b>(17,925)</b>	<b>(29,143)</b>	<b>(18,676)</b>
<b>Financing Activities</b>			
Net change in short-term borrowings with original maturities of three months or less	(3,910)	2,017	(3,411)
Issuance of long-term debt	8,161	12,416	11,367
Repayment of long-term debt	(8,654)	(4,010)	(6,772)
Purchase of treasury shares	—	(6,077)	(10,390)
Issuance of treasury shares	28	319	1,986
Dividends paid	(9,670)	(9,507)	(8,743)
Share-based payment excess tax benefit	—	15	173
Other	(465)	136	(224)
<b>Net Cash Used in Financing Activities</b>	<b>(14,510)</b>	<b>(4,691)</b>	<b>(16,014)</b>
Net increase (decrease) in cash and cash equivalents	2,010	(178)	(448)
Cash and cash equivalents beginning of year	1,792	1,970	2,418
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 3,802</b>	<b>\$ 1,792</b>	<b>\$ 1,970</b>

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2009		2008		2007	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>						
Balance at beginning of year	6,495	\$ 6,495	6,495	\$ 6,495	6,495	\$ 6,495
Issuance of shares	—	—	—	—	—	—
Balance at end of year	6,495	\$ 6,495	6,495	\$ 6,495	6,495	\$ 6,495
<b>Additional Paid-In Capital</b>						
Balance at beginning of year		\$ 91,728		\$ 91,638		\$ 91,352
Issuance of treasury shares		29		87		225
Share-based payments		(50)		3		61
Balance at end of year		\$ 91,707		\$ 91,728		\$ 91,638
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 36,591		\$ 33,297		\$ 30,375
Net income attributable to AT&T (\$2.12, \$2.16, and \$1.94 per share)		12,535		12,867		11,951
Dividends to stockholders (\$1.65, \$1.61, and \$1.47 per share)		(9,733)		(9,506)		(8,945)
Adoption of FASB guidance related to unrecognized tax benefits		—		—		(50)
Other		(27)		(67)		(34)
Balance at end of year		\$ 39,366		\$ 36,591		\$ 33,297
<b>Treasury Shares</b>						
Balance at beginning of year	(602)	\$(21,410)	(451)	\$(15,683)	(256)	\$( 7,368)
Purchase of shares	—	—	(164)	(6,077)	(267)	(10,390)
Issuance of shares	9	150	13	350	72	2,075
Balance at end of year	(593)	\$(21,260)	(602)	\$(21,410)	(451)	\$(15,683)

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated Statements of Changes in Stockholders' Equity (continued)**

Dollars and shares in millions except per share amounts

	2009	2008	2007
	Amount	Amount	Amount
<b>Accumulated Other Comprehensive Income (Loss)</b>			
<b>Attributable to AT&amp;T, net of tax:</b>			
Balance at beginning of year	\$ (17,057)	\$ (380)	\$ (5,314)
Foreign currency translation adjustments, net of taxes of \$72, \$(239), and \$10	151	(443)	19
Net unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses), net of taxes of \$84, \$(139), and \$35	176	(259)	65
Less reclassification adjustment realized in net income, net of taxes of \$23, \$(9), and \$(19)	48	(16)	(35)
Net unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses), net of taxes of \$329, \$(148), and \$(38)	610	(274)	(71)
Less reclassification adjustment realized in net income, net of taxes of \$8, \$9, and \$9	15	17	17
Defined benefit postretirement plans (see Note 11):			
Net actuarial gains (losses) and prior service benefit (cost) arising during period, net of taxes of \$1,044, \$(9,298), and \$3,411	1,397	(15,582)	4,734
Amortization of net actuarial gains (losses) and prior service benefit (cost) included in net income, net of taxes of \$157, \$(74), and \$125	252	(120)	206
Other	—	—	(1)
Other comprehensive income (loss) attributable to AT&T	2,649	(16,677)	4,934
Balance at end of year	\$ (14,408)	\$ (17,057)	\$ (380)
<b>Noncontrolling Interest:</b>			
Balance at beginning of year	\$ 403	\$ 380	\$ 386
Net income attributable to noncontrolling interest	308	261	196
Distributions	(285)	(260)	(205)
Translation adjustments applicable to noncontrolling interest, net of tax	(1)	22	3
Balance at end of year	\$ 425	\$ 403	\$ 380
Total Stockholders' Equity at beginning of year	\$ 96,750	\$115,747	\$115,926
Total Stockholders' Equity at end of year	\$102,325	\$ 96,750	\$115,747
<b>Total Comprehensive Income (Loss), net of tax:</b>			
Net income attributable to AT&T	\$ 12,535	\$ 12,867	\$ 11,951
Other comprehensive income (loss) attributable to AT&T per above	2,649	(16,677)	4,934
Comprehensive income (loss) attributable to AT&T	\$ 15,184	\$ (3,810)	\$ 16,885
Net income attributable to noncontrolling interest	\$ 308	\$ 261	\$ 196
Other comprehensive income (loss) attributable to noncontrolling interest per above	(1)	22	3
Comprehensive income attributable to noncontrolling interest	\$ 307	\$ 283	\$ 199
Total Comprehensive Income (Loss)	\$ 15,491	\$ (3,527)	\$ 17,084

The accompanying notes are an integral part of the consolidated financial statements.

## Notes to Consolidated Financial Statements

Dollars in millions except per share amounts

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements have been prepared pursuant to Regulation S-X and other applicable rules of the Securities and Exchange Commission. The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless and wireline communications services and equipment, managed networking, wholesale services, and advertising solutions.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less-than-majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our year-end (see Note 7).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

#### **Recent Accounting Standards**

**Accounting Standards Codification** In June 2009, the Financial Accounting Standards Board (FASB) issued standards that established the FASB Accounting Standards Codification (ASC or Codification) as the source of authoritative GAAP by the FASB for nongovernmental entities. The ASC supersedes all non-SEC accounting and reporting standards that existed at the ASC's effective date. The FASB uses Accounting Standards Updates (ASU) to amend the ASC. We refer to ASUs throughout our interim and annual reports where deemed relevant and make general references to pre-Codification standards (e.g., GAAP standards for acquisitions). These standards were effective for interim and annual periods ending after September 15, 2009 (i.e., the quarterly period ended September 30, 2009, for us).

**Subsequent Events** In May 2009, the FASB issued a standard that established general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available for issuance. They were effective for interim and annual periods ending after June 15, 2009 (i.e., the quarterly period ended June 30, 2009, for us). In preparing the accompanying audited consolidated financial statements, we have reviewed all known events that have occurred after December 31, 2009, and through February 25, 2010, the filing date of our Annual Report on Form 10-K, for inclusion in the financial statements and footnotes.

**Noncontrolling Interests Reporting** In December 2007, the FASB issued a standard that requires noncontrolling interests held by parties other than the parent in subsidiaries to be clearly identified, labeled, and presented in the consolidated balance sheets within stockholders' equity, but separate from the parent's equity. For us, the new standard became effective January 1, 2009, with restatement of prior financial statements. Instead of including noncontrolling interest in Other income (expense) – net in our consolidated statements of income, we disclose three measures of net income: net income, net income attributable to noncontrolling interest, and net income attributable to AT&T, and our operating cash flows in our consolidated statements of cash flows reflect net income. Furthermore, we continue to base our basic and diluted earnings per share calculations on net income attributable to AT&T.

In January 2010, the FASB issued guidance that amends accounting and disclosure requirements for a decrease in ownership in a business under existing GAAP standards for consolidations. It also clarifies the types of businesses that are in the scope of these consolidations. As required by this guidance, we retroactively applied the amendments as of January 1, 2009, which did not have a material impact on our financial statements or footnote disclosures.

**Fair Value Measurements and Disclosures** In April 2009, the FASB issued staff positions that require enhanced disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other-than-temporary impairments. These staff positions were effective for interim and annual reporting periods beginning in our second quarter of 2009. They increased our interim disclosures but have not had a material impact on our financial position or results of operations.

In August 2009, the FASB issued "Measuring Liabilities at Fair Value" (ASU 2009-05), which amends existing GAAP for fair value measurement guidance by clarifying the fair value measurement requirements for liabilities that lack a quoted price in an active market. Per the Codification, a valuation technique based on a quoted market price for the identical or similar liability when traded as an asset or another valuation technique (e.g., an income or market approach) that is consistent with the underlying principles of GAAP for fair value measurements would be appropriate. ASU 2009-05 also clarifies that a reporting entity is not required to add or adjust valuation inputs to compensate for transfer restrictions on in-scope liabilities. ASU 2009-05 was effective August 2009, the issuance date, and has not had a material impact on our financial position or results of operations.

In September 2009, the FASB issued "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2009-12), which provides guidance for an investor on using the net asset value per share provided by an investee to estimate the fair value of an alternative investment when the fair value for the primary investment is not readily determinable. It affects certain

investments that are required or permitted by GAAP to be measured or disclosed at fair value on a recurring or nonrecurring basis. It requires disclosures by major category of investment about certain attributes (e.g., applicable redemption restrictions, unfunded commitments to the issuer of the investments, and the investment strategies of that issuer). ASU 2009-12 was effective for interim and annual periods ending on or after December 15, 2009 (i.e., the year ended December 31, 2009, for us). See Note 11 for the impact of our adoption of ASU 2009-12.

In January 2010, the FASB issued "Fair Value Measurements and Disclosures—Improving Disclosures about Fair Value Measurements" (ASU 2010-06), which requires new disclosures and reasons for transfers of financial assets and liabilities between Levels 1 and 2. ASU 2010-06 also clarifies that fair value measurement disclosures are required for each class of financial asset and liability, which may be a subset of a caption in the consolidated balance sheets, and those disclosures should include a discussion of inputs and valuation techniques. It further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances, and settlements instead of netting these changes. With respect to matters other than Level 3 measurements, ASU 2010-06 is effective for fiscal years and interim periods beginning on or after December 15, 2009 (i.e., the quarter ending March 31, 2010, for us). New guidance related to Level 3 measurements is effective for fiscal years and interim periods beginning on or after December 15, 2010 (i.e., the quarter ending March 31, 2011, for us). We are currently evaluating the impact of ASU 2010-06 on our disclosures.

See Note 9 for fair value measurements and disclosures for our investment securities and derivatives.

**Derivative Instruments and Hedging Activities Disclosures** In March 2008, the FASB amended the disclosure requirements for derivative instruments and hedging activities. The new guidance requires enhanced disclosures about an entity's derivative and hedging activities to improve the transparency of financial reporting. We adopted the new guidance as of January 1, 2009, which increased our quarterly and annual disclosures but did not have an impact on our financial position and results of operations. See Note 9 for a comprehensive discussion of our derivatives and hedging activities, including the underlying risks that we are managing as a company, and the new disclosure requirements under GAAP.

**Pension and Other Postretirement Benefits** In December 2008, the FASB issued a staff position that amended an employer's disclosure requirements for pensions and other postretirement benefits. The new guidance replaced the requirement to disclose the percentage of fair value of total plan assets with a requirement to disclose the fair value of each major asset category. It also amended GAAP standards for fair value measurements to clarify that defined benefit pension or other postretirement plan assets were not subject to other prevailing GAAP standards for fair value

disclosures. We adopted the new guidance for the year ended December 31, 2009. This guidance significantly increased the amount of annual disclosures for plan assets in our annual report, and it will increase our future interim disclosures in that regard (see Note 11).

**Business Combinations** In December 2007, the FASB amended GAAP for acquisitions, requiring that costs incurred to effect the acquisition (i.e., acquisition-related costs) be recognized separately from the acquisition. Under prior guidance, restructuring costs that the acquirer expected but was not obligated to incur, which included changes to benefit plans, were recognized as if they were a liability assumed at the acquisition date. Amended GAAP for acquisitions requires the acquirer to recognize those costs separately from the business combination. We adopted the new guidance as of January 1, 2009, and applied it to acquisitions consummated after 2008, including the Centennial Communications, Corp. (Centennial) acquisition, as discussed in Note 2.

**Equity Method Investments Accounting** In November 2008, the Emerging Issues Task Force (EITF) reached a consensus on new clarification guidance regarding the application of the equity method. It states equity method investments should be recognized using a cost accumulation model. It also requires that equity method investments as a whole be assessed for other-than-temporary impairment in accordance with existing GAAP for equity method investments. The new guidance was effective, on a prospective basis, for initial or additional equity method investments transactions and subsequent impairments recognized in interim and annual periods that began on or after December 15, 2008 (i.e., as of January 1, 2009, for us). The new guidance did not have a material impact on our financial position or results of operations.

**Revenue Arrangements with Multiple Deliverables** In October 2009, the FASB issued "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13), which addresses how revenues should be allocated among all products and services included in our sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence (VSOE) at the highest level, third-party evidence of VSOE at the intermediate level, and a best estimate at the lowest level. It replaces "fair value" with "selling price" in revenue allocation guidance, eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. ASU 2009-13 will be effective prospectively for sales entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). The FASB permits early adoption of ASU 2009-13, applied retrospectively, to the beginning of the year of adoption. We are currently evaluating the impact on our financial position and results of operations.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

**Software** In October 2009, the FASB issued "Certain Revenue Arrangements That Include Software Elements" (ASU 2009-14), which clarifies the guidance for allocating and measuring revenue, including how to identify software that is out of the scope. ASU 2009-14 amends accounting and reporting guidance for revenue arrangements involving both tangible products and software that is "more than incidental to the tangible product as a whole." That type of software and hardware will be outside of the scope of software revenue guidance, and the hardware components will also be outside of the scope of software revenue guidance and may result in more revenue recognized at the time of the hardware sale. Additional disclosures will discuss allocation of revenue to products and services in our sales arrangements and the significant judgments applied in the revenue allocation method, including impacts on the timing and amount of revenue recognition. ASU 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (i.e., the year beginning January 1, 2011, for us). ASU 2009-14 has the same effective date, including early adoption provisions, as ASU 2009-13. Companies must adopt ASU 2009-14 and ASU 2009-13 at the same time. We are currently evaluating the impact on our financial position and results of operations.

**Valuation and Other Adjustments** Included in the current liabilities reported on our consolidated balance sheets are acquisition-related accruals established prior to 2009. The liabilities include accruals for severance, lease terminations and equipment removal costs associated with our acquisitions of AT&T Corp. (ATTC), BellSouth Corporation (BellSouth), and Dobson Communications Corporation (Dobson). Following is a summary of the accruals recorded at December 31, 2008, cash payments made during 2009, and the adjustments thereto:

	12/31/08 Balance	Cash Payments	Adjustments and Accruals	12/31/09 Balance
Severance accruals paid from:				
Company funds	\$140	\$(108)	\$ (26)	\$ 6
Pension and postemployment benefit plans	103	(5)	—	98
Lease terminations <sup>1</sup>	387	(53)	(122)	212
Equipment removal and other related costs	88	(38)	(27)	23
<b>Total</b>	<b>\$718</b>	<b>\$(204)</b>	<b>\$(175)</b>	<b>\$339</b>

<sup>1</sup>Adjustments and accruals include a \$106 reversal of BellSouth lease termination costs, with an offset to goodwill.

**Employee Separations** In accordance with GAAP, we established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage, and other benefits. At December 31, 2009, we had severance accruals of \$676 and at December 31, 2008, we had severance accruals of \$752.

**Split-Dollar Life Insurance** In 2007, the EITF ratified the consensus on new guidance related to the accounting for endorsement split-dollar life insurance arrangements and collateral assignment split-dollar life insurance arrangements. The new guidance covers split-dollar life insurance arrangements (where the company owns and controls the policy) and provides that an employer should recognize a liability for future benefits in accordance with GAAP standards for an employer's accounting for postretirement benefits other than pensions. The new guidance became effective for fiscal years that began after December 15, 2007 (i.e., as of January 1, 2008, for us), and we recorded additional postretirement liabilities of \$101 and a decrease, net of taxes, to retained earnings of \$63.

**Income Taxes** We adopted GAAP standards for income taxes, as amended, as of January 1, 2007. With our adoption of those amended standards, we provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities (per the amended standards). Under the amended standards, the tax basis of assets and liabilities are based on amounts that meet the recognition threshold and are measured pursuant to the measurement requirement in those standards. To the extent allowed by GAAP, we provide valuation allowances against the deferred tax assets for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

We report, on a net basis, taxes imposed by governmental authorities on revenue-producing transactions between us and our customers in our consolidated statements of income.

**Cash Equivalents** Cash and cash equivalents include all highly-liquid investments with original maturities of three months or less, and the carrying amounts approximate fair value. At December 31, 2009, we held \$437 in cash and \$3,365 in money market funds and other cash equivalents.

**Investment Securities** See Note 9 for disclosures related to our investment securities, including available-for-sale securities.

**Revenue Recognition** Revenues derived from wireless, local telephone, long-distance, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic processed), period of time (e.g., monthly service fees) or other established fee schedules.

Our wireless service revenues are billed either in advance, arrears or are prepaid. Our wireless Rollover® rate plans include a feature whereby unused anytime minutes do not expire each month but rather are available, under certain conditions, for future use for a period not to exceed one year from the date of purchase. Using historical subscriber usage patterns, we defer these revenues based on an estimate of the portion of unused minutes expected to be utilized prior to expiration.

We record an estimated revenue reduction for future adjustments to customer accounts, other than a provision for doubtful accounts, at the time revenue is recognized based on historical experience. Service revenues also include billings to our customers for various regulatory fees imposed on us by governmental authorities. Cash incentives given to customers are recorded as a reduction of revenue. When required as part of providing service, revenues and associated expenses related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life (for wireless). If no service contract exists, those fees are recognized over the average customer relationship period. Associated expenses are deferred only to the extent of such deferred revenue. For contracts that involve the bundling of services, revenue is allocated to the services based on their relative fair value. We record the sale of equipment to customers as gross revenue when we are the primary obligor in the arrangement, when title is passed and when the products are accepted by customers. For agreements involving the resale of third-party services in which we are not considered the primary obligor of the arrangement, we record the revenue net of the associated costs incurred. For contracts in which we provide customers with an indefeasible right to use network capacity, we recognize revenue ratably over the stated life of the agreement.

We recognize revenues and expenses related to publishing directories on the amortization method, which recognizes revenues and expenses ratably over the life of the directory title, typically 12 months.

**Traffic Compensation Expense** We use various estimates and assumptions to determine the amount of traffic compensation expenses recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates by product, formulated from historical data and adjusted for known rate changes and volume levels. Such estimates are adjusted monthly to reflect newly-available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received until three to nine months subsequent to the end of the reporting period, at which point a final adjustment is made to the accrued switched traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs. These costs are adjusted to reflect actual expenses over the three months following the end of the reporting period as bills are received.

**Allowance for Doubtful Accounts** We maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances are adjusted accordingly.

**Inventory** Inventories, which are included in "Other current assets" on our consolidated balance sheets, were \$885 at December 31, 2009, and \$862 at December 31, 2008. Wireless handsets and accessories, which are valued at the lower of cost or market value (determined using current replacement cost) were \$790 as of December 31, 2009, and \$749 as of December 31, 2008. The remainder of our inventory includes new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost or market.

**Property, Plant and Equipment** Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are recorded at fair value (see Note 2). The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment is depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation — no gain or loss is recognized on the disposition of this plant.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, period-to-period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the



## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

amount of the original estimate of undiscounted cash flows are recognized. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

**Software Costs** It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated balance sheets and are primarily amortized over a three-year period. Software costs that do not meet capitalization criteria are expensed immediately.

**Goodwill and Other Intangible Assets** Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. Goodwill and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. We have completed our annual goodwill impairment testing for 2009, which did not result in an impairment.

Intangible assets that have finite useful lives are amortized over their useful lives, a weighted-average of 8.1 years. Customer relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows based in such a way as to allocate it as equitably as possible to periods during which we expect to benefit from those relationships.

A significant portion of intangible assets in our Wireless segment are Federal Communications Commission (FCC) licenses that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time (generally 10 years), renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses, and therefore the FCC licenses are indefinite-lived intangible assets under the GAAP standards for goodwill and other intangible assets.

In accordance with GAAP, we test wireless FCC licenses for impairment on an aggregate basis, consistent with the management of the business on a national scope. During the fourth quarter of 2009, we completed the annual impairment tests for indefinite-lived wireless FCC licenses. These annual impairment tests resulted in no material impairment of indefinite-lived wireless FCC licenses. We recorded an immaterial \$18 impairment to wireline licenses we no longer plan to use.

**Advertising Costs** Advertising costs for advertising products and services or for promoting our corporate image are expensed as incurred.

**Foreign Currency Translation** We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect

at the balance sheet dates. We translate our share of their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income in the accompanying consolidated balance sheets. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 9).

### NOTE 2. ACQUISITIONS, DISPOSITIONS, AND OTHER ADJUSTMENTS

#### Acquisitions

**Centennial** In November 2009, we acquired the assets of Centennial, a regional provider of wireless and wired communications services with approximately 865,000 customers as of December 31, 2009. Total consideration of \$2,961 included \$955 in cash for the redemption of Centennial's outstanding common stock and liquidation of outstanding stock options and \$2,006 for our acquisition of Centennial's outstanding debt (including liabilities related to assets subject to sale, as discussed below), of which we repaid \$1,957 after closing in 2009. The preliminary fair value measurement of Centennial's net assets at the acquisition date resulted in the recognition of \$1,276 of goodwill, \$647 of spectrum licenses, and \$273 of customer lists and other intangible assets for the Wireless segment. The Wireline segment added \$339 of goodwill and \$174 of customer lists and other intangible assets from the acquisition. The acquisition of Centennial impacted our Wireless and Wireline segments, and we have included Centennial's operations in our consolidated results since the acquisition date. As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to identified intangibles and goodwill. See Notes 6 and 8 for additional information regarding the impact of the Centennial acquisition on our goodwill and other intangibles and our long-term debt repayment for 2009.

**Wireless Properties Transactions** In May 2009, we announced a definitive agreement to acquire certain wireless assets from Verizon Wireless (VZ) for approximately \$2,350 in cash. The assets primarily represent former Alltel Wireless assets. We will acquire wireless properties, including licenses and network assets, serving approximately 1.5 million subscribers in 79 service areas across 18 states. In October 2009, the Department of Justice (DOJ) cleared our acquisition of Centennial, subject to the DOJ's condition that we divest Centennial's operations in eight service areas in Louisiana and Mississippi. We are in the process of



finalizing definitive agreements and seeking regulatory approvals to sell all eight Centennial service areas ultimately identified in that ruling. We anticipate we will close the sales during the first half of 2010. As of December 31, 2009, the fair value of the assets subject to the sale, net of related liabilities, was \$282. These net assets include property, plant and equipment, spectrum licenses, customer lists and other intangible assets, and working capital, which are not deemed material for isolated presentation as assets held for sale and liabilities related to assets held for sale in our consolidated balance sheet as of December 31, 2009, and we included these net assets in our Other current assets balance.

**Dobson** In November 2007, we acquired Dobson for approximately \$2,500. Under the purchase method of accounting, the transaction was valued, for accounting purposes, at \$2,580. Our December 31, 2007 consolidated balance sheet included the preliminary valuation of the fair value of Dobson's assets and liabilities, including goodwill of \$2,623, FCC licenses of \$2,230, customer lists of \$517 and other intangible assets totaling \$8 associated with this transaction. Final adjustments to the preliminary valuation included an increase to goodwill of \$990, a decrease in licenses of \$781 and a decrease in customer lists of \$12. The resulting balances are \$3,613 for goodwill, \$1,449 for licenses and \$505 for customer lists. Adjustments were primarily related to changes in the valuation of certain licenses and an increase in the estimate of relative obsolescence of property, plant and equipment resulting in a decrease in value and shorter average remaining economic life, and an adjustment to the value of the markets included in the divestiture order by the FCC. Pursuant to the order, we exchanged certain properties, spectrum and \$355 in cash for other licenses and properties. Deferred tax adjustments are associated with the above mentioned items. Dobson marketed wireless services under the Cellular One brand and had provided roaming services to AT&T subsidiaries since 1990. Dobson had 1.7 million subscribers across 17 states. Dobson's operations were incorporated into our wireless operations following the date of acquisition.

**Other Acquisitions** During 2009, we acquired a provider of mobile application solutions and a security consulting business for a combined \$50 before closing costs. The fair value of the acquired businesses' net assets resulted in the recognition of \$41 of goodwill and \$3 in customer lists and other intangible assets.

During 2008, we acquired Easterbrooke Cellular Corporation, Windstream Wireless, Wayport Inc. and the remaining 64% of Edge Wireless for a combined \$663, recording \$449 in goodwill. The acquisitions of these companies are designed to expand our wireless and Wi-Fi coverage area.

During 2007, we acquired Interwise®, a global provider of voice, Web and video conferencing services to businesses, for \$122 and Ingenio®, a provider of Pay Per Call® technology for directory and local search business, for \$195, net of cash. We recorded \$304 of goodwill related to these acquisitions.

## Dispositions

In 2009, we sold a professional services business for \$174 and eliminated \$113 of goodwill.

In April 2008, we sold to Local Insight Regatta Holdings, Inc., the parent company of Local Insight Yellow Pages, the Independent Line of Business segment of the L.M. Berry Company for \$230.

In May 2007, we sold to Clearwire Corporation (Clearwire), a national provider of wireless broadband Internet access, education broadband service spectrum and broadband radio service spectrum valued at \$300. Sale of this spectrum was required as a condition to the approval of our acquisition of BellSouth.

## Other Adjustments

As ATTC and BellSouth stock options that were converted at the time of the respective acquisitions are exercised, the tax effect on those options may further reduce goodwill. During 2008, we recorded \$1 in related goodwill reductions for ATTC and \$9 for BellSouth.

## NOTE 3. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income from continuing operations for the years ended December 31, 2009, 2008 and 2007, are shown in the table below:

Year Ended December 31,	2009	2008	2007
<b>Numerators</b>			
Numerator for basic earnings per share:			
Net income attributable to AT&T	\$12,535	\$12,867	\$11,951
Dilutive potential common shares:			
Other share-based payment	10	9	8
Numerator for diluted earnings per share	\$12,545	\$12,876	\$11,959
<b>Denominators (000,000)</b>			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	5,900	5,927	6,127
Dilutive potential common shares:			
Stock options	3	9	24
Other share-based payment	21	22	19
Denominator for diluted earnings per share	5,924	5,958	6,170
<b>Basic earnings per share</b>	<b>\$ 2.12</b>	<b>\$ 2.17</b>	<b>\$ 1.95</b>
<b>Diluted earnings per share</b>	<b>\$ 2.12</b>	<b>\$ 2.16</b>	<b>\$ 1.94</b>

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

At December 31, 2009, 2008 and 2007, we had issued and outstanding options to purchase approximately 178 million, 204 million and 231 million shares of AT&T common stock. The exercise prices of options to purchase a weighted-average of 163 million, 144 million and 93 million shares in 2009, 2008, and 2007 were above the average market price of AT&T stock. Accordingly, we did not include these amounts in determining the dilutive potential common shares for the respective periods. At December 31, 2009, the exercise price of 19 million share options was below market price.

### NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes. Interest expense and other income (expense) – net are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in the calculation of each segment's percentage of our consolidated results. The customers and long-lived assets of our reportable segments are predominantly in the United States.

We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse<sup>SM</sup> TV, high-speed broadband and voice services (U-verse) and managed networking to business customers. Additionally, we offer satellite television services through our agency arrangements.

The Advertising Solutions segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search. This segment includes the results of YELLOWPAGES.COM, LLC (YPC), which was a joint venture with BellSouth prior to the December 29, 2006 acquisition and is

now a wholly-owned subsidiary of AT&T. For segment reporting disclosure, we have carried forward the deferred revenue and deferred cost balances for BellSouth at the acquisition date in order to reflect how the segment is managed. This is different for consolidated reporting purposes where BellSouth deferred revenue and expenses from directories published during the 12-month period ending with the December 29, 2006 acquisition date, are not recognized and therefore were not included in the opening balance sheet. For management reporting purposes, we continue to amortize these balances over the life of the directory. Thus, our Advertising Solutions segment results in 2007 include revenue of \$964 and expenses of \$308, related to directories published in the Southeast region during 2006, prior to our acquisition of BellSouth. These amounts are eliminated in the consolidation and elimination column in the following reconciliation.

The Other segment includes results from Sterling Commerce, Inc. (Sterling), customer information services and all corporate and other operations. This segment includes our portion of the results from our international equity investments. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated.

In the following tables, we show how our segment results are reconciled to our consolidated results reported in accordance with GAAP. The Wireless, Wireline, Advertising Solutions and Other columns represent the segment results of each such operating segment. The consolidation and elimination column adds in those line items that we manage on a consolidated basis only: interest expense and other income (expense) – net. This column also eliminates any intercompany transactions included in each segment's results as well as the Advertising Solutions revenue and expense in 2007 related to directories published in the Southeast region during 2006, mentioned previously. In the Segment assets line item, we have eliminated the value of our investments in our fully consolidated subsidiaries and the intercompany financing assets as these have no impact to the segments' operations.

Segment results, including a reconciliation to AT&T consolidated results, for 2009, 2008 and 2007 are as follows:

At December 31, 2009 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	\$ 53,504	\$ 63,331	\$ 4,724	\$ 1,459	\$ —	\$ 123,018
Intersegment revenues	93	2,339	85	272	(2,789)	—
Total segment operating revenues	53,597	65,670	4,809	1,731	(2,789)	123,018
Operations and support expenses	34,561	44,646	2,922	2,471	(2,788)	81,812
Depreciation and amortization expenses	5,765	13,093	649	207	—	19,714
Total segment operating expenses	40,326	57,739	3,571	2,678	(2,788)	101,526
Segment operating income	13,271	7,931	1,238	(947)	(1)	21,492
Interest expense	—	—	—	—	3,379	3,379
Equity in net income of affiliates	9	18	—	706	1	734
Other income (expense) – net	—	—	—	—	152	152
Segment income before income taxes	\$ 13,280	\$ 7,949	\$ 1,238	\$ (241)	\$ (3,227)	\$ 18,999
Segment assets	\$115,282	\$163,028	\$9,782	\$13,567	\$(32,907)	\$268,752
Investment in equity method investees	4	—	—	2,917	—	2,921
Expenditures for additions to long-lived assets	5,921	11,166	22	226	—	17,335

At December 31, 2008 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	\$ 49,174	\$ 67,669	\$ 5,417	\$ 1,768	\$ —	\$ 124,028
Intersegment revenues	161	2,186	85	274	(2,706)	—
Total segment operating revenues	49,335	69,855	5,502	2,042	(2,706)	124,028
Operations and support expenses	32,481	45,440	2,998	2,868	(2,705)	81,082
Depreciation and amortization expenses	5,770	13,206	789	118	—	19,883
Total segment operating expenses	38,251	58,646	3,787	2,986	(2,705)	100,965
Segment operating income	11,084	11,209	1,715	(944)	(1)	23,063
Interest expense	—	—	—	—	3,390	3,390
Equity in net income of affiliates	6	19	—	794	—	819
Other income (expense) – net	—	—	—	—	(328)	(328)
Segment income before income taxes	\$ 11,090	\$ 11,228	\$ 1,715	\$ (150)	\$ (3,719)	\$ 20,164
Segment assets	\$112,146	\$157,501	\$11,038	\$8,769	\$(24,209)	\$265,245
Investment in equity method investees	2	—	—	2,330	—	2,332
Expenditures for additions to long-lived assets	5,869	14,129	20	317	—	20,335

At December 31, 2007 or for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidation and Elimination	Consolidated Results
Revenues from external customers	\$ 42,574	\$ 69,571	\$ 5,771	\$ 1,976	\$ (964)	\$ 118,928
Intersegment revenues	110	2,012	80	253	(2,455)	—
Total segment operating revenues	42,684	71,583	5,851	2,229	(3,419)	118,928
Operations and support expenses	28,585	46,177	3,066	1,882	(2,763)	76,947
Depreciation and amortization expenses	7,079	13,416	924	158	—	21,577
Total segment operating expenses	35,664	59,593	3,990	2,040	(2,763)	98,524
Segment operating income	7,020	11,990	1,861	189	(656)	20,404
Interest expense	—	—	—	—	3,507	3,507
Equity in net income of affiliates	16	31	—	645	—	692
Other income (expense) – net	—	—	—	—	810	810
Segment income before income taxes	\$ 7,036	\$ 12,021	\$ 1,861	\$ 834	\$(3,353)	\$ 18,399
Segment assets	\$103,559	\$158,338	\$13,103	\$2,859	\$(2,215)	\$275,644
Investment in equity method investees	13	—	—	2,257	—	2,270
Expenditures for additions to long-lived assets	3,840	13,767	25	256	—	17,888

**Notes to Consolidated Financial Statements (continued)**

Dollars in millions except per share amounts

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	2009	2008
Land	—	\$ 1,724	\$ 1,730
Buildings	35-45	24,271	23,372
Central office equipment	3-10	78,314	75,054
Cable, wiring and conduit	10-50	74,325	72,109
Other equipment	5-15	39,918	34,434
Software	3-5	8,841	8,348
Under construction	—	3,159	3,532
		<b>230,552</b>	<b>218,579</b>
Accumulated depreciation and amortization		<b>130,459</b>	<b>119,491</b>
Property, plant and equipment – net		<b>\$100,093</b>	<b>\$ 99,088</b>

Our depreciation expense was \$15,959 in 2009, \$15,313 in 2008 and \$15,625 in 2007.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were \$2,889 for 2009, \$2,733 for 2008 and \$2,566 for 2007. At December 31, 2009, the future minimum rental payments under non-cancelable operating leases for the years 2010 through 2014 were \$2,429, \$2,276, \$2,057, \$1,859 and \$1,707, with \$10,230 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

**American Tower Corp. Agreement**

In August 2000, we reached an agreement with American Tower Corp. (American Tower) under which we granted American Tower the exclusive rights to lease space on a number of our communications towers. In exchange, we received a combination of cash and equity instruments as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments was recorded as deferred revenue and recognized in income as revenue over the life of the leases. The balance of deferred revenue was \$509 in 2009, \$539 in 2008 and \$569 in 2007.

**NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in the carrying amounts of goodwill, by segment, for the years ended December 31, 2009 and 2008, are as follows:

	Wireless	Wireline	Advertising Solutions	Other	Total
Balance as of January 1, 2008	\$ 32,713	\$ 31,301	\$ 5,788	\$ 911	\$ 70,713
Goodwill acquired	264	185	—	—	449
Goodwill adjustments for prior-year acquisitions and tax adjustments	990	(95)	(26)	—	869
Other	(116)	(10)	(68)	(8)	(202)
Balance as of December 31, 2008	33,851	31,381	5,694	903	71,829
Goodwill acquired	1,276	344	36	—	1,656
Other	(90)	(117)	1	(20)	(226)
<b>Balance as of December 31, 2009</b>	<b>\$35,037</b>	<b>\$31,608</b>	<b>\$5,731</b>	<b>\$883</b>	<b>\$73,259</b>

Goodwill and wireless FCC licenses are not amortized but tested annually as of October 1 for impairment as required by GAAP. The carrying amounts of goodwill, by segment (which is the same as reporting unit for Wireless, Wireline and Advertising Solutions), at December 31, 2009 were Wireless \$35,037; Wireline \$31,608; Advertising Solutions \$5,731; and Other \$883 and at December 31, 2008 were Wireless \$33,851; Wireline \$31,381; Advertising Solutions \$5,694; and Other \$903. Within the Other segment, goodwill associated with our Sterling operations was \$477 for 2009 and 2008. Additionally, FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. These annual impairment tests resulted in no impairment of indefinite-lived goodwill

or wireless FCC licenses in 2009 and 2008. Goodwill in the Other segment as of January 1, 2008, is net of a \$1,791 impairment that was recognized in a prior period. We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

Goodwill acquired relates primarily to the acquisition of Centennial and a provider of mobile application solutions (see Note 2). Changes to goodwill include adjustments totaling \$90 related to wireless liabilities in connection with a business combination and disposition of a wireline entity for \$117 in 2009.

Our other intangible assets are summarized as follows:

	December 31, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Other Intangible Assets</b>				
Amortized intangible assets:				
Customer lists and relationships:				
AT&T Mobility	\$ 5,804	\$ 3,097	\$10,429	\$ 6,409
BellSouth	9,215	5,597	9,215	4,062
ATTC	3,134	2,377	3,100	2,038
Other	926	588	788	441
Subtotal	19,079	11,659	23,532	12,950
Other	1,176	767	1,724	1,130
Total	\$20,255	\$12,426	\$25,256	\$14,080
Indefinite-life intangible assets not subject to amortization:				
Licenses	\$48,759		\$47,306	
Trade name	5,235		5,230	
Total	\$53,994		\$52,536	

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets with a weighted-average amortization period of 8.1 years (8.0 years for customer lists and relationships and 9.6 years for other). Amortization expense for definite-life intangible assets was \$3,755 for the year ended December 31, 2009, \$4,570 for the year ended December 31, 2008, and \$5,952 for the year ended December 31, 2007. Amortization expense is estimated to be \$2,977 in 2010, \$1,994 in 2011, \$1,315 in 2012, \$730 in 2013 and \$346 in 2014. In 2009, Mobility wrote off \$4,889 in fully amortized intangible assets (primarily customer lists).

Licenses include wireless FCC licenses of \$48,650 at December 31, 2009, and \$47,267 at December 31, 2008, that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses and therefore we treat the FCC licenses as indefinite-lived intangible assets. In 2009, we recorded an immaterial \$18 impairment to wireline licenses we no longer plan to use.

#### NOTE 7. EQUITY METHOD INVESTMENTS

Investments in partnerships, joint ventures and less-than-majority-owned subsidiaries in which we have significant influence are accounted for under the equity method.

Our investments in equity affiliates include primarily international investments. As of December 31, 2009, our investments in equity affiliates included a 9.8% interest in Telefonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, and an 8.8% interest in América Móvil S.A. de C.V. (América Móvil), primarily a wireless provider in Mexico with telecommunications investments in the United States and Latin America. In 2007, Telmex's Board of Directors and shareholders approved a strategic initiative to split off its Latin American businesses and its Mexican yellow pages business to a new holding company, Telmex Internacional, S.A.B. de C.V. (Telmex Internacional). Our investment in Telmex Internacional is 9.9%. We are a member of a consortium that holds all of the class AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A. de C.V. (CGT), has the right to appoint a majority of the directors of Telmex. We also are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium has the right to appoint a majority of the directors of América Móvil. On January 13, 2010, América Móvil announced that its Board of Directors had authorized it to submit an offer for 100% of the equity of CGT, a holding company that owns 59.4% of Telmex and 60.7% of Telmex Internacional, in exchange for América Móvil shares; and an offer for Telmex Internacional shares not owned by CGT, to be purchased for cash or to be exchanged for América Móvil shares, at the election of the shareholders.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table is a reconciliation of our investments in equity affiliates as presented on our consolidated balance sheets:

	2009	2008
Beginning of year	\$2,332	\$2,270
Additional investments	44	—
Equity in net income of affiliates	734	819
Dividends received	(317)	(164)
Currency translation adjustments	125	(574)
Other adjustments	3	(19)
End of year	\$2,921	\$2,332

Undistributed earnings from equity affiliates were \$3,408 and \$2,989 at December 31, 2009 and 2008. The currency translation adjustment for 2009 and 2008 reflects the effect of exchange rate fluctuations on our investments in Telmex, Telmex Internacional and América Móvil.

The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2009, was \$1,492. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2009, was \$6,741. The fair value of our investment in Telmex Internacional, based on the equivalent value of Telmex Internacional L shares at December 31, 2009, was \$1,597.

### NOTE 8. DEBT

Long-term debt of AT&T and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

	2009	2008
Notes and debentures		
Interest Rates		
0.35% – 2.99%	2009 – 2010	\$ 3,500
3.00% – 4.99%	2009 – 2014	5,853
5.00% – 6.99%	2009 – 2095	41,331
7.00% – 9.10%	2009 – 2097	19,069
Other		136
Fair value of interest rate swaps recorded in debt		310
	70,199	68,362
Unamortized premium, net of discount	1,612	1,846
Total notes and debentures	71,811	70,208
Capitalized leases	237	167
Total long-term debt, including current maturities	72,048	70,375
Current maturities of long-term debt	(7,328)	(9,503)
Total long-term debt	\$64,720	\$60,872

<sup>1</sup>Maturities assume putable debt is redeemed by the holders at the next opportunity.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2010.

We have \$1,000 of annual put reset securities issued by BellSouth that can be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, excluding May 2011, until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007) is held to maturity, the redemption amount will be \$1,030.

Debt maturing within one year consists of the following at December 31:

	2009	2008
Commercial paper	\$ —	\$ 4,575
Current maturities of long-term debt	7,328	9,503
Bank borrowings <sup>1</sup>	33	41
Total	\$7,361	\$14,119

<sup>1</sup>Outstanding balance of short-term credit facility of a foreign subsidiary.

During 2009, we received net proceeds of \$8,161 from the issuance of \$8,228 in long-term debt. Debt proceeds were used for general corporate purposes, including the repayment of maturing debt. Long-term debt issuances consisted of:

- \$1,000 of 4.85% global notes due in 2014.
- \$2,250 of 5.80% global notes due in 2019.
- \$2,250 of 6.55% global notes due in 2039.
- £750 of 5.875% global notes due in 2017 (equivalent to \$1,107 when issued).
- £1,100 of 7.0% global notes due in 2040 (equivalent to \$1,621 when issued).

During 2009, debt repayments totaled \$13,236 and consisted of:

- \$8,633 in repayments of long-term debt (includes repayment of \$1,957 for Centennial debt).
- \$4,583 in repayments of commercial paper and short-term bank borrowings.
- \$20 in repayments of other debt.

As of December 31, 2009 and 2008, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Excluding capitalized leases, the aggregate principal amounts of long-term debt and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2010	2011	2012	2013	2014	There-after
Debt repayments <sup>1</sup>	\$7,328	\$7,536	\$4,836	\$5,825	\$4,789	\$39,707
Weighted-average interest rate	3.4%	7.1%	6.6%	5.6%	5.1%	6.6%

<sup>1</sup>Debt repayments assume putable debt is redeemed by the holders at the next opportunity.

**Credit Facility** We have a five-year credit agreement with a syndicate of investment and commercial banks. In June 2009, one of the participating banks, Lehman Brothers Bank, Inc., which had declared bankruptcy, terminated its lending commitment of \$535 and withdrew from the agreement. As a result of this termination, the outstanding commitments under the agreement were reduced from a total of \$10,000 to \$9,465. We still have the right to increase commitments up to an additional \$2,535 provided no event of default under the credit agreement has occurred. The current agreement will expire in July 2011. We also have the right to terminate, in whole or in part, amounts committed by the lenders under this agreement in excess of any outstanding advances; however, any such terminated commitments may not be reinstated. Advances under this agreement may be used for general corporate purposes, including support of commercial paper borrowings and other short-term borrowings. There is no material adverse change provision governing the drawdown of advances under this credit agreement. This agreement contains a negative pledge covenant, which requires that, if at any time we or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under this agreement will be ratably secured, subject to specified exceptions. We must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) financial ratio covenant of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. We comply with all covenants under the agreement. At December 31, 2009, we had no borrowings outstanding under this agreement.

Defaults under the agreement, which would permit the lenders to accelerate required payment, include nonpayment of principal or interest beyond any applicable grace period;

failure by AT&T or any subsidiary to pay when due other debt above a threshold amount that results in acceleration of that debt (commonly referred to as "cross-acceleration") or commencement by a creditor of enforcement proceedings within a specified period after a monetary judgment above a threshold amount has become final; acquisition by any person of beneficial ownership of more than 50% of AT&T common shares or a change of more than a majority of AT&T's directors in any 24-month period other than as elected by the remaining directors (commonly referred to as a "change-in-control"); material breaches of representations in the agreement; failure to comply with the negative pledge or debt-to-EBITDA ratio covenants described above; failure to comply with other covenants for a specified period after notice; failure by AT&T or certain affiliates to make certain minimum funding payments under Employee Retirement Income Security Act of 1974, as amended (ERISA); and specified events of bankruptcy or insolvency.

#### **NOTE 9. FAIR VALUE MEASUREMENTS AND DISCLOSURE**

GAAP standards require disclosures for financial assets and liabilities that are remeasured at fair value at least annually. GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The Fair Value Measurement and Disclosure framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under Fair Value Measurement and Disclosure are described below:

LEVEL 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AT&T has the ability to access.
LEVEL 2	<p>Inputs to the valuation methodology include:</p> <ul style="list-style-type: none"> <li>• Quoted prices for similar assets and liabilities in active markets;</li> <li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li> <li>• Inputs other than quoted market prices that are observable for the asset or liability;</li> <li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li> </ul> <p>If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.</p>
LEVEL 3	<p>Inputs to the valuation methodology are unobservable and significant to the fair value measurement.</p> <ul style="list-style-type: none"> <li>• Fair value is often based on internally developed models in which there are few, if any, external observations.</li> </ul>



## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. AT&T believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at December 31, 2009 and 2008. See Note 11 for disclosures relating to pension and other postemployment benefits.

### Long-Term Debt and Other Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows at December 31:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$71,811	\$75,212	\$70,208	\$70,955
Commercial paper	—	—	4,575	4,575
Bank borrowings	33	33	41	41
Available-for-sale securities	1,885	1,885	1,632	1,632

The fair values of our notes and debentures were estimated based on quoted market prices, where available, or on the net present value method of expected future cash flows using current interest rates. The carrying value of debt with an original maturity of less than one year approximates market value.

### Investment Securities

Our investment securities consist of available-for-sale instruments which include \$1,574 of equities, \$226 in government fixed income bonds and \$85 of other securities. Substantially all of our available-for-sale securities are Level 1 and Level 2. Realized gains and losses on these securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated other comprehensive income (accumulated OCI). Unrealized losses that are considered other than temporary are recorded in other income (expense) – net, with the corresponding reduction to the carrying basis of the investment.

At the end of the first quarter of 2009 and at the end of 2008, we concluded that the severity in the decline in market values of these assets had led to an other-than-temporary impairment, writing them down \$102 in 2009 and \$332 in 2008, and recording the amount in Other Income (Expense).

Our short-term investments, other short-term and long-term held-to-maturity investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values.

Our investment securities maturing within one year are recorded in "Other current assets," and instruments with maturities of more than one year are recorded in "Other Assets" on the consolidated balance sheets.

### Derivative Financial Instruments

We employ derivatives to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

The majority of our derivatives are designated as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Only a portion of our foreign exchange forward contracts are not designated to receive hedge accounting.

**Fair Value Hedging** We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense on the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. We record changes in the fair value of the swaps, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense, though they net to zero. Realized gains or losses upon early termination of our fair value hedges would be recognized in interest expense.



**Cash Flow Hedging** Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized in income from continuing operations in each current period.

We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro- and British pound sterling-denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S.-denominated amounts, to be exchanged at a specified rate, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S.-denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. In the year ended December 31, 2009, no material ineffectiveness was measured.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the year ended December 31, 2009, no material ineffectiveness was measured. Over the next 12 months, we expect to reclassify \$21 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. Our unutilized interest rate locks carry mandatory early terminations, the latest occurring in April 2012.

We hedge a large portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at

a fixed rate. Some of these instruments are designated as cash flow hedges while others remain non-designated, largely based on size and duration. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income over the next few months as the hedged funds are spent by our foreign subsidiaries, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the year ended December 31, 2009, no material ineffectiveness was measured.

**Non-designated and Discontinued Hedging Instruments** Changes in the fair value of non-designated derivatives are recorded in other income (expense) – net, along with the change in fair value of the underlying asset or liability, as applicable. When hedge accounting is discontinued, the derivative is adjusted for changes in fair value through other income (expense) – net. For fair value hedges, the swap asset or liability and the underlying hedged liability or asset will no longer be adjusted for changes in fair value, and the net adjustment to the hedged item at that time will be amortized into earnings over the remaining life of the hedged item. For cash flow hedges, gains and losses that were in accumulated OCI as a component of stockholders' equity in connection with hedged assets or liabilities or forecasted transactions will be recognized in other income (expense) – net, in the same period the hedged item affects earnings.

**Collateral and Credit-Risk Contingency** We have entered into agreements with most of our derivative counterparties, establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2009, we held \$222 of counterparty collateral (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level, we still would not have been required to post collateral (a deposit asset). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

Following is the notional amount of our outstanding derivative positions:

	December 31, 2009
Interest rate swaps	\$ 9,000
Cross-currency swaps	7,502
Interest rate locks	3,600
Foreign exchange contracts	293
<b>Total</b>	<b>\$20,395</b>

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Following are our derivative instruments and their related hedged items affecting our financial position and performance:

### Fair Value of Derivatives in the Consolidated Balance Sheet

Derivatives designated as hedging instruments and reflected as other assets, other liabilities and, for a portion of interest rate swaps, accounts receivable.

Asset Derivatives	December 31, 2009
Interest rate swaps	\$ 399
Cross-currency swaps	635
Interest rate locks	150
Foreign exchange contracts	2
<b>Total</b>	<b>\$1,186</b>

Liability Derivatives	December 31, 2009
Cross-currency swaps	\$ (390)
Interest rate locks	(6)
Foreign exchange contracts	(7)
<b>Total</b>	<b>\$ (403)</b>

The balance of the unrealized derivative gain (loss) in accumulated OCI was \$142 at December 31, 2009, and \$(483) at December 31, 2008.

### Effect of Derivatives on the Consolidated Statement of Income

Fair Value Hedging Relationships	Year ended December 31, 2009
Interest rate swaps (Interest expense):	
Gain (Loss) on interest rate swaps	\$(216)
Gain (Loss) on long-term debt	216

In addition, the net swap settlements that accrued and settled in the year ended December 31, 2009, were also reported as reductions of interest expense.

Cash Flow Hedging Relationships	Year ended December 31, 2009
Cross-currency swaps:	
Gain (Loss) recognized in accumulated OCI	\$738
Other income (expense) reclassified from accumulated OCI into income	—
Interest rate locks:	
Gain (Loss) recognized in accumulated OCI	203
Interest income (expense) reclassified from accumulated OCI into income	(23)
Foreign exchange contracts:	
Gain (Loss) recognized in accumulated OCI	(2)
Other income (expense) reclassified from accumulated OCI into income	—
<b>Non-designated Hedging Instruments</b>	
Foreign exchange contracts (Other income)	\$ (1)

## NOTE 10. INCOME TAXES

Significant components of our deferred tax liabilities (assets) are as follows at December 31:

	2009	2008
Depreciation and amortization	\$ 18,796	\$ 18,269
Intangibles (nonamortizable)	1,990	1,990
Employee benefits	(14,220)	(14,825)
Net operating loss and other carryforwards	(1,846)	(2,220)
Investment in wireless partnership	18,646	16,028
Other – net	(2,019)	(2,250)
<b>Subtotal</b>	<b>21,347</b>	<b>16,992</b>
Deferred tax assets valuation allowance	1,182	1,190
<b>Net deferred tax liabilities</b>	<b>\$ 22,529</b>	<b>\$ 18,182</b>
Net long-term deferred tax liabilities	\$ 23,803	\$ 19,196
Less: Net current deferred tax assets	(1,274)	(1,014)
<b>Net deferred tax liabilities</b>	<b>\$ 22,529</b>	<b>\$ 18,182</b>

At December 31, 2009, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of \$362 and for state and foreign income tax purposes of \$1,125, expiring through 2028. Additionally, we had federal credit carryforwards of \$66 and state credit carryforwards of \$293, expiring primarily through 2026.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2008 and 2009, relate primarily to state net operating loss carryforwards.

As required by GAAP, we recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our balance sheet as an unrecognized tax benefit (UTB). We update our unrecognized tax benefits at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1, 2009 to December 31, 2009, and January 1, 2008 to December 31, 2008, is as follows:

<b>Federal, State and Foreign Tax</b>	<b>2009</b>	<b>2008</b>
Balance at beginning of year	<b>\$ 6,190</b>	\$ 5,901
Increases for tax positions related to the current year	<b>982</b>	811
Increases for tax positions related to prior years	<b>877</b>	715
Decreases for tax positions related to prior years	<b>(1,984)</b>	(1,237)
Settlements	<b>(81)</b>	—
Balance at end of year	<b>5,984</b>	6,190
Accrued interest and penalties	<b>1,539</b>	1,802
Gross unrecognized income tax benefits	<b>7,523</b>	7,992
Less: Deferred federal and state income tax benefits	<b>(892)</b>	(998)
Less: Tax attributable to timing items included above	<b>(2,542)</b>	(3,371)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	<b>\$ 4,089</b>	\$ 3,623

During 2009 and 2008, we made net deposits totaling \$1,151 and \$191 to several taxing jurisdictions. These deposits are not included in the reconciliation above but reduce our unrecognized tax benefits balance. Net of these deposits and a \$1,000 deposit made in 2007, our unrecognized tax benefits balance at December 31, 2009, was \$5,181, of which \$4,882 was included in "Other noncurrent liabilities" and \$299 was included in "Accrued taxes" on our consolidated balance sheets. Our unrecognized tax benefits balance at December 31, 2008, was \$6,801, of which \$5,042 was included in "Other noncurrent liabilities" and \$1,759 was included in "Accrued taxes" on our consolidated balance sheets.

We record interest and penalties related to federal, state and foreign unrecognized tax benefits in income tax expense. Accrued interest and penalties included in unrecognized tax benefits were \$1,539 as of December 31, 2009, and \$1,802 as of December 31, 2008. Interest and penalties included in our consolidated statements of income were \$(215) for 2009, \$152 for 2008, and \$303 for 2007.

The Company and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Our income tax returns are regularly audited and reviewed by the IRS as well as by state and foreign taxing authorities.

The IRS has completed field examinations of AT&T's tax returns through 2005, and all audit periods prior to 1998 are closed for federal purposes. We were unable to reach agreement with the IRS regarding treatment of Universal Service Fund receipts on our 1998 and 1999 tax returns and, as a result, we filed a refund suit in U.S. District Court (District Court). In July 2009, the District Court granted the Government's motion for summary judgment and entered final judgment for the Government. We appealed the final

judgment to the U.S. Court of Appeals for the Fifth Circuit. We are engaged with the IRS Appeals Division (Appeals) in settling our 2000 – 2002 returns and expect to reach a resolution of most issues in early 2010. We do not expect the resolution to have a material impact on our unrecognized tax benefits. In early 2009, the IRS completed its field examination of our 2003 – 2005 income tax returns and issued its final Revenue Agent's Report (RAR). This RAR assessed additional taxes related primarily to the timing of certain deductions related to our network assets. We made a deposit of \$650 to reduce the accrual of interest while we continue to work with Appeals to resolve the contested issues. The IRS began its examination of our 2006 – 2008 income tax returns in 2009. During 2010, we expect to reach an accelerated resolution with the IRS for depreciation and amortization deductions claimed on our 2008 return related to a restructuring of our wireless operations. At this time, we are unable to estimate the impact of a resolution on our unrecognized tax benefits. The IRS has completed the examination of all acquired entity tax returns through 2003 (ATTC and AT&T Mobility through 2005) and, with the exception of BellSouth, all years through 2001 are closed. We expect the IRS to complete its examination of the BellSouth 2004 – 2005 income tax returns during 2010.

The components of income tax expense are as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Federal:</b>			
Current	<b>\$2,852</b>	\$1,160	\$5,872
Deferred – net	<b>2,194</b>	5,163	(413)
	<b>5,046</b>	6,323	5,459
<b>State, local and foreign:</b>			
Current	<b>1,200</b>	(13)	621
Deferred – net	<b>(90)</b>	726	173
	<b>1,110</b>	713	794
<b>Total</b>	<b>\$6,156</b>	\$7,036	\$6,253

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before income taxes, income from discontinued operations, extraordinary items and cumulative effect of accounting changes is as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Taxes computed at federal statutory rate</b>	<b>\$ 6,649</b>	\$7,057	\$6,440
<b>Increases (decreases) in income taxes resulting from:</b>			
State and local income taxes – net of federal income tax benefit	<b>559</b>	497	549
Other – net	<b>(1,052)</b>	(518)	(737)
<b>Total</b>	<b>\$ 6,156</b>	\$7,036	\$6,252
<b>Effective Tax Rate</b>	<b>32.4%</b>	34.9%	34.0%

**NOTE 11. PENSION AND POSTRETIREMENT BENEFITS****Pension Benefits and Postretirement Benefits**

Substantially all of our U.S. employees are covered by one of our noncontributory pension and death benefit plans. Many of our management employees participate in pension plans that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income) and a frozen cash balance or defined lump sum formula. In 2005, the management pension plan for those employees was amended to freeze benefit accruals previously earned under a cash balance formula. Each employee's existing cash balance continues to earn interest at a variable annual rate. After this change, those management employees, at retirement, may elect to receive the portion of their pension benefit derived under the cash balance or defined lump sum as a lump sum or an annuity. The remaining pension benefit, if any, will be paid as an annuity if its value exceeds a stated monthly amount. Management employees of former ATTC, BellSouth, AT&T Mobility and new hires after 2006 participate in cash balance pension plans. Nonmanagement employees' pension benefits are generally calculated using one of two formulas: benefits are based on a flat dollar amount per year according to job classification or are calculated under a cash balance plan that is based on an initial cash balance amount and a negotiated annual pension band and interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

We also provide a variety of medical, dental and life insurance benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits.

On December 31, 2009, the AT&T Pension Plan and the Cingular Wireless Pension Plan were merged into the AT&T Puerto Rico Pension Benefit Plan. At November 1, 2008, BellSouth pension plans and U.S. Domestic ATTC bargained employees were merged into the AT&T Pension Benefit Plan. At December 31, 2007, defined benefit pension plans formerly sponsored by Ameritech Publishing Ventures and AT&T Mobility were merged in the AT&T Pension Benefit Plan.

During 2009, union contracts covering 120,000 collectively bargained wireline employees expired. As of January 31, 2010, 86,000 employees covered by these expired collectively bargained wireline contracts have ratified new labor contracts. In the absence of an effective contract, the union is entitled to call a work stoppage.

For approximately 60,000 employees covered by these ratified agreements, the agreements provide for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement.

For both wage and pension band increases, there is a potential cost-of-living increase based on the Consumer Price Index for the third year. These agreements also provide for continued health care coverage with reasonable cost sharing.

For the remaining approximately 26,000 employees, the agreement provides for a four-year term with provisions substantially similar to the provisions of the ratified agreements discussed above, with a wage increase in year four of 2.75 percent and a potential cost-of-living increase in year four instead of in year three.

On February 8, 2010, the Company and the CWA announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. The tentative agreement provides for a three-year term and, for the vast majority of those covered employees, a 3 percent wage increase in years one and two, a wage increase in year three of 2.75 percent, and pension band increases of 2 percent for each year of the agreement. These agreements also provide for continued health care coverage with reasonable cost sharing.

In August 2009, retirees were informed of medical and drug coverage changes. In addition, we adopted changes to our pension plans consistent with the Pension Protection Act of 2006 (PPA). Because of these modifications, our amortization of prior service (benefit) cost also changed, reducing costs by \$128 in the third quarter of 2009. In the fourth quarter of 2009, our pension and postretirement costs have decreased, which is consistent with reductions that began in August 2009. These modifications will decrease costs in 2010.

**Obligations and Funded Status**

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation," the actuarial present value, as of our December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels.

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation," the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to the valuations date.

The following table presents this reconciliation and shows the change in the projected benefit obligation for the years ended December 31:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Benefit obligation at beginning of year	\$50,822	\$53,522	\$37,531	\$40,385
Service cost – benefits earned during the period	1,070	1,173	334	429
Interest cost on projected benefit obligation	3,355	3,319	2,434	2,550
Amendments	(685)	(15)	(3,115)	(4)
Actuarial loss (gain)	2,439	(1,450)	1,402	(3,406)
Special termination benefits	118	70	9	5
Settlements	—	—	—	—
Benefits paid	(6,269)	(5,795)	(2,370)	(2,548)
Other	—	(2)	—	120
Benefit obligation at end of year	\$50,850	\$50,822	\$36,225	\$37,531

The following table presents the change in the value of plan assets for the years ended December 31 and the plans' funded status at December 31:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Fair value of plan assets at beginning of year	\$46,828	\$ 70,810	\$ 10,175	\$ 16,999
Actual return on plan assets	6,312	(18,190)	1,991	(4,688)
Benefits paid <sup>1</sup>	(6,269)	(5,795)	(823)	(2,301)
Contributions	2	—	195	165
Other	—	3	(25)	—
Fair value of plan assets at end of year	46,873	46,828	11,513	10,175
Funded (unfunded) status at end of year <sup>2</sup>	\$ (3,977)	\$ (3,994)	\$ (24,712)	\$ (27,356)

<sup>1</sup>At our discretion, certain postretirement benefits are paid from AT&T cash accounts and do not reduce Voluntary Employee Beneficiary Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.

<sup>2</sup>Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with Employee Retirement Income Security Act (ERISA) regulations.

Amounts recognized on our consolidated balance sheets at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Current portion of employee benefit obligation <sup>1</sup>	\$ —	\$ —	\$ (2,021)	\$ (729)
Employee benefit obligation <sup>2</sup>	(3,977)	(3,994)	(22,691)	(26,627)
Net amount recognized	\$ (3,977)	\$ (3,994)	\$ (24,712)	\$ (27,356)

<sup>1</sup>Included in "Accounts payable and accrued liabilities."

<sup>2</sup>Included in "Postemployment benefit obligation."

Amounts included in our accumulated other comprehensive income that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2009	2008	2009	2008
Net loss	\$23,041	\$23,004	\$ 3,991	\$ 3,695
Prior service cost (credit)	(181)	562	(4,644)	(1,999)
Total	\$22,860	\$23,566	\$ (653)	\$ 1,696

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was \$49,122 at December 31, 2009, and \$48,618 at December 31, 2008.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

### Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

Our combined net pension and postretirement cost recognized in our consolidated statements of income was \$1,921, \$324 and \$1,078 for the years ended December 31, 2009, 2008 and 2007.

The following tables present the components of net periodic benefit obligation cost and other changes in plan assets and benefit obligations recognized in other comprehensive income:

#### Net Periodic Benefit Cost

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Service cost – benefits earned during the period	\$ 1,070	\$ 1,173	\$ 1,257	\$ 334	\$ 429	\$ 511
Interest cost on projected benefit obligation	3,355	3,319	3,220	2,434	2,550	2,588
Expected return on plan assets	(4,561)	(5,602)	(5,468)	(955)	(1,327)	(1,348)
Amortization of prior service cost (credit) and transition asset	58	133	142	(469)	(360)	(359)
Recognized actuarial (gain) loss	656	10	241	(1)	(1)	294
Net pension and postretirement cost (benefit) <sup>1</sup>	\$ 578	\$ (967)	\$ (608)	\$1,343	\$ 1,291	\$ 1,686

<sup>1</sup>During 2009, 2008 and 2007, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 reduced postretirement benefit cost by \$255, \$263 and \$342. This effect is included in several line items above.

#### Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	Pension Benefits			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Net loss (gain)	\$ 435	\$13,857	\$(2,131)	\$(1,242)	\$1,716	\$(2,525)
Prior service cost (credit)	(392)	(16)	139	(322)	32	(28)
Amortization of net loss (gain)	412	4	154	(1)	—	181
Amortization of prior service cost (credit)	69	83	78	(223)	(222)	(223)
Total recognized in net pension and postretirement cost and other comprehensive income	\$ 524	\$13,928	\$(1,760)	\$(1,788)	\$1,526	\$(2,595)

The estimated net loss for pension benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$683, and the prior service credit for pension benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$16. The estimated net gain for postretirement benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$8, and the prior service credit for postretirement benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$625.

#### Assumptions

In determining the projected benefit obligation and the net pension and postemployment benefit cost, we used the following significant weighted-average assumptions:

	2009	2008	2007
Discount rate for determining projected benefit obligation at December 31	6.50%	7.00%	6.50%
Discount rate in effect for determining net cost (benefit)	7.00%	6.50%	6.00%
Long-term rate of return on plan assets	8.50%	8.50%	8.50%
Composite rate of compensation increase for determining projected benefit obligation and net pension cost (benefit)	4.00%	4.00%	4.00%

Approximately 10% of pension and postretirement costs are capitalized as part of construction labor, providing a small reduction in the net expense recorded. Uncertainty in the securities markets and U.S. economy could result in investment returns less than those assumed. GAAP requires that actual gains and losses on pension and postretirement plan assets be recognized in the market-related value of assets (MRVA) equally over a period of not more than five years. We use a methodology, allowed under GAAP, under which we hold the MRVA to within 20% of the actual fair value of plan assets, which can have the effect of accelerating the recognition of excess actual gains and losses into the MRVA to less than five years. Due to investment losses on plan assets experienced in 2008, this methodology contributed approximately \$1,577 to our combined net pension and postretirement cost in 2009 as compared with not using this methodology. This methodology did not have a material impact on 2008 and 2007 combined net pension and postretirement benefits. Should the securities markets decline or medical and prescription drug costs increase at a rate greater than assumed, we would expect increasing annual combined net pension and postretirement costs for the next several years. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

**Discount Rate** Our assumed discount rate of 6.50% at December 31, 2009, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve comprised of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of \$2,065 and an increase in our postretirement benefit obligation of \$1,847. For the year ended December 31, 2008, we increased our discount rate by 0.50%, resulting in a decrease in our pension plan benefit obligation of \$2,176 and a decrease in our postretirement benefit obligation of \$2,154.

**Expected Long-Term Rate of Return** Our expected long-term rate of return on plan assets of 8.50% for 2010 and 2009 reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations and the asset mix of the

plans' investments. Actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. However, the dramatic adverse market conditions in 2008 have skewed traditional measures of long-term return, such as the 10-year return, which was 3.67% through 2009 and 4.21% through 2008, compared with 9.18% through 2007. The severity of the 2008 losses may make the 10-year return less of a relevant factor in future expectations. In 2009, we experienced actual returns on investments much greater than what was expected, which will create a reduction in combined pension and postretirement costs for 2010. Based on the future expectations for the target asset mix, this assumption will remain unchanged for 2010. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisors. This assumption, which is based on our long-term expectations of market returns in future years, is one of the most significant of the weighted-average assumptions used to determine our actuarial estimates of pension and postretirement benefit expense. If all other factors were to remain unchanged, we expect that a 1% decrease in the expected long-term rate of return would cause 2010 combined pension and postretirement cost to increase \$639.

**Composite Rate of Compensation Increase** Our expected composite rate of compensation increase of 4% reflects the long-term average rate of salary increases.

**Health Care Cost Trend** Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. In addition to the health care cost trend, we assume an annual 3% growth in administrative expenses and an annual 3% growth in dental claims. Due to benefit design changes (e.g., increased co-pays and deductibles for prescription drugs and certain medical services), we have generally experienced better-than-expected claims cost in recent years. The following table provides our assumed average health care cost trend based on the demographics of plan participants:

	2010	2009
Health care cost trend rate assumed for current year		
Retirees 64 and under	5.00%	5.21%
Retirees 65 and over	5.00%	5.36%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that rate reaches the ultimate trend rate	2010	2010



## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage- Point Increase	One Percentage- Point Decrease
Increase (decrease) in total of service and interest cost components	\$ 325	\$ (266)
Increase (decrease) in accumulated postretirement benefit obligation	3,423	(2,842)

Prior to August 2009, a majority of our labor contracts contained an annual dollar cap for nonmanagement retirees who retire during the term of the labor contract. However, we waived the cap during the relevant contract periods and thus did not collect contributions from those retirees. We have similarly waived the cap for nonmanagement retirees who retired prior to inception of the labor contract. In accordance with the substantive plan provisions required in accounting for postretirement benefits under GAAP, we did not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., for GAAP purposes, we assumed the cap would be waived for all future contract periods). In August 2009, the company announced that the annual dollar caps would be enforced for some groups beginning in 2010, with alternative uncapped plans available and participants assumed to move to the uncapped plans. Consequently, no substantive assumptions about the annual caps being waived are reflected after August 2009.

We also changed from a static mortality table to a generational mortality table, creating an increase in our pension and postretirement benefit obligations as of December 31, 2009, as well as an increase in net pension and postretirement costs in 2010. Given full recognition of bargained changes, assumption changes and recognition of gains/losses, our combined pension and postretirement cost is expected to decrease for 2010 compared to 2009.

### Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets. The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. We maintain VEBA trusts to partially fund postretirement benefits; however, there are no ERISA or regulatory requirements that these postretirement benefit plans be funded annually.

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and to be broadly diversified across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses. The current asset allocation policy and risk level for the pension plan and VEBA assets are based on a study completed and approved during 2009.

The plans' weighted-average asset target and actual allocations as a percentage of plan assets, including the notional exposure of future contracts by asset categories at December 31, are as follows:

	Pension Assets			Postretirement (VEBA) Assets		
	Target	2009	2008	Target	2009	2008
Equity securities:						
Domestic	26% – 36%	34%	34%	34% – 44%	39%	39%
International	12% – 22%	16	16	22% – 32%	27	21
Fixed income securities	27% – 37%	30	30	15% – 25%	20	25
Real assets	6% – 16%	8	11	0% – 7%	2	3
Private equity	4% – 14%	10	9	0% – 9%	4	6
Other	0% – 5%	2	—	3% – 13%	8	6
Total		100%	100%		100%	100%



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At December 31, 2009, AT&T securities represented less than one-half of a percent of assets held by our pension plans and VEBA trusts.

#### *Investment Valuation*

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See "Fair Value Measurement" for further discussion.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Over-the-counter (OTC) securities and government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Depending on the types and contractual terms of OTC derivatives, fair value is measured using a series of techniques, such as Black-Scholes option pricing model, simulation models or a combination of various models.

Common/collective trust funds and 103-12 investment entities are valued at quoted redemption values that represent the net asset values of units held at year-end which management has determined approximates fair value.

Alternative investments, including investments in private equities, private bonds, limited partnerships, hedge funds, real assets and natural resources, do not have readily available market values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material. Private equity, private bonds, limited partnership interests, hedge funds and other investments not having an established market are valued at net asset values as determined by the investment

managers, which management has determined approximates fair value. Private equity investments are often valued initially based upon cost; however, valuations are reviewed utilizing available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in real assets funds are stated at the aggregate net asset value of the units of these funds, which management has determined approximates fair value. Real assets and natural resource investments are valued either at amounts based upon appraisal reports prepared by appraisers or at amounts as determined by an internal appraisal performed by the investment manager, which management has determined approximates fair value.

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

#### *Fair Value Measurement*

GAAP standards require disclosures for financial assets and liabilities that are remeasured at fair value at least annually. GAAP standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. See Note 9 "Fair Value Measurement and Disclosure" for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2009:

<b>Pension Assets and Liabilities at Fair Value as of December 31, 2009</b>	Level 1	Level 2	Level 3	Total
Interest bearing investments	\$ 134	\$ 2,277	\$ —	\$ 2,411
Equity securities:				
Domestic	9,253	3,207	2	12,462
International	4,928	1,766	—	6,694
Fixed income securities:				
U.S. Government and governmental agencies	—	5,295	—	5,295
Corporate and other bonds and notes	—	4,548	—	4,548
Private equity	36	10	5,312	5,358
Real assets	—	—	3,650	3,650
Other	128	206	—	334
Market value of securities on loan:				
Interest bearing investments	—	300	—	300
Equity – domestic	1,907	1	—	1,908
Equity – international	597	15	—	612
U.S. Government and governmental agencies	—	2,962	—	2,962
Corporate bonds and notes	—	659	—	659
Other	22	8	—	30
Collateral value of securities lending	—	6,039	—	6,039
<b>Total plan net assets at fair value</b>	<b>\$17,005</b>	<b>\$27,293</b>	<b>\$8,964</b>	<b>\$ 53,262</b>
Other assets (liabilities) <sup>1</sup>				(6,389)
<b>Total Plan Net Assets</b>				<b>\$46,873</b>

<sup>1</sup>Other assets (liabilities) include accounts receivable, accounts payable and net adjustment for securities lending payable.

<b>Postretirement Assets and Liabilities at Fair Value as of December 31, 2009</b>	Level 1	Level 2	Level 3	Total
Interest bearing investments	\$ 49	\$1,145	\$ —	\$ 1,194
Equity securities:				
Domestic	2,484	1,175	—	3,659
International	2,534	755	—	3,289
Fixed income securities:				
U.S. Government and governmental agencies	—	1,507	—	1,507
Corporate and other bonds and notes	—	485	—	485
Private equity	—	—	583	583
Real assets	—	—	117	117
Other	33	11	—	44
Market value of securities on loan:				
Equities – domestic	354	118	—	472
Equities – international	95	82	—	177
U.S. government bonds and notes	—	74	—	74
Corporate and other bonds and notes	—	15	—	15
Collateral value of securities lending	—	765	—	765
<b>Total plan net assets at fair value</b>	<b>\$5,549</b>	<b>\$6,132</b>	<b>\$700</b>	<b>\$ 12,381</b>
Other assets (liabilities) <sup>1</sup>				(868)
<b>Total Plan Net Assets</b>				<b>\$11,513</b>

<sup>1</sup>Other assets (liabilities) include accounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the pension and postretirement assets Level 3 investment assets for the year ended December 31, 2009:

Pension Assets	Equity-Domestic	Private Equity	Real Assets	Total
Balance, beginning of year	\$ 21	\$ 5,494	\$ 5,281	\$10,796
Actual return on plan assets:				
Assets sold during the period	—	130	(41)	89
Assets still held at reporting date	10	(652)	(1,829)	(2,471)
Purchases, sales, issuances and settlements (net)	(29)	340	239	550
<b>Balance, End of Year</b>	<b>\$ 2</b>	<b>\$5,312</b>	<b>\$3,650</b>	<b>\$ 8,964</b>

Postretirement Assets	Private Equity	Real Assets	Total
Balance, beginning of year	\$ 669	\$ 210	\$ 879
Actual return on plan assets:			
Assets sold during the period	23	(34)	(11)
Assets still held at reporting date	(76)	(62)	(138)
Purchases, sales, issuances and settlements (net)	(33)	3	(30)
<b>Balance, End of Year</b>	<b>\$583</b>	<b>\$117</b>	<b>\$ 700</b>

#### Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2009. Because benefit payments will depend on future employment and compensation levels, average years employed and average life spans, among other factors, changes in any of these factors could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits	Medicare Subsidy Receipts
2010	\$ 4,897	\$ 2,836	\$(113)
2011	4,605	2,665	(121)
2012	4,578	2,627	(132)
2013	4,504	2,615	(143)
2014	4,432	2,596	(154)
Years 2015 – 2019	21,449	12,729	(944)

#### Supplemental Retirement Plans

We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. While these plans are unfunded, we have assets in a designated nonbankruptcy remote trust that are independently managed and used to provide for these benefits. These plans include supplemental pension benefits as well as compensation-deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral.

We use the same significant assumptions for the discount rate and composite rate of compensation increase used in determining the projected benefit obligation and the net pension and postemployment benefit cost. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amounts recorded as "Other noncurrent liabilities" on our consolidated balance sheets at December 31, 2009, was \$2,139 and was \$2,114 at December 31, 2008.

The following table provides information for our supplemental retirement plans with accumulated benefit obligations in excess of plan assets:

	2009	2008
Projected benefit obligation	<b>\$(2,139)</b>	\$(2,114)
Accumulated benefit obligation	<b>(2,058)</b>	(2,023)
Fair value of plan assets	—	—

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive income:

Net Periodic Benefit Cost	2009	2008
Service cost – benefits earned during the period	<b>\$ 11</b>	\$ 13
Interest cost on projected benefit obligation	<b>140</b>	141
Amortization of prior service cost	<b>5</b>	6
Recognized actuarial loss	<b>10</b>	21
<b>Net supplemental retirement pension cost</b>	<b>\$166</b>	\$181

Other Changes Recognized in Other Comprehensive Income	2009	2008
Net loss (gain)	<b>\$51</b>	\$(66)
Prior service cost (credit)	<b>(5)</b>	—
Amortization of net loss (gain)	<b>7</b>	11
Amortization of prior service cost	<b>3</b>	4
<b>Total recognized in net supplemental pension cost and other comprehensive income</b>	<b>\$56</b>	\$(51)

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The estimated net loss for our supplemental retirement plan benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$16, and the prior service cost for our supplemental retirement plan benefits that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$2.

Deferred compensation expense was \$95 in 2009, \$54 in 2008 and \$106 in 2007. Our deferred compensation liability, included in "Other noncurrent liabilities," was \$1,031 at December 31, 2009, and \$1,054 at December 31, 2008.

### Non-U.S. Plans

As part of our ATTC acquisition, we acquired certain non-U.S. operations that have varying types of pension programs providing benefits for substantially all of their employees and, to a limited group, postemployment benefits. The net amounts recorded as "Postemployment benefit obligation" on our consolidated balance sheets at December 31, 2009 and 2008, were \$(9) and \$(7).

	2009	2008
Benefit obligations at end of year	<b>\$(1,040)</b>	\$(786)
Fair value of plan assets	<b>1,049</b>	793
Funded status at end of year	<b>\$ 9</b>	\$ 7

The following table provides information for certain non-U.S. defined-benefit pension plans with plan assets in excess of accumulated benefit obligations:

	2009	2008
Projected benefit obligation	<b>\$1,040</b>	\$786
Accumulated benefit obligation	<b>975</b>	700
Fair value of plan assets	<b>1,049</b>	793

Our International Pension Assets are composed of Level 1 and Level 2 assets. Level 2 assets are primarily made up of corporate bonds, notes and real assets totaling \$688. The remaining assets at fair value are Level 1 assets totaling \$361, related to equity investments and cash.

In determining the projected benefit obligation for certain non-U.S. defined-benefit pension plans, we use assumptions based upon interest rates relative to each country in which we sponsor a plan. Additionally, the expected return is based on the investment mix relative to each plan's assets. Following are the significant weighted-average assumptions:

	2009	2008
Discount rate for determining projected benefit obligation at December 31	<b>5.16%</b>	6.20%
Discount rate in effect for determining net cost (benefit)	<b>6.20%</b>	5.57%
Long-term rate of return on plan assets	<b>6.24%</b>	6.13%
Composite rate of compensation increase for determining projected benefit obligation at December 31	<b>3.99%</b>	4.06%
Composite rate of compensation increase for determining net pension cost	<b>4.06%</b>	4.25%

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive income:

Net Periodic Benefit Cost	2009	2008
Service cost – benefits earned during the period	<b>\$ 22</b>	\$ 25
Interest cost on projected benefit obligation	<b>47</b>	54
Expected return on assets	<b>(58)</b>	(60)
Amortization of actuarial (gain)	<b>(17)</b>	(5)
Net pension cost	<b>\$ (6)</b>	\$ 14

Other Changes Recognized in Other Comprehensive Income	2009	2008
Net loss (gain)	<b>\$75</b>	\$70
Amortization of net loss (gain)	<b>(8)</b>	(2)
Amortization of prior service cost	<b>—</b>	—
Total recognized in net pension cost and other comprehensive income	<b>\$67</b>	\$68

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$1.

### Contributory Savings Plans

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match in cash or company stock a stated percentage of eligible employee contributions, subject to a specified ceiling. There are no debt-financed shares held by the Employee Stock Ownership Plans, allocated or unallocated.

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was \$586, \$664 and \$633 for the years ended December 31, 2009, 2008 and 2007.

### NOTE 12. SHARE-BASED PAYMENT

We account for our share-based payment arrangements using GAAP standards for share-based awards. Our accounting under these standards may affect our ability to fully realize the value shown on our consolidated balance sheets of deferred tax assets associated with compensation expense. Full realization of these deferred tax assets requires stock options to be exercised at a price equaling or exceeding the sum of the exercise price plus the fair value of the options at the grant date. The provisions of GAAP standards for share-based awards do not allow a valuation allowance to be recorded unless our future taxable income is expected to be insufficient to recover the asset. Accordingly, there can be no assurance that the current stock price of our common shares will rise to levels sufficient to realize the entire tax benefit currently reflected in our consolidated balance sheets.

However, to the extent that additional tax benefits are generated in excess of the deferred taxes associated with compensation expense previously recognized, the potential future impact on income would be reduced.

At December 31, 2009, we had various share-based payment arrangements, which we describe in the following discussion. The compensation cost recognized for those plans was \$317 for 2009, compared to \$166 for 2008 and \$720 for 2007, and is included in "Selling, general and administrative" in our consolidated statements of income. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was \$121 for 2009, compared to \$63 for 2008 and \$275 for 2007.

Under our various plans, senior and other management and nonmanagement employees and nonemployee directors have received stock options, performance stock units, and other nonvested stock units. Stock options issued through December 31, 2009, carry exercise prices equal to the market price of our stock at the date of grant. Beginning in 1994 and ending in 1999, certain employees of AT&T Teleholdings, Inc. (formerly known as Ameritech) were awarded grants of nonqualified stock options with dividend equivalents. Prior to 2006, depending on the grant, stock options vesting could occur up to five years from the date of grant, with most options vesting ratably over three years. Stock options granted as part of a deferred compensation plan do not have a vesting period; since 2006, these are the only options issued by AT&T. Performance stock units, which are nonvested stock units, are granted to key employees based upon our stock price at the date of grant and are awarded in the form of AT&T common stock and cash at the end of a two- to three-year period, subject to the achievement of certain performance goals. Other nonvested stock units are valued at the market price of our common stock at the date of grant and vest typically over a two- to five-year period.

As of December 31, 2009, we were authorized to issue up to 110 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees, and directors pursuant to these various plans.

The compensation cost that we have charged against income for our share-based payment arrangements was as follows:

	2009	2008	2007
Performance stock units	<b>\$290</b>	\$152	\$620
Stock options	<b>8</b>	11	14
Restricted stock	<b>21</b>	9	68
Other	<b>(2)</b>	(6)	18
<b>Total</b>	<b>\$317</b>	\$166	\$720

The estimated fair value of the options when granted is amortized to expense over the options' vesting or required service period. The fair value for these options, for the indicated years ended, was estimated at the date of grant based on the expected life of the option and historical exercise experience, using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2009	2008	2007
Risk-free interest rate	<b>3.17%</b>	3.96%	5.01%
Dividend yield	<b>6.82%</b>	4.36%	3.65%
Expected volatility factor	<b>19.65%</b>	18.76%	20.75%
Expected option life in years	<b>7.00</b>	7.00	7.00

A summary of option activity as of December 31, 2009, and changes during the year then ended, is presented below (shares in millions):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value <sup>1</sup>
Outstanding at January 1, 2009	204	\$39.41		
Granted	3	24.06		
Exercised	(1)	23.41		
Forfeited or expired	(28)	54.86		
Outstanding at December 31, 2009	178	36.79	1.86	\$115
Exercisable at December 31, 2009	175	\$37.01	1.73	\$103

<sup>1</sup>Aggregate intrinsic value includes only those options with intrinsic value (options where the exercise price is below the market price).

The weighted-average fair value of each option granted during the period was \$1.84 for 2009, compared to \$5.04 for 2008 and \$7.71 for 2007. The total intrinsic value of options exercised during 2009 was \$5, compared to \$78 for 2008 and \$667 for 2007.

It is our policy to satisfy share option exercises using our treasury shares. The actual excess tax benefit realized for the tax deductions from option exercises from these arrangements was less than \$1 in 2009, compared to \$10 for 2008 and \$77 for 2007.

## Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

A summary of the status of our nonvested stock units, which includes performance stock units as of December 31, 2009, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2009	24	\$ 35.18
Granted	16	24.80
Vested	(14)	34.51
Forfeited	—	28.67
<b>Nonvested at December 31, 2009</b>	<b>26</b>	<b>\$26.48</b>

As of December 31, 2009, there was \$365 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 1.88 years. The total fair value of shares vested during the year was \$471 for 2009, compared to \$554 for 2008 and \$345 for 2007.

### NOTE 13. STOCKHOLDERS' EQUITY

From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In December 2007, the Board of Directors authorized the repurchase of up to 400 million shares of our common stock. This authorization replaced previous authorizations and expired on December 31, 2009. As of December 31, 2009, we had repurchased approximately 164 million shares under this program.

During the Annual Meeting of Shareholders in April 2009, shareholders approved the increase of authorized common shares of AT&T stock from 7 billion to 14 billion, with no change to the currently authorized 10 million preferred shares of AT&T stock. As of December 31, 2009 and 2008, no preferred shares were outstanding.

In December 2009, the Company declared its quarterly dividend, which reflected an increase in the amount per share of common stock from \$0.41 to \$0.42.

### NOTE 14. ADDITIONAL FINANCIAL INFORMATION

Consolidated Balance Sheets	December 31,	
	2009	2008
Accounts payable and accrued liabilities:		
Accounts payable	\$ 7,514	\$ 6,921
Accrued rents and other	3,335	4,437
Accrued payroll and commissions	2,430	2,401
Deferred directory revenue	1,491	1,984
Accrued interest	1,717	1,471
Compensated future absences	563	609
Current portion of employee benefit obligation	2,021	729
Other	1,928	1,480
<b>Total accounts payable and accrued liabilities</b>	<b>\$20,999</b>	<b>\$20,032</b>
Deferred compensation (included in Other noncurrent liabilities)	\$ 1,633	\$ 1,648

Consolidated Statements of Income	2009	2008	2007
Advertising expense	\$2,797	\$3,073	\$3,430
Interest expense incurred	\$4,119	\$4,049	\$3,678
Capitalized interest	(740)	(659)	(171)
<b>Total interest expense</b>	<b>\$3,379</b>	<b>\$3,390</b>	<b>\$3,507</b>

Consolidated Statements of Cash Flows	2009	2008	2007
Cash paid during the year for:			
Interest	\$3,873	\$3,727	\$3,445
Income taxes, net of refunds	4,471	5,307	4,013

Consolidated Statements of Changes in Stockholders' Equity	2009	2008	2007
Accumulated other comprehensive income (loss) is composed of the following components, net of taxes, at December 31:			
Foreign currency translation adjustment	\$ (761)	\$ (912)	\$ (469)
Unrealized gains on securities	324	100	375
Unrealized gains (losses) on cash flow hedges	142	(483)	(226)
Defined benefit postretirement plans	(14,112)	(15,761)	(59)
Other	(1)	(1)	(1)
<b>Accumulated other comprehensive (loss)</b>	<b>\$ (14,408)</b>	<b>\$ (17,057)</b>	<b>\$ (380)</b>

No customer accounted for more than 10% of consolidated revenues in 2009, 2008 or 2007.

A majority of our employees are represented by labor unions as of year-end 2009.

### NOTE 15. CONTINGENT LIABILITIES

In addition to issues specifically discussed elsewhere, we are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In accordance with GAAP standards for contingencies, in evaluating these matters on an ongoing basis, we take into account amounts already accrued on the balance sheet. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on our financial position, results of operations or cash flows.

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately \$2,890 in 2010, \$4,095 in total for 2011 and 2012, \$2,549 in total for 2013 and 2014 and \$694 in total for years thereafter.

See Note 9 for a discussion of collateral and credit-risk contingencies.

**NOTE 16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The following table represents our quarterly financial results:

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income	Net Income Attributable to AT&T	Basic Earnings Per Share <sup>1</sup>	Diluted Earnings Per Share <sup>1</sup>	Stock Price		
							High	Low	Close
<b>2009</b>									
First	\$ 30,571	\$ 5,737	\$ 3,201	\$ 3,126	\$0.53	\$0.53	\$29.46	\$21.44	\$25.20
Second	30,734	5,506	3,276	3,198	0.54	0.54	27.09	23.38	24.84
Third	30,855	5,388	3,275	3,192	0.54	0.54	27.68	23.19	27.01
Fourth	30,858	4,861	3,091	3,019	0.51	0.51	28.61	25.00	28.03
Annual	\$123,018	\$21,492	\$12,843	\$12,535	2.12	2.12			
<b>2008</b>									
First	\$ 30,744	\$ 5,980	\$ 3,519	\$ 3,461	\$0.58	\$0.57	\$41.94	\$32.95	\$38.30
Second	30,866	6,567	3,843	3,772	0.64	0.63	40.70	32.63	33.69
Third	31,342	5,618	3,289	3,230	0.55	0.55	33.58	27.51	27.92
Fourth	31,076	4,898	2,477	2,404	0.41	0.41	30.65	20.90	28.50
Annual	\$ 124,028	\$ 23,063	\$ 13,128	\$ 12,867	2.17	2.16			

<sup>1</sup>Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

## Report of Management

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The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of AT&T Inc. (AT&T) have been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm. Management has made available to Ernst & Young LLP all of AT&T's financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by AT&T is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

### Assessment of Internal Control

The management of AT&T is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934. AT&T's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on its assessment, AT&T management believes that, as of December 31, 2009, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the company's internal control over financial reporting.



Randall Stephenson  
Chairman of the Board,  
Chief Executive Officer and President



Richard G. Lindner  
Senior Executive Vice President and  
Chief Financial Officer



## Report of Independent Registered Public Accounting Firm

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The Board of Directors and Stockholders  
AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2009 the Company changed its presentation of noncontrolling interests with the adoption of FASB statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51*, (codified in FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*) effective January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion thereon.

Dallas, Texas  
February 25, 2010

*Ernst + Young LLP*

## Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

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The Board of Directors and Stockholders  
AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 25, 2010 expressed an unqualified opinion thereon.

Dallas, Texas  
February 25, 2010

*Ernst & Young LLP*

## AT&T Inc. Board of Directors

### Randall L. Stephenson, 49 <sup>(4)</sup>



Chairman of the Board,  
Chief Executive Officer and President  
AT&T Inc.  
Dallas, Texas

Director since 2005

Background: Telecommunications

### Jon C. Madonna, 66 <sup>(1,2,4)</sup>



**Lead Director**  
Retired Chairman and  
Chief Executive Officer  
KPMG

Director since 2005

AT&T Corp. Director 2002–2005

Background: Public accounting

### William F. Aldinger III,\* 62 <sup>(1,6)</sup>



Retired Chairman and  
Chief Executive Officer  
Capmark Financial Group Inc.  
Director since 2005

AT&T Corp. Director 2003–2005

Background: Financial services

### Gilbert F. Amelio, Ph.D., 67 <sup>(4,6,7)</sup>



Senior Partner  
Sienna Ventures  
Director since 2001  
Advisory Director 1997–2001

Pacific Telesis Director 1995–1997

Background: Technology, electronics engineering

### Reuben V. Anderson, 67 <sup>(4,5,7)</sup>



Senior Partner  
Phelps Dunbar, LLP  
Director since 2006  
BellSouth Corporation

Director 1994–2006

Background: Law

### James H. Blanchard, 68 <sup>(2,4,6)</sup>



Retired Chairman of the Board  
and Chief Executive Officer  
Synovus Financial Corp.  
Director since 2006

BellSouth Corporation Director 1994–2006

BellSouth Telecommunications

Director 1988–1994

Background: Financial services

### August A. Busch III,\* 72 <sup>(2,3,4)</sup>



Retired Chairman of the Board  
Anheuser–Busch Companies, Inc.  
Director since 1983  
Southwestern Bell Telephone

Director 1980–1983

Background: Brewing, family entertainment,  
manufacturer of aluminum beverage containers

### Jaime Chico Pardo, 60 <sup>(1,2)</sup>



Co–Chairman of the Board  
Teléfonos de México, S.A.B. de C.V.  
Director since 2008

Background: Telecommunications,  
banking

### James P. Kelly, 66 <sup>(1,3)</sup>



Retired Chairman of the Board  
and Chief Executive Officer  
United Parcel Service, Inc.  
Director since 2006

BellSouth Corporation Director 2000–2006

Background: Air delivery and freight services

### Lynn M. Martin, 70 <sup>(3,5)</sup>



President  
The Martin Hall Group, LLC  
Director since 1999  
Ameritech Director 1993–1999

Background: Consulting, former  
Congresswoman and U.S. Secretary of Labor

### John B. McCoy, 66 <sup>(3,4,5)</sup>



Retired Chairman and  
Chief Executive Officer  
Bank One Corporation  
Director since 1999

Ameritech Director 1991–1999

Background: Banking

### Mary S. Metz,\* Ph.D., 72 <sup>(3,7)</sup>



Chair Emerita of the Board of Trustees  
American Conservatory Theater  
Director since 1997  
Pacific Telesis Director 1986–1997

Background: Education, administration

### Joyce M. Roché, 62 <sup>(3,7)</sup>



President and Chief Executive Officer  
Girls Incorporated  
Director since 1998  
Southern New England

Telecommunications

Director 1997–1998

Background: Marketing

### Laura D'Andrea Tyson, Ph.D., 62 <sup>(2,5)</sup>



S. K. and Angela Chan Professor of  
Global Management  
Walter A. Haas School of Business  
University of California at Berkeley

Director since 1999

Ameritech Director 1997–1999

Background: Economics, education

### Patricia P. Upton, 71 <sup>(6,7)</sup>



President and Chief Executive Officer  
Aromatique, Inc.  
Director since 1993

Background: Manufacturing and  
marketing of decorative fragrances

### Committees of the Board:

- (1) Audit
- (2) Corporate Development
- (3) Corporate Governance and Nominating
- (4) Executive
- (5) Finance/Pension
- (6) Human Resources
- (7) Public Policy

\*Retiring April 30, 2010.

## Senior Officers of AT&T Inc. and its Affiliates

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**Randall Stephenson, 49**

Chairman, Chief Executive Officer  
and President

**Jim Cicconi, 57**

Senior Executive Vice President–  
External and Legislative Affairs  
AT&T Services, Inc.

**Rick Lindner, 55**

Senior Executive Vice President  
and Chief Financial Officer

**John Stankey, 47**

President and Chief Executive Officer  
AT&T Operations, Inc.

**Bill Blase Jr., 54**

Senior Executive Vice President–  
Human Resources

**Cathy Coughlin, 52**

Senior Executive Vice President  
and Global Marketing Officer

**Forrest Miller, 57**

Group President–  
Corporate Strategy and Development

**Wayne Watts, 56**

Senior Executive Vice President  
and General Counsel

**Jim Callaway, 63**

Senior Executive Vice President–  
Executive Operations

**Ralph de la Vega, 58**

President and Chief Executive Officer  
AT&T Mobility and Consumer Markets

**Ron Spears, 61**

President and Chief Executive Officer  
AT&T Business Solutions

**Ray Wilkins Jr., 58**

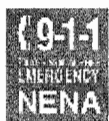
Chief Executive Officer–  
AT&T Diversified Businesses

## **ATTACHMENT MGF-4**

**NENA**

**Impacts of Using a Common Trunk  
Group to Carry Calls of Multiple  
Service Types into a Legacy Selective  
Router**

**Technical Information Document  
(TID)**



Impacts of Using a Common Trunk Group to Carry Calls of Multiple Service Types into a Legacy Selective Router

NENA 03-508, Version 1, March 15, 2010

Prepared by:

National Emergency Number Association (NENA) Network Technical Committee & Multiple Service Type Calls Working Group

Published by NENA

Printed in USA



**NENA**  
**TECHNICAL INFORMATION DOCUMENT**

**NOTICE**

The National Emergency Number Association (NENA) publishes this document as an information source for the designers and manufacturers of systems to be utilized for the purpose of processing emergency calls. It is not intended to provide complete design specifications or parameters or to assure the quality of performance for systems that process emergency calls.

NENA reserves the right to revise this TID for any reason including, but not limited to:

- conformity with criteria or standards promulgated by various agencies
- utilization of advances in the state of the technical arts
- Or to reflect changes in the design of network interface or services described herein.

It is possible that certain advances in technology will precede these revisions. Therefore, this TID should not be the only source of information used. NENA recommends that members contact their Telecommunications Carrier representative to ensure compatibility with the 9-1-1 network.

Patents may cover the specifications, techniques, or network interface/system characteristics disclosed herein. No license expressed or implied is hereby granted. This document shall not be construed as a suggestion to any manufacturer to modify or change any of its products, nor does this document represent any commitment by NENA or any affiliate thereof to purchase any product whether or not it provides the described characteristics.

This document has been prepared solely for the use of E9-1-1 Service System Providers, network interface and system vendors, participating telephone companies, etc.

By using this document, the user agrees that NENA will have no liability for any consequential, incidental, special, or punitive damages arising from use of the document.

NENA's Technical Committee has developed this document. Recommendations for change to this document may be submitted to:

National Emergency Number Association  
4350 North Fairfax Drive, Suite 750  
Arlington, VA 22203-1695  
800-332-3911  
Or: [techdoccomments@nena.org](mailto:techdoccomments@nena.org)

**Acknowledgments:**

The National Emergency Number Association (NENA) Network Technical Committee & Multiple Service Type Calls Working Group.

NENA recognizes the following industry experts and their companies for their contributions in development of this document.

**Version 1, Approval Date, 03/15/2010**

<b>Members</b>	<b>Company</b>
Anand Akundi, Network Technical Committee Chair	Telcordia Technologies
John Garner, Network Technical Committee Vice-Chair	AT&T
Selena MacArthur, WG Leader	Time Warner Cable
Steven Zweifach, Technical Editor	Sprint Nextel
Dick Dickinson	TCS
Paul Stoffels	AT&T
Lisa Wirtanen	AT&T
Ric Atkins	Tarrant County E9-1-1 District
Raymond Greig	Sprint Nextel
Michael Cansler	AT&T
Robert Sherry	Intrado
Christian Militeau	Intrado
Greg Hunter	Sprint Nextel
Jim Winegarden	Qwest
Mitchell Feinsod	AT&T

This committee would also thank Roger Hixson (NENA Technical Issues Director) and Rick Jones (NENA Operational Issues Director) for their support and assistance.



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## 1 Executive Overview

This document provides a review of the topics that are associated with the practice of delivering more than one type of an emergency call over the same trunk group into a legacy type E9-1-1 selective router. It describes the market forces leading to the implementation of the practice as well as the technological pros and cons associated with it. The technical and operational implications of the practice are addressed from the perspective of many separate areas, including groups such as the originating service provider, network aggregator, E9-1-1 system service provider, Public Safety Agency (i.e., PSAP management/call takers), and regulatory bodies that govern 9-1-1 operations.

There are multiple reasons why service providers may wish to combine traffic on one common trunk group, such as managing fewer trunk groups, increased efficiency of call processing, and associated cost savings to all network entities. It also helps facilitate the advancement of efficient and cost effective delivery of emergency calls based upon emerging technologies and recognizing the convergence of consumer communications and devices, such as telematics, Mobile Satellite Services, Femtocells, Unlicensed Mobile Access, Fixed Mobile Convergence, etc.

Systems commonly referred to as “legacy” 9-1-1 deliver calls to traditional E9-1-1 selective routing switches over a dedicated network using trunks unique to each originating provider or service type. If one or more of these originating services is combined with another and placed onto a common trunk group into the E9-1-1 Selective Router, there could be consequences that could impact routing, default routing, and congestion control. Instances where calls of multiple service types route over a common trunk group can occur when a carrier combines traffic of more than one service type on a trunk or when a service aggregator combines traffic from more than one carrier on a trunk. A flowchart is provided that can be used by interested parties to assess if combining traffic on a common trunk group is an option in their particular system, area or regulatory climate.

This document does not address other network configurations such as originating carriers that connect directly to PSAPs without going through a selective router or into an IP or Next Generation network that performs the selective routing function differently than the traditional, legacy, E9-1-1 type network design.

## 2 Introduction

### 2.1 Operational Impacts Summary

Today, calls that are delivered to an E9-1-1 service provider’s selective router often use a trunk group that only carries calls associated with one service type (i.e. wireline, wireless, or VoIP). In other instances, more than one service type such as wireline, wireless, VoIP, telematics, etc., are being combined with other traffic on common trunk groups to the selective router. In the E9-1-1 PSAP network today, some PSAPs may only take calls for a particular call type (i.e., wireless calls only), or may be taking calls from all call types throughout their service area. Market forces, competition, advancements in signaling technology, and addition of new and advanced services are many reasons why a carrier/aggregator would want to use a common trunk group for calls from multiple service types. The use of a common or multi-service trunk group into an E9-1-1 selective

router is becoming an evolutionary path, and can help support efficient and timely introduction of these new services.

There is a need for the various business parties to assess their operations to see if adjustments are needed. For example, normal call processing may be business as usual. Anomalies such as alternate routing and default routing may be addressed as one aspect of introducing such new service types. PSAP operations, 911 system service providers and originating carrier operations may all be impacted when common trunk groups are utilized by the originating carrier or aggregator to send calls to the selective router. In the unlikely event that a call is default routed, the selected default PSAP would receive calls from multiple service types based upon the default route that has been provisioned in the legacy selective router. Originating carriers and aggregators will need to work with the 9-1-1 Authority and E911 system service provider in order to define default routing strategies to address these challenges.

There are technical implementation details that are described later in section 3 that outline the responsibilities associated with the use of common trunk groups. Since PSAP, selective router and originating carrier operations are all impacted by the use of shared facilities; technical, operational, local and national policy guidelines will need to be considered during the decision process to use common trunks. A full impact analysis is a critical part of the decision process.

## **2.2 Security Impacts Summary**

No security risks have been identified.

## **2.3 Document Terminology**

The terms "shall", "must" and "required" are used throughout this document to indicate required parameters and to differentiate from those parameters that are recommendations. Recommendations are identified by the words "desirable", "should" or "preferably".

## **2.4 Reason for Issue/Reissue**

A technical information document regarding the technical implications of sending calls from multiple service types over a common trunk group to legacy E9-1-1 selective router(s) has never been published. This TID provides enough technical detail such that the various experts can understand the impact on the various entities of using a common trunk group.

NENA reserves the right to modify this document. Upon revision, the reason(s) will be provided in the table below.

<b>Version</b>	<b>Approval Date</b>	<b>Reason For Changes</b>
<b>Original</b>	<b>03/15/2010</b>	<b>Initial Document</b>

## **2.5 Recommendation for Additional Development Work**

There is no recommendation for additional development work required.

## **2.6 Date Compliance**

All systems that are associated with the 9-1-1 process shall be designed and engineered to ensure that no detrimental, or other noticeable impact of any kind, will occur as a result of a date/time change up to 30 years subsequent to the manufacture of the system. This shall include embedded application, computer based or any other type application.

To ensure true compliance, the manufacturer shall upon request, provide verifiable test results to an industry acceptable test plan such as Telcordia GR-2945 or equivalent.

## **2.7 Anticipated Timeline**

The decision and the timeframe to implement common trunks is made among the originating carrier/aggregator that is proposing multiple service types on a common trunk group, the E9-1-1 service provider(s), and the 9-1-1 Authority(ies). The timeframe of each implementation is set by these entities.

## **2.8 Costs Factors**

The practice of combining different types of traffic on a common trunk group will have different impacts depending on what perspective you look at it from. In general in analyzing cost factors, there are savings associated with a lower number of trunks and trunk groups between an originating carrier's/aggregator's network and an E9-1-1 service provider's selective router versus the need to build out separate trunk groups for each service type and new services to be implemented. However, billing and cost recovery for providers or 911 Authorities could also be impacted by the amount of circuits installed, or used, so those factors may need to be considered in the decision making process as well.

Network modifications to consolidate service types over a common trunk could also have costs or savings associated with making or processing the change. In analyzing cost factors, the originating carrier/aggregator, E9-1-1 service provider, 9-1-1 Authority, or any other entity involved independently analyze their costs and efforts associated with the change versus the savings associated with facility reduction. For example, if reconfiguration and decommission of existing trunks are required to migrate connectivity to a common trunk group, costs associated with current term and termination liability are factored into the analysis.

Cost savings can be achieved in trunk reductions, switch ports reductions, transmission equipment reduction, backhaul expense reduction, and in other parts of the architecture that are in the call path, but these savings could be weighed against other costs, such as potential increases in administrative costs.

These potential cost savings might be realized by the carrier or the E9-1-1 Authority depending on cost recovery regulations.

## **2.9 Future Path Plan Criteria for Technical Evolution**

In present and future applications of all technologies used for 9-1-1 call and data delivery, it is a requirement to maintain the same level or improve on the reliability and service characteristics inherent in present 9-1-1 system design.

New methods or solutions for current and future service needs and options should meet the criteria below. This inherently requires knowledge of current 9-1-1 system design factors and concepts, in order to evaluate new proposed methods or solutions against the Path Plan criteria.

Criteria to meet the Definition/Requirement:

1. Reliability/dependability as governed by NENA's technical standards and other generally accepted base characteristics of E9-1-1 service
2. Service parity for all potential 9-1-1 callers
3. Least complicated system design that results in fewest components to achieve needs (simplicity, maintainable)
4. Maximum probabilities for call and data delivery with least cost approach
5. Documented procedures, practices, and processes to ensure adequate implementation and ongoing maintenance for 9-1-1 systems

This basic technical policy is a guideline to focus technical development work on maintaining fundamental characteristics of E9-1-1 service by anyone providing equipment, software, or services.

## **2.10 Cost Recovery Considerations**

Normal business practices shall be assumed to be the cost recovery mechanism.

## **2.11 Additional Impacts (non cost related)**

The information or requirements contained in this NENA document are known to have both technical and operational impacts, based on the analysis of the authoring group. The primary impacts include:

- a. Potential changes in policy, operation and/or call setup for originating carriers/aggregators
- b. Changes that could impact E9-1-1 System Service Providers including selective router translations, cost recovery, call accounting, etc
- c. Changes in the processes for delivery and / or operation of handling call anomalies to PSAPs
- d. Call queuing priorities for callers may be impacted if a call to a selective router is transported by a multi-service trunk group.

## **2.12 Intellectual Property Rights Policy**

NENA takes no position regarding the validity or scope of any Intellectual Property Rights or other rights that might be claimed to pertain to the implementation or use of the technology described in this document or the extent to which any license under such rights might or might not be available; nor does it represent that it has made any independent effort to identify any such rights.

NENA invites any interested party to bring to its attention any copyrights, patents or patent applications, or other proprietary rights that may cover technology that may be required to implement this standard.

Please address the information to:

National Emergency Number Association  
4350 N Fairfax Dr, Suite 750  
Arlington, VA 22203-1695  
800-332-3911  
or: [techdoccomments@nena.org](mailto:techdoccomments@nena.org)

### 2.13 Acronyms/Abbreviations

Some acronyms/abbreviations used in this document have not yet been included in the master glossary. After initial approval of this document, they will be included. See NENA 00-001 - NENA Master Glossary of 9-1-1 Terminology located on the NENA web site for a complete listing of terms used in NENA documents.

The following Acronyms are used in this document:		
Acronym	Description	** N)ew (U)pdate
<i>ALI</i>	Automatic Location Identification	
<i>ANI</i>	Automatic Number Identification	
<i>ATIS</i>	Alliance for Telecommunications Industry Solutions	
<i>ESQK</i>	Emergency Services Query Key	
<i>ESRK</i>	Emergency Services Routing Key	
<i>NENA</i>	National Emergency Number Association	
<i>PSAP</i>	Public Safety Answering Point	
<i>SR</i>	Selective Router	

## 3 Technical Description

This section outlines the technical considerations for interconnection and routing between originating carriers'/aggregators' networks and the legacy E9-1-1 selective router.

For purposes of this document, we make the following assumptions:

Interconnections may be direct connecting circuits between the networks, aggregated at the physical level (i.e. transport facilities) or logically aggregated where multiple service types are delivered across a common trunk group.

Call routing uses legacy techniques where the pANI (TN/ESRK/ESQK) is associated with a PSAP and a call is delivered to that PSAP.

Calls may be alternate routed if the Primary PSAP cannot be reached, e.g. all trunks busy.

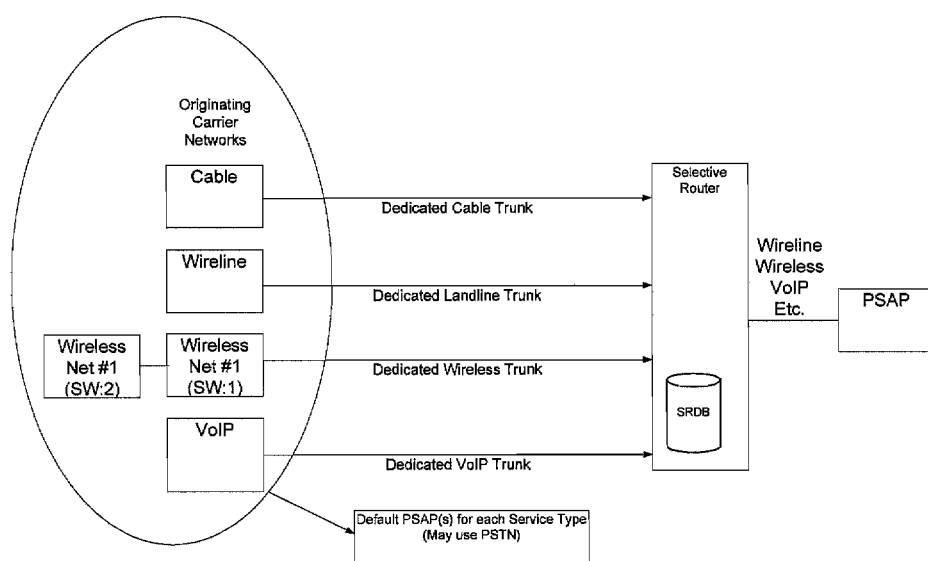
Calls may be default routed if there is an error in determining the Primary PSAP such as in the unlikely event that the ANI is missing from the call (ANI failure), No Record Found, data provisioning error, etc.

### 3.1 Carrier/Aggregator Configurations

Three (3) carrier/aggregator to selective router interconnection configurations are described below to help depict the architecture associated with a common trunk group. In these examples, aggregator is a network entity that takes calls of multiple traffic types or calls from multiple carriers and combines them on a trunk group to the selective router. A carrier may provide aggregation functions for their own network, or an entity can provide aggregator services for their clients.

#### 3.1.1 Carrier using dedicated service specific trunks to a selective router

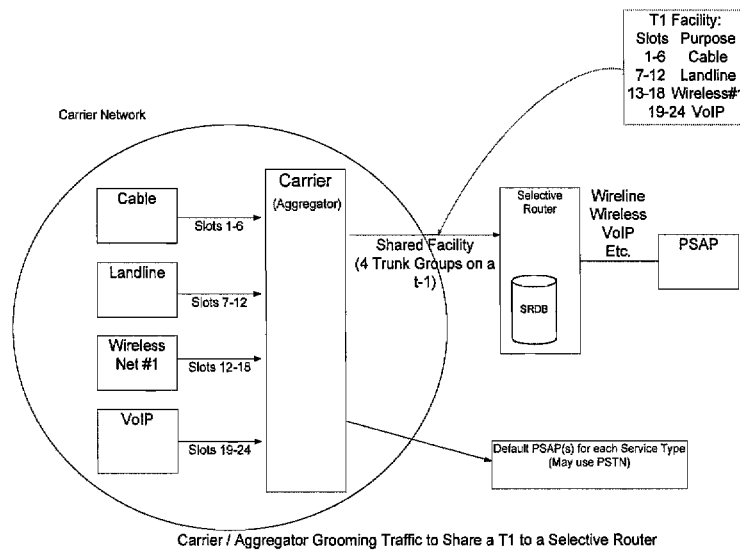
Current carrier to selective router interconnection typically consists of, at a minimum, one trunk group to a selective router from each switch that requires access to the PSAPs that are homed to that selective router. Typically, a single traffic type is carried on this dedicated trunk group. Traffic carrying similar service type calls from multiple switches may be combined by the originating carrier.



Carriers Using Dedicated Service Specific Trunks to a Selective Router

### 3.1.2 Carrier/Aggregator grooming traffic onto multiple trunk groups on a single digital facility

Originating carriers may engage in business arrangements with an aggregator to use a shared digital facility to interconnect to a selective router. In this case, the aggregator can assign multiple distinct trunk groups on the same digital facility on behalf of the originating carrier. The digital facility may contain calls from different traffic types and calls may be routed to different PSAPs, if the PSAPs are homed to the same selective router. The key here is that these are distinct trunk groups on the same digital facility.



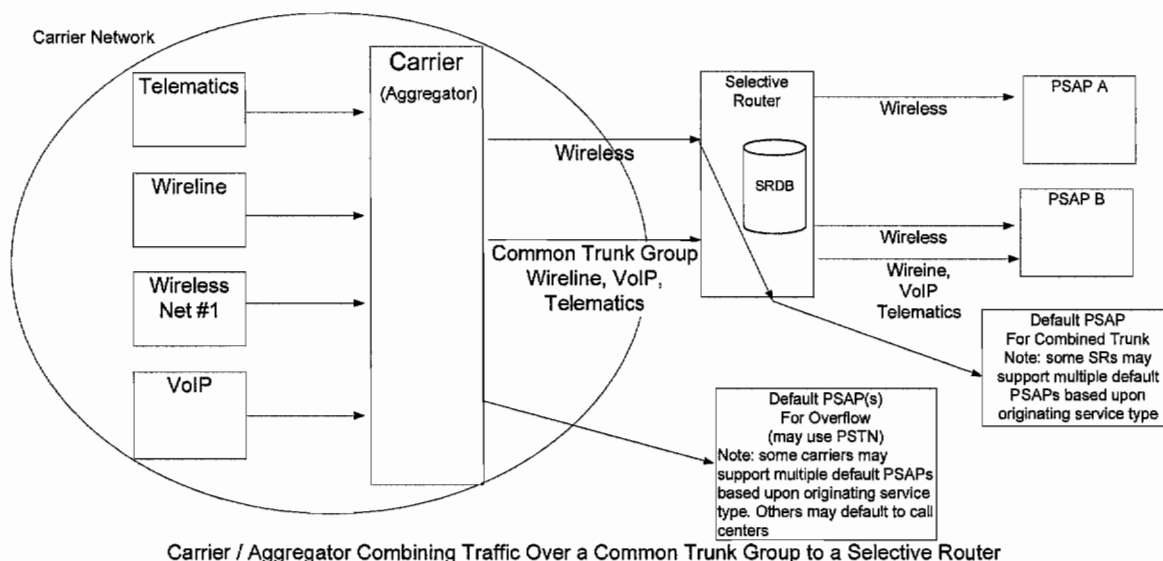


### **3.1.3 Originating Carrier/Aggregator combining traffic to a common trunk group to a selective router**

Originating carriers may engage in business arrangements with an aggregator(s) to route calls over their network and combine traffic on a common trunk group that connects to the selective router. In this case, the originating carriers deliver their calls to the aggregator and the aggregator uses its peering network to route the calls to the selective router via a common trunk group. An aggregator may combine traffic of various service types onto a common trunk group. An originating network service provider may use multiple aggregators and an aggregator may provide service to multiple originating carriers. Originating carriers may be different entities from aggregators and in some cases the originating carrier may have their own aggregator and provide a similar interconnection to the selective router. An example of this is originating carriers that are introducing Fixed Mobile Convergence (FMC) services that offer multiple service types within their service footprint. The common attribute here is that all of the traffic from multiple service types on the same trunk group will be directed to the appropriate PSAP via the selective router. This is the true definition of “common” trunk group as used throughout this TID.

The diagram below depicts one possible configuration. There are numerous other configurations currently in use that have been implemented or that are being proposed in the industry. This figure shows multiple carriers using a single aggregator to route calls to the PSAP. The originating carrier, e.g. telematics, may deliver its 9-1-1 calls to a point of presence of the aggregator. The aggregator uses its peering network to route the call to the selective router. In the figure, service types of wireless, wireline, VoIP and telematics are combined on a common trunk.

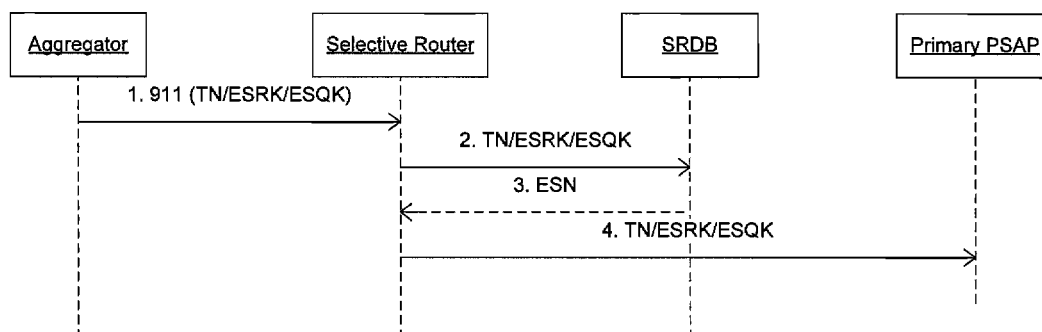
In the figure PSAP A only supports wireless calls while PSAP B supports all service types. Separate trunks for wireless are shown to PSAP B, however they could be combined such that all service types route across a single trunk group (e.g. CAMA trunks). Alternate PSAPs, not shown in the diagram, may receive calls when calls cannot be delivered to the PSAP (e.g. due to trunks busy). Alternate routing strategies are assigned in the selective router and are associated with the trunk group to the PSAP. Default PSAPs may be assigned to receive calls in the event that there is not sufficient information to determine the Primary PSAP. Based upon local agreements, the aggregator may have default routing strategies to deliver calls that cannot be properly routed to a default PSAP. The more likely scenario is that the originating carrier has agreements with the aggregator to deliver those calls to a call center to triage the calls. Once a call gets to the selective router the 9-1-1 Authority and the selective router operator may have agreements as to how to handle calls that cannot be delivered to the Primary PSAP. There may be a default PSAP assigned and the selective router may use the ingress trunk group, or other means, to route the call to the default PSAP.



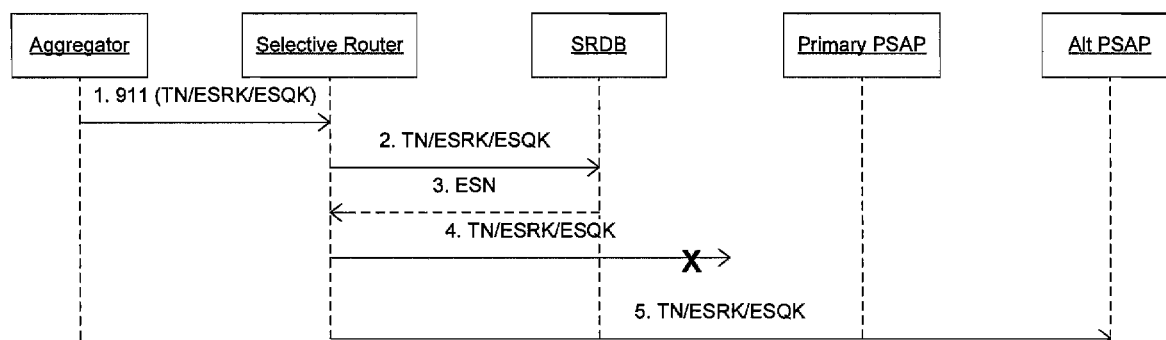
### 3.2 Normal Call Flow Scenarios Today

Today, emergency calls are predominantly selectively routed. That is, routed to the PSAP based on ANI/pANI and information in the Selective Router Database (SRDB). Further information to facilitate dispatch and call management is provided with the ALI information that is delivered to the PSAP. Selective routing of the specific call type can be performed by using different pANI ranges for different service types. If the call cannot be delivered to the Primary PSAP because all trunks are busy it may be alternate routed. If the Primary PSAP cannot be determined the selective router may route the call to a default PSAP.

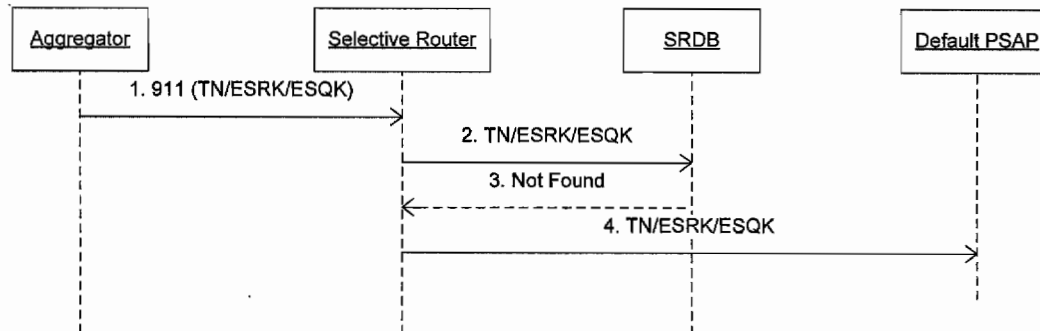
The following figure illustrates the normal call flow where the call is selectively routed and delivered to the Primary PSAP. The 9-1-1 call is routed from the aggregator (or originating carrier) to the selective router passing the ANI/pANI (TN/ESRK/ESQK) (1). The selective router queries the SRDB to obtain routing instructions (2) and the SRDB returns the ESN (3). The selective router delivers the call to the PSAP passing the ANI/pANI (TN/ESRK/ESQK) (4).



The following figure illustrates the scenario where a call cannot be delivered to the PSAP due to the fact that there are no trunks available (or other similar reasons). The 9-1-1 call is routed from the aggregator (or originating carrier) to the selective router passing the ANI/pANI (TN/ESRK/ESQK) (1). The selective router queries the SRDB to obtain routing instructions (2) and the SRDB returns the ESN (3). The selective router attempts to deliver the call to the Primary PSAP, but is unable to do so (4). The selective router determines its alternate routing strategies and delivers the call to the alternate PSAP passing the ANI/pANI (TN/ESRK/ESQK) (5).



The following figure illustrates one scenario where the selective router cannot determine the Primary PSAP and has to deliver it to a default PSAP. The 9-1-1 call is routed from the aggregator (or originating carrier) to the selective router passing the ANI/pANI (TN/ESRK/ESQK) (1). The selective router queries the SRDB to obtain routing instructions (2) and the SRDB is unable to associate the ANI/pANI (TN/ESRK/ESQK) with an ESN and return it to the selective router (3). The selective router uses default routing strategies to deliver the call to the default PSAP passing the ANI/pANI (TN/ESRK/ESQK) (4).



### 3.3 Impacts to Entities

#### 3.3.1 PSAP Impact

Today, in the legacy TDM network interconnection architecture, an originating carrier typically interconnects to an E9-1-1 service provider's selective router using a trunk group that only carries calls associated with one service type (i.e. wireline, wireless, or VoIP). In the E9-1-1 PSAP network today, some PSAPs may only take calls for a subset of service types. Typically, the designation of a default PSAP at the SR is determined by several factors including the service type that is carried by the trunk group into the SR. In addition, at the SR only one PSAP may be designated for default routing (i.e. missing information in the call set up message or missing SRDB entry) and a different single PSAP could be designated at the SR for overflow routing.

When shared trunk groups are deployed, the multiple service types that are carried by the trunk group must match the capabilities of the designated alternate and default PSAPs. These considerations need to be addressed during service introduction and as part of business agreements between the network entities involved. For example, some PSAPs are designated for wireless and others are designated to receive all service types. In some instances, a designated default PSAP and overflow PSAP may be the same.

When multiple types of service are combined on a common trunk group, best practices traffic engineering should be used to match trunk group assignments to expected load. Realizing that no network can be designed for the severe overload scenarios, the aggregator may utilize a congestion control methodology in cooperation with the E9-1-1 service provider and the associated PSAP. Trunks that accommodate calls from all service types should be engineered so as to not render the trunk inaccessible to subsequent calls originating from other service types. In addition, PSAPs should have the ability to traffic engineer interconnection if they wish to segregate traffic types from the selective router to their PSAP. The capability and capacity of overflow routing to a default PSAP from the carrier or aggregator network may help mitigate congestion that can occur from a single event. See section 5.1 for an example of using trunk design to maintain routing in the event of overload due to a single event.

### 3.3.2 Originating Carrier/Aggregator Impact

Where permitted, a carrier might choose to utilize gateway architecture to combine calls from multiple service types onto a common trunk group. Thus, a carrier might have multiple sub-tending networks interconnected to the gateway where the gateway combines traffic onto the common trunk group.

When common trunk groups are deployed, in order to assist in testing and/or trouble resolution, the originating carrier/aggregator should be equipped with the capability to isolate and troubleshoot individual outages, call abandonments, nuisance calls, etc. from the different subtending networks.

Often an originating carrier/aggregator may alternate route calls if a trunk to a selective router is not available. Depending upon the carriers' implementation of common trunk groups, they may not be able to alternate route based upon originating call service type, and may only have one alternate route available for the entire common trunk group. In addition, some PSAPs also request overflow only on out-of-service conditions and not all trunks busy condition. The ability of the carrier to determine the reason for overflow and implementing it depends upon the carrier's architecture and the switching equipment that is deployed by the carrier. These alternate routing strategies need to be discussed among the business parties as the services are introduced.

The originating carrier/aggregator may have the capability to default route based upon the service type of the originating call. Some carrier equipment has this capability; or in some cases, business agreements require that these types of calls be routed to a call center for processing.

The use of an aggregator does not relieve the originating carrier of its responsibilities; however, often the aggregator manages these relationships for the originating carrier. Based on local conditions, or regulatory climate, the aggregator may need to or be expected to identify all their carriers and service types to the E9-1-1 Authority as the services are introduced.

If a common trunk group is utilized, activities associated with re-homing and re-configuration (e.g., moving from one 9-1-1 selective router to another, migrating from one switch to another, etc.), must be managed between the aggregator and the selective router provider. Waivers / releases from all impacted parties may be required when multiple service types are being carried on one common trunk group. Generally the aggregator manages these on behalf of the originating carrier.

When multiple types of service are combined on a common trunk group, the aggregator must manage their trunk selection and congestion control methodology based upon industry best practices for network engineering. For example, an event might consume all resources on a common trunk group between the originating carrier/aggregator network and the SR due to the generation of multiple calls at a single time, which could block traffic from other providers' customers from reaching the selective router. For these conditions, the aggregator may consider how to throttle or control traffic if calls from various traffic types are competing for the limited trunks that are going to the selective router over a common trunk group. The aggregator may utilize a congestion control methodology in association with the E9-1-1 service provider and the associated PSAP such that common trunks can accommodate calls from all service types, so that a single event does not render the trunk inaccessible to subsequent calls originating from other service types. The capability and capacity of routing to a default PSAP or call center from the carriers' or aggregators' network can provide an alternate route to a PSAP in the event that calls cannot be carried on its' primary route

selection. See Section 5.1 for an example on how trunk design can reduce the possibility of congestion and how trunk design can mitigate blocking from a single event consuming all available capacity.

The trunk group should be sized using sound traffic engineering principles. The designated overflow strategy may use alternate trunks to a selective router, a designated alternate PSAP or a call center that is accessible from the carrier's network and should be capable of handling traffic from all applicable traffic types.

### **3.3.3 Selective Router Impact**

In order to effectively maintain and troubleshoot systems, a selective router operator should be able to work with the originating carrier/aggregator to trouble shoot problems and to easily identify and isolate network issues. Utilizing a common trunk group means that the selective router operator must work with the originating carrier/aggregator to identify network issues on trunks where multiple service types are carried. For example, if a selective router provider determined that they may need to take a trunk group out of service (for example, a PSAP reports that they are receiving an inordinate number of misdialed or harassing 911 calls traced to one of the service type coming in over the aggregator's trunks), it would have to work closely with the originating carrier/aggregator since doing so would impact other potential live traffic from other than the provider originating the trouble calls. Typically, trunks are not taken out of service to determine the root cause of service anomalies. If common trunks are used, it is important to note that since multiple types of calls are carried on the trunk, placing this trunk out of service will have a larger impact on the customer base that attempts to place emergency calls.

### **3.3.4 Business Impacts**

The originating carrier or the aggregator may, in some cases, be required to understand and supply their traffic distribution (number of calls, minutes used, etc) by service type. Since a common trunk group may be used by all traffic types, simply looking at trunk utilization statistics may not provide the information that is required by the carrier or aggregator. Other logging mechanisms may be used to provide this information.

If a carrier or aggregator wishes to reconfigure their network to utilize common trunk groups, they may have termination liabilities associated with their current network configuration that economically prohibits them from re-architecting their network for maximum efficiency.

Congestion control, trouble isolation, alternate routing may be managed based upon business agreements among the originating network providers, 911 service providers and PSAPs. E9-1-1 trunk provisioning between an aggregator and a Selective Router is based upon the traffic engineering analysis among the aggregator and its originating network partners.

Grade of Service (GOS) accountability for the E9-1-1 network is the responsibility of all parties – the originating network, the transport network, the switching network, and the call receiver. In the event that a shared trunk is implemented, the carrier/aggregator holds a major stake in the implementation since they will integrate traffic from all service types onto the common trunk and deliver it to the E9-1-1 service providers' selective router. In both common trunk implementations

and dedicated service types trunks, the carrier/aggregator is responsible for the provisioning, sizing, and congestion control methodology on the TDM trunk between the carrier/aggregator network and the SR. Both the E9-1-1 service provider and the PSAP are responsible for maintaining the GOS for their portion of the network from SRs to the PSAP.

### **3.4 Congestion Control, Default Routing, Diversity, and Redundancy – Impacts of the use of Shared Trunk Groups.**

Congestion control can be implemented using best practices network traffic engineering and recognizing responsibilities of the originating network service provider, aggregator, selective router operator, and PSAP administrator.

Default routing is different than congestion control. Default routing is an error situation and may be defined as not having the ANI (ANI failure) to route the call or not having the routing databases populated with routing information, or the originating carrier sending the call to the incorrect selective router. In today's reliable networks, ANI failure is a minimal issue (due to the use of SS7 signaling), SRDB quality is being resolved through effective database management practices, and work between providers is being done to assist in delivering calls to the proper selective router.

In the originating network, the carrier or the aggregator can provide facility diversity and redundancy to the selective router based upon sound engineering principles (i.e. diverse facilities, alternate routing to another SR, etc). If the selective router operator implements a dual tandem configuration, calls can be directed to a secondary or alternate selective router that will route the call to the PSAP. The alternate selective router must accommodate calls from the aggregator or carrier and also handle overflow and the necessary default routing.

Diversity and redundancy from the selective router to the PSAP is accommodated by the E9-1-1 service provider. Depending upon the capabilities of each PSAP regarding call processing, the network interconnection architecture between the SRs and the PSAPs, and the capabilities of the SR will determine how redundancy and diversity is implemented.

### **3.5 Introduction of New Services that may use Common Trunk Groups**

There are emerging services that require access to emergency services, but their business cases may not support the build out of dedicated trunks to the selective router. This section provides an overview of those emerging services.

Telematics services started offering access to emergency services when the user pushed the emergency button on the car service panel. That activated a data, then voice call to the telematics service center. If the call center agent can converse with the occupant, they will ascertain the seriousness of the emergency. If first responders were needed, the call center agent would identify the appropriate PSAP and call the PSAP on its administrative line. The call center agent would give the PSAP sufficient information such that first responders could be dispatched. This is an inefficient method to dispatch emergency services since verbal communication is required to ascertain the location of the occupant. The evolution of this service is to route telematics calls as native 9-1-1 calls and deliver the location with the ALI query. This allows the PSAP to use normal call handling and dispatch processes to address the incident. Since telematics providers offer a nationwide service it is

impractical for them to build out trunks to each selective router. A cost effective procedure is to route these calls through an aggregator and have that aggregator deliver the call to the selective router across common trunks using the same mechanism as VoIP services.

Satellite carriers are also emerging and require access to emergency services. These carriers are introducing services that deploy GPS-enabled handsets that have the ability to provide the location of the caller. The first services required the user to dial 9-1-1 and those calls were routed to a call center similar to the way telematics processed the emergency call. The call agent determined the user's location and called the PSAP on its administrative line. The evolution of this service is to route satellite calls as native 9-1-1 calls and deliver the location with the ALI query. This allows the PSAP to use normal call handling and dispatch processes to address the incident. Since satellite providers offer a national/global service it is impractical for them to build out trunks to each selective router. A cost effective procedure is to route these calls to an aggregator and have that aggregator deliver the call to the selective router across common trunks using the same mechanism as VoIP services.

Another example of an emerging service is carriers that are introducing Fixed Mobile Convergence. These carriers may offer traditional wireless services and a VoIP-like service across their footprint.

If emerging services are required to continue to deliver emergency calls to the administrative number of the PSAP, then the PSAP will not be able to utilize the efficiencies that come with the use of the E9-1-1 environment to work the emergency.

The salient point to these examples is that in order to allow more users access to public safety and enhance network cost efficiencies, processes and procedures that allow call delivery over common trunk groups must be accepted by the industry and implemented.

### **3.6 Decision Process to Address Anomalies**

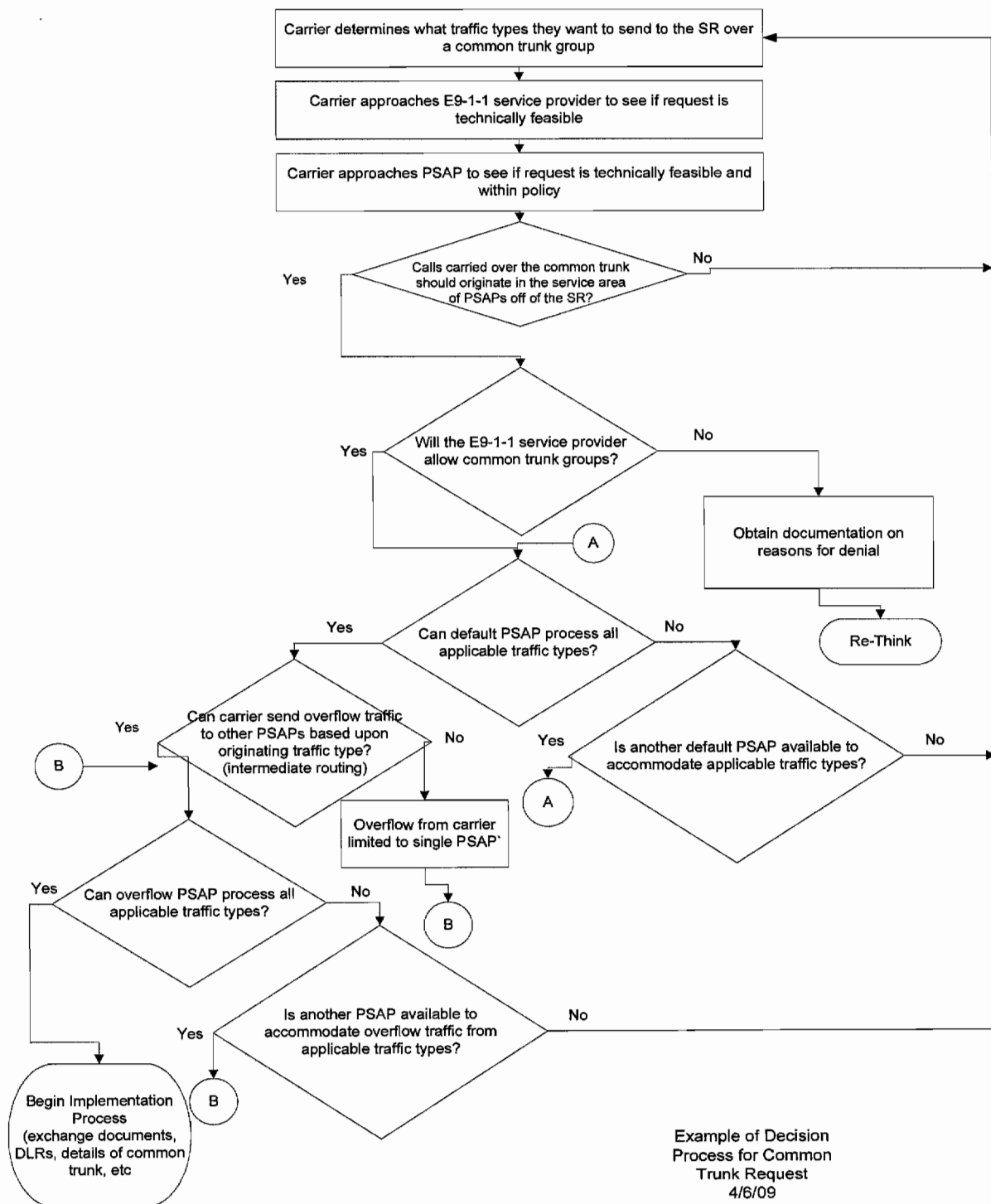
As discussed previously, default routing is an anomaly in call processing caused by the absence of ANI in the call flow or an error in the routing database. The following flowchart only applies for this anomaly when the PSAP requires different treatment (i.e. default routing) based upon different service types. The flowchart below represents an example of the decision process used by the parties in grouping and assessing the impact of default routing. This example considers default and overflow routing as conditions in the decision process. The decision flow and decision criteria will vary from E9-1-1 service provider to provider as well as locale to locale. This example shows what may be considered in honoring the request.

The analysis of the utilization of a shared trunk group for a carrier may be based upon:

- a. Capabilities and policy at the PSAP level
- b. Capabilities and policy at the E9-1-1 service provider level
- c. Feedback from the 911 Authority
- d. Hardware and default routing capabilities of the SR
- e. Hardware and routing capabilities of the carriers' switching equipment
- f. Capabilities of the Default PSAP
- g. Capabilities of the Overflow PSAP



- i. In the case of default and overflow PSAPs, alternate overflow or default PSAPs may be selected to accommodate the use of common trunk groups



## 4 Recommended Reading and References

NENA 00-001, Master Glossary of 9-1-1 Terminology

NENA Standard 03-006 titled "NENA Standards for E9-1-1 Call Congestion Management"

## 5 Exhibits

### 5.1 Example of controlling overflows from carrier network to selective router over common trunk group.

This example shows how trunk groups and route selection can be used to improve the reliability of call delivery into a selective router. This may be considered a form of congestion control, although it is more appropriate to classify it as sound traffic engineering principles to mitigate call overflow when a single event from a single service type overwhelms a network.

Trunk Groups 1 and 2 originate and terminate at the same location. But they are distinct trunk groups.

Total "common" trunk size is (members of trunk 1 group) + (members of trunk group 2)

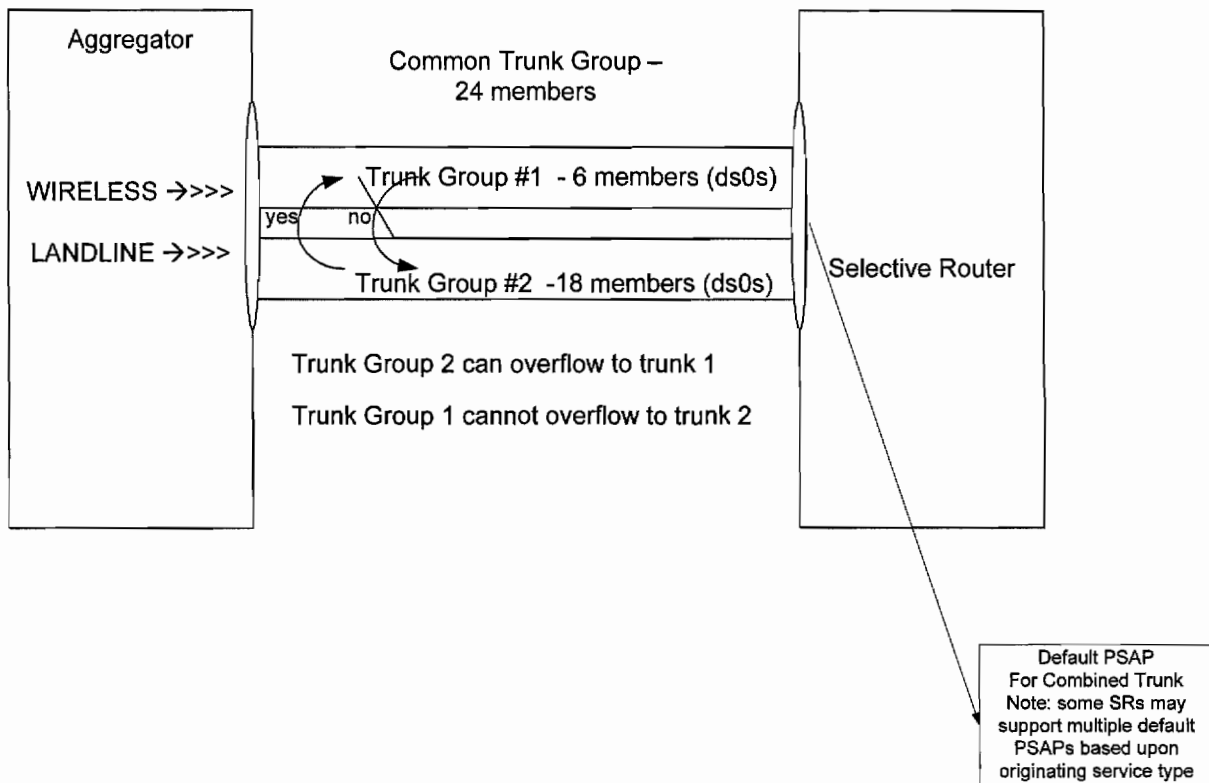
For example,

Trunk Group 2 has 18 available members  
Trunk Group 1 has 6 available members  
Common trunk size is 24 members

Through route selection, trunk group 2 can overflow to trunk group 1, but trunk group 1 cannot overflow to trunk group 2.

Type of service routing segments traffic as follows:  
Wireline originations point to trunk 2  
Wireless originations point to trunk 1

Trunk group 1 is sized for busy hour load of wireless (or largest user based upon call attempts per second)



If there is a highway emergency, trunk group 1 of the common trunk group may become congested and may not accept additional mobile calls. But trunk group 2 still has capacity to accept new originations from the aggregator from their wireline (non mobile) customers.

In the event of a wireline emergency, all 24 members would be used by wireline originations.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**Nashville, Tennessee**

In re: )  
)  
PETITION FOR ARBITRATION OF )  
INTERCONNECTION AGREEMENT BETWEEN )  
BELLSOUTH TELECOMMUNICATIONS, INC. ) Docket No. 10-00042  
D/B/A AT&T TENNESSEE AND SPRINT )  
SPECTRUM L.P., NEXTEL SOUTH CORP., AND )  
NCPR, INC. D/B/A NEXTEL PARTNERS )

And

PETITION FOR ARBITRATION OF )  
INTERCONNECTION AGREEMENT BETWEEN )  
BELLSOUTH TELECOMMUNICATIONS, INC. ) Docket No. 10-00043  
D/B/A AT&T TENNESSEE AND SPRINT )  
COMMUNICATIONS COMPANY L.P. )

**SPRINT SPECTRUM L.P., NEXTEL SOUTH CORP.,**

**NCPR, INC. D/B/A NEXTEL PARTNERS**

**AND**

**SPRINT COMMUNICATIONS COMPANY L. P.**

**REBUTTAL TESTIMONY**

**OF**

**JAMES R. BURT**

**FILED SEPTEMBER 30, 2010**

1 **Introduction**

2

3 **Q. Please state your name and business address.**

4 A. My name is James R. Burt. My business address is 6450 Sprint Parkway, Overland  
5 Park, Kansas 66251.

6

7 **Q. Are you the same James R. Burt who submitted Direct Testimony before the**  
8 **Tennessee Regulatory Authority (“Authority” or “TRA”) in this matter on**  
9 **August 31, 2010?**

10 A. Yes I am.

11

12 **Q. What is the purpose of your Rebuttal Testimony?**

13 A. The purpose of my Rebuttal Testimony is to respond to portions of the Testimony  
14 of AT&T witnesses Patricia H. Pellerin, J. Scott McPhee, P.L. (Scot) Ferguson,  
15 Frederick C. Christensen, and James W. Hamiter. Specifically, I will respond to the  
16 testimony of these AT&T witnesses on the following list of disputed issues: I.A(1),  
17 I.A(2), I.A(3), I.A(4), I.A(5), I.A(6), I.B(1), I.B(2), I.B(3), I.B(4), I.B(5), II.B(1),  
18 II.B(2), III.A.4(1), III.A.4(2), III.A.4(3), III.A.5, III.A.6(1), III.A.6(2), V.B, and  
19 V.C.

20

21 **I. Provisions related to the Purpose and Scope of the Agreements**

1 **Issue I.A(1): What legal sources of the parties' rights and obligations should be set**  
2 **forth in section 1.1 of the CMRS ICA and in the definition of**  
3 **"Interconnection" (or "Interconnected") in the CMRS ICA? (CMRS)**  
4

5 **Q. In describing Sprint's position regarding this Issue, Ms. Pellerin's Direct**  
6 **Testimony at page 3, line 11-12 states "Sprint asserts that the parties'**  
7 **negotiations addressed the FCC's Part 20 regulations and that the ICA should**  
8 **so reflect." Does Ms. Pellerin ever deny that this is in fact what happened?**

9 A. No, Ms. Pellerin never denies that the parties' negotiations addressed the Federal  
10 Communications Commission's ("FCC") Part 20 regulations. While she attempts  
11 to explain away in her footnote 1 AT&T's prior acceptance of the CMRS  
12 "Interconnection" definition that has since been placed back in disputed, she never  
13 addresses any of the other examples provided in my Direct Testimony at pages 20-  
14 22 regarding closed or open issues that are premised upon the existence and  
15 implementation of the FCC's Part 20 Rules<sup>1</sup>. Instead, Ms. Pellerin's testimony  
16 provides her interpretation of what an FCC discussion of *its jurisdiction* in the First  
17 Report and Order "implies" with respect to the interconnection *rights* of CMRS  
18 carriers.  
19  
20

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<sup>1</sup> See undisputed definition of "Commercial Mobile Radio Service(s) (CMRS)" which expressly incorporates meaning at 47 U.S.C. § 332(d)(1) and 47 C.F.R. § 20.9; the undisputed Section 2.2.1 language allowing either party to serve the other with a request to negotiate a successor agreement which, as to AT&T, is premised upon Rule 20.11(e) rather than any Part 51 Rule; and, the disputed Issues related to InterMTA Traffic originated by both parties, the resolution of which must be premised upon the Rule 20.11 principles of mutual reasonable compensation paid by the originating Party to the terminating Party.

1

2 **Q. Specifically, Ms. Pellerin references paragraph 1024 in the First Report and**  
3 **Order on page 4 of her Direct Testimony. Please comment.**

4 A. Paragraph 1024 of the First Report and Order does address the relationship between  
5 Sections 251 and 252 of the Act and Section 332 from which the Part 20 regulations  
6 are derived. And, Ms. Pellerin's quotation at page 4, lines 12- 13 is accurate.  
7 However, Ms. Pellerin is suggesting that the First Report and Order set up an  
8 either/or situation resulting in CMRS carriers' interconnection being governed only  
9 by Sections 251 and 252. That is not the case. The following comments from  
10 Commissioner Chong in her statement accompanying the First Report and Order  
11 clearly shows that the FCC's *jurisdiction* to create rules that govern CMRS-LEC  
12 interconnection is based upon both Sections 251 and 252 and Section 332 of the  
13 Act.

14 "CMRS-LEC Interconnection Issues. In our order, I have supported our  
15 decision to allow CMRS-LEC interconnection matters to be governed by  
16 the Sections 251/252 provisions, while continuing to acknowledge our  
17 continuing jurisdiction pursuant to Section 332 over CMRS-LEC  
18 interconnection [**\*\*259**] matters. In doing so, we have declined to opine  
19 on the precise extent of our Section 332 jurisdiction over CMRS-LEC  
20 interconnection matters, however. I emphasize that by opting to use the  
21 Section 251/252 framework, we are not repealing our Section 332  
22 jurisdiction by implication or rejecting Section 332 as an alternative basis  
23 for jurisdiction."<sup>2</sup>  
24

---

<sup>2</sup> Separate Statement of Commissioner Rachelle B. Chong, Re: In the Matter of implementation of the Local Competition provisions in the Telecommunications Act of 1996, CC Docket No. 96-98; Interconnection between Local Exchange Carriers and Commercial Mobile radio Service Providers, CC Docket No. 95-185; Implementation of Sections 3(n) and 332 of the Communications Act, GN Docket No. 93-252, FCC 96-325, page 4.



1 Commissioner Quello also stated that the FCC “expressly reserved federal  
2 jurisdiction under Section 332.”<sup>3</sup>

3  
4 Further, the United States Court of Appeals for the Eighth Circuit upheld the FCC’s  
5 rules under Sections 251 and 252 of the Act as applied to CMRS carriers and  
6 interconnection between CMRS carriers and LECs because those rules were an  
7 exercise of the FCC’s jurisdiction under Section 332.

8 Because Congress expressly amended section 2(b) to preclude state  
9 regulation of entry of and rates charged by Commercial Mobile Radio  
10 Service (CMRS) providers, see 47 U.S.C. §§ 152(b) (exempting the  
11 provisions of section 332), 332(c)(3)(A), and because section 332(c)(1)(B)  
12 gives the FCC the authority to order LECs to interconnect with CMRS  
13 carriers, we believe that the Commission has the authority to issue the  
14 rules of special concern to the CMRS providers, i.e., 47 C.F.R. §§ 51.701,  
15 51.703, 51.709(b), 51.711(a)(1), 51.715(d), and 51.717, but only as these  
16 provisions apply to CMRS providers. Thus, rules 51.701, 51.703,  
17 51.709(b), 51.711(a)(1), 51.715(d), and 51.717 remain in full force and  
18 effect with respect to the CMRS providers, and our order of vacation does  
19 not apply to them in the CMRS context.<sup>4</sup>

20 Although the Supreme Court ultimately reversed much of the Eighth Circuit’s  
21 decision on other grounds, no party appealed the Eighth Circuit’s holding that the  
22 FCC’s CMRS interconnection rules were based upon its authority under Section  
23 332.

24  

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<sup>3</sup> Statement of Commissioner James H. Quello, Re: In the Matter of implementation of the Local Competition provisions in the Telecommunications Act of 1996, CC Docket No. 96-98; Interconnection between Local Exchange Carriers and Commercial Mobile radio Service Providers, CC Docket No. 95-185; Implementation of Sections 3(n) and 332 of the Communications Act, GN Docket No. 93-252, FCC 96-325, page 1.

<sup>4</sup> *Iowa Utilities Board v. FCC*, 120 F.3d 753, 800 n.1 (8<sup>th</sup> Cir. 1997) (subsequent history omitted).

1 **Q. Did the First Report and Order result in changes to Part 20 rules that make it**  
2 **clear that the FCC considers CMRS-LEC interconnection to be governed by**  
3 **both the FCC's Sections 251 and 252 Part 51 and Section 332 Part 20**  
4 **regulations?**

5 A. Yes. 47 C.F.R. § 20.11(c) was expressly added as a result of the First Report and  
6 Order. It states:

7 “(c) Local exchange carriers and commercial mobile radio service  
8 providers shall also comply with applicable provisions of part 51 of this  
9 chapter.”<sup>5</sup> (emphasis added)  
10

11 **Q. Is there anything within the Federal Code of Regulations that indicates the**  
12 **FCC's Part 20 and Part 51 regulations are each premised upon both Sections**  
13 **251/252 and 332 of the Act?**

14 A. Yes. Within the Code of Federal Regulations, following the respective table of  
15 contents for the Part 20 and Part 51 regulations there is an identification of the  
16 statutory “Authority” upon which the FCC’s regulations in a given Part are based.  
17 The “Authority” for the FCC’s Part 20 regulations includes “47 U.S.C. ... 251-254  
18 ... and 332 unless otherwise noted”. The “Authority” for the FCC’s Part 51  
19 regulations similarly includes “... 47 U.S.C. ... 251-54 ... 332 ... unless otherwise  
20 noted.”  
21

22 **Q. Please summarize Sprint’s position on the inclusion of the reference to Part 20**  
23 **regulations in section 1.1 of the CMRS ICA.**

---

<sup>5</sup> 47 C.F.R. § 20.11(c).

1 A. It is Sprint's position that CMRS-LEC interconnection is governed by both Part 51  
2 and Part 20 regulations. It is not one or the other, it is clearly both as evidenced by  
3 the interpretation of the First Report and Order by two FCC Commissioners  
4 involved in the proceeding, the Eighth Circuit's holding, and the full reading of the  
5 rules.

6  
7 **Q. Why does Sprint think it is necessary to reference Part 20 regulations?**

8 A. As previously stated in my Direct Testimony, Section 1 of the ICA defines the  
9 Purpose and Scope of the entire ICA. This section should generally reflect the  
10 entirety of the "purpose and scope" of the ICA. The FCC's Part 20 rules contain  
11 specific rules governing Interconnection between a wireless carrier and an  
12 Incumbent Local Exchange Carrier ("ILEC"). Further, notwithstanding AT&T's  
13 withdrawal of its prior agreement with respect to the Interconnection definition, the  
14 CMRS ICA continues to not only contain undisputed language that expressly refers  
15 to provisions of Part 20, but also contains multiple negotiated Issues (both closed  
16 and open) that pertain to subject matter for which the only currently existing,  
17 applicable FCC rules are contained in Part 20.

18  
19  
20 **Q. Is it necessary for the Authority to resolve this issue?**

21 A. Yes. It is important that the Authority resolve this issue. The Authority has the  
22 authority and duty to resolve disputed issues between the parties. Including the Part  
23 20 reference as stated by Sprint is an accurate representation of the scope of the

ICA. More specifically, Part 20 regulations provide a comparable foundation for impacted sections of the ICA, just as Part 51 regulations provide the foundation for sections of the ICA.

**Q. How should the Authority resolve Issue I.A(1)?**

A. Part 20 and Part 51 are both sources of the parties' rights and obligations within the CMRS ICA, as opposed to only one or the other. The Authority should adopt Sprint's language for the CMRS ICA that includes the Part 20 references in both Section 1.1 and the Sprint proposed Interconnection definition. The language is as follows:

1.1 This Agreement specifies the rights and obligations of the Parties with respect to the implementation of their respective duties under Sections 251 and 252 of the Act and the FCC's Part 20 and 51 regulations.

**"Interconnection or Interconnected"** means as defined at 47 C.F.R. § 20.3 and 51.5.

**Issue I.A(2): Should either ICA state that the FCC has not determined whether VoIP is telecommunications service or information service? (CMRS & CLEC section 1.3)**

**Q. On page 77 of Mr. McPhee's Direct Testimony, he states as one reason not to include Sprint's language acknowledging the unsettled state of VoIP traffic is that it "does not provide any contractual guidance for the parties to operate under the ICA." Do you agree with this statement?**

1 A. No. Just the opposite. It is important to recognize the fact that the FCC has not  
2 classified VoIP as a telecommunications or information service because it gives the  
3 Authority guidance in resolving the VoIP issues. Clearly the FCC has jurisdiction  
4 over VoIP and Sprint's proposed language recognizes this fact. Such recognition  
5 provides the Authority with the guidance necessary to ensure it doesn't exceed its  
6 authority to set rates for the exchange of VoIP traffic.

7

8 **Q. Would the inclusion of the Sprint proposed language create any conflicts with**  
9 **the interpretation of VoIP-related contract terms and conditions?**

10 A. No. The inclusion of Sprint's proposed language recognizing that the FCC has not  
11 determined whether VoIP is an information service or a telecommunications service  
12 will not create conflicts with how VoIP terms and conditions will be interpreted.

13

14 **Q. Has AT&T identified specific problems with the inclusion of Sprint's proposed**  
15 **language?**

16 A. No. My interpretation of AT&T's arguments are that it does not think Sprint's  
17 language is necessary, not that it creates problems with how the VoIP terms and  
18 conditions will be interpreted or implemented.

19

20 **Q. How should the Authority resolve this issue?**

21 A. The Authority should require the parties to adopt Sprint's language as stated below  
22 because it recognizes the current regulatory uncertainty with respect to  
23 Interconnected VoIP Service traffic.

1 1.3 Interconnected VoIP Service. The FCC has yet to determine whether  
2 Interconnected VoIP service is Telecommunications Service or  
3 Information Service. Notwithstanding the foregoing, this Agreement may  
4 be used by either Party to exchange Interconnected VoIP Service traffic.  
5

6 **Issue I.A(3) Should the CMRS ICA permit Sprint CMRS to send Interconnected**  
7 **VoIP traffic to AT&T? (CMRS section 1.3)**  
8

9 **Q. What do you understand AT&T's arguments to be with respect to Issue**  
10 **I.A(3)?**

11 A. It appears based on Mr. McPhee's Direct Testimony on page 78, that AT&T has  
12 two arguments. First, AT&T is claiming that because Sprint is a wireless carrier, it  
13 cannot originate VoIP traffic. Second, AT&T is claiming that Sprint does not have  
14 the right to include non-Sprint VoIP traffic for termination to AT&T.  
15

16 **Q. Please address AT&T's first argument – that because Sprint is a wireless**  
17 **carrier, it cannot originate VoIP traffic.**

18 A. AT&T is making an argument that simply is not accurate. AT&T is claiming that it  
19 is not possible for a wireless carrier to originate VoIP traffic when the facts prove  
20 otherwise. As I stated in my Direct Testimony, Sprint has a wireless VoIP service  
21 called Airave. This femtocell device is a wireless device that utilizes a VoIP  
22 broadband connection from the user's premises to enable real-time two-way voice  
23 calls both to and from the Public Switched Telephone Network. Airave is sold,  
24 invoiced and serviced by Sprint CMRS, using Sprint's licensed spectrum, Sprint's

1 network, and a customer-provided broadband connection.<sup>6</sup> In addition, a recent  
2 statement by the FCC clearly contemplates wireless VoIP service. The FCC made  
3 the following statement in a September 23, 2010 Notice of Proposed Rulemaking  
4 and Notice of Inquiry.

5 To that end, the *VoIP 911 NPRM* sought comment on what additional  
6 steps should be taken to determine whether there may be ways to  
7 automatically identify the location of a user of a portable interconnected  
8 VoIP service, whether to extend the requirements to other VoIP services,  
9 such as services that are not fully interconnected to the PSTN but may  
10 permit users to make calls to or receive calls from landline and mobile  
11 phones, **whether providers of wireless interconnected VoIP service**  
12 **would be more appropriately subject to the existing commercial mobile**  
13 **radio service (CMRS) 911/E911 rules (contained in Part 20), and whether**  
14 **there are any steps the Commission should take to ensure that people with**  
15 **disabilities who desire to use interconnected VoIP service can obtain**  
16 **access to E911 services.**<sup>7</sup> (emphasis added and footnotes omitted)  
17

18 **Q. Does AT&T's wireless affiliate originate VoIP traffic?**

19 A. AT&T's wireless affiliate advertises a device similar to Sprint's Airave that is also  
20 a femtocell VoIP-broadband-dependent device.<sup>8</sup> Assuming such a device has been  
21 sold and is in service then, yes, AT&T's wireless affiliate is also originating VoIP  
22 traffic.  
23

24 **Q. What is the purpose of the wireless/interconnected VoIP services such as**  
25 **Sprint's Airave?**

---

<sup>6</sup> See [http://support.sprint.com/support/device/Sprint/AIRAVE\\_by\\_Sprint-dvc1230001prd/?ECID=vanity:airave](http://support.sprint.com/support/device/Sprint/AIRAVE_by_Sprint-dvc1230001prd/?ECID=vanity:airave)

<sup>7</sup> In the Matter of Wireless E911 Location Accuracy Requirements and E911 Requirements for IP-Enabled Service Providers, PS Docket No. 07-114 and WC Docket No. 05-196, Further Notice of Proposed Rulemaking and Notice of Inquiry Before the Federal Communications Commission, FCC 10-177, Released September 23, 2010, p. 8.

<sup>8</sup> See <http://www.wireless.att.com/learn/why/3gmicrocell/>.

1 A. Devices like Sprint's Airave and AT&T's femtocell device provide a means to  
2 improve wireless coverage. These devices provide a great solution when cell-tower  
3 coverage is lacking. This is but one example of how the market and technological  
4 development are pushing forward to solve real customer issues.

5  
6 **Q. How would AT&T wireless affiliate originated-VoIP traffic be delivered to**  
7 **Sprint CMRS?**

8 A. AT&T's wireless affiliate and Sprint CMRS may be either directly or indirectly  
9 interconnected. Therefore, anyplace where AT&T's wireless affiliate and Sprint  
10 CMRS may exchange traffic between their networks using AT&T ILEC as the  
11 transit provider, AT&T ILEC will be using the interconnection facilities established  
12 under the Sprint CMRS ICA to transit AT&T's wireless affiliate's VoIP-originated  
13 traffic to Sprint CMRS.

14  
15 **Q. Please address AT&T's second argument, that Sprint CMRS does not have a**  
16 **right to send either its own or a Third Party's VoIP-originated traffic to**  
17 **AT&T over the very same interconnection facilities that AT&T apparently**  
18 **believes it is somehow entitled to use to send either its own or a Third Party's**  
19 **VoIP-originated traffic to Sprint CMRS.**

20 A. AT&T believes it has rights that Sprint CMRS does not. AT&T believes it can  
21 send any VoIP-originated traffic to Sprint CMRS, but Sprint CMRS cannot send  
22 any VoIP-originated traffic to AT&T.



1    **Q. Did AT&T cite a basis for the position it is taking on this issue?**

2    A. No. AT&T did not cite a legal or regulatory basis for its position on this issue. As  
3       mentioned in my Direct Testimony, AT&T may be taking this position due to  
4       potential differences in intercarrier compensation. As I stated in my Direct  
5       Testimony, this is not a rate issue. This is an issue of regulatory parity and  
6       symmetry. The open question of compensation for interconnected VoIP traffic  
7       applies to any interconnected VoIP traffic whether it is AT&T's VoIP traffic or  
8       Sprint CMRS's VoIP traffic. AT&T simply wants a form of interconnection that is  
9       asymmetrical and discriminatory.

10  
11   **Q. You use Sprint's Airave service as an example in your testimony. Is it the only**  
12   **service for which Sprint needs VoIP interconnection rights?**

13   A. No. I am using the Airave service as an example of a VoIP service for which Sprint  
14       CMRS has the right to send VoIP-originated traffic to AT&T via interconnection  
15       facilities established pursuant to the CMRS ICA. Sprint's request is broad in scope  
16       and covers all forms of interconnected VoIP service.

17  
18   **Q. Is it technically feasible for Sprint CMRS to deliver VoIP-originated traffic**  
19   **(either its own or a Third Party's) to AT&T ILEC over the same**  
20   **interconnection facilities that AT&T ILEC will use to deliver VoIP-originated**  
21   **traffic (either its own or a Third Party's) to Sprint CMRS?**

22   A. Yes. The nature of the traffic does not affect whether it is technically feasible for  
23       either Sprint CMRS or AT&T ILEC to send one another VoIP-originated traffic.

1 AT&T's attempt to prevent Sprint CMRS from sending VoIP-originated traffic to  
2 AT&T is simply another example of AT&T attempting to impose a restriction on  
3 Sprint as a wireless provider that is discriminatory on its face with no support  
4 whatsoever in the FCC's rules.  
5

6 **Q. Why is it important for the Authority to require AT&T to accept**  
7 **interconnected VoIP service traffic from Sprint on its wireless trunks?**

8 A. The Airave device, although it is a wireless device that also uses the Internet  
9 protocol, is just an example of the type of innovation that will continue within the  
10 industry. VoIP over wireless trunks is also just an example. This type of  
11 innovation, be it a new wireless device like Airave or a new technology like VoIP,  
12 will not stop because the market will not allow it to. It will also continue regardless  
13 of the eventual terms and conditions of the Sprint CMRS or Sprint CLEC ICAs.  
14 What would be a shame is if the Authority made rulings that did not allow for such  
15 market and technological innovation and evolution to occur in an efficient manner  
16 as Sprint is asking in its CMRS and CLEC ICAs. It is obviously good  
17 communications policy to enable innovation rather than hinder it. The answer is  
18 not to disallow what Sprint is asking, but rather to require the parties to utilize  
19 reasonable means to accommodate the inevitable evolution of market and  
20 technological innovation. The alternative being argued by AT&T that Sprint can't  
21 do this or can't do that is an unacceptable outcome from a public interest  
22 perspective.  
23

1 **Q. How should the Authority resolve this issue?**

2 A. The Authority should recognize AT&T's discriminatory action and not allow it to  
3 occur.<sup>9</sup> The Authority should recognize the necessity of what Sprint is asking  
4 independent of any potential intercarrier compensation differences and require the  
5 parties to adopt Sprint's language as stated below.

6 1.3 Interconnected VoIP Service. The FCC has yet to determine whether  
7 Interconnected VoIP service is Telecommunications Service or Information  
8 Service. Notwithstanding the foregoing, this Agreement may be used by either  
9 Party to exchange Interconnected VoIP Service traffic.  
10

11 **Issue I.A(4) Should Sprint be permitted to use the ICAs to exchange traffic**  
12 **associated with jointly provided Authorized Services to a subscriber through**  
13 **Sprint wholesale arrangements with a third-party provider that does not use**  
14 **NPA-NXXs obtained by Sprint? (CMRS & CLEC section 1.4)**  
15

16 **Q. On page 3 of his Direct Testimony, Mr. McPhee states that the parties should**  
17 **add any necessary language to address the exchange of Sprint wholesale**  
18 **customer traffic only after Sprint has a wholesale customer that has its own**  
19 **telephone numbers. Do you agree?**

20 A. Certainly not. AT&T's suggestion that the parties wait to include appropriate  
21 language seems inconsistent with its alternative argument that the arrangement will  
22 not work. If it truly won't work - and I will address that argument next - then there

---

<sup>9</sup> AT&T's position is discriminatory from two perspectives. First, AT&T is discriminating against Sprint CMRS when compared to Sprint CLEC because AT&T will allow Sprint CLEC to send AT&T Interconnected VoIP traffic over Sprint CLEC interconnection trunks but will not allow Sprint CMRS to do the very same thing on Sprint CMRS interconnection trunks.. Second, AT&T is discriminating against Sprint CMRS when compared to AT&T itself because AT&T will send Sprint interconnected VoIP traffic but will not agree to allow Sprint CMRS to send AT&T interconnected VoIP traffic.

1 would be no point in deferring whether or not the language should be included at a  
2 later date. As to deferring inclusion of the language, Sprint strongly disagrees with  
3 AT&T's position that it is contrary to some "general rule" governing ICA language.  
4 First, there is no such formal or general rule from Sprint's perspective. Second, it is  
5 no secret that AT&T and Sprint are competitive adversaries on multiple levels. In  
6 all likelihood, AT&T would continue to resist inclusion of language at a later point  
7 in time and the parties would be back before the Authority to resolve the issue. It is  
8 a disputed issue that the Authority can and should resolve in this arbitration.

9  
10 **Q. Could negotiation and probable dispute resolution, only after Sprint has a**  
11 **wholesale customer wishing to utilize its own numbering resources, hamper or**  
12 **delay Sprint's ability to implement such a wholesale service?**

13 A. Yes. Negotiations and dispute resolution are likely to take an extended period of  
14 time. Any delay could hamper or delay Sprint's ability to implement the desired  
15 wholesale service. In fact, it would be problematic and very risky to even offer  
16 such a service to wholesale customers if Sprint first needed to negotiate a workable  
17 amendment to the ICA as AT&T is suggesting.

18  
19 **Q. Does Sprint actively solicit wholesale customers, and might the wants and**  
20 **needs of current and potential wholesale customers change over time?**

21 A. Yes. Wholesale services provide an important opportunity for Sprint. Sprint is and  
22 has been active in the wholesale market for decades. The manner in which  
23 wholesale services are provided has changed over time and it can be expected to

1 change in the future. Sprint is not seeking unnecessary contract terms. Sprint's  
2 experience in the wholesale market suggests that the type of flexibility Sprint is  
3 seeking is due to anticipation of a need. And, Sprint should not be put in a position  
4 of risking its competitive wholesale service success on the absurd chance that its  
5 competitor, AT&T, will be any more inclined voluntarily to accept Sprint's  
6 language at some point in the future.

7  
8 **Q. On page 4 of his Direct Testimony, Mr. McPhee states it is not even possible to**  
9 **implement a wholesale service whereby Sprint's wholesale customer has its**  
10 **own telephone numbers. Please respond.**

11 A. Mr. McPhee states that AT&T's second reason for not agreeing with Sprint's  
12 language is because AT&T would not be able to route traffic to a Sprint wholesale  
13 customer via Sprint if that customer has its own telephone numbering resources  
14 because Local Exchange Routing Guide ("LERG") routing does not allow for such  
15 routing. I disagree with Mr. McPhee. Sprint's switch would be designated in the  
16 LERG as either the local tandem or end office serving the customer's affected  
17 NPA-NXX number blocks, thus allowing for proper routing.

18  
19 **Q. Please describe how this would work.**

20 A. I mentioned two scenarios above. The first is when Sprint's switch would be  
21 designated in the LERG as the local tandem. Under this scenario, Sprint's switch  
22 would be designated in the LERG as a local tandem that Sprint's wholesale  
23 customer switch subtends. Sprint's wholesale customer would designate Sprint's

1 local tandem switch in the Business Integrated Rating and Routing Database  
2 (“BIRRD”) as the switch to which all calls are to be routed, including AT&T calls.  
3 This is consistent with standard industry processes and practices. In the second  
4 scenario, Sprint’s end office would be where the numbers actually reside. The  
5 Sprint wholesale customer could port its numbers to Sprint or it could assign them  
6 to Sprint. Sprint’s switch is then designated in the LERG as subtending the AT&T  
7 tandem switch causing calls to be routed to AT&T’s tandem and then on to Sprint’s  
8 switch. This second scenario has the same routing effect as Sprint acquiring  
9 numbers from the North American Numbering Plan Administrator (“NANPA”) for  
10 assignment to its wholesale cable interconnected VoIP subscribers.

11  
12 **Q. How should the Authority resolve this issue?**

13 A. Sprint asks the Authority to recognize that there is no basis for delaying the  
14 inclusion of language addressing Sprint’s wholesale needs. Delay could result in  
15 lost wholesale business for Sprint. In addition, I have shown that what Sprint is  
16 asking is consistent with current industry practices. For these reasons, Sprint asks  
17 the Authority to require the parties to adopt Sprint’s proposed language for section  
18 1.4 as provided below and reject AT&T’s discriminatory approach to this issue.

19 1.4 Sprint Wholesale Services. This Agreement may be used by Sprint to  
20 exchange traffic associated with jointly provided Authorized Services to a  
21 subscriber through Sprint wholesale arrangements with third-party providers that  
22 use numbering resources acquired by Sprint from NANPA or the Number Pooling  
23 Administrator (“Sprint Third Party Provider(s)”). Subscriber traffic of a Sprint  
24 Third Party Provider (“Sprint Third Party Provider Traffic”) is not Transit Service  
25 traffic under this Agreement. Sprint Third Party Provider Traffic traversing the  
26 Parties’ respective networks shall be deemed to be and treated under this  
27 Agreement (a) as Sprint traffic when it originates with a Sprint Third Party  
28 Provider subscriber and either (i) terminates upon the AT&T-9STATE network or

(ii) is transited by the AT&T-9STATE network to a Third Party, and (b) as AT&T-9STATE traffic when it originates upon AT&T-9STATE's network and is delivered to Sprint's network for termination. Although not anticipated at this time, if Sprint provides wholesale services to a Sprint Third Party Provider that does not include Sprint providing the NPA-NXX that is assigned to the subscriber, Sprint will notify AT&T-9STATE in writing of any Third Party Provider NPA-NXX number blocks that are part of such wholesale arrangement.

**Issue I.A.(5) Should the CLEC Agreement contain Sprint's proposed language that requires AT&T to bill a Sprint Affiliate or Network Manager directly that purchases services on behalf of Sprint? (CLEC Section 1.5)**

**Q. You mentioned in your Direct Testimony that what Sprint is asking for in its CLEC agreement is already included as undisputed language in the CMRS ICA. Yet, AT&T is suggesting that Sprint's request is somehow different from what the parties agreed to in the CMRS ICA. Please provide your perspective on AT&T's claim.**

**A.** I disagree with Mr. Ferguson's characterization on pages 2-3 of his Direct Testimony of what is included in the CMRS context for two reasons. First, neither the language in the current Sprint-AT&T ICA nor the undisputed language AT&T agreed to in the CMRS ICA being arbitrated gives AT&T the rights it claims it must have in the CLEC ICA being arbitrated. There is no grant of any "review" or "approval" rights to AT&T in the existing Section 4.8 of the current CMRS ICA or in the undisputed Section 1.5 language of the CMRS ICA being arbitrated. Second, AT&T did not approve or disapprove of any Sprint CMRS affiliates or third-party CMRS network managers utilized in the past or currently being utilized.

1 Rightfully so, it simply was not a part of the process. Even more compelling is the  
2 fact that the new Section 1.5 CMRS ICA language (which is identical to the  
3 disputed Section 1.5 CLEC language) makes clear that AT&T *is required to add or*  
4 *delete a Sprint Affiliate or Network Manager upon receiving a ten-day notice*  
5 requesting an amendment to effect such addition or deletion, with no mention of  
6 any AT&T review or investigation right:

7 1.5.3 Upon Sprint's providing AT&T9-State a ten-day (10)  
8 written notice requesting an Amendment to Exhibit A to  
9 add or delete a Sprint Affiliate or Network Manager, the  
10 parties ***shall*** cause an amendment to be made to this  
11 Agreement within no more than an additional thirty (30)  
12 days from the date of such notice to effect the requested  
13 additions or deletions to Exhibit A. [Emphasis added].  
14

15 Once again, AT&T is simply insisting on discriminatory treatment between Sprint  
16 as a CMRS provider vs. Sprint as a CLEC with no basis in federal  
17 telecommunications policy to do so.  
18

19 **Q. Please describe what could happen if AT&T is given the ability to perform its**  
20 **“due-diligence investigation.”**

21 A. If AT&T is given the right to perform what it refers to as its “due-diligence  
22 investigation,”<sup>10</sup> Sprint will be put in the position of having AT&T approve or  
23 disapprove what would ordinarily and rightfully be internal Sprint network  
24 decisions. This could have serious negative consequences to Sprint. It is unnerving  
25 to think a Sprint competitor could have veto power over such fundamental network  
26 issues as “whom” Sprint can/cannot use to build out Sprint's network. In addition,

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<sup>10</sup> Ferguson Direct, page 4, Line 3.



1 AT&T would be highly motivated to disapprove or delay any approval because of  
2 the fundamental competitive conflict between the parties. Of course, AT&T will  
3 say it would not disapprove or delay simply because it is Sprint's competitor.  
4 However, wise policy suggests that such conflicts of interest involving internal  
5 business-direction decisions of a competitor simply cannot be sanctioned.

6  
7 **Q. On page 4, Mr. Ferguson is suggesting that all Sprint has to do is request an**  
8 **appropriate amendment to the ICA once Sprint has identified an affiliate or**  
9 **network manager and AT&T will "negotiate an appropriate amendment".**  
10 **How do you respond?**

11 A. Mr. Ferguson's suggestion is not workable. If a third-party network manager is  
12 contemplated by Sprint to perform certain network functions, Sprint would likely  
13 seek competitive bids for such a service. AT&T's suggestion puts AT&T right in  
14 the middle of such negotiations, effectively giving AT&T the ability to veto any  
15 Sprint decision regarding who Sprint uses to build-out, operate or otherwise manage  
16 aspects of Sprint's network. Such a situation is untenable. AT&T's suggestion  
17 would also impact a decision with respect to an affiliate or desired affiliate. For  
18 example, Sprint may be seeking to purchase a company and part of the basis for  
19 doing so would be so that new affiliate could perform network management  
20 functions for Sprint. AT&T's proposal would either give it veto power over a  
21 Sprint decision to purchase the company or negate some or the entire basis for  
22 purchasing the company to begin with. Again, neither is acceptable.

1    **Q.   How should the Authority resolve this issue?**

2    A.   Sprint asks the Authority to require the parties to adopt Sprint’s proposed language  
3       for section 1.5 in the CLEC ICA as follows:

4       1.5     Affiliates and Network Managers

5  
6       1.5.1   Nothing in this Agreement shall prohibit Sprint from enlarging its wireline  
7       network through the use of a Sprint Affiliate or management contracts with non-  
8       Affiliate third parties (hereinafter “Network Manager(s)”) for the construction and  
9       operation of a wireline system under a Sprint or Sprint Affiliate license. Traffic  
10      traversing such extended networks shall be deemed to be and treated under this  
11      Agreement (a) as Sprint traffic when it originates on such extended network and  
12      either (i) terminates upon the AT&T-9STATE network or (ii) is transited by the  
13      AT&T-9STATE network to a Third Party, and (b) as AT&T-9STATE traffic  
14      when it originates upon AT&T-9STATE’s network and terminates upon such  
15      extended network. All billing for or related to such traffic and for the  
16      interconnection facilities provisioned under this Agreement by AT&T-9STATE to  
17      Sprint for use by a Sprint Affiliate or Network Managers under a Sprint or Sprint-  
18      Affiliate license will (a) be in the name of Sprint, (b) identify the Sprint Affiliate  
19      or Network Manager as applicable, and (c) be subject to the terms and conditions  
20      of this Agreement; and, Sprint will remain liable for all such billing hereunder.  
21      To expedite timely payment, absent written notice to the contrary from Sprint,  
22      AT&T-9STATE shall directly bill the Sprint Affiliate or Network Manager that  
23      orders interconnection facilities for all charges under this Agreement associated  
24      with both the interconnection facilities and the exchange of traffic over such  
25      facilities.

26  
27      1.5.2   A Sprint Affiliate or Network Manager identified in Exhibit A may  
28      purchase on behalf of Sprint, services offered to Sprint in this Agreement at the  
29      same rates, terms and conditions that such services are offered to Sprint provided  
30      that such services should only be purchased to provide Authorized Services under  
31      this Agreement by Sprint, Sprint’s Affiliate and its Network Managers.  
32      Notwithstanding that AT&T-9STATE agrees to bill a Sprint Affiliate or Network  
33      Manager directly for such services in order to expedite timely billing and payment  
34      from a Sprint Affiliate or Network Manager, Sprint shall remain fully responsible  
35      under this Agreement for all services ordered by the Sprint Affiliate or Network  
36      Manager under this Agreement.

37  
38      1.5.3   Upon Sprint’s providing AT&T9-State a ten-day (10) day written notice  
39      requesting an amendment to Exhibit A to add or delete a Sprint Affiliate or  
40      Network Manager, the parties shall cause an amendment to be made to this  
41      Agreement within no more than an additional thirty (30) days from the date of  
42      such notice to effect the requested additions or deletions to Exhibit A.  
43

1    **Issue I.A.(6) Should the ICAs contain AT&T's proposed Scope of Obligations**  
2        **language? (CLEC & CMRS section 1.6)**

3  
4    **Q.    After reading Mr. McPhee's Direct Testimony on pages 5-7, what do you**  
5        **understand AT&T's concern to be with respect to Issue I.A(6)?**

6    A.    My understanding of AT&T's concern is based on what appears to be Mr.  
7        McPhee's summary of AT&T's concern on page 7 where he states, "The Authority  
8        should direct the Parties to include AT&T's proposed language in the ICAs to  
9        ensure that Sprint cannot contend in the future that AT&T has an obligation under  
10       the ICAs to provide section 251(c) interconnection, UNEs, resale or collocation in  
11       areas of the state where AT&T does not operate as an ILEC." My understanding of  
12       this statement is that AT&T is concerned that Sprint will ask or seek to require  
13       AT&T to provide collocation space, UNEs or resale outside of AT&T's serving  
14       area. Mr. McPhee also identifies interconnection as a concern which I will address  
15       separately.

16  
17   **Q.    Does Sprint expect, either now or in the future, AT&T to provide collocation**  
18        **space, UNEs or resale outside AT&T's serving area?**

19   A.    No. For starters, neither the CMRS ICA nor the CLEC ICA include "resale"  
20        provisions. Nor does Sprint expect AT&T, either now or in the future, to provide  
21        collocation space or UNEs outside of AT&T's serving area. I did say in my Direct  
22        Testimony that Sprint is allowed to utilize collocation space or UNEs Sprint has  
23        acquired from AT&T within AT&T's serving area to serve Sprint customers that

1 may be located outside AT&T's serving area. That is still Sprint's position on how  
2 it is allowed to utilize services purchased from AT&T.

3  
4 **Q. Please address the issue of interconnection as it is one of the concerns raised by**  
5 **Mr. McPhee.**

6 A. I do not believe interconnection should be a concern within the context of disputed  
7 Issue I.A.(6). Terms and conditions addressing interconnection are addressed by  
8 disputed issues under Section II, How the Parties Interconnect.

9  
10 **Q. Does Sprint have proposed language that addresses the concerns raised by Mr.**  
11 **McPhee?**

12 A. Yes. Sprint proposes language that is specific to the concerns raised by Mr.  
13 McPhee. While I will not go through a line-by-line analysis of the language  
14 proposed by AT&T, Sprint does not accept AT&T's language in part because of the  
15 reasons I discussed in my Direct Testimony. Sprint's proposed language for both  
16 the CMRS and CLEC ICAs is as follows:

17 1.6 Scope of Obligations

18 1.6.1 AT&T-9STATE's obligation under this Agreement with respect to  
19 where AT&T is required to provide collocation or UNEs shall apply only  
20 to the specific operating area(s) or portion thereof in which  
21 AT&T9STATE is then deemed to be the ILEC under the Act.  
22

23 **Q. What is Sprint's recommendation to the Authority on the resolution of this**  
24 **issue?**

1 A. Sprint asks the Authority to reject the language proposed by AT&T because of its  
2 far-reaching and unnecessary implications. Instead, Sprint asks the Authority to  
3 require the parties to utilize the Sprint proposed language because it specifically  
4 addresses AT&T's concerns with respect to collocation and UNEs as expressed by  
5 Mr. McPhee in his Direct Testimony. As mentioned above, neither ICA contains  
6 "resale" provisions, and interconnection issues are more appropriately addressed  
7 within the context of other disputed issues in Section II and agreed upon  
8 interconnection language.

9

10 **Issue I.B -- Service or traffic-related definitions**

11

12 **Issue I.B(1) What is the appropriate definition of Authorized Services?**

13

14 **Q. On pages 6 and 7 of her Direct Testimony, Ms. Pellerin indicates that AT&T is**  
15 **willing to revise its proposed definition of "Authorized Services" in the context**  
16 **of the CMRS ICA. Does AT&T's revised definition resolve the dispute in the**  
17 **CMRS ICA?**

18 A. No. Apparently AT&T recognized that its definition did not address the fact that  
19 AT&T is also a service provider. AT&T's suggested revision, however, merely  
20 serves to further highlight the one-sidedness of AT&T's thought process. The  
21 following are the parties' now competing "Authorized Services" definitions in the  
22 CMRS ICA:

23 Sprint (for both CMRS and CLEC ICAs): "Authorized Services" means  
24 those services *which a Party may lawfully* provide pursuant to Applicable

1 Law. This Agreement is solely for the exchange of Authorized Services  
2 traffic between the Parties' *respective networks as provided* herein.

3  
4 AT&T (for CMRS only ICA): "Authorized Services" means those CMRS  
5 services **that Sprint** provides pursuant to Applicable Law **and those**  
6 **services that AT&T-State provides pursuant to Applicable Law.**  
7 This Agreement is solely for the exchange of Authorized Services traffic  
8 between the Parties.  
9

10 No dispute regarding the following "Applicable Law" definition in both  
11 the CMRS and CLEC ICAs: "Applicable Law" means all laws, statutes,  
12 common law, regulations, ordinances, codes, rules, orders, permits and  
13 approvals, including those relating to the environment or health and safety,  
14 of any Governmental Authority that apply to the Parties or the subject  
15 matter of this Agreement.  
16

17 Rather than imposing the exact same service qualification on each Party, *i.e.*, that a  
18 Party's service must be provided "pursuant to Applicable Law", AT&T's language  
19 continues to include the additional qualifier that any service provided by Sprint  
20 CMRS must be a "CMRS" service. But, AT&T doesn't even broach the subject of  
21 what it contends is or is not a "CMRS" service. For example, does AT&T consider  
22 transit services provided by Sprint CMRS to be "CMRS" service and, if not, what  
23 Applicable Law precludes Sprint CMRS from providing such service? The  
24 answer, however, is not found in AT&T's "CMRS service" qualification; it will be  
25 governed by the Authority's resolution of the transit Issues that are separately  
26 identified for resolution. Accordingly, there is no basis for AT&T's proposed  
27 "CMRS service" qualification to be imposed upon Sprint CMRS. The only  
28 appropriate restriction is whether or not a Sprint CMRS (and Sprint CLEC in the  
29 case of the CLEC ICA) is providing a service that it may provide under the law.  
30

1   **Q.   Does Ms. Pellerin offer any compelling reason as to why the “Authorized**  
2       **Service” definition approach used in the CMRS ICA is not equally applicable**  
3       **in the context of the CLEC ICA?**

4    A.  No.  She merely claims that in the CLEC context the term would be “unnecessarily  
5       vague”.  In the CLEC ICA, rather than use the term “Authorized Services” AT&T  
6       changes the definition to “Authorized Services Traffic” that includes numerous  
7       specific traffic categories.

8

9   **Q.   On page 8, Ms. Pellerin claims that AT&T’s approach in the CLEC definition**  
10       **to specifically identify traffic types will provide certainty and clarity.  Do you**  
11       **agree?**

12   A.  While it is abundantly clear that AT&T’s proposed CLEC ICA Authorized  
13       Services Traffic definition is designed with a distinct purpose of restricting the  
14       services Sprint CLEC can provide and permitting AT&T to dictate an inappropriate  
15       intercarrier compensation construct, AT&T’s idea of “certainty” and “clarity”  
16       benefits nobody but AT&T.  Sprint’s definition provides no such restrictions on  
17       either party, permitting both parties to exchange traffic derived from any service  
18       either party may legally provide.

19

20   **Q.   On page 8, Ms. Pellerin expresses a concern about the potential for a “new**  
21       **traffic category” in the future for which the rating, routing and/or billing are**  
22       **not addressed.  Is this a valid concern?**

1 A. No. To the extent AT&T creates a new service that it is legally authorized to  
2 provide, Sprint's definition would permit exchange of the traffic derived from that  
3 service and Sprint will seek to accommodate AT&T's new service traffic pursuant  
4 to rating, routing, and billing mechanics already contained in the ICA. To the  
5 extent AT&T shows the existing rating, routing, and billing arrangements in the  
6 ICA cannot accommodate its new service traffic, Sprint and AT&T can amend  
7 those portions of the agreement or seek regulatory intervention by the Authority.  
8 This course of action for any new services traffic introduced by either party is the  
9 same under either of the proposed definitions of Authorized Services. Sprint's  
10 definition remains superior to AT&T's language in the context of either the CMRS  
11 ICA or CLEC ICA because Sprint's language does not restrict any services that the  
12 parties can legally provide now or in the future.

13  
14 **Q. On page 8, Ms. Pellerin claims that Sprint's language is "too vague." Do you**  
15 **agree?**

16 A. No. Sprint's Authorized Services definition is straightforward. The definition  
17 simply recognizes that the ICA provides the terms and conditions by which both  
18 parties will interconnect and exchange traffic derived from the services each party  
19 is legally authorized to provide. Sprint's proposed reference to "those services  
20 which a Party may lawfully provide pursuant to Applicable Law" is no more vague  
21 than AT&T's proposed reference to "those services that AT&T9-State provides  
22 pursuant to Applicable Law."



1 **Issue I.B(2)(a) Should the term “Section 251(b)(5) Traffic” be a defined term in**  
2 **either ICA and, if so, (b) what constitutes Section 251(b)(5) Traffic for (i) the**  
3 **CMRS ICA and (ii) the CLEC ICA?**  
4

5 **Q. Ms. Pellerin claims on page 10 of her testimony that Sprint’s traffic terms**  
6 **“intraMTA Traffic”, “Exchange Access”, “Telephone Exchange Service”, and**  
7 **“Telephone Toll Service” are not “grounded in section 251(b)(5).” Is that a**  
8 **valid claim?**

9 **A. No. Section 251(b)(5) requires all LECs “to establish reciprocal compensation**  
10 **arrangements for the transport and termination of telecommunications.”**  
11 **“Exchange Access”, “Telephone Exchange Service”, and “Telephone Toll Service”**  
12 **are each statutorily defined telecommunications services and are therefore fully**  
13 **grounded in the Act and Section 251(b)(5). “IntraMTA Traffic” is the term used in**  
14 **the industry to refer to the “telecommunications traffic” that is explicitly defined in**  
15 **47 CFR § 51.701(b)(1), which is the Part 51 section of the rules that implements**  
16 **Section 251(b)(5) as applied to CMRS providers pursuant to 47 C.F.R. § 20.11(c) .**  
17 **Therefore, “IntraMTA Traffic” is a term that is also fully “grounded in Section**  
18 **251(b)(5)” – unlike AT&T’s proposed CMRS ICA 251(b)(5) definition which,**  
19 **contrary to § 51.701(b)(1), seeks to impose an improper requirement that CMRS**  
20 **traffic be “exchanged directly between the parties” so that AT&T can avoid its**  
21 **obligation to pay reciprocal compensation on 1+ dialed land-to-mobile IntraMTA**  
22 **traffic. That CMRS ICA traffic which is not covered by Section 251(b)(5), *i.e.*,**  
23 **“InterMTA Traffic,” is also covered under the 47 CFR Part 20 of the rules. In**

1 summary, each of Sprint's proposed traffic terms is completely consistent with the  
2 statute and the rules.

3  
4 **Q. What other reasons does Ms. Pellerin provide for AT&T's insistence on**  
5 **including the term "Section 251(b)(5) Traffic" in the ICA?**

6  
7 A. Only that 251(b)(5) is the "proper term to reflect the parties' rights and obligations  
8 regarding reciprocal compensation under the 1996 Act" (Pellerin Direct, page 10).

9  
10 **Q. Is Section 251(b)(5) the only section of the Act that governs the parties' rights**  
11 **and obligations with respect to reciprocal compensation for CMRS-LEC**  
12 **exchanged traffic?**

13 A. No. As explained above, Section 20 of the FCC's rules also govern CMRS-ILEC  
14 interconnection. AT&T's insistence on inclusion of its definition for 251(b)(5)  
15 traffic is driven by AT&T's desire to limit the amount of traffic that is subject to  
16 mutual, reciprocal, reasonable compensation and maximize the amount of traffic  
17 subject to its asymmetric, inflated, non-cost-based, access charge compensation  
18 scheme by denying the rights and obligations contained in Part 20 of the FCC rules.

19  
20 **Q. Do Sprint's proposed terms, conditions, and rates fully address the**  
21 **compensation rights and obligations of the parties?**

1 A. Yes. Sprint's language fully addresses the mutual compensation rights and  
2 obligations of both parties and is fully consistent with both Sections 251 and 332 of  
3 the Act and the FCC's rules.

4  
5 **Q. Mr. McPhee addresses this issue with respect to the CLEC ICA. How does he**  
6 **describe "Section 251(b)(5) traffic"?**

7 A. Mr. McPhee states on page 34 of his Direct Testimony that "Section 251(b)(5)  
8 traffic originates from an end user and is destined to another end user that is  
9 physically located within the same ILEC mandatory local calling scope."

10  
11 **Q. Does Section 251(b)(5) use any of Mr. McPhee's terminology?**

12 A. No. There is no reference to end user physical locations or ILEC mandatory local  
13 calling scopes" in Section 251(b)(5).

14  
15 **Q. Do the FCC rules implementing Section 251(b)(5) use any of Mr. McPhee's**  
16 **terminology?**

17 A. No. With the exception of determining intraMTA for CMRS-LEC traffic, there is  
18 no reference whatsoever to end user locations in 47 CFR Subpart H - Reciprocal  
19 Compensation for Transport and Termination of Telecommunications Traffic. Nor  
20 is there any reference whatsoever to "ILEC mandatory local calling areas."

21  
22 **Q. If neither Section 251(b)(5) of the Act nor the FCC rules implementing Section**  
23 **251(b)(5) refer to end user physical locations or ILEC mandatory local calling**

1        **scope, why does AT&T insist on using that terminology for a definition of**  
2        **251(b)(5) traffic in the ICA?**

3        A.    AT&T is pushing an ILEC-centric approach to minimize the payment of applicable  
4        mutual, reciprocal, reasonable compensation and maximize the payment of access  
5        charges from Sprint to AT&T.

6  
7        **Q.    How should the Authority resolve Issue I.B(2)?**

8        A.    The Authority should reject inclusion of AT&T's proposal to include the term  
9        "Section 251(b)(5) traffic" in the CMRS and CLEC ICAs. Sprint's language  
10       provides appropriate statutorily defined terms for the types of traffic to be  
11       exchanged and provides rights and obligations of the parties for each traffic type,  
12       including the specific and appropriate applicable rating, routing, and billing  
13       provisions. Therefore, there is no need for an additional traffic definition,  
14       particularly when the definition is designed to deny rights and obligations and to  
15       inappropriately apply access charges to traffic to which access charges do not  
16       appropriately apply.

17  
18       **Issue I.B(3) What is the appropriate definition of Switched Access Service?**

19  
20       **Q.    At pages 14-15 of her testimony, Ms. Pellerin acknowledges that the parties**  
21       **agree to the definition of IXC in the ICA, however, she suggests that a different**  
22       **definition for interexchange carrier should also apply. Do you agree?**

1 A. No. Once again, AT&T is attempting to impose its access tariffs upon traffic to  
2 which access charges do not apply. Ms. Pellerin refers to AT&T's switched access  
3 tariff definitions and claims (at page 16) that it is "not unusual" for ICAs to  
4 reference tariffs. It is important to note, however, that she does not and cannot  
5 claim that there is any obligation for Sprint CMRS or CLEC to acquiesce to the  
6 inclusion of AT&T's switched access tariff definitions in the ICA.

7

8 **Q. On pages 15-17, Ms. Pellerin suggests that Sprint CMRS and CLEC become**  
9 **IXCs if they provide a service between exchanges. Please explain the flaws of**  
10 **this assertion.**

11 A. It is useful to understand switched access service and the IXC business. Switched  
12 access was established in the era of separate local monopolies and long distance  
13 carriers as a component of Telephone Toll Service - before the introduction of  
14 today's bundled all-distance services, before the 1996 Telecom Act, before wireless  
15 service became commonplace, and before CLECs even existed. Under the switched  
16 access regime, customers pre-subscribe to an IXC for their landline long distance  
17 calls and pay Telephone Toll Service charges to the IXC for their long distance  
18 calls. The LEC on the originating end of the call collects switched access charges  
19 from the IXC for providing switched access to the IXC's Telephone Toll Service  
20 customer on the originating side of the call, and the LEC on the terminating side of  
21 the call collects switched access from the IXC for providing switched access to the  
22 customer terminating the call. Switched access rates were intentionally set at levels  
23 far above cost and set forth in tariffs with the intention of requiring long distance

1 service to subsidize local service. Because local and long distance service providers  
2 were not competing with each other this scheme did not distort competition since all  
3 IXC's were similarly burdened by the excessive access rates.

4  
5 Today, switched access tariffs remain and continue to apply to Telephone Toll  
6 Service, but the 1996 Telecom Act confines application of those tariffs to  
7 Telephone Toll Services provided by landline long distance IXC's. The Telecom  
8 Act requires mutual, reasonable, cost-based, reciprocal compensation arrangements  
9 for traffic exchanged between LEC's and for traffic exchanged between CMRS  
10 providers and LEC's. The access charge regime does not apply to such exchanges of  
11 traffic.

12  
13 **Q. Besides retail Telephone Toll Service, what other services do IXC's provide?**

14 A. IXC's often carry traffic of other retail Telephone Toll Service providers on a  
15 wholesale basis. For example, AT&T's IXC affiliate often carries the Telephone  
16 Toll Service traffic of independent LEC's and is compensated by the retail  
17 Telephone Toll Service provider for wholesale carriage of the retail Telephone Toll  
18 Service provider's traffic. It is worth noting that while AT&T suggests that Sprint  
19 CMRS and CLEC should be considered interexchange carriers so that AT&T can  
20 impose its switched access charges on them for any traffic that may cross an  
21 exchange boundary, AT&T avoids suggesting that it should pay wholesale IXC fees  
22 to Sprint for carrying AT&T-customer-originated traffic that AT&T hands to Sprint  
23 if the traffic crosses an exchange boundary. For example, when AT&T hands off a

1 call to Sprint CMRS in Nashville over interconnection facilities pursuant to the ICA  
2 and Sprint CMRS carries that call to a Sprint wireless customer in Los Angeles,  
3 AT&T does not intend to pay Sprint wholesale IXC fees for carrying AT&T's call  
4 between these distant exchanges. In other words, AT&T uses a very selective  
5 characterization of Sprint as an IXC. It wants Sprint to be considered an IXC for  
6 purposes of inappropriately applying its switched access tariff, but does not wish  
7 Sprint to be considered an IXC if it would mean AT&T has to pay Sprint for  
8 carrying its calls across exchange boundaries. In any event, the ICA correctly  
9 defines the term IXC and AT&T's access tariff does not apply.

10  
11 **Q. Has AT&T made arguments consistent with Sprint's arguments regarding**  
12 **telephone toll service?**

13 A. Yes. The "old" AT&T did argue that an interexchange service is not necessarily a  
14 toll service. A toll service, by definition, includes a separate charge.<sup>11</sup> Such  
15 definitions can't simply be ignored.

16  
17 **Q. Would AT&T's wireless and CLEC affiliates voluntarily acquiesce to AT&T's**  
18 **interexchange carrier construct and pay switched access charges to Sprint in**  
19 **the same manner AT&T suggests Sprint pay AT&T?**

20 A. I don't know. But, since AT&T wireless and CLEC affiliates did not participate as  
21 parties to the ICA negotiations, are not parties to this arbitration, and are not parties

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<sup>11</sup> *In the Matter of Petition of WorldCom, Inc. et al Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration*, Memorandum Opinion and Order, 17 FCC Rcd 27039, (rel. July 17, 2002), ¶. 290.

1 to the ICA, AT&T has effectively shielded its wireless and CLEC affiliates from  
2 the very treatment AT&T wishes to impose on Sprint CMRS and CLEC. The  
3 Authority should reject such asymmetry and correctly confine the definition of  
4 Switched Access to the IXC definition in the ICA.

5  
6 **Q. How should the Authority rule on the definition of Switched Access Service?**

7 A. The TRA should adopt Sprint's definition which correctly identifies the AT&T  
8 ILEC as the party offering switched access service pursuant to its AT&T ILEC  
9 tariffs, and correctly identifies IXCs as the parties to which AT&T ILEC offers its  
10 switched access services:

11 "Switched Access Service" means an offering to an IXC of access by  
12 AT&T-9STATE to AT&T-9STATE's network for the purpose of the  
13 origination or the termination of traffic from or to End Users in a given  
14 area pursuant to Switched Access Services tariff.  
15

16 The Authority should reject AT&T's definition as an inappropriate attempt to  
17 expansively incorporate its access tariff into interconnection agreements with  
18 parties to which AT&T's switched access service does not apply.

19  
20 **Issue I.B(4) - What are the appropriate definitions of InterMTA and IntraMTA**  
21 **traffic for the CMRS ICA?**

22  
23 **Q. On page 92 of his testimony, Mr. McPhee claims that the Authority should**  
24 **adopt its definitions of interMTA and intraMTA traffic in the CMRS ICA**



1       **based on AT&T's assertion that AT&T's methodology for distinguishing the**  
2       **traffic is more accurate. Do you agree?**

3       A.   No. As fully explained in Sprint witness Farrar's Direct and Rebuttal Testimony,  
4       AT&T's methodology is flawed.

5

6       **Q.   At page 93 of his testimony, Mr. McPhee cites paragraph 1044 of the FCC's**  
7       **First Report and Order and suggests that distinguishing inter/intraMTA**  
8       **traffic based on cell-sites is the "primary" methodology endorsed by the FCC.**  
9       **Is that an accurate characterization of paragraph 1044?**

10      A.   No. Paragraph 1044 does not use the word "primary" in describing the cell-site  
11      methodology, rather it poses the cell-site method and the POI method as  
12      alternatives. If the FCC wished to adopt a single or primary method, it likely would  
13      have codified the methodology in its rules. It did not; therefore the Authority is free  
14      to determine an appropriate methodology.

15      **Q.   On pages 93 and 94, Mr. McPhee claims that Sprint is attempting to reduce its**  
16      **intercarrier compensation obligations for interMTA traffic. Is payment of**  
17      **switched access rates for CMRS-LEC interMTA traffic an "obligation"?**

18      A.   No. As explained fully in my testimony and the testimony of Sprint witness Farrar,  
19      there is no law or regulation requiring the payment of tariffed switched access rates  
20      for interMTA traffic. AT&T is simply attempting to unduly enrich itself by  
21      applying switched access rates to traffic for which there is no obligation to pay  
22      switched access rates.

23

1   **Q.   How should the Authority resolve this issue?**

2   A.   The Authority should adopt Sprint’s definitions for IntraMTA Traffic and  
3       InterMTA Traffic. As explained in my Direct Testimony, Sprint’s proposed  
4       definitions are based on known and fixed network points for both parties, provide  
5       for ease of administration for both parties, and are consistent with FCC guidance.

6

7   **Q.   What language does Sprint recommend the Authority adopt regarding Issue**  
8       **I.(B)(4)?**

9   A.   Sprint recommends the Authority adopt Sprint’s proposed definitions:

10

11       **“IntraMTA Traffic”** means Telecommunications traffic to or from  
12       Sprint’s wireless network that, at the beginning of the call, originates on  
13       the network of one Party in one MTA and terminate on the network of the  
14       other Party in the same MTA (as determined by the geographic location of  
15       the POI between the Parties and the location of the End Office Switch  
16       serving the AT&T-9STATE End User).

17

18       **“InterMTA Traffic”** means Telecommunications traffic to or from  
19       Sprint’s wireless network that, at the beginning of the call, originates on  
20       the network of one Party in one MTA and terminate on the network of the  
21       other Party in another MTA (as determined by the geographic location of  
22       the POI between the Parties and the location of the End Office Switch  
23       serving the AT&T-9STATE End User).

24

25

26   **Issue I.B(5) – Should the CMRS ICA include AT&T’s proposed definition of**

27       **“Originating Landline to CMRS Switched Access Traffic” and “Terminating**  
28       **InterMTA Traffic”?**

29

1   **Q.   At page 95 of his testimony, Mr. McPhee describes the handling and**  
2       **compensation for a “typical” land-to-mobile call from Atlanta to a wireless**  
3       **customer in Dallas, Texas. Please comment.**

4    A.   Essentially, Mr. McPhee suggests Sprint CMRS should pay AT&T originating  
5       switched access charges for calls AT&T hands to Sprint CMRS in Atlanta and  
6       Sprint CMRS carries to Dallas based on the premise that AT&T gets paid  
7       originating access if it handed an Atlanta-to-Dallas call to an AT&T customer’s  
8       presubscribed IXC. The premise is fundamentally flawed.

9  
10       First of all, when AT&T hands such a call to the AT&T customer’s presubscribed  
11       IXC, both AT&T and the IXC have a direct business relationship with the AT&T  
12       customer and the IXC imposes charges on the caller for that call. When Sprint  
13       CMRS carries that call, although AT&T still has a direct business relationship with  
14       the caller for that call, Sprint CMRS has *no* business relationship *at all* with the  
15       AT&T customer that originated the call, nor does Sprint CMRS impose any charges  
16       on AT&T’s customer for carrying that call. If AT&T wanted to fairly invoke the  
17       IXC construct in total, rather than as a means to unduly enrich itself through the  
18       improper imposition of switched access charges, it would acknowledge that Sprint  
19       CMRS should be charging AT&T for wholesale carriage of AT&T customer-  
20       originated long distance call that was provided to the AT&T customer via the  
21       customer’s AT&T provided service. But, that is not at all AT&T’s proposed  
22       construct. Instead, AT&T’s construct is designed to: a) require Sprint CMRS to  
23       bear the entire cost of carrying the call to Dallas; 2) require Sprint CMRS to pay

1 AT&T's switched access charges with no means of recovering those switched  
2 access charges from an originating caller that is not a Sprint CMRS "customer" in  
3 any sense of the word: and 3) ensure that Sprint CMRS receives no compensation  
4 from AT&T for terminating an AT&T customer-originated call. The Authority  
5 should reject AT&T's preposterous construct.

6  
7 **Q. At page 96, lines 8-11 of his testimony, Mr. McPhee claims that Sprint CMRS**  
8 **is "acting as an interexchange carrier" for traffic originated by a Sprint**  
9 **CMRS customer that Sprint transports across "*LATA boundaries*", and**  
10 **therefore Sprint CMRS must terminate this traffic using Feature Group**  
11 **Access service. Please comment.**

12 A. As an initial observation, it must be stated that absolutely nowhere does Mr.  
13 McPhee provide any explanation as to how, when, or under what FCC authority a  
14 *LATA* boundary is ever applied in the context of a CMRS-ILEC call exchanged  
15 over interconnection facilities. Once again, AT&T is attempting to foist the  
16 switched access charge regime onto CMRS-LEC traffic exchange. Because this  
17 issue of the inapplicability of access charges to this traffic has been addressed  
18 several times throughout Sprint's testimony, there is no need to repeat all of the  
19 arguments here, so I will only briefly address Mr. McPhee's bald assertion that  
20 Sprint must route interMTA traffic over "Feature Group Access service." Because  
21 there is no obligation to pay access charges for this traffic, there is likewise no  
22 obligation to route the traffic over Feature Group Access. Sprint CMRS and AT&T  
23 both route interMTA traffic over interconnection facilities. Sprint CMRS is not

1 “acting as an interexchange carrier” simply because it provides all-distance wireless  
2 services that happen to cross LATA boundaries. LATAs are a landline construct  
3 that do not apply to CMRS services.

4  
5 **Q. How should the Authority rule on Issue I.B (5)?**

6 A. The Authority should reject AT&T’s attempt to create definitions for land-to-  
7 mobile and mobile-to-land traffic which are intended to permit AT&T to  
8 improperly impose access charges on InterMTA traffic.

9  
10 **II. How the Parties Interconnect**

11  
12 **Issue II.B(1) Should the ICA include Sprint’s proposed language that would permit**  
13 **Sprint to combine multi-jurisdictional traffic on the same trunk groups (e.g.,**  
14 **traffic subject to reciprocal compensation and traffic subject to access**  
15 **charges)?**

16  
17 **Q. Did you find any direct testimony from AT&T witnesses regarding Issue**  
18 **II.B.(1)?**

19 A. No.

20  
21 **Q. How should the Authority decide this issue?**

22 A. Sprint asks the Authority to require AT&T to receive traffic from Sprint over its  
23 interconnection trunks in the same manner in which AT&T sends Sprint traffic.

1 Sprint asks the Authority to require the parties to utilize the more efficient form of  
2 interconnection requested by Sprint and require the parties to adopt Sprint's  
3 proposed Section 2.5.4 language on this issue as stated below. The specific portion  
4 of Section 2.5.4 that pertains to the "multi-jurisdiction" issue is the bold and  
5 italicized, second sentence:

6  
7 2.5.4 Use of Interconnection Facilities.

8  
9 (b) Multi-Use/Multi-Jurisdictional Trunking. Generally, there will be  
10 trunk groups between a Sprint MSC and a POI, and between a Sprint  
11 CLEC switch and a POI. ***Nothing in this Agreement shall be construed***  
12 ***to prohibit a Sprint wireless entity or Sprint CLEC from sending and***  
13 ***receiving all of such entity's respective Authorized Services traffic over***  
14 ***its own respective trunks on a combined trunk group.*** Further, provided  
15 the Sprint wireless entity or Sprint CLEC can demonstrate an ability to  
16 identify each other's respective Authorized Services traffic as originated  
17 by each other's respective switches, upon ninety (90) days notice, either  
18 the Sprint wireless entity or Sprint CLEC may also commence delivering  
19 each other's originating Authorized Services traffic to AT&T-9STATE  
20 over such Sprint entity's combined trunk group.  
21

22  
23 **Issue II.B(2) Should the ICAs include Sprint's proposed language that would**  
24 **permit Sprint to combine its CMRS wireless and CLEC wireline traffic on the**  
25 **same trunk groups that may be established under either ICA?**

26  
27 **Q. What is AT&T's primary objection to allowing Sprint to combine wireless and**  
28 **wireline traffic on the same trunk group?**

29 **A.** AT&T's primary objection is that it claims it cannot bill the traffic terminated to it  
30 accurately because the local calling scope is different for wireline and wireless

1 traffic. See Christensen Direct Testimony, at page 7. Sprint is aware of this concern  
2 and has included language to accommodate AT&T's concern. The intent of this  
3 language is to ensure that Sprint can identify the traffic such that it can be billed  
4 appropriately. The entire section is provided below. The bold and italicized  
5 language is intended to address AT&T's concern.

6 2.5.4 Use of Interconnection Facilities.  
7

8 (b) Multi-Use/Multi-Jurisdictional Trunking. Generally, there will be  
9 trunk groups between a Sprint MSC and a POI, and between a Sprint  
10 CLEC switch and a POI. Nothing in this Agreement shall be construed to  
11 prohibit a Sprint wireless entity or Sprint CLEC from sending and  
12 receiving all of such entity's respective Authorized Services traffic over its  
13 own respective trunks on a combined trunk group. ***Further, provided the***  
14 ***Sprint wireless entity or Sprint CLEC can demonstrate an ability to***  
15 ***identify each other's respective Authorized Services traffic as originated***  
16 ***by each other's respective switches, upon ninety (90) days notice, either***  
17 ***the Sprint wireless entity or Sprint CLEC may also commence delivering***  
18 ***each other's originating Authorized Services traffic to AT&T-9STATE***  
19 ***over such Sprint entity's combined trunk group.***  
20

21 **Q. Mr. Christensen references a high level network diagram in his Direct**  
22 **Testimony on pages 4-5 that he also includes as Exhibit FCC-1. Does the**  
23 **diagram accurately show how Sprint will route multi-use traffic to AT&T?**

24 **A.** Not exactly. The difference may not be of much consequence, but for the record, I  
25 would like to clarify how Sprint would route multi-use traffic to AT&T. This  
26 would result in a change to Mr. Christensen's top diagram. Rather than Sprint's  
27 MSC and Sprint's CLEC switch being connected together and then connected to  
28 Sprint's POI at the AT&T Tandem Building, the Sprint MSC and CLEC switch  
29 would be connected in series and then only one of them would be connected to  
30 Sprint POI at the AT&T Tandem Building.

1

2 **Q. Do you understand the trunk segregation issue discussed by Mr. Christensen**  
3 **on pages 6-9 of his testimony?**

4 A. Yes. AT&T states that it rates traffic for a particular trunk group based on a  
5 determination of whether the traffic is subject to reciprocal compensation or access.  
6 The local calling area is used for wireline traffic and the MTA is used for wireless  
7 traffic. Calls within the local calling area or within the MTA are subject to  
8 reciprocal compensation. AT&T uses separate trunk groups for wireline and  
9 wireless traffic. In other words, AT&T differentiates the wireless traffic from  
10 wireline traffic based on the trunk group. Once AT&T knows whether the traffic is  
11 wireless or wireline, it is able to bill the traffic as a wireline or wireless call.

12

13 **Q. Is there a way to distinguish between wireless and wireline traffic using**  
14 **industry standard information, rather than placing it on separate trunks?**

15 A. Yes. There is a CCSS7 or CCS signaling parameter that identifies a call as either  
16 wireline or wireless.<sup>12</sup> This parameter is called the Originating Line Indicator  
17 (“OLI”). The originating switch of a call populates this field with information  
18 necessary to distinguish between wireless and wireline calls. Wireless calls have  
19 two designations, 461 or 462. Any call with the OLI parameter populated with 461  
20 or 462 will be a wireless originated call.

21

---

<sup>12</sup> CCSS7 refers to the Common Channel Signaling System Number 7 protocol defined by the International Telecommunications Union. The CCSS7, CCS or simply SS7 protocol is used for call set-up purposes within the Public Switched Telephone Network, or PSTN.



1   **Q.   Have the parties agreed to use SS7 signaling?**

2   A.   Yes. In fact, it is a requirement where technically feasible.

3

4   **Q.   Is there a requirement to populate the OLI parameter you discussed above**  
5       **that will enable AT&T to identify wireless traffic?**

6   A.   Yes. In the CLEC ICA, the parties each appear to propose the following language  
7       found in Attachment 3 Network Interconnection within Sprint's proposed Section  
8       3.5 (for both CMRS and CLEC) and within AT&T's proposed CLEC Section 3.7.

9                "All CCS signaling parameters will be provided, including automatic number  
10               identification ("ANI"), originating line information ("OLI") calling company  
11               category, charge number, etc."  
12

13       Sprint does not know why AT&T is apparently unwilling to accept the same  
14       language in the CMRS ICA.

15

16   **Q.   Do you know if AT&T uses the CCS signaling for billing purposes?**

17   A.   I don't know for certain whether AT&T uses the CCS signaling for billing  
18       purposes. I do know that it can be used because prior to the spin off of Sprint's  
19       local telephone division, CCS signaling was being used by Sprint's local telephone  
20       division for billing purposes.

21

22   **Q.   Does the fact that Sprint will provide AT&T with the necessary information to**  
23       **distinguish wireless calls from wireline calls on every call sent to AT&T via the**  
24       **CCS signaling information, dictate to AT&T that it must use it?**

1 A. No. Sprint is providing AT&T with the means by which AT&T can distinguish  
2 between wireless and wireline traffic as AT&T states is necessary to bill for traffic  
3 correctly, but Sprint is not dictating to AT&T that it must use the information.  
4

5 **Q. If AT&T chooses to not use the information provided by Sprint on every call,**  
6 **what alternative is available to AT&T?**

7 A. If AT&T chooses not to use the information provided by Sprint, then Sprint would  
8 be willing to provide AT&T with appropriate factors to distinguish the traffic. Like  
9 all factors, the factors provided in this instance could be audited by AT&T to ensure  
10 their accuracy.  
11

12 **Q. Are factors commonly used in carrier-to-carrier billing?**

13 A. Yes. Carriers commonly use factors when billing each other. In fact, the contract  
14 being negotiated by the parties utilizes factors. Factors are also used for billing of  
15 terminating switched access to estimate the amount of interstate versus intrastate  
16 minutes of use.  
17

18 **Q. On page 10, Mr. Christensen is trying to rationalize how combined wireless**  
19 **and wireline traffic AT&T sends Sprint over local interconnection trunks is**  
20 **different than what Sprint is wanting to do in the reverse direction, i.e., from**  
21 **Sprint to AT&T. Is his explanation a valid basis for not allowing Sprint to use**  
22 **the interconnection trunks in the same way AT&T uses them?**

1 A. No. On page 10, lines 9-11, Mr. Christensen admits that AT&T the ILEC sends  
2 both wireless and wireline traffic to Sprint over the very same local interconnection  
3 trunks Sprint is seeking to use in the same manner, but in the reverse direction.  
4 However, he then goes on to try to rationalize that Sprint's use is different because  
5 the wireless traffic sent by AT&T is not AT&T the ILEC's traffic, but rather traffic  
6 of its wireless affiliate, AT&T Mobility. In other words it is AT&T affiliate  
7 "transit" traffic. Call it what you want – transit or multi-use –, but, in fact, it is the  
8 exact same concept. Regardless of whom the traffic belongs to, AT&T combines  
9 wireless and wireline traffic on the same trunk groups. Sprint is simply seeking to  
10 do the same thing in reverse.

11

12 **Q. Please explain what you mean when you say the AT&T and Sprint uses are not**  
13 **different.**

14 A. Mr. Christensen says it is acceptable for AT&T to send wireless and wireline traffic  
15 over the same trunks because some of the traffic is AT&T ILEC's traffic and some  
16 is AT&T Mobility's traffic. Sprint agrees with and accepts AT&T's argument  
17 because that is how the system has worked since 1996. What Sprint is seeking is an  
18 acknowledgment and implementation of Sprint's right to do exactly the same thing  
19 as AT&T. For example, if Sprint CLEC sends Sprint CMRS wireless traffic over  
20 wireline trunks it is not Sprint CLEC traffic; rather it is Sprint CMRS traffic, i.e.,  
21 transit traffic. Conversely, if Sprint CMRS sends Sprint CLEC wireline traffic over  
22 wireless trunks it is not Sprint CMRS traffic; it is instead Sprint CLEC traffic, i.e.,  
23 transit traffic.

1

2 **Q. Your explanation dovetails with another disputed issue, I.C(6), which is**  
3 **whether Sprint has the right to be a transit provider, is that correct?**

4 A. Yes. Mr. Randy Farrar is Sprint's witness for Issue I.C(6), related to Sprint's right  
5 to be a transit provider, so I will not delve into Mr. Farrar's arguments within my  
6 testimony. That said, the issues are related and illustrate AT&T's attempt to restrict  
7 Sprint's right to establish an efficient and acceptable form of interconnection that is  
8 consistent with Sprint's network evolution, *i.e.*, combining different types of traffic  
9 over combined trunks so as to take full advantage of Sprint's switching platform  
10 capabilities. Sprint does not have a need or requirement to maintain separate  
11 networks in an environment where the lines between wireline and wireless,  
12 telecommunications and information services are converging.

13

14 **Q. Given the admitted fact that AT&T sends both wireless and wireline traffic to**  
15 **Sprint over combined trunks, does Sprint bill for traffic it receives over the**  
16 **combined use trunks from AT&T?**

17 A. Yes. Just like AT&T, Sprint has the same need, desire and right to bill for traffic  
18 delivered to it.

19

20 **Q. Mr. Christensen's Direct Testimony on pages 5 and 6 suggests that Sprint's**  
21 **request for a more efficient form of interconnection is not more efficient. How**  
22 **do you respond?**

1 A. Mr. Christensen gives lip service to the principle that combined trunks are more  
2 efficient. However, what he is really attempting to do is argue that the principle  
3 should be ignored as to anyone except AT&T. He turns Sprint's desire for more  
4 efficient interconnection into an issue of a less convenient form of interconnection  
5 from AT&T's perspective and because it is less convenient, he claims it is not  
6 efficient. Mr. Christensen really can't comment on whether combined trunking is  
7 more or less efficient from Sprint's perspective other than from his high-level  
8 agreement that it is more efficient in principle. It is up to Sprint to determine for  
9 itself what the best form of interconnection is. Sprint has determined that combined  
10 trunking is beneficial and that is what Sprint is asking it be allowed to implement.

11

12

13 **Q. How should the Authority decide this issue?**

14 A. Sprint asks the Authority to look at this issue from Sprint's perspective, mindful of  
15 the pro-competitive purposes of the Act itself. All Sprint is asking is that it be  
16 allowed to exercise its rights in the same manner as AT&T is exercising its rights.  
17 There is no rule or law that I am aware of that gives AT&T unique rights over those  
18 of Sprint on this issue. I would also ask the Authority to look at the bigger picture  
19 of the issue and not base its decision on whether there is a decade-old billing system  
20 solution readily available to address the point to which services and network  
21 capabilities have evolved. There is no basis in the FCC's rules or the law to permit  
22 AT&T's billing-system "tail" to wag the rest of the industry's efficiently evolving  
23 network "dog". That said, I ask the Authority to recognize that Sprint does have a

1 billing solution and that Sprint's proposed language would not allow Sprint to  
2 combine traffic until that solution is in place.

3  
4 Finally, I ask that the Authority support Sprint's request to combine traffic as  
5 requested, and that the TRA's decision provide the opportunity to Sprint of showing  
6 how it can work without any AT&T veto power over implementation, because I can  
7 assure you AT&T will deny, delay and foot drag to keep Sprint from doing this.  
8 Sprint believes that its proposed language is adequate to implement its desire to  
9 combine traffic and asks the Authority to require the parties to adopt Sprint's  
10 language as stated below. The specific portion of Section 2.5.4 that pertains to the  
11 "multi-use" issue is the bold italicized, third sentence:

12 2.5.4 Use of Interconnection Facilities.

13  
14 (b) Multi-Use/Multi-Jurisdictional Trunking. Generally, there will be  
15 trunk groups between a Sprint MSC and a POI, and between a Sprint  
16 CLEC switch and a POI. Nothing in this Agreement shall be construed to  
17 prohibit a Sprint wireless entity or Sprint CLEC from sending and  
18 receiving all of such entity's respective Authorized Services traffic over its  
19 own respective trunks on a combined trunk group. ***Further, provided the***  
20 ***Sprint wireless entity or Sprint CLEC can demonstrate an ability to***  
21 ***identify each other's respective Authorized Services traffic as originated***  
22 ***by each other's respective switches, upon ninety (90) days notice, either***  
23 ***the Sprint wireless entity or Sprint CLEC may also commence delivering***  
24 ***each other's originating Authorized Services traffic to AT&T-9STATE***  
25 ***over such Sprint entity's combined trunk group.***  
26

27  
28 **Issue III.A.4(1) - What compensation rates, terms, and conditions should be**  
29 **included in the CLEC ICA related to compensation for wireline Switched**  
30 **Access Service Traffic?**

1

2 **Q. At page 71 of his testimony, Mr. McPhee describes Sprint's proposed language**  
3 **as "minimal, vague, and somewhat circular." Do you agree?**

4 A. No. First of all, it appears that Mr. McPhee is not accurately quoting Sprint's actual  
5 proposed language. He references "Attachment 3, section 6.9." However, Sprint's  
6 language for this issue is found in Sections 6.1.4 and 7.1.2. and is shown below for  
7 convenience:

8 6.1.4 Except as may be otherwise provided by Applicable Law, neither Party  
9 shall represent switched access services traffic (e.g., FGA, FGB, FGD) as  
10 traffic subject to the payment of reciprocal compensation.

11

12 7.1.2. Notwithstanding the foregoing, neither Party waives its position on  
13 how to determine the end point of any traffic, and the associated  
14 compensation.

15

16 Perhaps Sprint's language is not as long-winded as AT&T's language, but it is clear  
17 and sufficient for the matters it addresses, namely: 1) ensuring that neither Sprint  
18 nor AT&T will misrepresent switched access traffic as traffic subject to reciprocal  
19 compensation; and 2) indicating that parties may take different positions on how to  
20 determine end points for jurisdictionalizing traffic. Sprint's approach is premised  
21 upon the party's existing ICA which has served its purpose well for almost ten  
22 years. Further, the additional terms applicable to traffic delivered over  
23 interconnection facilities for which switched access charges may actually apply, *i.e.*  
24 traditional Telephone Toll Service traffic, is the specific subject of the following  
25 issue, *i.e.*, Issue III.A.4(2). The proposed AT&T language that is disputed by Sprint  
26 in Issue III.A.4(1) is not traceable to the parties' existing ICA. Instead, it appears to  
27 be yet another attempt by AT&T to load-up the ICA with unnecessary catch-all

1 provisions that AT&T may attempt to rely upon to convert anything it can into  
2 switched access traffic to the extent traffic does not fall into some AT&T pre-  
3 defined bucket for treatment as traffic that is not switched-access traffic.

4  
5 **Q. On page 70, Mr. McPhee claims AT&T's proposed language is "clear and**  
6 **concise as to what traffic falls under switched access compensation, and what**  
7 **traffic does not." Please comment.**

8 A. AT&T's language contains AT&T's term "Section 251(b)(5) Traffic". As  
9 discussed above, AT&T's proposed "Section 251(b)(5) Traffic" is in dispute. By  
10 default, AT&T's language would also appear to apply the switched access regime  
11 to VoIP traffic, which is not appropriate. So, while AT&T may choose to  
12 characterize its language as "clear" or "concise", Sprint can't agree to language that  
13 references or implicates other disputed matters. Such language has no place in  
14 either ICA and should be rejected by the Authority.

15  
16 **Issue III.A.4(2) - What compensation rates, terms and conditions should be included**  
17 **in the CLEC ICA related to compensation for wireline Telephone Toll Service**  
18 **(i.e., intraLATA toll) traffic?**

19  
20 **Q. Mr. McPhee discusses this issue at pages 72-75 of his testimony and suggests**  
21 **that intercarrier compensation is based upon the location of the calling and**  
22 **called parties. Please comment.**



1 A. It is important to note that neither Section 251(b)(5) of the 1996 Telecom Act, nor  
2 the FCC's rules refer to end points of calls for LEC-LEC traffic exchange. The end  
3 points of a call are used for traffic subject to switched access charges to determine  
4 whether intrastate or interstate access charges apply. However, before considering  
5 end points to a call, the type of intercarrier compensation to be applied is based on  
6 the service that gave rise to the traffic in the first place. For example, traffic caused  
7 by dial-up calls to the internet is subject to the ISP-bound compensation  
8 mechanism; traffic caused by the provision of wireless service is subject to the  
9 reciprocal compensation rules in Section 251(b)(5) and general mutual, reasonable  
10 compensation principles as implemented through the FCC's Part 20 Rules;  
11 compensation, if any, for traffic caused by the provision of VoIP services has yet to  
12 be determined by the FCC; traffic caused by the provision of Telephone Exchange  
13 Service is subject to Section 251(b)(5) reciprocal compensation; and traffic caused  
14 by the provision of Telephone Toll Service is subject to switched access charges.  
15 The end points are therefore secondary in determining intercarrier compensation.

16  
17 **Q. At pages 73 and 74 of his testimony, Mr. McPhee suggests that intercarrier**  
18 **compensation should be determined without regard to the retail service that**  
19 **gives rise to the traffic. Please comment.**

20 A. If AT&T really believed that the retail service is irrelevant to the determination of  
21 intercarrier compensation, then AT&T would pay access charges on dial-up internet  
22 calls that are carried across exchange boundaries and AT&T's wireless affiliate  
23 would pay access charges on wireless calls that originate and terminate in different

1 exchanges. Since retail customers ultimately bear the costs of intercarrier  
2 compensation, the intercarrier compensation which applies should reflect the retail  
3 service that gives rise to the inter-carrier traffic.

4  
5 **Q. On page 74, Mr. McPhee expresses concern about not being compensated for**  
6 **bundled local/long distance services. Please comment.**

7 A. Since AT&T is likely the industry leader in offering landline bundled local/long  
8 distance services, it seems AT&T and its customers would benefit by excluding  
9 these bundled service offerings from being subjected to switched access charges.  
10 To the extent AT&T insists on subjecting landline long distance service to switched  
11 access charges when offered as a bundle with local service, Sprint is amenable to  
12 using AT&T's mandatory local calling area as the basis for delineating  
13 CLEC/AT&T Exchange Service traffic subject to reciprocal compensation and  
14 CLEC/AT&T Telephone Toll Service traffic subject to switched access charges.

15  
16 **Q. Also on page 74, Mr. McPhee expresses concern that Sprint's language does**  
17 **not address Primary Toll Carrier arrangements. Please comment.**

18 A. Sprint's language covers the exchange of Telephone Toll Service and I'm not aware  
19 of any reason why this Telephone Toll Service traffic requires any different or  
20 specialized treatment from other Telephone Toll Service traffic that the parties may  
21 exchange. Sprint is not a party to AT&T's Primary Toll Carrier arrangements, and  
22 the existence of such arrangements has not been cause for any special mention in  
23 the existing Sprint-AT&T ICA for the past ten years.

1

2 **Q. On page 74-75, Mr. McPhee claims that the ICA must include terms regarding**  
3 **the exchange of records for 8XX traffic. Please comment.**

4 A. Sprint witness Felton addresses the issue of appropriate record exchanges in issue  
5 IV.G.2.

6

7 **Q. How should the Authority rule on this disputed issue?**

8 A. The Authority should adopt Sprint's proposed language:

9 (6.16)7.3.5 Compensation for Sprint Telephone Toll Service traffic.

10

11 (6.16.1)7.3.5.1 Telephone Toll Service traffic. For purposes of this  
12 Attachment, Telephone Toll Service traffic is defined as any  
13 telecommunications call between Sprint and AT&T-9STATE End Users  
14 that originates and terminates in the same LATA and results in Telephone  
15 Toll Service charges being billed to the originating end user by the  
16 originating Party. Moreover, AT&T-9STATE originated Telephone Toll  
17 Service will be delivered to Sprint using traditional Feature Group C non-  
18 equal access signaling.

19

20 (6.16.2) 7.3.5.2 Compensation for CLEC Telephone Toll Service Traffic.  
21 For terminating its CLEC Telephone Toll Service traffic on the other  
22 company's network, the originating Party will pay the terminating Party the  
23 terminating Party's current effective or Commission approved (if required)  
24 intrastate or interstate, whichever is appropriate, terminating Switched  
25 Access rates.

26

27 (6.22)7.3.5.3 Compensation for CLEC 8XX Traffic. Each Party (AT&T-  
28 9STATE and Sprint) shall compensate the other pursuant to the appropriate  
29 Switched Access charges as set forth in the Party's current effective or  
30 Commission approved (if required) intrastate or interstate Switched Access  
31 tariffs.

32

33 7.3.5.4 Records for 8XX Billing. Each Party (AT&T-9STATE and Sprint)  
34 will provide to the other the appropriate records necessary for billing  
35 intraLATA 8XX customers.

36

37 7.3.5.5 8XX Access Screening. AT&T-9STATE's provision of 8XX Toll  
38 Free Dialing (TFD) to Sprint requires interconnection from Sprint to

1 AT&T-9STATE 8XX SCP. Such interconnections shall be established  
2 pursuant to AT&T-9STATE's Common Channel Signaling Interconnection  
3 Guidelines and Telcordia's CCS Network Interface Specification  
4 document, TR-TSV-000905. Sprint shall establish CCS7 interconnection at  
5 the AT&T-9STATE Local Signal Transfer Points serving the AT&T-  
6 9STATE 8XX SCPs that Sprint desires to query. The terms and conditions  
7 for 8XX TFD are set out in AT&T-9STATE's Intrastate Access Services  
8 Tariff as amended.  
9

10  
11 **Issue III.A.4(3) – Should Sprint CLEC be obligated to purchase feature group**  
12 **access services for its InterLATA traffic not subject to meet point billing?**

13  
14 **Q. Could you find any AT&T direct testimony on Issue III.A.4(3)?**

15 A. No. However, this issue is addressed in other parts of my testimony regarding  
16 multi-jurisdiction and multi-use trunking. Feature group access should not be  
17 required as efficient network design and deployment allow for integrated trunking  
18 arrangements. AT&T's insistence on requiring Sprint to purchase feature group  
19 access is likely tied to the matter of intercarrier compensation and Sprint has  
20 indicated that it is willing to pay the appropriate compensation for its traffic. As a  
21 result, Sprint should not be required to purchase feature group access for the  
22 exchange of traffic.  
23

24 **Issue III.A.5. Should the CLEC ICA include AT&T's proposed provisions**  
25 **governing FX traffic? (CLEC)**  
26

1   **Q.   Does Mr. McPhee characterize Sprint's position on the treatment of FX traffic**  
2       **accurately?**

3   A.   Not completely. Mr. McPhee discusses this issue at pages 64-70 of his testimony  
4       and indicates that Sprint wants FX traffic to be treated as 251(b)(5) traffic. In my  
5       Direct Testimony, I stated that Sprint's position is that compensation for FX traffic  
6       be treated like all other traffic, i.e., based on the originating and terminating  
7       telephone number.

8  
9   **Q.   Do you dispute Mr. McPhee's discussion as to how CLECs typically provide**  
10       **FX service on pages 68 of his Direct Testimony?**

11   A.   While I can't speak for all CLECs, Mr. McPhee's explanation appears to be mostly  
12       accurate because regardless of how an FX service is configured, the functionality is  
13       the same as described by Mr. McPhee. That said, CLEC networks are designed  
14       differently than ILEC networks due, in part, to the fact that the CLEC network  
15       switches typically cover a much larger geographic area. Consequently, a single  
16       CLEC switch generally serves an area covering multiple ILEC central office  
17       switches. Mr. McPhee states that CLECs reassign telephone numbers to a switch  
18       that is different from what he refers to as the "home" switch. Again, I can't speak  
19       for other CLECs, but Sprint would not reassign a number to a switch not covering  
20       the area served from the switch to which the numbers were originally assigned.  
21       Instead, a number residing in one area can serve another area because the CLEC or  
22       the customer has configured what I refer to as a long loop from the CLEC switch to  
23       the customer location. The number remains associated with the switch to which it

1 was originally assigned. The other distinction I make is that Mr. McPhee states that  
2 CLECs take an assigned NPA-NXX code and deploy it in another switch miles  
3 away. FX services are generally provided on a more granular level than an entire  
4 10,000 number NPA-NXX code as suggested by Mr. McPhee. Certainly customers  
5 may want multiple telephone numbers, but generally not 10,000.

6  
7 **Q. Could Mr. McPhee's description of how he understands that CLECs provision**  
8 **FX service relate to how dial-up ISP service is provided?**

9 A. Yes it could. It seems that part of the basis for AT&T's position that all FX traffic  
10 be subject to bill and keep is because some dial-up ISP bound service is provided  
11 via FX service. In those cases there may be large blocks of numbers.

12  
13 **Q. Is your statement regarding what you think AT&T's concern is with FX traffic**  
14 **supported by Mr. McPhee's on pages 67-68 where he discusses consequences if**  
15 **calls made to subscribers to a CLEC's FX-like service and on page 66 where he**  
16 **discussed how CLECs use FX services?**

17 A. Yes. It appears AT&T is concerned about a CLEC's ability to generate artificially  
18 high intercarrier reciprocal compensation revenues from AT&T without having to  
19 charge the CLEC subscriber for the benefits of the FX service. This concern is  
20 consistent with the high volumes generated by dial-up ISP traffic. However, Mr.  
21 McPhee's comment about not having to charge the CLEC subscriber is misleading.  
22 As I have described the manner in which a CLEC provides service, via a long loop  
23 provided by the subscriber or the CLEC, there is a cost for the loop that must be

1        paid by the subscriber or the CLEC and passed on to the subscriber. That cost may  
2        be less expensive than the manner in which AT&T provides its FX service, but  
3        that's what competition is about.

4  
5        **Q.    If AT&T's concern is dial-up ISP service or ISP-bound traffic, hasn't the FCC**  
6        **addressed such traffic?**

7        A.    Yes. As I stated in my Direct Testimony on page 81, the FCC has specifically  
8        addressed this traffic and determined a maximum rate of \$0.0007 per minute of use.

9  
10       **Q.    If the FCC has determined a specific rate cap for ISP-bound traffic, can the**  
11       **Authority order the parties to use different compensation, such as bill and**  
12       **keep, as suggested by AT&T?**

13       A.    While I am not an attorney, I believe it could do so if the parties agreed. The FCC  
14       clearly has jurisdiction over this traffic and as a result it established a rate. ILECs  
15       such as AT&T argued vehemently that the FCC do so. However, I do believe that  
16       the parties could voluntarily agree to a different compensation arrangement for the  
17       traffic such as bill and keep, and Sprint would be willing to consider that if AT&T  
18       would consider bill and keep for other forms of traffic, as opposed to simply where  
19       bill and keep is beneficial for AT&T.

20  
21       **Q.    On page 67, Mr. McPhee states that FX service is functionally equivalent to an**  
22       **intraLATA access call. Doesn't that suggest it not be subject to bill and keep?**

1 A. Yes. Generally, AT&T wants to bill access charges for toll calls and reciprocal  
2 compensation for local calls. I believe AT&T's departure as it relates to FX service  
3 is only because it will benefit from not having to pay reciprocal compensation or  
4 even \$0.0007 per minute of use for ISP-bound traffic. I'm assuming that AT&T  
5 has weighed the benefits of this approach against any loss of access revenue  
6 compared to billing for FX service based on the originating and terminating  
7 telephone number.

8

9 **Q. Finally, Mr. McPhee states on page 69 that FX traffic is a distinct category of**  
10 **traffic subject to a different compensation mechanism than other categories of**  
11 **traffic. Do you agree with this statement?**

12 A. No. While Mr. McPhee states that FX traffic is a distinct category of traffic subject  
13 to a different compensation mechanism than other categories of traffic, he does not  
14 cite a source for his claim. I am not aware of any basis for claiming that regular FX  
15 traffic is in a distinct category or class.

16

17 **Q. Has the FCC addressed intercarrier compensation for FX traffic?**

18 A. Yes. While the disputes between the parties were different, the decision reached by  
19 the FCC is consistent with Sprint's position on Issue III.A(5) that intercarrier  
20 compensation for FX traffic should be based on the dialed digits, i.e., the  
21 originating and terminating NPA-NXX codes. The dispute between the parties



1 before the FCC was whether access charges (as argued by the ILEC) or reciprocal  
2 compensation (as argued by WorldCom, Cox and the former AT&T) applied.<sup>13</sup>

3  
4 **Q. How does Sprint suggest the Authority resolve this issue?**

5 A. As stated in my Direct Testimony, Sprint requests that the Authority adopt Sprint's  
6 position, which would eliminate the need for the proposed AT&T language.  
7 Adopting Sprint's position would subject FX traffic and ISP Bound traffic to rates  
8 addressed elsewhere in the Agreement. Unless bill and keep is ordered by the  
9 Authority as to all traffic, FX should be charged at the same rate as any other  
10 CLEC/AT&T Telephone Exchange Service or Telephone Toll Service traffic, based  
11 on dialed digits, and the parties' ISP-Bound Traffic would be charged at the FCC  
12 rate of \$0.0007 (whether it is "FX" or not).

13  
14 **Issue III.A.6(1) What compensation rates, terms and conditions for Interconnected**  
15 **VoIP traffic should be included in the CMRS ICA? (CMRS Section 6.1.3)**

16  
17 **Issue III.A.6(2) Should AT&T's language governing Other Telecomm. Traffic,**  
18 **including Interconnected VoIP traffic, be included in the CLEC ICA? (CLEC**  
19 **Section 6.4, 6.4.3- 6.4.5 and 6.23.1)**

20  

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<sup>13</sup> *In the Matter of Petition of WorldCom, Inc. et al Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration, Before the Federal Communications Commission, DA 02-1731, Released July 17, 2002, pp. 286-303.*

1   **Q.   Mr. McPhee suggests on page 80 of his Direct Testimony that lacking a**  
2       **determination by the FCC that VoIP be treated differently than other traffic,**  
3       **it is appropriate to apply current intercarrier compensation terms and**  
4       **conditions to VoIP traffic. How do you respond?**

5   A.   I disagree. In fact, because the FCC has not decided whether VoIP traffic is a  
6       telecommunications service or an information service it cannot be subjected to the  
7       telecommunications service access regime.

8  
9   **Q.   If it were so obvious, as suggested by Mr. McPhee, that interconnected VoIP**  
10       **traffic were subject to access charges, wouldn't the FCC have come to that**  
11       **conclusion given the numerous times it was asked the question?**

12   A.   If it were so obvious to the FCC that access charges applied under existing rules or  
13       should apply for whatever reason, it seems the FCC would have made that decision.  
14       However, it did not. It is clear that access charges do not apply because the FCC  
15       has been given so many opportunities going back almost a decade, but it has  
16       repeatedly and obviously avoided categorizing interconnected VoIP traffic as  
17       telecommunications traffic or applying access charges to this traffic.

18  
19   **Q.   On pages 80-81, Mr. McPhee cites to the FCC's WC Docket No. 09-134 as a**  
20       **basis for access charges obviously applying to VoIP traffic. Is Mr. McPhee**  
21       **mischaracterizing what the FCC said?**

22   A.   In my opinion, yes he is. Certainly the FCC's order in the referenced docket sent  
23       the issue back to the Texas PUC and said it could apply existing law to resolve the

1 issue. However, there is no existing law that access charges apply to interconnected  
2 VoIP traffic. Access charges apply to telecommunications traffic and it has not  
3 been determined that interconnected VoIP traffic is telecommunications traffic.

4  
5 **Q. Mr. McPhee states on page 82 that VoIP traffic “falls squarely” under 47**  
6 **C.F.R. § 69.5(b) rules. Do you agree?**

7 A. No. Again, this rule applies to telecommunications traffic and interconnected VoIP  
8 has not been determined to be telecommunications traffic.

9  
10 **Q. On pages 82 and 83, Mr. McPhee also tries to characterize the FCC’s *Time***  
11 ***Warner Cable Order* as a basis for access charges applying to VoIP traffic. Do**  
12 **you agree?**

13 A. No. *The Time Warner Cable Order* was about whether a carrier providing  
14 wholesale services to VoIP providers had the right under § 251 to interconnect with  
15 ILECs. Rural ILECs in South Carolina and Nebraska had refused to interconnect  
16 with Sprint and MCI, two carriers that had developed desirable wholesale platforms  
17 for cable providers that wanted to offer voice service. The refusal was a way to  
18 slow competitive entry from Time Warner Cable. That company went to the FCC,  
19 which determined that telecommunications carriers providing wholesale service to  
20 cable providers are entitled to interconnect with ILECs for the exchange of traffic  
21 that is generated as a result.<sup>14</sup> The fundamental issue in dispute was whether the

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<sup>14</sup> *In the Matter of Time Warner Cable Request for Declaratory Ruling that Competitive Local Exchange Carriers May Obtain Interconnection Under Section 251 of the Communications Act of 1934, as*

1 wholesale service being provided by Sprint and MCI to Time Warner Cable was  
2 sufficient to entitle Sprint and MCI to demand interconnection under the Act. The  
3 FCC said that it was. The FCC's decision had no impact on either the regulatory  
4 classification of interconnected VoIP service or the compensation that applies to  
5 interconnected VoIP service.

6  
7 **Q. Does the *Time Warner Cable* Order specifically say that the FCC was not**  
8 **deciding the regulatory classification of VoIP or the compensation that applies**  
9 **to VoIP service?**

10 A. Yes. The FCC said the following with respect to the classification of VoIP service:

11 "We further conclude that the statutory classification of the end-user  
12 service and the classification of VoIP specifically, is not dispositive of the  
13 wholesale carrier's rights under section 251."<sup>15</sup>  
14

15 In other words, the regulatory classification of VoIP has nothing to do with the real  
16 decision being made in the docket, which was whether a carrier such as Sprint was  
17 offering its wholesale interconnection services in a manner that qualified it to  
18 interconnect with ILECs.

19  
20 **Q. How does the FCC address the VoIP compensation issue in the *Time Warner***  
21 **Cable Order?**

22 A. The FCC addressed the compensation issue as follows:

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*Amended, to Provide Wholesale Telecommunications Services to VoIP Providers*, 22 FCC Rcd. 3513  
(March 1, 2007).

<sup>15</sup> *Id.* ¶ 9.

1                    “We do not, however, prejudge the Commission’s determination of what  
2                    compensation is appropriate, or any other issues pending the Intercarrier  
3                    Compensation docket.”<sup>16</sup>  
4

5                    In other words and contrary to what Mr. McPhee suggests, even though the FCC  
6                    determined that carriers such as Sprint that were providing wholesale  
7                    interconnection services to Time Warner Cable as telecommunications carriers, it  
8                    expressly has not determined what intercarrier compensation applies to the  
9                    interconnected VoIP service.  
10

11        **Q.    Mr. McPhee uses the same two cites as you just used to support AT&T’s**  
12        **position that access charges apply to VoIP. How do you respond?**

13        A.    Of course, Mr. McPhee is going to argue in support of AT&T’s position, but my  
14        interpretation correctly separates the issues that were decided in the Time Warner  
15        Cable Order and those issues that were not decided in the order, and those issues  
16        that had no bearing on the fundamental issue in the Time Warner Cable proceeding  
17        which was wholesale interconnection rights.  
18

19        **Q.    On page 84, Mr. McPhee points to billing issues as a basis for requiring VoIP**  
20        **to be treated like telecommunications traffic. Can his concern be addressed?**

21        A.    Yes. Sprint can identify all of its IP-originated traffic and adjust or dispute AT&T  
22        access invoices appropriately. Of course, AT&T would have the opportunity to  
23        audit Sprint’s records to verify their accuracy. Alternatively, as is done with other  
24        forms of traffic, Sprint could provide AT&T with a factor it could use to adjust its

---

<sup>16</sup> *Id.* ¶ 17.

1 bills to Sprint. Of course, AT&T must similarly identify interconnected VoIP  
2 traffic that it sends to Sprint, so that Sprint can correctly bill for it.

3  
4 **Q. Has AT&T itself argued that VoIP traffic is an information service as opposed**  
5 **to a telecommunications service?**

6 A. Yes. AT&T's U-Verse Declaratory Ruling Petition in Wisconsin PSC Docket No.  
7 6720-DR-101 squarely addressed the regulatory classification of Interconnected  
8 VoIP traffic. There AT&T contended that its U-Verse voice service is an  
9 information service "free from state regulation under the long-standing policy of  
10 preemption of state regulation of such services implemented by the ...FCC."<sup>17</sup>  
11 AT&T stated that its U-Verse Voice Service is exempt from state regulation  
12 because it is an information service under federal law, and separately also qualifies  
13 for the preemption of state regulation under the principles announced in the FCC's  
14 Vonage Order, 19 FCC Rcd 22404. To support its preemption arguments that U-  
15 Verse Voice is an information service, AT&T cited to the Commission's Final  
16 Decision in the MCI Arbitration, Docket No. 5-MA-138 and a federal court case,  
17 *Southwestern Bell Tel., L.P. v Missouri Public Service Commission*, 461 F. Supp.  
18 2d 1055, 1073 (E.D. Mo. 2006), *aff'd*, 530 F.3d 676 (8<sup>th</sup> Cir. 2008), *cert. denied*,  
19 129 S.Ct. 971 (2009) and acknowledged that in both of those cases, it was  
20 determined that access charges do not apply to VoIP services. See AT&T U-Verse  
21 Brief, pp. 12-15. Despite arguing loudly that U-Verse Voice service is an interstate

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<sup>17</sup> *In the Matter of Petition of AT&T Wisc. For Declaratory Ruling that Its "U-Verse Voice" Service is Subject to Exclusive Federal Jurisdiction*, Initial Post Hearing Brief of AT&T Wisconsin, Wisconsin Public Service Commission Docket No. 6720-DR-101, p. 1 ("AT&T U-Verse Brief").

1 service exempt from traditional state telephone company regulation, AT&T claims  
2 that intrastate access charges do apply to IP-PSTN service. AT&T U-Verse Brief,  
3 p. 13, f.n. 41, p. 15, f.n. 47. The Wisconsin PSC initially determined to hold the  
4 case in abeyance for a year to await FCC action. Then it issued a subsequent Final  
5 Decision on September 24, 2010 declaring AT&T's U-verse service a  
6 telecommunications service under the broad definition of "telecommunications  
7 service" contained in Wis. Stat. Sec. 196.01(9m) and declining federal preemption  
8 finding that the FCC still has not made a decision on the classification of fixed  
9 interconnected VoIP.<sup>18</sup> It is unknown as to whether AT&T Wisconsin will file for  
10 rehearing and/or judicial review of the Final Decision.

11  
12 **Q. How should the Authority decide these issues?**

13 A. The Authority should adopt Sprint's position and determine that Interconnected  
14 VoIP traffic should be exchanged at Bill and Keep until such time as the FCC  
15 determines otherwise. Sprint asks the Authority to adopt Sprint's language in  
16 Attachment 3 Pricing Sheet that states:  
17 Interconnected VoIP Rate: Bill & Keep until otherwise determined by the FCC.

18  
19 **Issue V.B. What is the appropriate definition of "Carrier Identification Code?"**  
20 **(CLEC)**

21  

---

<sup>18</sup> *Final Decision*, Public Service Commission of Wisconsin Docket 6720-DR-101, pp. 11-13 (Sept. 24, 2010).

1   **Q.     Has Sprint considered the AT&T alternatives mentioned in Mr. Hamiter's**  
2       **Direct Testimony at page 55?**

3   A.    Yes. As I mentioned in my Direct Testimony, Sprint was willing to accept  
4       AT&T's Alternative #2 with the addition of Sprint's clarifying language. As I  
5       understand, AT&T was not willing to accept Sprint's compromise proposal.

6  
7   **Q.     How does Sprint propose the Authority resolve Issue V.B.?**

8   A.    Sprint CLEC recommends the Authority adopt Sprint CLEC's offered  
9       compromise, which consists of accepting AT&T's Alternative #2 CIC definition  
10      with the added Sprint CLEC clarifying sentence, as follows:

11           CIC (Carrier Identification Code) A numeric code that uniquely identifies  
12           each carrier. These codes are primarily used for routing from the local  
13           exchange network to the access purchaser and for billing between the LEC  
14           and the access purchaser. For the purpose of clarity, the phrase "access  
15           purchaser" as referred to in this definition does not include either Party as  
16           a purchaser of Interconnection Services under this Agreement.  
17

18   **Issue V.C (1) Should the ICA include language governing changes to corporate**  
19      **name and/or d/b/a? (CLEC and CMRS)**

20

21   **Issue V.C (2) Should the ICA include language governing company code changes?**  
22      **(CLEC and CMRS)**

23

24   **Q.     Does the AT&T proposed language provide Sprint any cost recovery when**  
25      **AT&T changes its corporate name?**



1 A. No. AT&T's proposed charges for both Issues V.C.(1) and V.C.(2) as discussed  
2 on pages 54-56 of Mr. Ferguson's Direct Testimony does not provide Sprint the  
3 same opportunity to recover its internal record keeping costs when AT&T  
4 changes its name or in the event AT&T were to change any company designation  
5 that Sprint would have to implement internally. It appears that AT&T is now  
6 attempting to pass along to Sprint its internal costs of doing business that it cannot  
7 pass along to Sprint based on the current ICA or the previous ICA. And, it  
8 believes it can do so in a unilateral manner.

9

10 **Q. How does Sprint propose the Authority address Issue V.C.(1) and V.C.(2)?**

11 A. Sprint asks the Authority to reject AT&T's proposed language for both Issues  
12 V.C.(1) and V.C.(2) for the reasons stated. If the Authority determines that any  
13 charges are appropriate, Sprint asks that these charges be based on incremental  
14 cost of performing the work, and that the TRA ensure that the language is written  
15 in a manner to allow Sprint to recover its costs in the event AT&T were to make  
16 the same or similar changes impacting Sprint.

17

18 **Q. Does this conclude your Rebuttal Testimony?**

19 A. Yes.

20

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**Nashville, Tennessee**

**In Re:**

<b>PETITION FOR ARBITRATION OF</b>	)	
<b>INTERCONNECTION AGREEMENT BETWEEN</b>	)	
<b>BELLSOUTH TELECOMMUNICATIONS, INC.</b>	)	<b>Docket No. 10-00042</b>
<b>D/B/A AT&amp;T TENNESSEE AND SPRINT</b>	)	
<b>SPECTRUM L.P., NEXTEL SOUTH CORP.,</b>	)	
<b>AND NPCR, INC. D/B/A NEXTEL PARTNERS</b>	)	

**And**

<b>PETITION FOR ARBITRATION OF</b>	)	
<b>INTERCONNECTION AGREEMENT BETWEEN</b>	)	
<b>BELLSOUTH TELECOMMUNICATIONS, INC.</b>	)	<b>Docket No. 10-00043</b>
<b>D/B/A AT&amp;T TENNESSEE AND SPRINT</b>	)	
<b>COMMUNICATIONS COMPANY L.P.</b>	)	

**Sprint Spectrum L.P., Nextel South Corp.,  
NPCR, Inc. d/b/a Nextel Partners  
and  
Sprint Communications Company L.P.**

**Rebuttal Testimony**

**Of**

**Randy G. Farrar**

**Filed September 30, 2010**

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1 **REBUTTAL TESTIMONY**

2 **I. INTRODUCTION**

3  
4 **Q. Please state your name, occupation, and business address.**

5 A. My name is Randy G. Farrar. My title is Senior Manager – Interconnection Support  
6 for Sprint United Management, the management subsidiary of Sprint Nextel  
7 Corporation. My business address is 6450 Sprint Parkway, Overland Park, Kansas  
8 66251.

9  
10 **Q. Did you file Direct Testimony in this proceeding?**

11 A. Yes, I did.  
12

13 **Q. On whose behalf are you testifying?**

14 A. I am testifying on behalf of Sprint Spectrum L.P. (“Sprint PCS”), Nextel South  
15 Corp. and NPCR, Inc. d/b/a Nextel Partners (collectively referred to as “Nextel”),  
16 and Sprint Communications Company L.P. (“Sprint CLEC”). Sprint PCS and  
17 Nextel may be collectively referred to as “Sprint wireless” or “Sprint CMRS.” The  
18 Sprint wireless and Sprint CLEC entities may also be collectively referred to as  
19 Sprint.  
20

21 **Q. What is the scope and purpose of your Rebuttal Testimony?**

22 A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimonies of  
23 Mr. J. Scott McPhee [Issues I.C(1) – I.C(7); III.A.3(1) – III.A.3(3); and III.E(3) –

1 III.E(4)] and Ms. Patricia H. Pellerin [Issues III.A(1) – III.A(3); III.E(1) – III.E(2);  
2 III.G; and III.H(1) – III.H(3)], testifying on behalf of BellSouth  
3 Telecommunications, Inc. d/b/a AT&T Tennessee (“AT&T”).  
4

5 **Q. Do you have any preliminary observations about AT&T’s direct testimony?**

6 Yes. Against the backdrop of federal law that had the purpose of ending local  
7 telephone company monopolies and promoting competition in local telephone  
8 markets<sup>1</sup>, AT&T’s direct testimony frequently strains to interpret Federal  
9 Communications Commission (“FCC”) rules and orders in the most restrictive way  
10 possible, to limit competition, rather than to promote it. This is particularly true  
11 with respect to evolving voice over internet protocol-based services that the FCC  
12 has yet to categorize as telecommunications or information services. But the FCC’s  
13 interconnection rules do not apply a technology test to restrict the services an  
14 interconnected carrier may offer, or the traffic that can be exchanged between an  
15 interconnected carrier and an ILEC. If AT&T wants a competitive edge over  
16 Sprint, it should come from true innovation rather than restricting Sprint’s ability to  
17 employ new technology.  
18

---

<sup>1</sup> *Michigan Bell Tel. Co. v. Strand*, 305 F.3d 580, 582 (6<sup>th</sup> Cir. 2002).

1    **II. ISSUES**

2

3                    **I. Provisions related to the Purpose and Scope of the Agreements**

4

5    **Issue I.C – Transit traffic related issues.**

6

7    **Issue I.C(1) – What are the appropriate definitions related to transit traffic service?**

8

9    **Q.    Please summarize Sprint’s position on this issue.**

10    A.    Sprint’s transit definitions recognize that Transit Service may be provided under the  
11            respective CLEC or CMRS ICA by either party to the other, as well as to a third  
12            party.

13

14    **Q.    On page 30, line 2 of his Direct Testimony, Mr. McPhee states: “Unless and**  
15            **until Sprint initiates its own transit service, the ICA should define Third Party**  
16            **Traffic to include only AT&T as a transit service provider ....” Please**  
17            **comment.**

18    A.    This is an obvious example of AT&T imposing competitive restrictions on the  
19            service that Sprint may want to offer to a third party carrier. According to AT&T,  
20            AT&T and only AT&T will be able to provide transit services under AT&T’s  
21            proposed language. AT&T, however, never explains why it thinks it has the  
22            inherent right to transit third party traffic *to* Sprint yet, at the same time, AT&T can  
23            preclude Sprint from sending identical traffic *to* AT&T. A Sprint transit service

1 provided to a third party serves the policy of enabling that third party's right of  
2 indirect interconnection every bit as much as does an AT&T transit service.

3  
4 Mr. McPhee's testimony does not reflect a commitment that AT&T will amend the  
5 ICAs when Sprint "initiates its own transit service." At page 30, line 4 Mr. McPhee  
6 says:

7 "the parties *may* revise transit-related provisions as appropriate *if the*  
8 *ICA is amended to incorporate Sprint's transit service.*" (Emphasis  
9 added).  
10

11 Delaying recognition of Sprint's ability to deliver transit traffic to an undetermined  
12 time in the future effectively provides AT&T ultimate control over how quickly any  
13 *voluntarily negotiated* amendment may or may not be reached, much less actually  
14 implemented. AT&T could very well refuse to reach any *voluntary* amendment,  
15 thereby forcing the parties to Dispute Resolution, placing them exactly where we  
16 already are today – asking the Authority to include provisions in the ICAs that  
17 recognize Sprint can transit third party traffic to AT&T at any time within the term  
18 of the ICAs. There is no basis for the Authority to delay recognition of Sprint's  
19 right to do so now. Declaration of that right and inclusion of terms in the ICAs to  
20 enable that right is a practical building block for Sprint to be able to offer a transit  
21 service in the first place. If Sprint wants to provide transit services in direct  
22 competition with AT&T, there is no basis for any ICA provisions that forbids or  
23 otherwise delays such competition to AT&T.  
24



1 **Issue I.C(2) – Should AT&T be required to provide transit traffic service under the**  
2 **ICAs?**

3

4 **Q. Please summarize Sprint’s position on this issue.**

5 A. AT&T should be required to provide Transit Service under the ICAs, consistent  
6 with § 251(a) of the Act and 251(c)(2)(A) through (D).

7

8 **Q. Beginning on page 11, line 6 of his Direct Testimony, Mr. McPhee discusses**  
9 **what he contends is the FCC’s position on transiting. Please comment.**

10 A. While Mr. McPhee implies that the FCC has ruled that transit is not a § 251(c)(2)  
11 obligation, the reality is that the FCC has not expressly ruled one way or the other.  
12 Instead, the FCC has left it up to the state commissions to make that determination,  
13 and, as I discussed in my Direct Testimony, at least eighteen states have decided  
14 that ILECs such as AT&T must provide transit service under § 251.

15

16 **Q. You said that the FCC hasn’t “expressly” ruled either way. Has the FCC**  
17 **implicitly ruled that transit is subject to § 251(c)?**

18 A. Yes, it has, and I mention this since AT&T continues to imply that the Tennessee  
19 Authority has been preempted. That does not appear to be the case at all, in light of  
20 a dispute involving the authority of the Minnesota Commission. In 2002, the FCC  
21 ruled that any agreement by an ILEC “that creates an ongoing obligation pertaining  
22 to resale, number portability, dialing parity, access to rights-of-way, reciprocal  
23 compensation, interconnection, unbundled network elements, or collocation is an

1 interconnection agreement that must be filed” with the state commission for  
2 approval,<sup>2</sup> but that “*only* those agreements that contain an ongoing obligation  
3 *relating to section 251(b) or (c)* must be filed under 252(a)(1).”<sup>3</sup> Subsequently, the  
4 FCC proposed to fine Qwest \$9,000,000 for failing to file certain agreements with  
5 the Minnesota Public Utilities Commission and the Arizona Corporation  
6 Commission.<sup>4</sup> The Minnesota PUC found that all of the Minnesota agreements  
7 were interconnection agreements under the *Qwest Declaratory Ruling*,<sup>5</sup> and the  
8 FCC agreed.<sup>6</sup>

9  
10 One of the agreements that Qwest failed to file with the Minnesota PUC was a  
11 transit agreement, and two others were agreements for Qwest to provide call detail  
12 records for transit traffic.<sup>7</sup> By agreeing with the Minnesota PUC that these were  
13 interconnection agreements under the *Qwest Declaratory Ruling*, the FCC  
14 necessarily ruled that they were agreements that contain an ongoing obligation

---

<sup>2</sup> *Qwest Communications International Inc. Petition for Declaratory Ruling on the Scope of the Duty to File and Obtain Prior Approval of Negotiated Contractual Arrangements under Section 252(a)(1)*; 17 FCC Rcd. 19337 (FCC 02-276); Memorandum Opinion and Order; released October 4, 2002; at ¶ 8; (“Qwest Declaratory Ruling”) (emphasis omitted).

<sup>3</sup> *Qwest Declaratory Ruling*, 17 FCC Rcd. at ¶ 8 n.26 (emphasis omitted).

<sup>4</sup> *In the Matter of Qwest Corporation Apparent Liability for Forfeiture*, File No. EB-03-IH-0263, 19 FCC Rcd. 5169 (FCC 04-57); Notice of Apparent Liability for Forfeiture; released March 12, 2004. (“*Qwest NAL*”).

<sup>5</sup> *Qwest NAL* at ¶ 15.

<sup>6</sup> *Id.* at ¶ 39.

<sup>7</sup> If an agreement to provide transit call detail records is an interconnection agreement that must be filed, an agreement to provide transit service obviously must also be such an agreement.

1 relating to § 251(b) or (c). Because transit is not one of the obligations imposed by  
2 § 251(b), it must be subject to § 251(c).

3  
4 **Q. How have the various state commissions decided on the issue of whether**  
5 **transit is a § 251(c)(2) obligation?**

6 A. As discussed beginning on page 15 of my Direct Testimony, at least 18 state  
7 commissions have already ruled that transit is an obligation under the Act.

8  
9 **Q. Beginning on page 12, line 12, Mr. McPhee begins a discussion of the FCC's**  
10 **treatment of interconnection and transit. Please comment.**

11 A. Mr. McPhee's discussion of the FCC's treatment of interconnection and transit is  
12 incorrect and misleading. On page 12, line 21, Mr. McPhee claims "three ways" in  
13 which the FCC supports AT&T's position. In each case, however, Mr. McPhee  
14 misreads the FCC's rules.

15  
16 **Q. What is the first way Mr. McPhee misreads the FCC's rules?**

17 A. On page 12, line 21, Mr. McPhee states that "the FCC limits interconnection to the  
18 linking of two networks." He then asserts: "Transit service is not physical linkage –  
19 rather it is the transport of traffic." This assertion is a *non sequitur*. Nothing in the  
20 FCC rules limits "physical linkage" to direct interconnection. Section 251(a)(1) of  
21 the Act clearly allows for direct interconnection or indirect interconnection through  
22 a transit provider.

1    **Q.    What is the second way Mr. McPhee misreads the FCC’s rules?**

2    A.    On page 13, line 3, Mr. McPhee says that:

3                   “the FCC states that interconnection is ‘for the mutual exchange of  
4                   traffic.’ Fairly read, that means the mutual exchange of traffic between  
5                   the interconnected carriers. Transit service does not involve the mutual  
6                   exchange of traffic between the interconnected carriers; rather, it involves  
7                   the exchange of traffic between one of those carriers ... and a third party  
8                   carrier ....”  
9

10           This is also a fallacy. The FCC rules simply do not support the premise asserted by  
11           AT&T. The FCC rules allow for both direct and indirect interconnection between  
12           any two carriers. Obviously, traffic is being “mutually exchanged” between the  
13           originating and terminating carriers under both a direct and indirect interconnection  
14           scenario.

15

16   **Q.    What is the third way Mr. McPhee misreads the FCC’s rules?**

17   A.    On page 13, line 9, Mr. McPhee states that “the FCC explicitly states that  
18           interconnection does not include the transport and termination of traffic. Transit, of  
19           course, is the transport of traffic.” This is yet another *non sequitur*. While his first  
20           sentence is factually correct, it does not support his second sentence. Mr. McPhee  
21           does not even attempt to explain how this has anything to do with whether transit is  
22           a §251 obligation.

23

24           Mr. McPhee also distorts the FCC’s definition of transport in the context of  
25           interconnection. In fact, “transit” is not “transport” as the term is defined by the  
26           FCC.

1

2 **Q. How does Mr. McPhee distort the FCC's definition of "transport"?**

3 A. Although Mr. McPhee does not point to the specific FCC rule, he is clearly  
4 referring to the FCC's definition of interconnection. Specifically, 47 C.F.R. § 51.5  
5 defines "Interconnection" as follows:

6 *Interconnection.* Interconnection is the linking of two networks for the mutual  
7 exchange of traffic. This term does not include the transport and termination  
8 of traffic. (Italics in original.)  
9

10 In addition, 47 C.F.R. § 20.3 defines "Interconnection" as follows:

11 *Interconnection or Interconnected.* Direct or indirect connection through  
12 automatic or manual means (by wire, microwave, or other technologies such  
13 as store and forward) to permit the transmission or reception of messages or  
14 signals to or from points in the public switched network. (Italics in original.)  
15

16 **Q. Within the 47 C.F.R. § 51.5 definition of "interconnection," how does the FCC**  
17 **define "transport and termination"?**

18 A. The FCC defines "transport and termination" in 47 C.F.R. § 51.701. Specifically,  
19 the FCC states:

20 (c) *Transport.* For purposes of this subpart, transport is the transmission  
21 and any necessary tandem switching of telecommunications traffic subject  
22 to section 251(b)(5) of the Act from the interconnection point between the  
23 two carriers to the terminating carrier's end office switch that directly serves  
24 the called party, or equivalent facility provided by a carrier other than an  
25 incumbent LEC.  
26

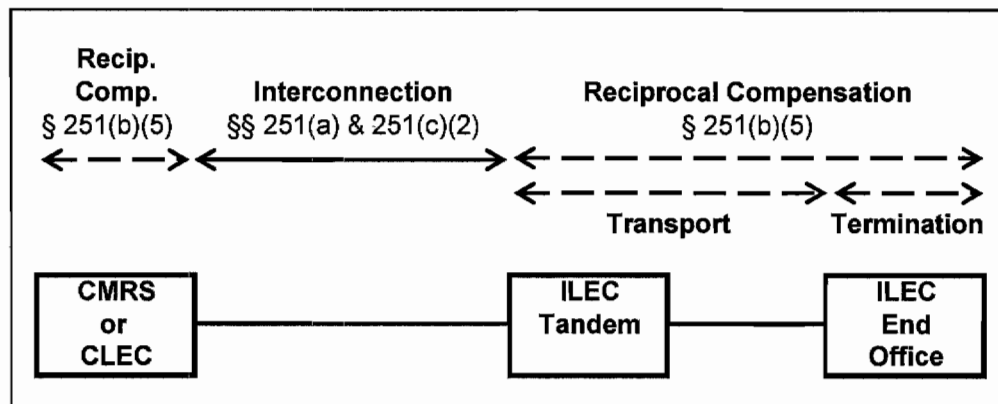
27 (d) *Termination.* For purposes of this subpart, termination is the switching  
28 of telecommunications traffic at the terminating carrier's end office switch,  
29 or equivalent facility, and delivery of such traffic to the called party's  
30 premises.  
31

32 (e) *Reciprocal compensation.* For purposes of this subpart, a reciprocal  
33 compensation arrangement between two carriers is one in which each of the  
34 two carriers receives compensation from the other carrier for the **transport**

**and termination** on each carrier's network facilities of telecommunications traffic that originates on the network facilities of the other carrier. [Emphasis added.]

Thus, the FCC has defined reciprocal compensation as the sum of “transport and termination.” Thus, the mutual exchange of traffic between two carriers encompasses both interconnection facilities between the two carriers and reciprocal compensation (transport and termination) for both carriers. The following Diagram 1 illustrates the relationship between interconnection and reciprocal compensation.

**Diagram 1**  
**Interconnection and Reciprocal Compensation**



When the FCC definition of interconnection states that it “does not include the transport and termination of traffic,” the FCC is obviously distinguishing “interconnection” from “reciprocal compensation” (which consists of “transport and termination”).

It is clear, then, that Mr. McPhee's statement on page 13, line 10, "Transit, of course, is the transport of traffic," is wrong per the FCC's definition.

1

2 Both the Act and FCC rules allow for both direct and indirect interconnection.

3 Contrary to Mr. McPhee's interpretation of the FCC rules, the FCC does not carve  
4 out transit from the definition of interconnection.

5

6 **Q. On page 18, line 4 of his Direct Testimony, Mr. McPhee begins a discussion of**  
7 **a Georgia transit decision, and claims that proceeding demonstrated a**  
8 **competitive market in Georgia. Is that correct?**

9 A. No, that is not correct. That Georgia transit proceeding simply demonstrated that a  
10 second provider (Neutral Tandem) of transit services was an option in some  
11 portions of Georgia.<sup>8</sup> Only two transit providers, with only one providing  
12 ubiquitous service, cannot be considered a competitive market.

13

14 **Q. On page 19, line 5, Mr. McPhee states that "Neutral Tandem currently**  
15 **operates in Tennessee at five different locations." Is transit a competitive**  
16 **service in Tennessee?**

17 A. No, transit is not a competitive service in Tennessee for at least four reasons. First,  
18 two (or just a few) providers of a service do not make a competitive marketplace.

19

20 Second, AT&T is the only ubiquitous provider of transit services in the state, and if  
21 AT&T isn't a transit provider, typically only another ILEC is. Often, Sprint must

---

<sup>8</sup> *Petition of Neutral Tandem Inc. for Interconnection with Level 3 Communications and Request for Emergency Relief*; Georgia Public Service Commission Docket No. 24844-U.

1 use AT&T for transit or termination services where AT&T is the only service  
2 provider. No other transit provider in the state has such an extensive network, nor  
3 is capable of providing transit service to every geographic location in the state.  
4

5 Third, only AT&T has ubiquitous connection to each and every AT&T end office in  
6 the state. Generally, competitive transit providers only have connections to AT&T  
7 tandems; competitive transit providers do not have direct interconnections to each  
8 and every AT&T end office. To terminate traffic to most AT&T end offices, it is  
9 not practical to utilize a competitive transit provider, if one even exists.  
10

11 Fourth, although Sprint directly interconnects with AT&T tandem switches, Sprint  
12 could choose to indirectly interconnect through a competitive transit provider. If  
13 transit were priced competitively and available to ubiquitously reach all AT&T end  
14 offices, Sprint could choose between these competitive options based on  
15 economically efficient price signals. However, this situation does not exist in  
16 Tennessee.  
17

18 **Q. Is it necessary for the Authority to find that the transit traffic market is either**  
19 **competitive or not competitive in order to affirm its own policy judgment on**  
20 **transit service?**

21 A. No. Although the transit market is clearly not competitive, it is not necessary to  
22 “prove” that fact in order for the Authority to maintain the long established policy  
23 for Tennessee.



1

2 **Issue I.C(3) – If the answer to (2) is yes, what is the appropriate rate that AT&T**  
3 **should charge for such service?**

4

5 **Q. Please summarize Sprint’s position on this issue.**

6 A. Section 251(c)(2)(D) requires Interconnection transmission and routing services to  
7 be at rates that are “in accordance with ... the requirements of section 252 of this  
8 title.” The 252(d) pricing standard that has been established by the FCC is Total  
9 Element Long-Run Incremental Cost (“TELRIC”). Therefore, transit should be  
10 provided at a TELRIC-based rate.

11

12 **Q. Please discuss Mr. McPhee’s Direct Testimony at page 19, line 12, on Issue**  
13 **I.C(3).**

14 A. Mr. McPhee’s Direct Testimony on Issue I.C(3) is limited to just eight lines. His  
15 only testimony is that since transit is not a Section 251(b) or (c) obligation, transit  
16 need not be priced at TELRIC.

17

18 **Issue I.C(4) – If the answer to (2) is yes, should the ICAs require Sprint either to**  
19 **enter into compensation arrangements with third party carriers with which Sprint**  
20 **exchanges traffic that transits AT&T’s network pursuant to the transit provisions in**  
21 **the ICA or to indemnify AT&T for the costs it incurs if Sprint does not do so?**

22

23 **Q. Please summarize Sprint’s position on this issue.**

1 A. The ICAs should not require Sprint to enter into compensation arrangements with  
2 third party carriers or to indemnify AT&T.

3  
4 **Q. On page 20, line 13 of his Direct Testimony, Mr. McPhee states: “When Sprint**  
5 **sends transit traffic through AT&T to a third party carrier for termination,**  
6 **reciprocal compensation is due to the terminating carrier from the originating**  
7 **carrier. However, the [transit] call may look to the terminating carrier like a**  
8 **call that was originated by AT&T, thus prompting the terminating third party**  
9 **to seek reciprocal compensation from AT&T – particularly if Sprint has not**  
10 **entered into appropriate compensation arrangements with the third party**  
11 **carrier.” Please comment.**

12 A. Mr. McPhee correctly acknowledges the traditional reciprocal compensation  
13 regime. But, he follows that with an unsupported “However” sentence intended to  
14 require Sprint to indemnify AT&T.

15  
16 He then concludes by stating that this hypothetical situation will be exacerbated  
17 unless Sprint has an “appropriate compensation arrangements with the third party  
18 carrier.” But, he provides no definition of what is an “appropriate arrangement,”  
19 nor does he provide any FCC rule supporting such a condition on Sprint. In fact,  
20 Mr. McPhee cannot point to any FCC rule supporting this position.

21  
22 **Q. On page 21, line 13 of his Direct Testimony, Mr. McPhee states: “It may be**  
23 **true that federal law does not require Sprint to enter into compensation**

1        **arrangements with third party carriers to which Sprint sends traffic ....”**

2        **Please comment.**

3        A.    Mr. McPhee acknowledges that no FCC rule supports AT&T’s position. However,  
4        he nevertheless follows this acknowledgement with a lengthy discussion of why the  
5        Authority should adopt AT&T’s position despite the fact that no FCC rule supports  
6        AT&T’s position.

7  
8        It must be noted that nothing in § 251(a)(1) or the FCC rules suggests that an  
9        interconnection agreement is necessary in order for two carriers to interconnect and  
10       mutually exchange traffic. In fact, for the mutual benefit of their own end-users  
11       ILECs, RLECs, CLECs, and CMRS providers routinely exchange traffic amongst  
12       themselves without an interconnection agreement in place.

13  
14       Not only does AT&T fail to find a single FCC rule supporting AT&T’s position  
15       that Sprint should indemnify AT&T, it is simply anticompetitive and  
16       counterintuitive to require a competitor to indemnify an incumbent LEC.

17  
18       **Q.    Do you agree with Mr. McPhee’s suggestion at page 21, line 17, that if Sprint**  
19       **uses AT&T’s transit service to indirectly interconnect and exchange traffic**  
20       **with a third party network but does not have a compensation agreement with**  
21       **the third party, it is a “natural consequence” that a third party will seek**  
22       **compensation from AT&T for terminating Sprint-originated traffic?**

1 A. No, it is not a “natural consequence” that a third party either would or should seek  
2 compensation from AT&T for Sprint-originated traffic simply because Sprint and  
3 the terminating carrier may be exchanging traffic without a compensation  
4 agreement.

5  
6 **Q. Why not?**

7 A. It is my understanding that AT&T provides terminating third party carriers with  
8 industry standard 110101 records to identify transit traffic that AT&T delivers to  
9 such terminating third party carriers. These records identify the originating carrier  
10 if the third party is not otherwise able to identify and measure AT&T transit traffic  
11 using its own systems.

12  
13 Unless AT&T is a party to a compensation arrangement with a terminating third  
14 party, there is no basis for a terminating third party to seek payment from AT&T for  
15 AT&T identified Sprint-originated traffic. If, however, AT&T has compensation  
16 arrangements with third parties to pay for traffic that AT&T does not originate, that  
17 is a matter between AT&T and such terminating third-parties.

18  
19 Sprint is not a party to, and has no control over, such AT&T-third party  
20 arrangements. There simply is no reasonable basis for AT&T to be indemnified by  
21 Sprint for AT&T’s own compensation disputes with third-parties.

22

1 **Issue I.C(5) – If the answer to (2) is yes, what other terms and conditions related to**  
2 **AT&T transit service, if any, should be included in the ICAs?**

3  
4 **Q. Please summarize Sprint’s position on this issue.**

5 A. AT&T is entitled to charge for the tandem-switching (and potentially relatively  
6 minor facility-related costs) to deliver Sprint-originated traffic to a carrier network  
7 that subtends AT&T and terminates Sprint’s traffic. Otherwise, such traffic is  
8 subject to the same general billing and collection provisions as other categories of  
9 exchanged traffic.

10  
11 **Q. On page 25, line 8 of his Direct Testimony, Mr. McPhee states that “... Section**  
12 **7.0 [of AT&T’s proposed language] provides terms for the provision of direct**  
13 **trunking between Sprint and another LEC when the volume of traffic between**  
14 **those carriers reaches a threshold of twenty-four (24) or more trunks. Such a**  
15 **provision is a reasonable limit for transit traffic; once reached, the two carriers**  
16 **should seek direct interconnection between each other.” Please comment.**

17 A. Mr. McPhee cannot point to any FCC rule which supports this position. As  
18 discussed in detail in Issue III.E(2), every carrier has the choice to deliver its  
19 originating traffic either directly or indirectly. It is not reasonable for AT&T to be  
20 able to dictate how an originating carrier chooses to deliver its traffic.  
21 It would be anticompetitive for AT&T to be able to dictate a higher cost  
22 interconnection arrangement on one of its competitors because of some AT&T-  
23 imposed limit on indirect interconnection.

1

2 **Q. Has AT&T taken the opposite position, *i.e.*, that dedicated trunks should not**  
3 **be required, in another venue as a transit provider?**

4 A. Yes, AT&T has taken the opposite position, *i.e.*, that dedicated trunks should not be  
5 required, in a Wisconsin proceeding when AT&T was the transit provider.  
6 Specifically, AT&T stated:

7 ... whether there ought to be direct trunking between originating providers  
8 and terminating providers. AT&T Wisconsin could not agree more. For the  
9 same reasons that the Commission should not limit the use of the common  
10 trunks or require LEC to LEC network modifications for the transport of  
11 transit traffic, the Commission should also decline to require dedicated  
12 trunking as a general matter. In short, dedicated trunking 1) is inefficient; 2)  
13 is probably preempted; 3) is extremely costly, and 4) is completely  
14 unnecessary given the ability of terminating LECs to negotiate and arbitrate  
15 interconnection agreements that will address issues of traffic exchange.<sup>9</sup>  
16

17 **Q. Has AT&T's own wireless affiliate, the New Cingular,<sup>10</sup> demonstrated a**  
18 **willingness to consistently abide by AT&T's proposed rule that carriers should**  
19 **directly interconnect "when the volume of traffic between those carriers**  
20 **reaches a threshold of twenty-four (24) or more trunks"?**

21 A. No. It is my understanding that AT&T's wireless affiliate does not consistently  
22 agree to the establishment of direct connections with Sprint even where there may  
23 be large volumes of traffic exchanged between the parties that could be moved to  
24 direct connections.

---

<sup>9</sup> *Investigation on the Commission's Own Motion Into the Treatment of Transiting Traffic*; Public Service Commission of Wisconsin Docket No. 5-TI-1068; AT&T Wisconsin Initial Brief on Legal Issues Relating to Transit Traffic; at page 45.

<sup>10</sup> New Cingular Wireless PCS – GA is AT&T's wireless affiliate. It is identified in the LERG as the "AT&T" company, wireless category carrier with assigned OCN 6214. New Cingular may also be known or referred to as AT&T Mobility.

1

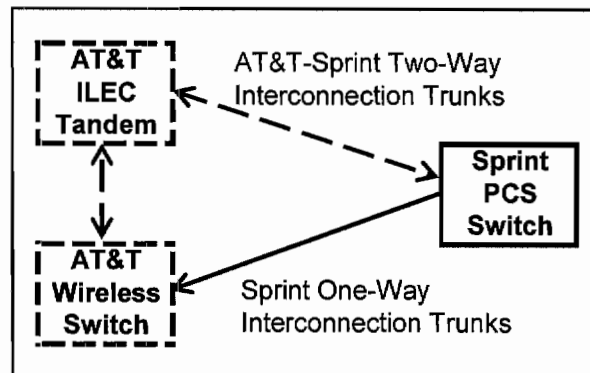
2 **Q. Can you provide any examples?**

3 A. Yes. The chart attached to my Rebuttal Testimony as Confidential Attachment  
4 RGF-5 reflects data derived from traffic studies performed in 2009 that  
5 demonstrates, among other things, the volumes of New Cingular wireless-  
6 originated traffic transited by AT&T to Sprint PCS over interconnection facilities in  
7 the states of Florida and Tennessee for a specified 7-day period. During the same  
8 time period, however, Sprint PCS had already established 1-way direct connections  
9 to New Cingular for the delivery of the majority of Sprint PCS-originated traffic to  
10 New Cingular.

11

12 As shown in Diagram 2, Sprint has established 1-way direct connections to AT&T  
13 wireless switches in Florida and Tennessee. To date, however, AT&T wireless has  
14 installed some direct connections in Florida, but has chosen not to reciprocate with  
15 any direct connections back to Sprint PCS at all in Tennessee. Obviously, it is  
16 patently inconsistent for AT&T as an ILEC to attempt to impose a DS1 threshold  
17 upon competing carriers to establish direct connections yet, at the same time, its  
18 own affiliates are not held to such standards.

**Diagram 2**  
**Interconnection Between AT&T Wireless and Sprint PCS**



**Q. How does AT&T ILEC’s transiting of its AT&T-wireless or AT&T-CLEC affiliates’ traffic to Sprint have any economic impact upon Sprint?**

A. As I also address in Issue III.E.(2), under AT&T-ILEC’s improper view of shared facility costs, AT&T seeks to make Sprint responsible for that portion of an Interconnection Facility that is used by AT&T to transit any third party traffic to Sprint (*including AT&T’s own affiliates as third parties*) on the theory that Sprint “causes” such usage by deciding to indirectly interconnect with the third parties.

**Q. What is wrong with AT&T’s view?**

A. As demonstrated by the fact scenario I describe above and Confidential Attachment RGF-5 (*i.e.*, even where Sprint establishes direct connection to the AT&T wireless affiliate networks in Florida and Tennessee, the AT&T wireless affiliate continues to send significant volumes of its originated traffic to Sprint via AT&T-ILEC), Sprint is *not* the party that causes AT&T-ILEC to use the Interconnection Facilities between AT&T-ILEC and Sprint to deliver AT&T wireless-originated traffic to Sprint.



1

2 **Q. Who causes AT&T-ILEC to use the Interconnection Facilities between AT&T-**  
3 **ILEC and Sprint for the delivery of third party originated traffic to Sprint?**

4 A. Both AT&T-ILEC and its originating transit customer, who, in the example  
5 described above is the AT&T wireless affiliate. The end result of AT&T's  
6 approach to shared facility costs is a corporate welfare scheme that attempts to shift  
7 AT&T's cost of its own transit service so that competitors not only subsidize  
8 AT&T's transit service but also the AT&T affiliates' indirect exchange of traffic,  
9 incenting AT&T's own affiliates to continue to use AT&T's transit service and  
10 avoid incurring the cost of installing direct connections.

11

12 **Issue I.C(6) – Should the ICAs provide for Sprint to act as a transit provider by**  
13 **delivering Third Party-originated traffic to AT&T?**

14

15 **Q. Please summarize Sprint's position on this issue.**

16 A. The ICAs should provide for Sprint to act as a transit provider. It is unreasonable  
17 for AT&T to prevent Sprint from providing Transit Service in competition with  
18 AT&T.

19

20 **Q. On page 27, line 3 of Mr. McPhee's Direct Testimony, the question states (and**  
21 **appears to assume) that "Sprint's proposed ICA language ... would ...**  
22 **possibly require AT&T to use Sprint as a transit provider for AT&T**

1       **originated traffic.” Is this true that Sprint’s ICA language would require**  
2       **AT&T to use Sprint as a transit provider?**

3       A.   No. Sprint’s ICA language does not require AT&T to use Sprint as a transit  
4       provider. In fact, Mr. McPhee does not identify language to support that assertion.

5  
6       In addition, as the only ubiquitous provider of transit service in the state, the need  
7       for AT&T to utilize a third party transit provider is likely moot, as AT&T is the  
8       only carrier that is probably interconnected with every other carrier in the state. If  
9       AT&T is not directly interconnected with a carrier to whom Sprint provides transit  
10      service, it probably would be more cost-effective for AT&T to use Sprint’s transit  
11      service than to establish direct interconnection to deliver small amounts of traffic to  
12      such a carrier, but nothing would force AT&T to do so.

13  
14      Regardless, the intent of Sprint’s language is to allow Sprint to act as a transit  
15      provider for carriers other than AT&T, *i.e.*, as a direct competitor to AT&T’s transit  
16      services. While AT&T might not want competitors in the transit market, it is  
17      unreasonable for AT&T to try to prevent that competition via the ICA process.

18  
19      **Q.   Does the originating carrier determine how its traffic is delivered?**

20      A.   Yes. As discussed in detail under Issue III.E(2), as well as described above  
21      regarding the AT&T wireless affiliate’s continued use of AT&T-ILEC’s transit  
22      service, it is the originating carrier who decides how to deliver its originating traffic

1 to the terminating carrier. Nothing in Sprint's proposed ICA language takes that  
2 basic decision making process from AT&T.

3

4 **Issue I.C(7) – Should the CLEC ICA require Sprint either to enter into**  
5 **compensation arrangements with third party carriers with which Sprint exchanges**  
6 **traffic or to indemnify AT&T for the costs it incurs if Sprint does not do so?**

7

8 **Q. Please summarize Sprint's position on this issue.**

9 A. The CLEC ICA should not require Sprint to enter into compensation arrangements  
10 with third party carriers or to indemnify AT&T.

11

12 **Q. Does Mr. McPhee or any AT&T witness explicitly address this issue?**

13 A. No, neither Mr. McPhee nor any other AT&T witness explicitly addresses this  
14 issue. Since this issue is essentially the same as Issue I.C(4), I assume AT&T's  
15 position is similar.

16

**Issue III – How the Parties Compensate Each Other**

**Issue III.A – Traffic categories and related compensation rates, terms, and conditions.**

**Issue III.A(1) – As to each ICA, what categories of exchanged traffic are subject to compensation between the parties?**

**Q. Please summarize Sprint's position on this issue.**

A. Sprint requests that the Authority consider two categories of Interconnection-related traffic, (1) Authorized Service Terminated Traffic (*e.g.*, IntraMTA traffic, InterMTA Traffic, Information Services traffic, and Interconnected VoIP traffic), and (2) Transit Service Traffic (in addition to the category of Jointly Provided Switched Access).

If the Authority decides the typical multi-categories must exist, then Sprint has identified (1) wireless/wireline specific categories, and (2) categories that are neither wireline/wireless centric (Interconnected VoIP, Information Services, Transit).

**Q. On page 31, line 23 of her Direct Testimony, Ms. Pellerin attempts to describe Sprint's proposal. Please comment.**

1 A. Ms. Pellerin makes Sprint's proposal appear to be complicated, when, in fact, it is  
2 quite simple. Sprint proposes that non-"toll" traffic<sup>11</sup> be treated as Bill and Keep.  
3 This is consistent with the current Bill-and-Keep arrangement between Sprint and  
4 AT&T [see Issue III.A(2)].

5  
6 If not Bill-and-Keep, the Authority must select a rate. The Authority's choices  
7 include AT&T's current reciprocal compensation rate of \$0.0007, or the Authority  
8 can establish new TELRIC-based rates, which, according to the AT&T FCC Letter  
9 will be less than \$0.0007.

10  
11 Under Sprint's proposal, only transit traffic, which does not originate with or  
12 terminate to AT&T's end-users, would fall into another category, "Transit Service  
13 Traffic."

14  
15 Existing "Jointly Provided Switched Access" (*i.e.*, traditional Telephone Toll  
16 Service traffic) is subject to existing tariffs and is not subject to pricing changes per  
17 this ICA.

18  
19 **Q. What would Ms. Pellerin's proposed pricing categories do to the existing Bill-**  
20 **and-Keep arrangement between Sprint and AT&T?**

---

<sup>11</sup> The short-hand term "toll" meaning "Telephone Toll Service" traffic as defined at 47 U.S.C. § 153.

1 A. Under Ms. Pellerin's proposal, the existing Bill-and-Keep arrangement between  
2 Sprint and AT&T, which has been in place since January 2001, would be  
3 eliminated (except for those instances where Bill-and-Keep may benefit AT&T,  
4 such as FX ISP-Bound traffic, for which AT&T wants Bill-and-Keep to stay in  
5 place).

6  
7 Of course, this is AT&T's main objective in this proceeding. As explained in the  
8 Direct and Rebuttal Testimonies of Mr. Mark G. Felton, Sprint and AT&T have  
9 been operating under a Bill-and-Keep arrangement for many years. Bill-and-Keep  
10 is the most efficient method of exchanging traffic between two carriers, as it  
11 eliminates all transaction costs such as traffic measurement and monthly billing,  
12 remittance, and collection.

13  
14 **Issue III.A(2) – Should the ICAs include the provisions governing rates proposed by**  
15 **Sprint?**

16  
17 **Q. Please summarize Sprint's position on this issue.**

18 A. Yes, the ICAs should include the provisions governing rates proposed by Sprint.  
19 Sprint's proposed rates will ensure that Sprint CMRS and Sprint CLEC are charged  
20 Interconnection services rates that are authorized by the FCC, and non-  
21 discriminatory, being priced at: (1) Bill-and-Keep; or (2) the lowest of (a) the  
22 reciprocal compensation rate of \$0.0007, (b) TELRIC pricing, or (c) any other price  
23 that AT&T has offered to another Telecommunications Carrier.

1

2 **Q. On page 37, line 4 of her Direct Testimony, Ms. Pellerin states that “... AT&T**  
3 **would be forced to determine, and then bill, the lowest rate available among**  
4 **the following four sources ....” Is this correct?**

5 A. No, Ms. Pellerin portrays Sprint’s pricing proposal as some sort of “pick and  
6 choose.” As discussed in Issue III.A(1), above, Sprint proposes a single  
7 compensation arrangement for all “Authorized Service Terminated Traffic,” which  
8 is essentially all non-Telephone Toll Service traffic exchanged between Sprint end-  
9 users and AT&T end-users. Preferably, this single compensation arrangement will  
10 be a continuation of the Bill-and-Keep arrangement that currently exists between  
11 Sprint and AT&T.

12

13 If not Bill-and-Keep, the Authority must select a rate. The Authority’s choices  
14 include AT&T’s current reciprocal compensation rate of \$0.0007, or the Authority  
15 can establish new TELRIC-based rates, which, according to the AT&T FCC Letter  
16 will be less than \$0.0007.

17

18 **Issue III.A(3) – What are the appropriate compensation terms and conditions that**  
19 **are common to all types of traffic?**

20

21 **Q. Please summarize Sprint’s position on this issue.**

22 A. It is Sprint’s position that the parties’ *agreed to language* (Sections 6.3.1., 6.3.2.,  
23 6.3.3, 6.3.4), coupled with Sprint’s further proposed usage-related language, which

1 AT&T disputes (Sections 6.3.5 and 6.3.6.1), provides the essential terms to  
2 accurately bill the originating party for usage. If usage data is also used to  
3 apportion shared facility costs, these provisions also enable the parties to bill and  
4 apportion such shared Facility costs – which is also separately addressed later in my  
5 testimony in Issue III.E.

6  
7 **Q. On page 42, line 7 of her Direct Testimony, Ms. Pellerin attempts to describe**  
8 **Sprint's proposal. Please comment.**

9 A. Again, Ms. Pellerin makes Sprint's proposal appear to be complicated, when, in  
10 fact, it is very simple. Sprint believes that the proposed language allows each party  
11 to appropriately bill for the services it provides. If required, if either party does not  
12 agree to the presumed 50/50 sharing factor, that party can perform a traffic study to  
13 demonstrate an imbalance in traffic.

14  
15 **III.A.3 – CMRS ICA-specific, InterMTA traffic.**

16  
17 **III.A.3(1) – Is mobile-to-land InterMTA traffic subject to tariffed terminating**  
18 **access charges payable by Sprint to AT&T?**

19  
20 **Q. Please summarize Sprint's position on this issue.**

21 A. Mobile-to-land InterMTA traffic is not subject to tariffed terminating access  
22 charges payable by Sprint to AT&T. The only FCC rule applicable to interMTA  
23 traffic exchanged between the Parties, whether mobile-to-land or land-to-mobile, is



1 47 C.F.R. § 20.11. Pursuant to this rule, such traffic is subject to reasonable  
2 terminating compensation, but the rule does not make this traffic automatically  
3 subject to AT&T's access tariffs.

4  
5 **Q. On page 97, line 10 of his Direct Testimony, Mr. McPhee states: "Under**  
6 **established industry practice, wireless carriers pay terminating access charges**  
7 **to LECs on mobile-to-land InterMTA calls transported on wireless networks.**  
8 **This is fully consistent with settled notions of when a LEC is entitled to a**  
9 **terminating access charge." Please comment.**

10 A. While Mr. McPhee's first sentence is factually correct, Mr. McPhee cannot point to  
11 a single FCC rule to mandate this practice. As I discussed extensively in my Direct  
12 Testimony, there is no such rule. In addition, as I also discussed, in other states  
13 AT&T's wireless affiliate has actually taken Sprint's position on this issue.

14  
15 **Q. On Page 97, line 13 of his Direct Testimony, Mr. McPhee follows the previous**  
16 **statement with the following: "The interexchange carrier's customer is**  
17 **making the call, and the interexchange carrier is receiving all the end user**  
18 **revenue for the call. ... The wireless company is thus obtaining 'access' from**  
19 **the LEC to complete its (the wireless company's) call, and therefore the LEC is**  
20 **entitled to receive compensation from the wireless company to reimburse the**  
21 **LEC for its costs in completing the call." Please comment.**

22 A. This is yet another *non sequitur*. He begins by speaking about interexchange  
23 carriers ("IXCs"), but then includes wireless companies as if they are one and the

1 same. Wireless companies are not IXC's. IXC's are required by FCC rules to pay  
2 switched access charges to LEC's. There are no such rules which apply to wireless  
3 carriers.

4  
5 **Q. On page 97, line 23 of his Direct Testimony, Mr. McPhee relies on Paragraph**  
6 **1036 of the FCC's Local Competition Order to justify billing access charges to**  
7 **a wireless company. Is this reasonable?**

8 A. No. Paragraph 1036 of the FCC's Local Competition Order explicitly refers to  
9 IXC's. Once again, wireless companies are not IXC's, and the cited provision is not  
10 determinative.

11  
12 **Q. On page 98, line 21 of his Direct Testimony, Mr. McPhee states: "If Sprint**  
13 **CMRS does not supply JIP, AT&T will use the next best available information.**  
14 **This may be the Originating Location Routing Number ('OLRN'), the CPN, or**  
15 **any other mutually agreed indicator of the originating cell site or Mobile**  
16 **Telephone Service Office ('MTSO')." Please comment.**

17 A. As discussed extensively in my Direct Testimony, the JIP often does not provide  
18 the correct location of the originating cell site of a wireless call. I also noted that  
19 AT&T's wireless affiliate has acknowledged this issue in Oklahoma.

20  
21 However, AT&T's alternatives to using JIP are even less accurate than JIP. The  
22 OLRN does not identify the originating cell site, so it suffers the same deficiencies  
23 as using the JIP. The use of the CPN (Calling Party's Number) is even worse. A

1 customer with a wireless telephone number from anywhere else in the U.S., such as  
2 New York, can be traveling in Nashville, TN and place a call to a Nashville AT&T  
3 customer. This would obviously be an IntraMTA call. Yet AT&T would treat this  
4 call as originating from New York and consider it an InterMTA call.  
5

6 **Q. On page 99, line 3, Mr. McPhee states that “if Sprint CMRS has what it**  
7 **believes to be a more accurate way of identifying the originating location than**  
8 **JIP (or OLRN or CPN), it is welcome to discuss that with AT&T so the parties**  
9 **may agree to use another indicator.” Please comment.**

10 A. This statement is disingenuous. As I discussed in my Direct Testimony, Sprint has  
11 developed a traffic study methodology which identifies the proper location of the  
12 originating cell site.

13  
14 Perhaps Mr. McPhee is unaware of the discussions between Sprint and AT&T, but  
15 Sprint has been discussing the use of Sprint’s traffic study methodology with  
16 AT&T since at least the fall of 2008. In November 2009, Sprint provided AT&T  
17 detailed traffic studies for two AT&T states (CA and TX) using the exact  
18 methodology described in my Direct Testimony. Sprint and AT&T have been  
19 involved in at least two commission mediations which have discussed Sprint’s  
20 traffic study methodology. By June 2010, Sprint provided AT&T with the results  
21 of the Sprint traffic study methodology for all twenty-two AT&T states. I have  
22 personally been a participant in several of those discussions. Sprint has repeatedly

1 pointed out the potential deficiencies of using JIP, and has identified specific  
2 examples of how the AT&T JIP methodology provides the incorrect jurisdiction.

3  
4 Despite this evidence, AT&T has continuously refused, without explanation, to  
5 accept Sprint's methodology and insists on using its JIP methodology, although  
6 AT&T itself has acknowledged the JIP deficiencies in Oklahoma (as discussed in  
7 my Direct Testimony). This issue (i.e., AT&T's attempt to use JIP to identify  
8 interMTA traffic rather than Sprint cell-site-based information) is subject to  
9 arbitration before the Authority solely because of AT&T's refusal to publicly  
10 acknowledge the very deficiency with using JIP that is advocated by its own  
11 wireless affiliate.

12  
13 **III.A.3(2) – Which party should pay usage charges to the other on land-to-mobile**  
14 **InterMTA traffic and at what rate?**

15  
16 **Q. Please summarize Sprint's position on this issue.**

17 A. Sprint CMRS, as a wireless carrier, is entitled to receive compensation for land-to-  
18 mobile InterMTA traffic. The rules are clear. As discussed above, 47 C.F.R.  
19 § 20.11(b)(1) explicitly states that a LEC must pay compensation to a wireless  
20 carrier for LEC-originated traffic. Contrary to AT&T's claim, Sprint is not acting  
21 as an IXC. Sprint CMRS is exchanging traffic with AT&T, and Sprint CMRS is  
22 not itself an IXC.

1   **Q.   On page 100, line 6 of his Direct Testimony, Mr. McPhee states: “... AT&T is**  
2       **entitled to originating access charges from Sprint at AT&T’s tariffed rates,**  
3       **just as AT&T is entitled to originating access charges on any other long**  
4       **distance call. Paragraph 1043 of the FCC’s *Local Competition Order* states**  
5       **that ‘most traffic between LECs and CMRS providers is not subject to**  
6       **interstate access charges unless it is carried by an IXC, *with the exception of***  
7       ***certain interstate interexchange service provided by CMRS carriers, such as some***  
8       ***“roaming” traffic that transits the incumbent LECs’ switching facilities ....’”***  
9       **[Italics in original testimony.] Mr. McPhee concludes by stating: “Thus, where**  
10      **the wireless carrier is providing an interexchange service to its customer, the**  
11      **originating landline carrier is due access charges.” Please comment.**

12   **A.   Mr. McPhee’s “conclusion” is yet another *non sequitur* – nothing in the FCC’s**  
13       **paragraph 1043 supports his “conclusion.” In addition, as already discussed,**  
14       **wireless carriers such as Sprint CMRS are not IXCs.**  
15

16   **Q.   Has AT&T made just the opposite argument in other venues?**

17   **A.   Yes. When another ILEC used Mr. McPhee’s argument against AT&T’s wireless**  
18       **subsidiary in a proceeding before the Kentucky Public Service Commission, AT&T**  
19       **made the opposite argument, one completely contrary to Mr. McPhee’s testimony**  
20       **in this proceeding. In that Kentucky proceeding, AT&T’s witness, testifying on**  
21       **behalf of Cingular Wireless, the predecessor company to AT&T’s wireless affiliate**  
22       **AT&T Mobility, and testifying on behalf of other “Wireless Carriers,” including**  
23       **Sprint PCS, stated:**

1 A. ... From this language [*Local Competition Order*, paragraph 1043 and  
2 footnote 2485], [the ILEC witness] has derived his conclusion that if a  
3 Wireless Carrier “carries traffic from one MTA to another,” then the  
4 Wireless Carrier owes terminating or originating access charges, as the  
5 case may be, to an RLEC.  
6

7 **Q. Is [the ILEC witness’s] testimony supported by FCC regulations[?]**

8 A. No. The language that [the ILEC witness] has quoted has not made its  
9 way into FCC regulations. No FCC regulation governs the exchange of  
10 interMTA traffic between an RLEC and a Wireless Carrier. No FCC  
11 regulation states that if a Wireless Carrier “carries traffic from one MTA to  
12 another,” then it owes compensation to an RLEC. No FCC regulation  
13 states that compensation for interMTA traffic shall be based on access  
14 rates. [The ILEC witness’s] interpretation finds no support in FCC  
15 regulations.  
16

17 **Q. Does [the ILEC witness] leave out an important part of the FCC’s**  
18 **discussion of this issue?**

19 A. Yes. At the end of paragraph 1043 the FCC concludes that “new transport  
20 and termination rules should be applied to LECs and CMRS providers so  
21 that CMRS providers continue not to pay interstate access charges for  
22 traffic that currently is not subject to such charges, and are assessed such  
23 charges for traffic that is currently subject to interstate access charges.”  
24 Prior to 1996, a CMRS provider was not subject to access charges simply  
25 because it carried a call across an MTA boundary, nor have the RLECs  
26 tried to argue otherwise. In context, paragraph 1043 says only that access  
27 charges assessed on [a] CMRS provider prior to 1996 would continue after  
28 1996.  
29

30 **Q. Don’t you indicate in your direct testimony that it is typical in**  
31 **RLEC/CMRS interconnection agreements for the parties to agree that**  
32 **compensation for interMTA traffic will be based on RLEC access**  
33 **charges?**

34 A. Yes, but such an agreement is not based on FCC regulations, or anything  
35 in the Telecommunications Act. Rather, such an agreement has been  
36 based upon a business accommodation made by all parties in an attempt to  
37 avoid lengthy and protracted litigation. The FCC has failed to tell us how,  
38 or even if, compensation should be paid for interMTA traffic, so Wireless  
39 Carriers and RLECs have fashioned a methodology based on business  
40 considerations, not regulations.  
41

42 **Q. Do you agree with [the ILEC witness] that interMTA compensation**  
43 **liability, to the extent it exists, should apply to both origination and**  
44 **termination of calls?**

45 A. No. As I have pointed out, nothing in the FCC regulations requires such a  
46 result. Moreover, the entire thrust of the Telecommunications Act and

1 FCC regulations is that the calling (originating) party's service provider  
2 should pay the called (terminating) party's provider for termination of  
3 traffic. The Act and FCC regulations are not premised upon the  
4 terminating party's provider paying anything. Yet, [the ILEC witness]  
5 would have the CMRS provider pay access charges to the RLECs when the  
6 CMRS Providers terminate RLEC-originated, interMTA traffic. This is  
7 wrong.<sup>12</sup>  
8

9 I am in complete agreement with the AT&T wireless position as stated above in the  
10 Kentucky CMRS-RLEC proceeding.  
11

12 **III.A.3(3) – What is the appropriate factor to represent land-to-mobile InterMTA**  
13 **traffic?**  
14

15 **Q. Please summarize Sprint's position on this issue.**

16 A. Subject to a traffic study to validate the amount of land-to-mobile traffic generated  
17 by AT&T and its customers, Sprint proposes a 2% land-to-mobile terminating  
18 InterMTA Factor to derive the minutes of use ("MOU") upon which Sprint CMRS  
19 would charge AT&T for AT&T originated landline-to-mobile InterMTA traffic if  
20 such traffic is not subject to a Bill and Keep arrangement, as Sprint proposes it  
21 should be.  
22

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<sup>12</sup> *Petition of Ballard Rural Telephone Cooperative Corporation, Inc. for Arbitration of Certain Terms and Conditions of Proposed Interconnection Agreement With American Cellular f/k/a ACC Kentucky License LLC, Pursuant to the Communications Act of 1934, as Amended by the Telecommunications Act of 1996, Kentucky Public Service Commission Case No. 2006-00215, et al; Rebuttal Testimony of William H. Brown on Behalf of Cingular Wireless and on Behalf of the Wireless Carriers; dated October 6, 2006, corrected to October 9, 2006, at page 28.*

1 **Q. Does Mr. McPhee or any other AT&T witness provide testimony on Issue**  
2 **III.A.3(3)?**

3 A. No, neither Mr. McPhee nor any other AT&T witness provides testimony on Issue  
4 III.A.3(3). However, as I understand AT&T's position, AT&T *expects Sprint to*  
5 *pay AT&T when Sprint terminates AT&T-originated InterMTA traffic*, and that the  
6 InterMTA factor should be based on the JIP. AT&T proposes a default InterMTA  
7 factor of 6% "in the absence of an auditable Sprint traffic study."

8  
9 I discuss in my Direct Testimony, under *no* circumstances is it appropriate for  
10 AT&T to charge Sprint CMRS *anything* for *AT&T-originated* landline-to-mobile  
11 InterMTA traffic. Further, any valid traffic study of AT&T-originated land-to-  
12 mobile traffic must recognize the actual terminating cell site location, as discussed  
13 above. The JIP does not always identify the terminating jurisdiction.

14  
15 **III.E – Shared Facility Costs.**

16  
17 **III.E(1) – How should Facility Costs be apportioned between the Parties under the**  
18 **CMRS ICA?**

19  
20 **Q. Please summarize Sprint CMRS's position on this issue.**

21 A. Facility Costs should be apportioned based upon the parties' respective  
22 proportionate use (as measured in minutes of use) of the Facility to provide service



1 to its respective customers. In addition, AT&T should bill Sprint only for a portion  
2 of the interconnection facility, by applying a credit for AT&T's portion.

3  
4 **Q. On page 71, line 24 of her Direct Testimony, Ms. Pellerin states: "AT&T**  
5 **contends that it is only responsible for recurring facilities costs associated with**  
6 **calls from its end users to Sprint's end users; costs associated with calls**  
7 **originated by Sprint's end users and by third party carriers are Sprint's**  
8 **responsibility." Do you agree?**

9 A. No. I do agree with part of her statement, that AT&T is responsible for AT&T-  
10 originated traffic and Sprint is responsible for Sprint-originated traffic. However,  
11 her contention that Sprint is responsible for third party-originated traffic is wrong.  
12 It is noteworthy that Ms. Pellerin cannot quote a single FCC rule to support her  
13 assertion.

14  
15 Ms. Pellerin's assertion that somehow Sprint is responsible for third party-  
16 originated traffic is contrary to the FCC's Calling Party's Network Pays ("CPNP")  
17 principle, which AT&T itself has supported in other venues, as I discussed at length  
18 in my Direct Testimony.

19  
20 **Q. On page 73, line 13 of her Direct Testimony, Ms. Pellerin states: "AT&T will**  
21 **provide Sprint with a quarterly percentage to represent AT&T's use of the**  
22 **facilities. AT&T will bill Sprint for the entire cost of the facilities, and Sprint**  
23 **can apply AT&T's percentage to bill AT&T." Please comment.**

1 A. As discussed in my Direct Testimony, and as discussed in detail in Mr. Mark G.  
2 Felton's Direct and Rebuttal Testimonies, it appears that AT&T is willing to share  
3 the cost of interconnection facilities. However, AT&T's definition of an  
4 interconnection facility amounts to little more than a few feet of cross-connect.  
5 Under AT&T's definition, the entire interconnection facility between the AT&T  
6 network and the Sprint network is Sprint's financial responsibility, even though  
7 both AT&T's and Sprint's originating traffic will utilize that interconnection  
8 facility.

9  
10 **Q. On page 78, line 5 of her Direct Testimony, Ms. Pellerin states: "Sprint's**  
11 **billing proposal would require AT&T to modify its billing system just for**  
12 **Sprint. When Sprint leases facilities from AT&T, Sprint's language provides**  
13 **that AT&T would have to adjust its facilities bills to reflect a credit to Sprint**  
14 **.... There is no reason to change the billing process the parties currently use."**  
15 **What, in fact, is "the billing process the parties currently use"?**

16 A. As discussed in the testimony of Mr. Mark G. Felton, the method described does  
17 not represent "the billing process the parties currently use." Currently, Sprint  
18 CMRS does not bill AT&T for its portion of the interconnection facility. Rather,  
19 on a quarterly basis, the parties jointly determine the credit for AT&T's portion;  
20 AT&T then applies that credit to Sprint's bill.

21  
22 **III.E(2) – Should traffic that originates with a Third Party and that is transited by**  
23 **one Party (the transiting Party) to the other Party (the terminating Party) be**

1 attributed to the transiting Party or the terminating Party for purposes of  
2 calculating the proportionate use of facilities under the CMRS ICA?

3  
4 **Q. Please summarize Sprint's position on this issue.**

5 A. Third party-originated traffic that the transiting party (AT&T) delivers to the  
6 terminating party is the transiting party's (AT&T's) traffic for purposes of  
7 calculating the proportionate use of facilities. In this instance, the third party is the  
8 transiting party's (AT&T's) wholesale Interconnection customer, and AT&T and  
9 the third party each jointly causes the transiting party's use of the facility. The  
10 same terms would apply reciprocally if Sprint were the transiting party.

11  
12 **Q. On page 80, line 2, Ms. Pellerin states, "A call that originates with a third  
13 party and that AT&T transits to Sprint should be attributed to Sprint ...  
14 because ... Sprint is the cause of that usage." Is this correct?**

15 A. No. As discussed throughout my Direct and Rebuttal testimonies, this is contrary  
16 to the FCC's longstanding "Calling Party's Network Pays" principle, a principle  
17 AT&T has supported in other venues.

18  
19 As the originating carrier, the third party controls how it delivers its traffic to  
20 Sprint. AT&T as the transit provider and the third party as AT&T's transit  
21 customer, not Sprint, cause the usage of AT&T's transit service and the facilities  
22 over which transit traffic is delivered by AT&T to Sprint. This is illustrated by the  
23 situation I discussed earlier, where New Cingular uses AT&T's transit service to

1 deliver most of its traffic to Sprint, although Sprint has established direct  
2 interconnection to deliver its traffic to New Cingular.

3  
4 AT&T is paid a transit fee by the third party to deliver the traffic to Sprint, from  
5 which AT&T should be compensated for its facility cost. However, recovering  
6 both a transit fee from the originating carrier and, at the same time, improperly  
7 apportioning facility usage to the terminating carrier results in AT&T “double-  
8 recovering” its costs on this transit traffic.

9  
10 **Q. On page 80, line 5, Ms. Pellerin states, “AT&T has no stake in the [transit]**  
11 **call, because neither the calling party nor the called party is AT&T’s**  
12 **customer.” Is this correct?**

13 A. No. It is obvious that AT&T has a stake in the transit call – AT&T is being paid a  
14 transit fee by the originating carrier to deliver the call to the terminating carrier. It  
15 is reasonable that the rate that AT&T charges for that transit function should  
16 recover all of AT&T’s switching and transmission costs, as well as a “reasonable  
17 profit” consistent with the FCC’s pricing rules, specifically 47 C.F.R § 51.505. The  
18 transit rate that AT&T proposes certainly would cover those costs, as would each of  
19 the alternative transit rates proposed by Sprint.

20  
21 In addition, when AT&T functions as a transit provider, the originating carrier is, in  
22 fact, the carrier customer of AT&T. Not all of AT&T’s customers are “end-users.”

1 AT&T has many “carrier customers.” AT&T’s own wireless and CLEC affiliates  
2 are among them.

3  
4 **Q. On page 80, line 6, Ms. Pellerin states that “the reason that AT&T must transit**  
5 **the call is that Sprint has elected not to directly interconnect with the third**  
6 **party; it is for this reason that Sprint is the cause of the usage.” Is this**  
7 **correct?**

8 A. No. The choice of indirect or direct interconnection lies with the originating carrier,  
9 not the terminating carrier. Under § 251(a)(1) of the Act, any carrier may choose to  
10 interconnect either directly or indirectly with any other carrier. Specifically, §  
11 251(a)(1) states,

12 **Each telecommunications carrier** has the duty to interconnect directly or  
13 indirectly with the facilities and equipment of other telecommunications  
14 carriers. (Emphasis added.)  
15

16 The FCC, in 47 C.F.R. § 51.5, further defines interconnection as follows:

17 *Interconnection* is the linking of two networks **for the mutual exchange of**  
18 **traffic.** (Emphasis added.)  
19

20 Note that this obligation applies to *each* carrier. In other words, it is Carrier A’s  
21 duty to interconnect and exchange traffic with Carrier B, and it is Carrier B’s duty  
22 to interconnect and exchange traffic with Carrier A. Either carrier may choose to  
23 deliver its originating traffic directly to the other carrier, or indirectly through a  
24 third party transit provider such as AT&T. Carrier A need not choose the same  
25 method as does Carrier B. In other words, Carrier A can choose to deliver its

1       originating traffic directly to Carrier B, while Carrier B can choose to deliver its  
2       originating traffic indirectly through a transit provider to Carrier A.

3  
4       For example, as previously explained, in Florida and Tennessee, Sprint PCS  
5       delivers its originating traffic to the AT&T wireless affiliate via direct one-way  
6       trunks, while the AT&T wireless affiliate has chosen to continue to deliver  
7       significant amounts of its originating traffic to Sprint PCS indirectly via an AT&T  
8       tandem. Sprint PCS is not demanding that the AT&T wireless affiliate install and  
9       deliver its originated traffic to Sprint PCS over a direct connection, and AT&T  
10      should not make such a demand on Sprint.

11  
12     To take AT&T's argument to logical conclusion would illustrate its absurdity. If  
13     Sprint PCS had the right to dictate to AT&T's wireless affiliate how the AT&T  
14     wireless affiliate delivers its originating traffic to Sprint PCS, Sprint PCS could  
15     choose to receive AT&T affiliate wireless traffic via a microwave path that  
16     completely eliminates altogether any ILEC involvement in Sprint's business.  
17     Sprint simply does not have any right to dictate how the AT&T wireless affiliate, or  
18     any other third party, may choose to deliver its traffic to Sprint, and it is  
19     inappropriate to apportion to Sprint any interconnection facility costs associated  
20     with the decision of either an AT&T affiliate or any other third party to send its  
21     originated traffic to Sprint via AT&T's transit service.

1   **Q.   On page 80, line 10, Ms. Pellerin states that “the originating carrier does not**  
2       **compensate AT&T for transporting the call to Sprint from the last point of**  
3       **switching on the AT&T network.” Please comment.**

4   **A.**   This statement is generally incorrect. As discussed under Issue III.E(3), and shown  
5       in Diagram 3, the originating carrier compensates the transit provider to deliver the  
6       call to the terminating carrier. This includes the cost of the transit provider’s share  
7       of the interconnection facility it shares with the terminating carrier.

8  
9       Generally, two LECs share the financial responsibility for the shared  
10      interconnection facility between themselves through some sort of meet-point billing  
11      or other cost-sharing arrangement. It is normal, and appropriate, for a transit  
12      provider to include the cost of that shared interconnection facility in its transit rate.  
13      As part of my previous work experience, I was responsible for the development of  
14      the TELRIC-based rate for transit service performed by an ILEC. That rate  
15      included the cost of that shared interconnection facility.

16  
17      The only case in which Ms. Pellerin’s statement is correct is when the terminating  
18      carrier owns or is financially responsible for 100% of that interconnection facility  
19      (even though two parties share its use). While this is sometimes the case between  
20      ILECs such as AT&T and CMRS providers, this is not the norm between two  
21      LECs.

1 **Q. On page 80, line 17, Ms. Pellerin claims the FCC's TSR Wireless Order and**  
2 **Texcom Order are consistent with AT&T's position. Is this correct?**

3 A. No. As discussed under Issue III.E(3), AT&T and its originating transit carrier  
4 customer, not Sprint, are the cost causers of transit traffic.

5  
6 Ms. Pellerin's interpretation is wrong. The *Texcom* quotes do not even pertain to  
7 the facilities at issue. *Texcom* simply states that the terminating carrier can bill the  
8 originating carrier for reciprocal compensation. I totally agree. But, that has  
9 absolutely nothing to do with the cost of interconnection facilities, as shown in  
10 Diagram 1. This is yet another example, as discussed in detail in Issue I.C(2), of  
11 AT&T confusing the concepts of "interconnection" and "reciprocal compensation."  
12 As already discussed, "interconnection" and "reciprocal compensation" are two  
13 different concepts which deal with completely different portions of the carriers'  
14 networks.

15  
16 **III.E(3) – How should Facility Costs be apportioned between the Parties under the**  
17 **CLEC ICA?**

18  
19 **Q. Please summarize Sprint's position on this issue.**

20 A. This Issue is the same as Issue III.E.(1), except in the context of the CLEC ICA,  
21 and there is no rational basis for this Issue to be decided any differently. Facility  
22 Costs should be apportioned based upon the parties' respective proportionate use of  
23 the Facility to provide service to its respective customers.



1

2   **Q.   On page 87, line 1 of his Direct Testimony, Mr. McPhee states: "... Sprint is**  
3       **simply trying to gain a double-recovery of the costs associated with deploying**  
4       **its network. First, Sprint recovers costs by charging a PUF based upon traffic**  
5       **imbalances between it and AT&T, and second, it charges reciprocal**  
6       **compensation rates that separately recover the transport and termination of**  
7       **traffic from AT&T to Sprint." Is this correct?**

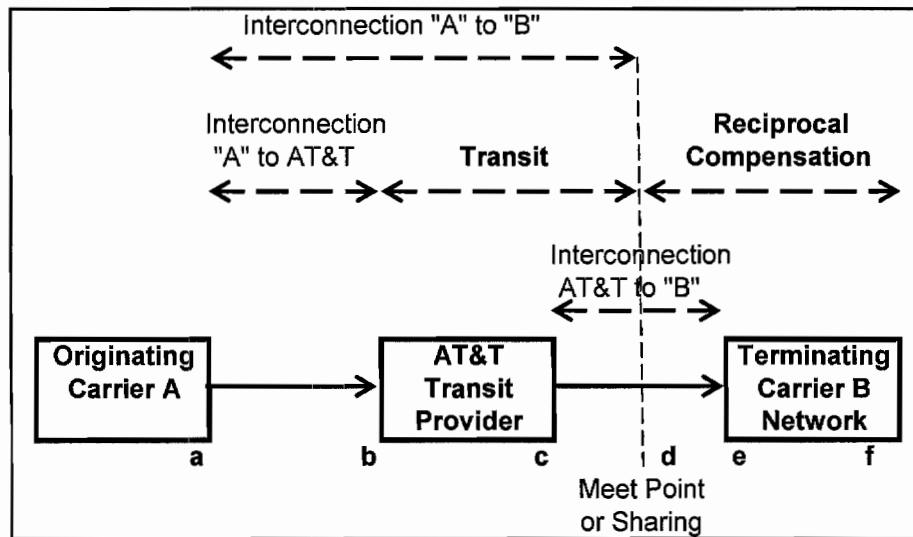
8   **A.   No, this is not correct. As discussed earlier under Issue I.C(2), and depicted in**  
9       **Diagram 1, Mr. McPhee is confusing the concepts of "interconnection" and**  
10      **"reciprocal compensation." As already discussed, "interconnection" and**  
11      **"reciprocal compensation" are different concepts per the FCC rules.**

12

13   **Q.   How does Sprint's proposal not involve double recovery of Sprint's costs?**

14   **A.   As illustrated in Diagram 3, Sprint's proposal does not involve double recovery of**  
15      **Sprint's costs.**

**Diagram 3**  
**Transit vs. Reciprocal Compensation**



In Diagram 3, Originating Carrier A chooses to interconnect with Carrier B indirectly using AT&T as the transit provider. The “reciprocal compensation” due from Carrier A to Carrier B is the cost of Carrier B’s network, represented from “Point d” to “Point f.” As the Transit provider, AT&T is entitled to bill Carrier A for its transit costs, represented from “Point b” to “Point d.” If Sprint is Carrier B, there is no overlap or double recovery of costs by Sprint.

Note that the interconnection facility from “Point a” to “Point b” is subject to the terms and conditions of an ICA between Carrier A and AT&T; similarly, the interconnection facility from “Point c” to “Point e” between AT&T and Carrier B is subject to an ICA. If the Sprint-AT&T ICA calls for a sharing of the cost of the interconnection facility from “Point c” to “Point e,” AT&T is entitled to recover its share of that cost from Carrier A through AT&T’s transit charge. (Note that AT&T

1 generally seeks to require Terminating Carrier B to pay for the entire cost of the  
2 “interconnection facility,” “Point c” to “Point e,” as it is attempting to do in this  
3 arbitration. To the extent that AT&T is successful in this effort, its cost is \$0.)  
4

5 The point is that “interconnection” and “reciprocal compensation” concern different  
6 portions of the telecommunications network. Sprint’s proposal does not result in  
7 any double recovery of Sprint’s costs.  
8

9 **III.E(4) – Should traffic that originates with a Third Party and that is transited by**  
10 **one Party (the transiting Party) to the other Party (the terminating Party) be**  
11 **attributed to the transiting Party or the terminating Party for purposes of**  
12 **calculating the proportionate use of facilities under the CLEC ICA?**  
13

14 **Q. Please summarize Sprint’s position on this issue.**

15 A. Similar to the above situation between the CMRS Issue III. E. (1) and CLEC Issue  
16 III.E.(3), this CLEC Issue III.E.(4) is the same as the CMRS Issue III.E.(2), and  
17 there is no rational basis for this Issue to be decided any differently.  
18

19 **Q. On page 87, line 21, Mr. McPhee states: “Contrary to Sprint’s proposed**  
20 **language, AT&T does not recover costs for facilities through its transit service**  
21 **per minute of use charges. AT&T’s transit service charges are usage-based**  
22 **charges for switching and transport that do not account for the cost of the**  
23 **underlying facilities.” Please discuss.**

1 A. Mr. McPhee's answer seems to make an artificial distinction between "facilities"  
2 and "transport from AT&T to the terminating carrier." By "the cost of underlying  
3 facilities," he may be referring to the non-recurring costs. Regardless, as discussed  
4 above under Issue III.E(3), and referring to Diagram 3, Carrier A is paying AT&T a  
5 transit charge to deliver its originating traffic from "Point b" to "Point d." AT&T is  
6 recovering this cost from the originating Carrier A. It is AT&T who seeks to  
7 recover this cost from both originating Carrier A and Sprint (terminating Carrier B).

8  
9 **Q. On page 88, line 4 of his Direct Testimony, Mr. McPhee states: "... as**  
10 **explained by Ms. Pellerin in regard to CMRS facilities, Sprint is the cost-**  
11 **causer of the transit traffic sent by third parties and should bear any**  
12 **responsibility for the facility if the Authority adopts Sprint's proposed PUF**  
13 **concept; if Sprint was interconnected directly with those third parties, then the**  
14 **traffic would not have to transit AT&T's network to Sprint." Please discuss.**

15 A. I have already addressed this issue under Issue III.E(2) per a similar comment by  
16 Ms. Pellerin. To summarize, it is well established telecommunications policy, per  
17 the FCC's Calling Party's Network Pays principle, that the originating party is the  
18 cost causer. AT&T itself has supported the CPNP principle before other  
19 commissions. Further, it is the originating party that determines how its traffic is  
20 delivered to the terminating carrier. Mr. McPhee's statement completely turns the  
21 well-established CPNP principle upside-down.

1     **III.G – Sprint’s Pricing Sheet**

2

3     **III.G – Should Sprint’s proposed pricing sheet language be included in the ICA?**

4

5     **Q.    Please summarize Sprint’s position on this issue.**

6     A.    Yes, Sprint’s language identifies rates that currently (1) are unknown or to be  
7           determined (“TBD”), (2) should be a known or calculable amount, or (3) should  
8           have a stated traffic factor. Sprint’s offered negotiated Conversation MOU Usage  
9           Rates are appropriate to serve as Interim Rates until unknown or TBD rates are  
10          determined.

11

12    **Q.    On page 84, line 15 of her Direct Testimony, Ms. Pellerin attempts to describe**  
13       **Sprint’s pricing sheet. Please comment.**

14    A.    Ms. Pellerin makes Sprint’s pricing sheet appear to be complicated, when, in fact, it  
15           is quite simple. As discussed in Issue III.A(1) and (2), Sprint proposes a simple  
16           system in which all traffic is exchanged under a single arrangement, preferably the  
17           current Bill-and-Keep arrangement between Sprint and AT&T. If not Bill-and-  
18           Keep, the Authority must select a rate. The Authority’s choices include AT&T’s  
19           current reciprocal compensation rate of \$0.0007, or the Authority can establish new  
20           TELRIC-based rates, which, according to the AT&T FCC Letter, will be less than  
21           \$0.0007.

22

1 Under Sprint's proposal, only transit traffic which does not originate with AT&T's  
2 end-users would fall into another category, "Transit Service Traffic." The Transit  
3 Service Traffic rate should be either an interim rate of \$.00035 (*i.e.*, ½ of \$.0007),  
4 or a new TELRIC-based rate that should, according to the AT&T FCC Letter, be  
5 less than \$.00035.

6  
7 Existing "Jointly Provided Switched Access" (*i.e.*, traditional Telephone Toll  
8 Service traffic between Sprint CLEC customers and AT&T customers and services  
9 that each jointly provide to IXC's) is subject to existing tariffs and is not subject to  
10 pricing changes per this ICA.

11  
12 **Q. On page 84, line 20 of her Direct Testimony, Ms. Pellerin states: "Instead,**  
13 **Sprint proposes it be allowed to pay the lowest of various alternative rates, the**  
14 **majority of which are reflected as 'TBD,' 'None at this time,' or 'Unknown at**  
15 **this time.'" Please comment.**

16 **A.** As already discussed, Ms. Pellerin incorrectly portrays Sprint's pricing proposal as  
17 some sort of "pick and choose." In fact, Sprint proposes a single compensation  
18 arrangement for all non-Telephone Toll Service traffic between Sprint end-users  
19 and AT&T end users. The reason that many of Sprint's proposed prices are shown  
20 on the proposed price sheet as "TBD," "None at this time," or "Unknown at this  
21 time," is for the simple reason that the Sprint-AT&T negotiations did not progress  
22 far enough to establish specific pricing proposals.

1   **III.H – Facility Pricing**

2

3   **III.H(1) – Should Sprint be entitled to obtain from AT&T at cost-based (TELRIC)**

4       **rates under the ICAs facilities between Sprint’s switch and the POI?**

5

6   **Q.   Please summarize Sprint’s position on this issue.**

7   A.   Yes, Sprint should be entitled to obtain Interconnection Facilities between Sprint’s  
8       network and AT&T’s network at cost-based (TELRIC) rates. Consistent with the  
9       majority of federal Circuit Court of Appeals decisions, the facilities between a  
10      Sprint switch and a POI that link the Parties’ respective networks are the 47 U.S.C.  
11      § 252(c)(2) Interconnection Facilities that, pursuant to 47 U.S.C. § 251(d)(1), are  
12      subject to the TELRIC pricing standard.

13

14   **Q.   On page 86, line 8 of her Direct Testimony, Ms. Pellerin states: “... the**  
15       **transport facilities between Sprint’s switch location and the parties’ POI are**  
16       **‘entrance facilities,’ which are not subject to TELRIC-based pricing.” Please**  
17       **comment.**

18   A.   This a constant theme throughout AT&T’s testimony, which is addressed in my  
19       Direct Testimony, and in the Direct and Rebuttal Testimonies of Mr. Mark G.  
20       Felton. As discussed above under Issue III.E(1), AT&T’s definition of an  
21       “interconnection facility” is limited to little more than a few feet of cross-connect.

22

**III.H(2) – Should Sprint’s proposed language governing “Interconnection Facilities / Arrangements Rates and Charges” be included in the ICA?**

**Q. Please summarize Sprint’s position on this issue.**

A. Sprint’s proposed language governing “Interconnection Facilities / Arrangements Rates and Charges” will ensure that Sprint CMRS and Sprint CLEC are charged Interconnection services rates that are the lower of: a) TELRIC pricing; or b) any lower than TELRIC pricing that AT&T has offered another Telecommunications Carrier.

**Q. On page 87, line 4 of her Direct Testimony, Ms. Pellerin attempts to describe Sprint’s proposed pricing for interconnection facilities. Please comment.**

A. Here is yet another example of Ms. Pellerin presenting Sprint’s facility pricing proposal as being complicated, when, in fact, it is quite simple. Ms. Pellerin incorrectly portrays Sprint’s pricing proposal as some sort of “pick and choose.” In fact, Sprint proposes that facilities be priced at TELRIC. If an even lower rate has been made available to another carrier, Sprint expects that lower rate instead of TELRIC.

**III.H(3) – Should AT&T’s proposed language governing Interconnection pricing be included in the ICAs?**

**Q. Please summarize Sprint’s position on this issue.**



1 A. AT&T's proposed language governing Interconnection pricing should not be  
2 included in the ICAs. AT&T's pricing is contrary to the Act's Interconnection  
3 pricing standards. AT&T's refusal to offer TELRIC pricing to CMRS carriers and  
4 its CLEC pricing are based on an attempt to divide Interconnection Facilities into  
5 two pieces, an "Entrance Facility" and "Interconnection Facility," in order to limit  
6 its TELRIC-pricing obligations.

7  
8 **Q. Please summarize Ms. Pellerin's Direct Testimony on this issue.**

9 A. Ms. Pellerin's testimony on this issue repeats the constant theme throughout  
10 AT&T's testimony, which is addressed in my Direct Testimony, and in the Direct  
11 and Rebuttal Testimonies of Mr. Mark G. Felton. As discussed above under Issue  
12 III.E(1), AT&T's definition of an "interconnection facility" is limited to little more  
13 than a few feet of cross-connect, while three out of four federal appellate courts  
14 have held that the "interconnection facility" that AT&T must provide at TELRIC  
15 pricing extends from Sprint's switch to the POI.

16  
17 **III. SUMMARY AND CONCLUSION**

18  
19 **Q. Please Summarize your Rebuttal Testimony.**

20 A. The purpose of the Act is to promote competition and to prevent incumbent LECs  
21 from imposing onerous interconnection-related terms and conditions upon its  
22 competitors. Yet, this is exactly what AT&T is attempting to do in this arbitration.  
23 AT&T either cannot cite any FCC rules to support its positions, or mischaracterizes

1 the rules in such a manner as to completely thwart the pro-competitive intent of the  
2 Act.

3  
4 AT&T's position is that if a Sprint end-user calls AT&T, Sprint pays (which is  
5 appropriate per the FCC's Calling Party's Network Pays principle); however, if an  
6 AT&T end-user calls Sprint, Sprint also pays (*e.g.*, AT&T land-to-mobile  
7 originated InterMTA calls); and, if Sprint and AT&T share an interconnection  
8 facility, Sprint also pays (via commercial rate "entrance facility" rates, and the  
9 apportioning of third party originated transit costs to Sprint).

10  
11 Sprint requests that the Authority accept Sprint's position on each Issue as follows:

12  
13 **Issue I.C – Transit traffic related Issues:** AT&T is required to provide Transit  
14 Service at TELRIC-based prices. A reasonable interim rate is \$0.00035.

15  
16 **Issue III.A – Traffic categories and related compensation rates, terms, and**  
17 **conditions:** All Interconnection-related traffic should be exchanged between  
18 Sprint and AT&T upon terms and conditions that are mutually equitable and  
19 reasonable. All rates should be TELRIC-based.

20  
21 **Issue III.A.3 – CMRS ICA-specific, InterMTA traffic:** InterMTA traffic is not  
22 subject to switched access charges. All InterMTA traffic should be exchanged  
23 between Sprint and AT&T upon terms and conditions that are mutually equitable

1 and reasonable. Traffic factors should be based upon traffic studies which  
2 accurately identify the physical location of the wireless end user.

3  
4 **Issue III.E – Shared Facility Costs:** Interconnection facility costs should be  
5 shared between Sprint and AT&T based upon each party's proportionate usage.  
6 Transit traffic should be assigned to the party being compensated for that traffic by  
7 a third party originating carrier.

8  
9 **Issue III.G – Sprint Pricing Sheet:** Sprint's Pricing Sheet should be adopted.

10  
11 **Issue III.H – Facility Pricing:** Interconnection Facility prices should be TELRIC-  
12 based for the entire portion of the network that links a Sprint switch to an AT&T  
13 switch, rather than special access pricing applied to a "transport entrance facility"  
14 and TELRIC pricing only applied to what amounts to a cross-connect between such  
15 "transport entrance facility" and an AT&T switch.

16  
17 **Q. Does this conclude your Rebuttal Testimony?**

18 **A.** Yes, it does.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**Nashville, Tennessee**

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**In Re:**

<b>PETITION FOR ARBITRATION OF</b>	)	
<b>INTERCONNECTION AGREEMENT BETWEEN</b>	)	
<b>BELLSOUTH TELECOMMUNICATIONS, INC.</b>	)	<b>Docket No. 10-00042</b>
<b>D/B/A AT&amp;T TENNESSEE AND SPRINT</b>	)	
<b>SPECTRUM L.P., NEXTEL SOUTH CORP.,</b>	)	
<b>AND NPCR, INC. D/B/A NEXTEL PARTNERS</b>	)	

**And**

<b>PETITION FOR ARBITRATION OF</b>	)	
<b>INTERCONNECTION AGREEMENT BETWEEN</b>	)	
<b>BELLSOUTH TELECOMMUNICATIONS, INC.</b>	)	<b>Docket No. 10-00043</b>
<b>D/B/A AT&amp;T TENNESSEE AND SPRINT</b>	)	
<b>COMMUNICATIONS COMPANY L.P.</b>	)	

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**Sprint Spectrum L.P., Nextel South Corp.,  
NPCR, Inc. d/b/a Nextel Partners  
and  
Sprint Communications Company L.P.**

**Rebuttal Testimony**

**Of**

**Mark G. Felton  
Filed September 30, 2010**

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1 **REBUTTAL TESTIMONY**

2

3 **I. INTRODUCTION**

4

5 **Q. Please state your name and business address.**

6 A. My name is Mark G. Felton. My business address is 6330 Sprint Parkway,  
7 Overland Park, Kansas 66251.

8

9 **Q. Are you the same Mark G. Felton that submitted Direct Testimony in**  
10 **these proceedings on August 31, 2010?**

11 A. Yes.

12

13 **II. PURPOSE AND SCOPE OF TESTIMONY**

14

15 **Q. On whose behalf are you testifying?**

16 A. I am testifying in this proceeding on behalf of Sprint Spectrum L.P. ("Sprint  
17 PCS"), Nextel South Corp. and NPCR, Inc. (collectively "Nextel") and  
18 Sprint Communications Company L.P. ("Sprint CLEC"). Sprint PCS and  
19 Nextel may be collectively referred to as "Sprint wireless" or "Sprint  
20 CMRS". The Sprint wireless and Sprint CLEC entities may also be  
21 collectively referred to as "Sprint".

22

23 **Q. What is the purpose of your Rebuttal Testimony?**

1 A. The purpose of my Rebuttal Testimony is to provide input to the Tennessee  
2 Regulatory Authority (“Authority” or “TRA”) and respond to the Direct  
3 Testimony of AT&T witnesses Christensen (Issues IV.F.1, IV.F.2, and  
4 IV.G.2), Ferguson (Issues III.C, IV.A.(1), IV.A.(2), IV.B.(1), IV.B.(2),  
5 IV.B.(3), IV.B.(4), IV.B.(5), IV.C.(1), IV.C.(2), IV.D.(1), IV.D.(2),  
6 IV.D.(3), IV.E.(1), IV.E.(2), and IV.H), Hamiter (Issues II.C.(2), II.C.(3),  
7 II.D.(1), II.D.(2), II.F.(1), II.F.(2), II.F.(3), II.F.(4), II.G, II.H.(1), II.H.(2),  
8 II.H.(3)), McPhee (Issues III.A.1.(3), III.A.1.(4), III.A.1.(5), III.A.(2), and  
9 III.F), and Pellerin (Issues II.A, III.A.1.(1), III.A.1.(2), III.A.7.(1),  
10 III.A.7.(2), III.I.(1)(a), III.I.(1)(b), III.I.(2), III.I.(3), III.I.(4), and III.I.(5))  
11 concerning Sprint’s positions regarding various unresolved issues associated  
12 with the establishment of a new Interconnection agreement between Sprint  
13 wireless and AT&T, and a new Interconnection agreement between Sprint  
14 CLEC and AT&T.

15  
16 **III. ISSUES**  
17

18 **Section II. – How the Parties Interconnect**  
19

20 **Issue II.A Should the ICA distinguish between Entrance Facilities and**  
21 **Interconnection Facilities? If so, what is the distinction?**  
22



1   **Q.   Having read the Direct Testimony of AT&T Witness Pellerin, do you**  
2       **have any general comments regarding her assertions with respect to**  
3       **this issue?**

4   A.   Yes. First, I would like to provide the Authority with a clear understanding  
5       of what constitutes an “Interconnection Facility” and how that differs from  
6       an “Entrance Facility.” A great deal of Ms. Pellerin’s testimony focuses on  
7       Unbundled Network Elements (“UNEs”) and how the Triennial Review  
8       Remand Order (“TRRO”) altered an ILEC’s obligation to provide UNEs,  
9       including unbundled entrance facilities at cost-based rates. Indeed, much of  
10      what she asserts about UNEs in general and entrance facilities *as UNEs* is  
11      accurate, but it has little to do with the issue at hand. Ms. Pellerin’s lengthy  
12      discussion of UNEs, though educational, is irrelevant as to whether AT&T  
13      is obligated to provide Interconnection Facilities at cost-based rates<sup>1</sup>  
14      pursuant to Section 251(c)(2) of the Act. Whether intentional or not, Ms.  
15      Pellerin blurs the lines between UNEs and Interconnection Facilities and,  
16      thus, creates unnecessary confusion by improperly attempting to apply the  
17      Federal Communication Commission’s (“FCC”) rules with respect to UNEs  
18      that are provided under Section 251(c)(3) of the Act to Interconnection  
19      Facilities that are provided under Section 251(c)(2) of the Act.

20  
21   **Q.   Can you give a specific example of how Ms. Pellerin blurs the lines**  
22       **between UNEs and Interconnection Facilities?**

---

<sup>1</sup> I use the term “cost-based” to refer to Total Element Long Run Incremental Cost (“TELRIC”) throughout my Rebuttal Testimony.

1 A. Yes. In describing the facilities that are at issue,<sup>2</sup> Ms. Pellerin goes into a  
2 lengthy explanation of an entrance facility. Nothing in her description is  
3 particularly wrong. In fact, the “facility” she describes could be either an  
4 Unbundled Entrance Facility or an “Interconnection Facility.” Although  
5 there is no physical or technological difference between an Unbundled  
6 Entrance Facility and an Interconnection Facility, there is very different  
7 regulatory treatment from the FCC’s perspective, which I will go into later.  
8 Ms. Pellerin’s testimony ignores this disparate treatment and, thus,  
9 obfuscates this issue.

10  
11 **Q. How does AT&T define an “interconnection facility?”**

12 A. As I discuss in my Direct Testimony,<sup>3</sup> AT&T contends that a cross connect,  
13 the beginning and end of which will exist somewhere between an AT&T  
14 central office building’s front door and the Interconnected AT&T switch  
15 inside that building to which the cross-connect is “connected”, constitutes  
16 the Interconnection Facility. Ms. Pellerin supports this view by stringing  
17 together some relatively unrelated references in proceedings and the Federal  
18 regulations.

19  
20 **Q. Do you agree with Ms. Pellerin’s characterization that ¶ 140 of the**  
21 **TRRO is a “side comment”?**<sup>4</sup>

---

<sup>2</sup> Pellerin Direct, Page 18, Line 8 through Page 20, Line 9

<sup>3</sup> Felton Direct, Page 5, Lines 19-23.

<sup>4</sup> Pellerin Direct, Page 23, Lines 17-18.

1 A. No. Apparently, the FCC doesn't agree with her assessment either. In its  
2 amicus Brief filed in the Sixth Circuit court case, the FCC specifically  
3 states:

4 The FCC's statement in paragraph 140 was not a mere "explanatory  
5 comment" without legal force, as the district court apparently believed.  
6 Instead, it constituted an authoritative interpretation of the meaning of  
7 the FCC's unbundling rules and a description of the incumbent LECs'  
8 interconnection obligations with respect to these facilities.<sup>5</sup>  
9

10 **Q. Based on that, do you believe Ms. Pellerin's "interpretation" of the**  
11 **FCC's true intention in the TRRO is credible?**

12 A. No. After Ms. Pellerin dismisses what the FCC calls its "authoritative  
13 interpretation" of its own rule as a "side comment", she then goes on to  
14 offer her own interpretation of what the FCC really meant, by saying that  
15 the FCC couldn't take away TELRIC pricing with one hand and reinstate it  
16 with the other. Using that logic, she then concludes that the FCC must have  
17 meant that an interconnection facility consists of merely the low-cost,  
18 inconsequential facility within the AT&T central office – the "cross-  
19 connect." AT&T's motivation is clear – to shift as much cost as possible to  
20 requesting carriers.  
21

22 **Q. Ms. Pellerin goes on to discuss the four federal Circuit Court cases that**  
23 **address this issue. Do you agree with her assessment of those cases?**

24 A. No. I am not an attorney and will not attempt to offer a legal opinion here.

---

<sup>5</sup> "Brief for Amici Curiae Federal Communications Commission in Support of Defendants-Appellants and Reversal of the District Court" at p. 11, footnote 32, filed April 3, 2009 in *Michigan Bell Telephone v. Covad Communications Company, et al.*, Case No. 07-2469 & 07-2473 (6<sup>th</sup> Cir.), a copy of which is attached to my Direct Testimony as **Attachment MGF-1**.

1

2 **Q. On what do you base your disagreement with Ms. Pellerin's assessment**  
3 **of the four Circuit Court cases?**

4 A. I place great weight on the FCC's amicus brief filed in the Sixth Circuit  
5 Court case. I discussed the Sixth Circuit Court determination on this issue  
6 further in my Direct Testimony.

7

8 **Q. Ms. Pellerin relies heavily on the Sixth Circuit case and states that the**  
9 **Authority is "bound" to rule in AT&T's favor on this issue.<sup>6</sup> Is that**  
10 **true?**

11 A. I am not an attorney and will, therefore, not offer any legal opinion on what  
12 the Authority is "bound" to do. Sprint's attorneys will address such matters  
13 in briefs. The fact remains that three other Circuit Courts *and the FCC*  
14 disagree with AT&T's and the Sixth Circuit's position. In fact, the Ninth  
15 Circuit recently issued a revised Order specifically rejecting the reasoning  
16 advanced by AT&T *and* the Sixth Circuit.<sup>7</sup>

17

18 **Q. Ms. Pellerin's focus on the Sixth Circuit ignores what other Circuit**  
19 **Courts have ruled on this very same issue. What recent action did the**  
20 **Ninth Circuit take with respect to this issue?**

---

<sup>6</sup> Pellerin Direct, Page 24, Line 15 through Page 25, Line 2.

<sup>7</sup> *Pac. Bell Tel. Co. v. Cal. PUC*, Case Nos. 08-15568 and 08-15716, "Order and Amended Opinion", September 1, 2010 (9th Cir.), a copy of which is attached to this Rebuttal Testimony as Attachment MGF-2.

1 A. On September 1, 2010, the Ninth Circuit removed any doubt regarding its  
2 view of the Sixth Circuit decision in light of the fact that when it issued its  
3 “Order and Amended Opinion” it had only referred to the Seventh and the  
4 Eighth Circuit’s rejection of AT&T’s position. In its September 1 amended  
5 Opinion, the Ninth Circuit revised its earlier decision to also expressly reject  
6 the reasoning of AT&T *and the* Sixth Circuit decision, stating:

7 “Both the Seventh and the Eighth circuits recently rejected AT&T’s  
8 position, and have concluded that FCC regulations authorize state public  
9 utilities commissions to order incumbent LECs to lease entrance facilities  
10 to competitive LECs at regulated rates for the purpose of interconnection.  
11 *See Sw. Bell Tel., LP v. Mo. Pub. Serv. Comm’n*, 530 F.3d 676 (8th Cir.  
12 2008) (“*SWBT*”); *Ill. Bell Tel. Co. v. Box*, 526 F.3d 1069 (7th Cir. 2008)  
13 (“*Box P*”); *contra Michigan Bell Tel. Co. v. Lark*, 597 F.3d 370 (6th Cir.  
14 2010). For the reasons that follow, we agree with the Seventh and Eighth  
15 Circuits and reject the reasoning advanced by AT&T *and the Sixth Circuit*  
16 *in its recent 2-1 decision*.”<sup>8</sup> (Emphasis added).  
17

18 **Q. Please summarize your Rebuttal Testimony on this issue.**

19 A. Sprint encourages the Authority to not allow itself to be sidetracked by  
20 AT&T’s lengthy, yet irrelevant, discussion of unbundled entrance facilities  
21 and the FCC’s finding of non-impairment in the TRRO. As the FCC itself  
22 has stated, its finding of non-impairment with respect to a 251(c)(3)  
23 obligation has no effect upon an incumbent LEC’s obligation with respect to  
24 Section 251(c)(2) of the Act. The FCC has provided its own authoritative  
25 interpretation of an incumbent LEC’s obligation to provide interconnection  
26 facilities that extend between the parties’ respective networks at cost-based  
27 rates, and, notwithstanding the 2-1 split decision of a panel of the Sixth

---

<sup>8</sup> *Id.*, at 13163. .

1 Circuit on this issue, the right decision would be to acknowledge and affirm  
2 the FCC's prior pronouncement on this issue.

3  
4 **Q. What language does Sprint recommend the Authority adopt?**

5 A. Sprint recommends the Authority adopt the following definition of  
6 "Interconnection Facilities" and include such term within the ICA language  
7 that describes the "Methods of Interconnection":

8  
9 **"Interconnection Facilities"** means those Facilities that are used to  
10 deliver Authorized Services traffic between a given Sprint Central  
11 Office Switch, or such Sprint Central Office Switch's point of  
12 presence in an MTA or LATA, as applicable, and either a) a POI on  
13 the AT&T-9STATE network to which such Sprint Central Office  
14 Switch is Interconnected or, b) in the case of Sprint-originated Transit  
15 Services Traffic, the POI at which AT&T-9STATE hands off Sprint  
16 originated traffic to a Third Party that is indirectly interconnected with  
17 the Sprint Central Office Switch via AT&T-9STATE.  
18

19 Methods of Interconnection. Sprint may request, and AT&T will  
20 accept and provide, Interconnection using any one or more of the  
21 following Network Interconnection Methods (NIMs): (1) purchase of  
22 ***Interconnection Facilities by one Party from the other Party, or by***  
23 ***one Party*** from a Third Party; (2) Physical Collocation  
24 Interconnection; (3) Virtual Collocation Interconnection; (4) Fiber  
25 Meet Interconnection; (5) other methods resulting from a Sprint  
26 request made pursuant to the Bona Fide Request process set forth in  
27 the General Terms and Conditions – Part A of this Agreement; and (6)  
28 any other methods as mutually agreed to by the Parties. [FOR CMRS  
29 ONLY] In addition to the foregoing, when Interconnecting in its  
30 capacity as an FCC licensed wireless provider, Sprint may also  
31 purchase as a NIM under this Agreement Type 1, Type 2A and Type  
32 2B Interconnection arrangements described in AT&T-9STATE's  
33 General Subscriber Services Tariff, Section A35, which shall be  
34 provided by AT&T-9STATE's at the rates, terms and conditions set  
35 forth in this Agreement.  
36

1    **Issue II.C – 911 Trunking**

2           **Issue II.C(1) – Should Sprint be required to maintain 911 trunks on**  
3           **AT&T’s network when Sprint is no longer using them?**

4  
5    **Q.   Do you have any Rebuttal Testimony for this Issue?**

6    A.   No. My Direct Testimony sufficiently addresses this issue. In addition, I  
7           did not identify any AT&T Direct Testimony from any of the AT&T  
8           witnesses regarding this issue.

9  
10   **Issue II.C(2) – Should the ICA include Sprint’s proposed language**  
11           **permitting Sprint to send wireline and wireless 911 traffic over the**  
12           **same 911 Trunk Group when a PSAP is capable of receiving**  
13           **commingled traffic?**

14  
15   **Q.   What is the status of this issue?**

16   A.   The parties have continued to discuss this issue and I believe are near  
17           resolution. I will nevertheless offer my rebuttal of AT&T witness Hamiter’s  
18           Direct Testimony for consideration by the Authority in the event the parties  
19           are unable to reach voluntary resolution.

20  
21   **Q.   In reading AT&T witness Hamiter’s Direct Testimony, how would you**  
22           **describe the arguments against Sprint’s position on this issue that he**  
23           **puts forth?**

1 A. Mr. Hamiter's Direct Testimony would lead one to believe that AT&T is  
2 responsible for the integrity of Sprint's network.

3

4 **Q. Why do you say that?**

5 A. Mr. Hamiter's Direct Testimony indicates that AT&T's primary concern is  
6 that combining wireless and wireline emergency services traffic on the same  
7 911 trunk may inhibit the PSAP's ability to obtain the information necessary  
8 to respond to the emergency call.<sup>9</sup>

9

10 **Q. Is AT&T's concern valid?**

11 A. No, but, even if it was a valid concern, it is not AT&T's concern. Rather, it  
12 is a matter between Sprint, the Authority, and Sprint's customers. However,  
13 if AT&T's concern is genuine, Sprint would welcome AT&T's participation  
14 in joint testing to ensure all emergency services calls are routed properly and  
15 contain all of the information necessary for a prompt and accurate response  
16 from emergency responders.

17

18 **Q. Do you believe AT&T's concern is genuine?**

19 A. It is hard for me to tell. It seems that AT&T, rather than assisting Sprint  
20 with a solution that could benefit Sprint and the public good (by reducing  
21 the number of trunks to the PSAP), has only been able to manufacture  
22 reasons why Sprint *cannot* pursue a solution that may reduce costs.

---

<sup>9</sup> Hamiter Direct, pages 12-13.



1

2   **Q.   If there were a network problem on the Sprint 911 network or there**  
3       **was a need to trace a call made by a Sprint customer (whether that call**  
4       **be a wireline or wireless call) on a 911 trunk ordered by Sprint, who**  
5       **would be responsible to perform that function?**

6   A.   Sprint is responsible for its 911 network. Sprint has network engineers that  
7       monitor its networks 24 hours a day, 7 days a week. Sprint would isolate  
8       the network problem and perform any call traces for law enforcement. To  
9       the extent AT&T needed to be involved in this effort, Sprint would work  
10      collaboratively with AT&T to ensure that end user customer's emergency  
11      needs are met.

12

13   **Q.   Who is responsible for monitoring capacity and ensuring that 911 calls**  
14       **route correctly and are successfully completed on Sprint's 911**  
15       **network?**

16   A.   Sprint is responsible for monitoring capacity, ensuring that calls route  
17       correctly, and ensuring that 911 calls are successfully completed.

18

19   **Q.   Would the commingling of wireline and wireless traffic on 911 trunks**  
20       **ordered and monitored by Sprint prevent Sprint from isolating a**  
21       **network problem performing call traces for law enforcement?**

22   A.   No.

23

1 **Q. Mr. Hamiter seems concerned that Sprint's language "when the**  
2 **appropriate Public Safety Answering Point is capable of**  
3 **accommodating this commingled traffic" leaves wiggle room for Sprint**  
4 **to unilaterally implement commingling without the appropriate PSAP's**  
5 **concurrence.<sup>10</sup> What is Sprint's intention by including this language?**

6 A. Clearly, Sprint intended that the appropriate PSAPs "capability" would be  
7 demonstrable through testing between Sprint and the PSAP. As I stated  
8 earlier, Sprint welcomes AT&T's cooperation in such testing if AT&T is  
9 genuinely concerned with ensuring Sprint's solution meets all public safety  
10 requirements.

11  
12 **Q. Do you have any other information that supports the use of common**  
13 **trunks for multiple types of emergency services traffic?**

14 A. Yes. The National Emergency Number Administration ("NENA") has  
15 considered the impacts of the proposal Sprint espouses here and published  
16 its findings in a Technical Information Document ("TID"). I have attached  
17 the NENA TID to my Rebuttal Testimony as Attachment MGF-4.

18  
19 **Q. Is there anything in the NENA TID that would suggest Sprint should**  
20 **not be able to combine multiple types of emergency services traffic from**  
21 **various carriers onto a single 911 trunk?**

22 A. No.

---

<sup>10</sup> Hamiter Direct, Page 13, Lines 19-24.

1

2 **Q. What language does Sprint propose that the Authority adopt for the**  
3 **ICA?**

4 A. Sprint requests that the Authority order the parties to incorporate the  
5 following language into the ICA, which includes the concept of conditional  
6 use of commingled wireless/wireline traffic when a PSAP is capable of  
7 handling commingled traffic:

8 This Attachment sets forth terms and conditions by which AT&T-  
9 9STATE will provide Sprint with access to AT&T-9STATE's 911 and  
10 E911 Databases and provide Interconnection and Call Routing for the  
11 purpose of 911 call completion to a Public Safety Answering Point  
12 (PSAP) as required by Section 251 of the Act. Sprint is permitted to  
13 commingle wireless and wireline 911 traffic on the same trunks (DSOs)  
14 when the appropriate Public Safety Answering Point is capable of  
15 accommodating this commingled traffic.  
16

17 **Issue II.C(3) – Should the ICA include AT&T's proposed language**  
18 **providing that the trunking requirements in the 911 Attachment apply**  
19 **only to 911 traffic originating from the Parties' End Users?**

20

21 **Q. Do you believe the parties have a legitimate dispute on this issue?**

22 A. Yes. After reading AT&T's testimony in other jurisdictions, I believed this  
23 may just be simple misunderstanding. Now it is clear that AT&T's  
24 proposed insertion to Section 1.2 of the CLEC ICA and Section 1.1 of the  
25 CMRS ICA is intended to prevent any commingling of E911 traffic by  
26 Sprint.  
27

1    **Q.    So, in its very essence, is this issue the same as Issue II.C.(2) above?**

2    A.    Yes. The effect of AT&T's proposed language is to prevent Sprint from  
3           commingling emergency services traffic on a single 911 trunk.

4  
5    **Q.    Does Sprint intend to commingle emergency services traffic from**  
6           **unaffiliated entities?**

7    A.    Sprint does not have current plans to commingle emergency services from  
8           other, unaffiliated carriers but there is no reason why Sprint should not be  
9           able to do so in the future if the appropriate PSAP is capable of effectively  
10          routing the traffic. From that perspective, this issue is no different from  
11          Issue II.C.(2) above.

12  
13   **Q.    Specifically, what is Sprint's issue with AT&T's proposed language?**

14   A.    Sprint objects to the insertion of the words "solely" and "Sprint" into  
15          AT&T's original language from its template ICA. The language is as  
16          follows (I have shown the AT&T proposed additions in **bold underline** for  
17          clarity):

18               1.2 This Attachment sets forth terms and conditions by which AT&T-  
19               9STATE will provide Sprint with access to AT&T-9STATE's 911 and  
20               E911 Databases and provide Interconnection and Call Routing **solely** for  
21               the purpose of **Sprint** 911 call completion to a Public Safety Answering  
22               Point (PSAP) as required by Section 251 of the Act.  
23

24   **Q.    How could the addition of two words be such a major problem for**  
25          **Sprint?**

1 A. Based upon AT&T's objection to Sprint's ability to commingle wireless and  
2 wireline 911 traffic on the same 911 trunk and the definition of "Sprint"  
3 within each of the ICAs, AT&T will apply the language in Section 1.2  
4 above (as it proposes to modify) to deny Sprint the right to commingle  
5 wireless and wireline 911 traffic on a single 911 trunk, regardless of the  
6 Authority's determination on Issue II.C(2).

7  
8 **Q. Is there other relevant information the Commission should consider**  
9 **with respect to this issue?**

10 A. Yes. The NENA TID that I discussed in Issue II.C(2) is relevant to this  
11 issue as well. It is attached to my Rebuttal Testimony as Attachment MGF-  
12 4.

13

14 **Q. What is Sprint's proposed language?**

15 A. Sprint's proposed language for this issue is the same language as included in  
16 Issue II.C(2) above.

17

18 **Issue II.D – Points of Interconnection**

19

20 **Issue II.D(1) – Should Sprint be obligated to establish additional Points**  
21 **of Interconnection (POI) when its traffic to an AT&T tandem serving**  
22 **area exceeds 24 DS1s for three consecutive months?**

23

1   **Q.   Mr. Hamiter stated in his testimony that AT&T has proposed that in**  
2       **order to maintain network reliability, Sprint should be required to**  
3       **establish one or more additional POIs.<sup>11</sup> Who is responsible for**  
4       **ensuring Sprint’s network reliability?**

5   A.   Sprint is responsible for ensuring its network reliability. Sprint is a large,  
6       stable carrier, with extensive experience in managing wireless and wireline  
7       networks and will do what is necessary to manage its network to the highest  
8       standards. Besides that, the FCC clearly supports the “single POI per  
9       LATA” rule as I clearly demonstrated in my Direct Testimony. Therefore,  
10      it is not AT&T’s prerogative to pre-determine a threshold for Sprint to  
11      establish additional POIs in a particular LATA.

12  
13   **Q.   Have the parties agreed upon language that addresses network**  
14      **management that prevents network congestion and call blocking?**

15   A.   Yes. Sprint has agreed to language in Attachment 3, of both the CLEC and  
16      Wireless agreements that states: “The Parties will work cooperatively to  
17      apply sound network management principles by invoking appropriate network  
18      management controls to alleviate or prevent network congestion.” This  
19      includes preventing call blocking.

20  
21   **Q.   Does the goal of preventing call blocking sometimes require that a**  
22      **CLEC establish more than one POI per LATA?**

---

<sup>11</sup> Hamiter Direct, page 15, lines 11-12.

1 A. Possibly. However, it is Sprint's prerogative to determine the design of its  
2 network and when it is most economical to increase the number, or change  
3 the locations, of existing POIs. Sprint is capable of designing its own  
4 network – it has done so successfully for years. The FCC instituted the  
5 “single POI per LATA” rule presumably to prevent an ILEC, such as  
6 AT&T, from intervening in the network design decisions of a requesting  
7 carrier, such as Sprint, and, by preventing such intervention, from increasing  
8 a competitor's costs by requiring the deployment of costly, unneeded  
9 facilities by the requesting carrier.

10  
11 **Q. Mr. Hamiter agrees with you that there is no federal law that prescribes**  
12 **a threshold at which additional POIs should be established. Has the**  
13 **FCC altered its position that the CLEC is entitled to establish a single**  
14 **POI per LATA?**

15 A. No. Mr. Hamiter states that the FCC has signaled on several occasions its  
16 view that a requesting carrier is entitled to a single POI. In my Direct  
17 Testimony, I referred to the Single POI per LATA.<sup>12</sup> I know of no change  
18 in the FCC's position on this issue.

19  

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<sup>12</sup> *In the Matter of Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, FCC 01-132, 16 FCC Rcd 9610, 9634-9635, 9650-9651 (April 19, 2001).

1 **Q. Mr. Hamiter suggests that the FCC has questioned whether the single**  
2 **POI rationale applies where we are no longer dealing with a truly “new**  
3 **entrant.”<sup>13</sup> Can you comment on this?**

4 A. Mr. Hamiter refers to the Intercarrier Compensation NPRM. The FCC  
5 considered multiple issues and sought comments in the Intercarrier  
6 Compensation NPRM, but it has not reached any conclusion and has made  
7 no changes to the law. In fact, when the FCC issued its Order and Further  
8 NPRM on USF,<sup>14</sup> the FCC contemplated a regime in which the point of  
9 interconnection would be at the edge of the carriers’ network and there would  
10 be no requirement for an interconnecting carrier to establish additional  
11 physical points of interconnection. The FCC did not make a distinction for  
12 new entrants. The FCC has also explicitly stated: “Under the Commission’s  
13 rules, competitive LECs may request interconnection at any technically  
14 feasible point. This includes the right to request a single point of

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<sup>13</sup> Hamiter Direct, Page 16, Line 19 through Page 17, Line 7.

<sup>14</sup>*In the Matter of High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Service*, WC Docket No. 05-337; CC Docket No. 96-45; WC Docket No. 03-109; WC Docket No. 06-122; CC Docket No. 99-200; CC Docket No. 96-98; CC Docket No. 01-92; CC Docket No. 99-68; WC Docket No. 04-36, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, 24 FCC Rcd 6475, 6619-6620, Appendix A ¶275, Released Nov. 5, 2008. (“Following the transition, once carriers are charging the final uniform reciprocal compensation rate, we establish the following default rules regarding the network “edge.” These default rules would not require changes to physical points of interconnection, but would simply define functions governed by a uniform terminating rate.”) (citations omitted).



1 interconnection in a LATA.”<sup>15</sup> The United States Courts of Appeals for the  
2 Third and Ninth Circuits have also explicitly ruled that a CLEC has the right  
3 to establish a single POI per LATA for the mutual exchange of  
4 telecommunications traffic.<sup>16</sup> AT&T cannot force Sprint to establish more  
5 than one POI.

6  
7 **Q. Mr. Hamiter’s argument is based upon the risk associated with a single**  
8 **point of failure in the network. Even if Sprint establishes more than one**  
9 **POI with AT&T, are there other single points of failure within the**  
10 **network?**

11 A. Certainly. Very few end-users have more than one loop from the central  
12 office switch to its premises. For obvious reasons, a single loop represents a  
13 single point of failure for a particular end-user.

14  
15 **Q. If Sprint establishes a single POI with AT&T, are there other ways for**  
16 **Sprint to deliver its traffic to AT&T?**

---

<sup>15</sup> Memorandum Opinion and Order, In the Matter of the Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration, CC Docket No. 00-218; In the Matter of Cox Virginia Telecom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc. and for Arbitration, CC Docket No. 00-249; In the Matter of the Petition of AT&T Communications of Virginia Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., CC Docket No. 002-51 (DA 02-1731) (Rel. July 17, 2002).

<sup>16</sup> See, e.g., *MCI Telecommunications Corp. v Bell Atlantic-Pennsylvania*, 271 F.3d 491 (3<sup>rd</sup> Cir. Nov. 2 2001)

1 A. Yes. Sprint may use any of a number of other alternate access vendors to  
2 deliver its traffic to AT&T. AT&T would certainly also have this alternative  
3 available to it.

4  
5 **Q. Why is AT&T proposing that Sprint establish more than one POI?**

6 A. This seems to be an overt attempt by AT&T to advantage itself (with  
7 increased interconnection facility revenue) at the expense of the requesting  
8 carrier.

9  
10 **Q. Does Sprint increase the risk of network outages and isolation if it**  
11 **retains a single POI because the single POI becomes a single point of**  
12 **failure if Sprint has large volumes of traffic passing through the POI?**

13 A. Whether a carrier has a single POI is traffic insensitive. The risk of network  
14 outages exists for any carrier, and traffic volumes are not necessarily a  
15 determining factor. Whether a carrier originates one minute or one million  
16 minutes has no bearing on whether a single POI represents a single point of  
17 failure in the network.

18  
19 **Q. Then shouldn't a carrier establish more than one POI in each LATA**  
20 **from the very inauguration of its service offering?**

21 A. According to AT&T's logic, yes. However, as I have discussed, this is not  
22 the requirement of the FCC and should be roundly rejected by the Authority.

23

1 Q. **If a catastrophic event that Mr. Hamiter suggests were to occur, would**  
2 **Sprint lose all ability to exchange calls with AT&T?**

3 A. Not necessarily. If a catastrophic event such as Mr. Hamiter suggests were to  
4 occur, Sprint would invoke disaster contingency plans and use any necessary  
5 means to ensure that its network was up and running as quickly as possible,  
6 just as AT&T would. It is Sprint's responsibility and right to decide how its  
7 network is designed, where its POI is located on the AT&T network, and  
8 whether it establishes one POI or multiple POIs. Like AT&T, Sprint has a  
9 network organization that is responsible for designing, maintaining, and  
10 protecting Sprint's network. AT&T has no right or obligation to engineer  
11 Sprint's network for Sprint.

12

13 Q. **Mr. Hamiter mentions that the Kentucky Public Service Commission**  
14 **("KPSC") has ruled on a similar issue. How do you respond?**

15 A. I assume Mr. Hamiter mentions the two KPSC orders because he believes  
16 they come closest to supporting AT&T's position, however, he does not  
17 present an accurate picture of what the KPSC actually did.

18

19 Q. **How so?**

20 A. Mr. Hamiter implies that the KPSC ordered the parties to the arbitrations he  
21 cites to adopt a DS3 threshold for the establishment of additional POIs.  
22 However, the two KPSC orders Mr. Hamiter cites rely, in turn, on two earlier  
23 2001 KPSC orders from the same Level 3 arbitration with AT&T for the

1 proposition that a requesting carrier is “required to establish another POI”  
2 when the amount of traffic that it delivers to an interconnected ILEC tandem  
3 reaches a DS3 level of traffic. It is Sprint’s position that a careful reading  
4 of the Level 3 orders indicates that, in the absence of agreement between the  
5 parties, the KPSC ordered the establishment of an additional POI if the  
6 “amount of traffic passing through a BellSouth access tandem switch reaches  
7 an OC-3 level”<sup>17</sup>; and, following this order, the parties subsequently  
8 submitted a “*negotiated agreement*” in which “the parties agree[d] that a DS-  
9 3 level would be more appropriate.”<sup>18</sup>

10  
11 **Q. Have Sprint and AT&T agreed to establish additional POIs within a**  
12 **LATA at a threshold lower than an OC3?**

13 A. No. There is no agreement between Sprint and AT&T to establish additional  
14 POIs at any threshold. The overriding fact remains that the FCC’s  
15 pronouncements on this issue do not impose any threshold on Sprint’s right  
16 to maintain single POI per LATA.

17  
18 **Q. Has the Authority considered the one POI per LATA issue before?**

---

<sup>17</sup> See *In the Matter of: The Petition of Level 3 Communications, LLC for Arbitration with BellSouth Telecommunications, Inc. Pursuant to Section 252(b) of the Telecommunications Act of 1934, as amended by the Telecommunications Act of 1996*, Case No. 2000-404 (Order dated March 14, 2001) at pp. 2-3.

<sup>18</sup> *Id.*, (Order dated April 23, 2001) at pp. 1-2.

1 A. Yes, on at least one other occasion. In an arbitration between Sprint and  
2 BellSouth,<sup>19</sup> the TRA found that Sprint was indeed entitled to designate one  
3 per LATA and was not obligated to establish more than one.  
4

5 **Q. Please summarize your Rebuttal Testimony for this issue.**

6 A. AT&T's witness Hamiter presents many good ideas on telecommunication  
7 network management – many that may well be employed by Sprint and any  
8 other interconnecting carrier in the management of their respective networks.  
9 While much of Mr. Hamiter's Direct Testimony represents sound network  
10 engineering principles, the FCC does not permit an incumbent LEC such as  
11 AT&T to impose its network engineering principles as a contractual  
12 requirement upon a requesting carrier such as Sprint. Therefore, the  
13 Authority should reject AT&T's proposed thresholds for the establishment of  
14 POIs.  
15

16 **Q. What language does Sprint request the Authority order for this issue?**

17 A. Sprint proposes the following language:  
18 Point(s) of Interconnection. The Parties will establish reciprocal  
19 connectivity to at least one AT&T-9STATE Tandem within each LATA  
20 that Sprint provides service. Notwithstanding the foregoing, Sprint may  
21 elect to Interconnect at any additional Technically Feasible Point(s) of  
22 Interconnection on the AT&T network.  
23

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<sup>19</sup> *Petition By Sprint Communications Company L.P. For Arbitration of Interconnection With BellSouth Telecommunications, Inc. Under The Telecommunications Act of 1996*, Final Order of Arbitration Awards, TRA Docket No. 96-01411, pp. 9-11 (Mar. 26, 1997).

1       **Issue II.D(2) – Should the CLEC ICA include AT&T’s proposed**  
2       **additional language governing POIs?**

3  
4       **Q. Do you have any general response to Mr. Hamiter’s Direct Testimony**  
5       **on this issue?**

6       A. Yes. Mr. Hamiter’s Direct Testimony is much more detailed than my own,  
7       just as AT&T’s proposed language is much more detailed than Sprint’s. In  
8       my Direct Testimony, I addressed the major points of contention between  
9       the parties but did not do a section-by-section analysis of AT&T’s proposed  
10      language. Here I will respond to Mr. Hamiter’s section-by-section analysis.

11  
12      **Q. Mr. Hamiter states that Sprint disagrees with AT&T’s proposed**  
13      **language requiring each party to “be responsible for engineering and**  
14      **maintaining the network on its side of the Point of Interconnection.”<sup>20</sup>**  
15      **Is that true? If so, why?**

16      A. Yes. On its face, the language appears to be rather benign, but, in reading  
17      Mr. Hamiter’s Direct Testimony, one can see that AT&T’s intention goes  
18      beyond what the language actually says. Hence, Sprint primarily objects to  
19      AT&T’s apparent intent behind this language. Mr. Hamiter goes on to say  
20      that the engineering and maintenance responsibility also includes “financial”  
21      responsibility. However, as addressed by Sprint witness Farrar, the financial  
22      responsibility for the interconnection facility between the parties should be

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<sup>20</sup> Hamiter Direct, Page 28, Lines 4-6.

1 shared based upon each party's proportionate use of that facility. AT&T's  
2 proposed language here would have Sprint bear the entire cost of that  
3 facility.

4  
5 **Q. Aside from the financial aspect of AT&T's language, does Sprint have**  
6 **any other objections?**

7 A. Yes. Sprint believes that the parties also have joint responsibility to  
8 engineer and maintain the interconnection facility. If the interconnection  
9 facility were a one-way facility used exclusively to deliver Sprint's  
10 originated traffic to AT&T, then Sprint would have engineering,  
11 maintenance, *and* financial responsibility for that facility. AT&T would  
12 likewise have engineering, maintenance, *and* financial responsibility for any  
13 one-way facility used to deliver AT&T's originated traffic to Sprint. In  
14 effect, AT&T will have established a POI on Sprint's network for the  
15 delivery of its originated traffic. It follows, then, that in a two-way  
16 interconnection trunking environment, there exist two POIs connected by an  
17 interconnection facility, whose cost is shared between the parties based upon  
18 proportionate use of the facility.

19  
20 **Q. Have the parties articulated this so-called two-POI concept in the**  
21 **proposed agreement?**

22 A. No.

1   **Q.   If the parties were to incorporate the two-POI concept in the**  
2       **agreement, would AT&T's proposed language then be acceptable to**  
3       **Sprint?**

4   A.   No. The language would need to be adjusted to recognize the joint  
5       responsibility for the interconnection facility.  
6

7   **Q.   And Section 2.6.2.4?**<sup>21</sup>

8   A.   Section 2.6.2.4 would also need to be modified to account for the joint  
9       engineering and maintenance responsibilities of the parties for two-way  
10      interconnection facilities.  
11

12   **Q.   Why does Sprint object to AT&T's excessively detailed language**  
13       **requiring certain forms be completed when the parties interconnect as**  
14       **required by Section 2.6.2.1?**<sup>22</sup>

15   A.   Operational documents – not interconnection agreements – are the  
16       appropriate place to include detailed operational language. AT&T and  
17       Sprint have worked cooperatively for many years in establishing  
18       interconnection arrangements, including the completion of necessary forms  
19       and participation in joint planning meetings. The excessive detail proposed  
20       by AT&T is unnecessary for an ICA. Having said that, Sprint will continue  
21       to cooperate with AT&T to establish interconnection arrangements as

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<sup>21</sup> Hamiter Direct, Page 30, Lines 9-17.

<sup>22</sup> Hamiter Direct, Page 30, Line 18 through Page 31, Line 11.



1 necessary, and does not necessarily oppose ICA provision that states as  
2 much.

3

4 **Q. How about Sections 2.6.2.2, 2.6.2.3, and 2.6.4?<sup>23</sup>**

5 A. Although unnecessary for an ICA, Sprint does not object to these provisions.

6

7 **Q. Next, Mr. Hamiter addresses Section 2.6.5, which deals with OS/DA,**  
8 **E911, mass calling, and third party trunks.<sup>24</sup> Does Sprint object to**  
9 **that?**

10 A. Yes, but only as it relates to mass calling and third party trunks Sprint and  
11 AT&T have profound philosophical differences on the responsibility to be  
12 borne for mass calling and third party trunks.

13

14 **Q. What is Sprint's perspective with respect to third party trunks?**

15 A. Separate third party trunks are unnecessary. Sprint and AT&T have used  
16 "supergroup" trunks for years for the exchange of third party traffic. There  
17 is absolutely no reason why the parties cannot continue to use two-way  
18 interconnection trunks for the exchange third party traffic. AT&T's  
19 requirement for a separate trunk seems to be an attempt to maximize  
20 revenue at Sprint's expense. Moreover, AT&T receives compensation in  
21 the form of transit fees from third parties that originate traffic destined for

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<sup>23</sup> Hamiter Direct, Page 31, Line 14 through Page 32, Line 19

<sup>24</sup> Hamiter Direct, Page 32, Line 21 through Page 33, Line 27.

1 termination on the Sprint network. It would be inappropriate for Sprint to  
2 bear the proportion of the cost of the facility AT&T uses to get third-party  
3 traffic to Sprint.

4  
5 **Q. What about mass calling trunks?**

6 A. As I discuss in Issue II.H(1), to the extent AT&T's end-user conducts a  
7 mass calling event, it is AT&T, not Sprint, that is the cost causer and,  
8 therefore, AT&T should bear the cost of the mass calling trunks. Through  
9 its proposed language, AT&T seeks to inappropriately shift that cost to  
10 AT&T. AT&T posits that, since Sprint's customers originate calls to mass  
11 calling numbers, Sprint is the cost-causer. I disagree with that theory. It is  
12 the customer with the mass calling number that creates the incentive for  
13 callers to call in (e.g., to win a prize, etc.). But for the existence of the mass  
14 calling event, incremental mass calling trunks would be unnecessary.  
15 Therefore, it follows that the service provider of the customer with the mass  
16 calling number/event should bear the costs of the incremental trunks  
17 necessary to ensure the integrity of the remainder of the PSTN.

1

2 **Q. What resolution does Sprint propose for this issue?**

3 A. Sprint believes that its language proposed in Issue II.D(1) above is the  
4 appropriate language under the Act and the FCC's rules to govern the  
5 establishment of POIs between the parties and requests the TRA to reject the  
6 balance of AT&T's language.

7

8 **Issue II.F – Facility/Trunking Provisions**

9

10 **Issue II.F(1) – Should Sprint CLEC be required to establish one-way**  
11 **trunks except where the parties agree to establish two-way trunking?**

12

13 **Q. Mr. Hamiter reports in his Direct Testimony that he believes the parties**  
14 **may be able to resolve this issue.<sup>25</sup> Do you agree with his assessment?**

15 A. Yes. The parties have continued to discuss this issue and AT&T has offered  
16 to remove the portions of its proposed language to which Sprint objected.

17

18 **Q. Does that then resolve the issue?**

19 A. No.

20

21 **Q. Why not?**

---

<sup>25</sup> Hamiter Direct, Page 34, Lines 10-15.

1 A. Sprint has proposed language (consistent with what it proposed in the  
2 CMRS ICA and that AT&T accepted), which AT&T has not yet accepted or  
3 provided any reason for its rejection. That language is as follows:

4 2.5.1 Directionality and Conformance Standards. Interconnection  
5 Facilities/Trunking will be established as two-way Facilities/Trunking  
6 except a) where it is not Technically Feasible for AT&T-9STATE to  
7 provide the requested Facilities as two-way Facilities /Trunking, or b)  
8 where Sprint requests the use of one-way Facilities/Trunking.  
9

10 If AT&T accepts Sprint's proposed language indicated above, the parties  
11 may be able to close this issue without Authority intervention. As of the  
12 preparation of this Testimony, AT&T has indicated it will accept Sprint's  
13 proposed Section 2.5.1 above. Upon confirmation of that fact, I believe this  
14 issue will be resolved.  
15

16 **Q. So, Sprint doesn't object to AT&T's concept of "administrative**  
17 **control" for ordering interconnection facilities?**

18 A. No, not in and of itself. I believe the parties have operated for years using  
19 the concept of administrative control contained in AT&T witness Hamiter's  
20 Direct Testimony, even though specific language was never incorporated  
21 into the existing ICA.

1  
2 **Issue II.F(2) – What Facilities/Trunking provisions should be included**  
3 **in the CLEC ICA, e.g., Access Tandem Trunking, Local Tandem**  
4 **Trunking, Third Party Trunking?**  
5

6 **Q. Do you have any Rebuttal Testimony to AT&T witness Hamiter's**  
7 **Direct Testimony on this issue?<sup>26</sup>**

8 A. Yes. Mr. Hamiter perpetuates AT&T's confusing concept of the difference  
9 between trunks and facilities in an effort to summarily dismiss Sprint's  
10 objections to AT&T's proposed trunking language. Sprint understands that  
11 trunks are simply channelized facilities and that, in reality, anytime AT&T  
12 requires a trunking arrangement be established, facilities must be procured  
13 as the basis for the required trunk group. Apparently, AT&T would like for  
14 the Authority to believe that a facility/trunking requirement has nothing to  
15 do with the establishment of additional POIs, but it does. Requiring Sprint  
16 to establish additional trunking at an AT&T tandem or end office is  
17 synonymous with establishing an additional POI.  
18

19 **Q. So, when Mr. Hamiter says AT&T's proposal does not create cost**  
20 **shifts, do you agree?<sup>27</sup>**

---

<sup>26</sup> Hamiter Direct, Pages 36-38.

<sup>27</sup> Hamiter Direct, Page 37, Lines 16-17.

1 A. No. AT&T's proposal requiring Sprint to establish additional trunking (i.e.,  
2 establish additional POIs) militates against the FCC's "single POI per  
3 LATA" concept and, in effect, shifts AT&T's network cost of terminating  
4 Sprint-originated traffic to Sprint.

5

6 **Issue II.F(3) – Should the parties use the Trunk Group Service Request**  
7 **for to request changes in trunking?**

8

9 **Q. Mr. Hamiter states that he believes this issue is resolved.<sup>28</sup> Do you**  
10 **agree?**

11 A. Yes. As I reported in my Direct Testimony, the parties have resolved this  
12 issue.

13

14 **Issue II.F(4) – Should the CLEC ICA contain terms for AT&T's Toll**  
15 **Free Database in the event Sprint uses it and what those terms?**

16

17 **Q. Does the language that Sprint has proposed lack the specificity that is**  
18 **needed to define how the network architecture between AT&T and**  
19 **Sprint should look in order to properly originate and terminate traffic?**

20 A. No. Sprint's proposed language represents the right balance between  
21 generality and specificity. Clearly, AT&T prefers a very restrictive  
22 approach containing extreme amounts of detail better left for joint

---

<sup>28</sup> Hamiter Direct, Page 39, Lines 5-8.

1 operational discussions between the parties' engineers. Though the existing  
2 ICA does not contain AT&T's preferred level of detail, the parties have  
3 successfully interconnected their networks for over a decade, therefore, it is  
4 not clear here why AT&T objects to Sprint's language.  
5

6 **Q. Should language be included in the ICA for 800/8YY Toll Free Service?**

7 A. No. There is no need to include language for 800/8YY Toll Free Service, as  
8 Sprint does not use this service today. That being said, as I stated in my  
9 Direct Testimony, the parties may be able to resolve this particular issue of  
10 including 800/8YY Toll Free Service language in the agreement if Sprint's  
11 concerns with that language are resolved satisfactorily.  
12

13 **Issue II.G – Direct End Office Trunking**  
14

15 **Issue II.G – Which Party's proposed language governing Direct End**  
16 **Office Trunking ("DEOT"), should be included in the ICAs?**  
17

18 **Q. AT&T witness Hamiter calls the establishment of DEOTs the "efficient**  
19 **use of network resources."<sup>29</sup> Do you agree?**

20 A. In certain circumstances, yes.  
21

---

<sup>29</sup> Hamiter Direct, Page 40, Lines 16-19.

1 **Q. Then why is Sprint opposed to establishing DEOTs as Mr. Hamiter**  
2 **alleges?**<sup>30</sup>

3 A. Mr. Hamiter misrepresents Sprint's position. Sprint is not opposed to  
4 establishing DEOTs when necessary to ensure sound network engineering  
5 principles are properly applied. Sprint is amenable to placing orders for  
6 such DEOTs, but, as I state in my Direct Testimony,<sup>31</sup> the cost of such  
7 DEOTs should be borne by AT&T.

8  
9 **Q. Why should AT&T bear the cost of DEOTs ordered by Sprint to**  
10 **AT&T's end office?**

11 A. In addition to the explanation I provided in my Direct Testimony,<sup>32</sup> ordering  
12 a DEOT is tantamount to establishing an additional POI in a LATA and, as I  
13 explain in my Testimony (Direct and Rebuttal) for Issue II.D, Sprint cannot  
14 be required to establish more than one POI in a LATA.

15  
16 **Q. What is Sprint's proposed language to resolve this issue?**

17 A. Sprint's proposed language is as follows:

18 2.5.3 (f) DEOT Interconnection Facilities. Subject to Sprint's sole  
19 discretion, Sprint may (1) order DEOT Interconnection Facilities as it  
20 deems necessary, and (2) to the extent mutually agreed by the Parties on  
21 a case by case basis, order DEOT Interconnection Facilities to  
22 accommodate reasonable requests by AT&T-9STATE. A DEOT  
23 Interconnection Facility creates a Dedicated Transport communication  
24 path between a Sprint Switch Location and an AT&T-9STATE End  
25 Office switch. If a DEOT is requested by Sprint, the POI for the DEOT

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<sup>30</sup> Hamiter Direct, Page 41, Lines 7-9.

<sup>31</sup> Felton Direct, Page 30, Lines 16-20.

<sup>32</sup> Felton Direct, Page 31, Lines 1-6.



1 Interconnection Facility is at the AT&T-9STATE End Office, with the  
2 costs of the entire Facility shared in the same manner as any other  
3 Interconnection Facility. If a DEOT is being established to  
4 accommodate a request by AT&T-9STATE, absent the affirmative  
5 consent of Sprint to a different treatment, the Parties will only share the  
6 portion of the costs of such Facilities as if the POI were established at  
7 the AT&T-9STATE Access Tandem that serves the AT&T End Office  
8 to which the DEOT is installed, and AT&T-9STATE will be responsible  
9 for all further costs associated with the Facilities between the Access  
10 Tandem POI and the AT&T End Office.  
11

12 **Issue II.H – Ongoing network management**  
13

14 **Issue II.H(1) – What is the appropriate language to describe the parties’**  
15 **obligations regarding high volume mass calling trunk groups?**  
16

17 **Q. How do you respond to AT&T witness Hamiter’s Direct Testimony on**  
18 **the issue of high volume mass calling trunks?**

19 A. I agree that high volume calling trunks should be established to prevent the  
20 network degrading effects of a mass calling event.  
21

22 **Q. Then what disagreement do you have with AT&T’s position?**

23 A. As I stated in my Direct Testimony,<sup>33</sup> the cost-causer should be required to  
24 bear the costs associated with establishing high volume mass calling trunks  
25 to ensure the integrity of the network. The cost-causer in this case is the  
26 carrier that provides to service the customer initiating the mass calling event

---

<sup>33</sup> Felton Direct, Page 32, Lines 8-12.

1 – for example, the call-in radio show. AT&T’s proposed language seeks to  
2 shift those costs to the other party.

3  
4 **Q. Is that the only disagreement between the parties on this issue?**

5 A. Apparently not, but, from Sprint’s perspective, it is the primary  
6 disagreement between the parties. AT&T claims Sprint’s proposed  
7 language is deficient in every respect. In fact, in response to the question,  
8 what is wrong with Sprint’s language, Mr. Hamiter replies, “Just about  
9 everything.”<sup>34</sup>

10  
11 **Q. Do you agree with Mr. Hamiter’s critique of Sprint’s language?**

12 A. Obviously not. However, given additional time to negotiate mass calling  
13 provisions, Sprint believes the parties could move closer to agreement. The  
14 fact remains, though, that the parties have a fundamental disagreement on  
15 who is financially responsible for mass calling trunks and would not be able  
16 to reach complete agreement without the Authority’s intervention.

17  
18 **Q. What language does Sprint propose to resolve this issue?**

19 A. Sprint proposes the following language:

20 3.3.1 High Volume Call In / Mass Calling Trunk Group. Separate high-  
21 volume calling (HVCI) trunk groups will be required for high-volume  
22 customer calls (e.g., radio contest lines). If the need for HVCI trunk  
23 groups are identified by either Party, that Party may initiate a meeting at  
24 which the Parties will negotiate where HVCI Trunk Groups may need to  
25 be provisioned to ensure network protection from HVCI traffic.

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<sup>34</sup> Hamiter Direct, Page 47, Lines 11-12.

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**Issue II.H(2) – What is appropriate language to describe the signaling parameters?**

**Q. How do you respond to AT&T witness Hamiter’s Direct Testimony (at pages 48-49) on this issue?**

A. Mr. Hamiter in no way explains why AT&T has proposed nearly identical language within two separate provisions of the same agreement. In fact, AT&T’s proposed Sections 2.3.2b and 2.5.1 reside *in the same attachment* of the same agreement. Nothing in Mr. Hamiter’s Direct Testimony with respect to this issue should persuade the Authority to find in AT&T’s favor on this issue.

**Q. Have there been any developments between the parties on this issue?**

A. Yes, the parties have corresponded via e-mail regarding this issue and Sprint is hopeful the parties can resolve this issue without any further attention by the Authority.

1       **Issue II.H(3) – Should language for various aspects of trunk servicing**  
2       **be included in the agreement e.g., forecasting, overutilization,**  
3       **underutilization, projects?**  
4

5       **Q.   How do you respond to AT&T witness Hamiter’s Direct Testimony on**  
6       **this issue?**

7       A.   It is obvious from Mr. Hamiter’s Direct Testimony that this issue boils  
8       down to a question of whether more detail in an ICA is better. AT&T  
9       clearly thinks that it is and Sprint thinks it is not. As I pointed out in my  
10      Direct Testimony, the parties operated for the better part of a decade without  
11      the overly detailed language AT&T has proposed in these negotiations, yet,  
12      for some reason, AT&T believes the parties cannot move forward without it  
13      in this ICA.

14  
15      **Q.   Is it just the amount of detail Sprint objects to?**

16      A.   No. In my Direct Testimony, I discussed in detail the problematic areas of  
17      AT&T’s proposed language. Before Sprint could even consider including  
18      AT&T’s level of detail, these problematic areas must be satisfactorily  
19      addressed.

20  
21                   **Section III. – How the Parties Compensate Each Other**  
22

1 **Issue III.A.1 – Traffic Subject to Reciprocal Compensation**

2  
3 **Issue III.A.1.(1) – Is IntraMTA traffic that originates on AT&T's**  
4 **network and that AT&T hands off to an IXC for delivery to Sprint**  
5 **subject to reciprocal compensation?**  
6

7 **Q. AT&T witness Pellerin suggests that when a customer initiates a call by**  
8 **dialing 1+, the customer is not acting as a customer of AT&T.<sup>35</sup> Do you**  
9 **agree?**

10 A. No. While the customer may be utilizing the services of an IXC, they are  
11 nonetheless still a customer of AT&T. Moreover, frequently when an  
12 AT&T customer makes a 1+ call, the customer is actually using *AT&T's*  
13 IXC network. AT&T Inc. (the parent company of AT&T Tennessee) has  
14 stated publicly its intention to ward off competitive pressures by utilizing a  
15 bundling strategy that combines local and long-distance services (in addition  
16 to other AT&T services).<sup>36</sup> In those situations, the call never leaves the  
17 AT&T network before being delivered to Sprint wireless.  
18

19 **Q. Are you saying that AT&T only owes Sprint reciprocal compensation**  
20 **when the AT&T customer is also an AT&T IXC customer?**

21 A. No. I am simply pointing out that, even if one accepted AT&T's view,  
22 AT&T would be in a position to skirt its reciprocal compensation obligation

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<sup>35</sup> Pellerin Direct, Page 51, Lines 5-9.

<sup>36</sup> See, e.g., AT&T Inc. Financial Review 2009, page 45, attached hereto as **Attachment MGF-3**.

1 by simply handing its originating traffic off to its own IXC affiliate. Having  
2 said that, regardless of who the IXC is, Sprint believes AT&T legitimately  
3 owes reciprocal compensation anytime one of its customers originates an  
4 intraMTA call.

5  
6 **Q. Ms. Pellerin implies that Sprint's motivation for seeking reciprocal**  
7 **compensation on AT&T originated 1+ intraMTA traffic is the**  
8 **prohibition by the FCC for wireless carriers to tariff access charges.<sup>37</sup>**  
9 **Is that true?**

10 A. No. While Sprint disagrees with the FCC's prohibition against wireless  
11 carriers filing tariffs for access charges, that has no bearing on whether  
12 AT&T, as the originator of an intraMTA call (1+ or otherwise), is liable for  
13 reciprocal compensation to the terminating carrier.

14  
15 **Q. What is AT&T's motivation for its opposition to Sprint's suggestion?**

16 A. It is clear to me that AT&T would like to collect as much revenue as  
17 possible while avoiding expenses whenever possible.

18  
19 **Q. How have the parties avoided addressing this issue in the past?**

20 A. The parties enjoy a bill and keep reciprocal compensation arrangement  
21 today and, therefore, have avoided the need to address this issue head-on. If  
22 Sprint's proposed resolutions in Issues III.A.1(4) and (5) are adopted (the

---

<sup>37</sup> Pellerin Direct, Page 54, Line 4-8.

1 continued use of bill and keep), this 1+ intraMTA compensation issue  
2 III.A.1(1) remains moot.

3  
4 **Q. Ms. Pellerin also discusses the application of FCC Rule 51.701 to this**  
5 **issue.<sup>38</sup> Please comment.**

6 A. Ms. Pellerin focuses on FCC Rule 51.701(b)(2) and fabricates an argument  
7 that 1+ intraMTA traffic is not actually *exchanged* between AT&T and  
8 Sprint wireless when an IXC is involved because the traffic never actually  
9 *belonged* to AT&T in the first place. In a telling excerpt from Ms.  
10 Pellerin's Testimony, she has to differentiate 1+ intraMTA calls from other  
11 calls in which an intermediate carrier is involved (i.e., transit calls),  
12 presumably because AT&T frequently acts as a transit provider and does not  
13 want to be on the hook for intercarrier compensation in those situations.  
14 Regardless of AT&T's motivation, AT&T's smoke and mirrors approach to  
15 this issue should be rejected.

16  
17 **Q. Ms. Pellerin also addresses the Authority's prior determination on the**  
18 **1+ intraMTA issue.<sup>39</sup> How do you respond?**

19 A. In the *Cellco* decision cited by Ms. Pellerin, the Authority reached a split 2-  
20 1 decision that an ILEC is responsible for 1+ IntraMTA traffic that is  
21 delivered by an IXC to a CMRS carrier for termination, *unless the call*  
22 *crosses a LATA boundary*. Ms. Pellerin urges the Authority to reject its

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<sup>38</sup> Pellerin Direct, Page 55, Line 20 through Page 57, Line 10.

<sup>39</sup> Pellerin Direct, Page 58, Line 10 through Page 59, Line 4.

1 prior decision in its entirety and find that any IntraMTA call carried by an  
2 IXC is subject to switched access charges being charged by the originating  
3 ILEC to the IXC, which will also result in no compensation being paid to  
4 the terminating CMRS network at all. In doing so, however, Ms. Pellerin  
5 chose not to mention that even the dissenting Director disagreed with the  
6 ILEC view now espoused by AT&T. In fact, the dissenting Director, citing  
7 the substantial weight of authority, agreed with the CMRS view advocated  
8 by Sprint, and believed that the *Cellco* majority's imposition of a LATA  
9 limitation on an ILEC's responsibility for IXC carried IntraMTA traffic is  
10 simply inconsistent with federal law.<sup>40</sup> Sprint's attorneys will further  
11 respectfully demonstrate in briefing at the appropriate time how the *Cellco*  
12 dissenting Director's opinion, and the authority relied upon by the dissenting  
13 Director, have since been followed by a majority of federal court appellate  
14 decisions that have addressed this issue, and Sprint urges the Authority to  
15 now eliminate any lingering question regarding the LATA restriction that  
16 was created in the *Cellco* decision.

17  
18 **Q. What resolution does Sprint recommend for this issue?**

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<sup>40</sup> *Re: Petition for Arbitration of Cellco Partnership d/b/a Verizon Wireless, et al.*, Docket No. 03-00585, Order of Arbitration Award dated January 12, 2006 at fn. 79 ("Director Jones did not vote with the majority. It was his position that the reciprocal compensation requirements of 47 U.S.C. § 251(b)(5) apply to land originated IntraMTA traffic that is delivered to a CMRS provider via an interexchange carrier. Relying on the definition of telecommunications traffic contained in Rule 51.701(b)(2), Director Jones rejected the Coalition's position that "telecommunications traffic" does not include traffic carried by an interexchange carrier. He also stated that his conclusion is consistent with the United States District Court ruling in *Atlas Telephone Company v Corporation Commission of Oklahoma*, 309 F. Supp. 2d 1299, 1310-11 (W.D. Okla 2004), the FCC's *First Report and Order*, 11 FCC Rcd 15499 at ¶ 1043; and the FCC's decision on *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Order on Remand*, 16 FCC Rcd 9151 at ¶ 47 (2001).").



1 A. Sprint requests that the Authority follow the established federal law on this  
2 Issue and reject AT&T's language that would permit AT&T to shirk its  
3 obligation to pay intercarrier compensation to Sprint for the termination of  
4 intraMTA traffic simply because AT&T delivered the traffic to Sprint via  
5 the use of an intermediate IXC network. As an alternative, instead of one-  
6 way bill-and-keep, which is essentially what AT&T wishes to adopt here for  
7 IntraMTA calls AT&T's customers originate, AT&T should be willing to  
8 accept bill and keep for calls that Sprint's customers originate as well, and  
9 in fact for all calls the parties exchange. If the parties exchange all traffic on  
10 a bill and keep basis, this 1+ issue becomes moot – which is exactly what  
11 the end result has been under the parties' existing ICA for almost ten years  
12 now.

13  
14 **Issue III.A.1.(2) – What are the appropriate compensation rates, terms**  
15 **and conditions (including factoring and audits) that should be included**  
16 **in the CMRS ICA for traffic subject to reciprocal compensation?**

17  
18 **Q. In her discussion of this issue, AT&T witness Pellerin states that**  
19 **“Sprint may not have the ability to measure and bill based on actual**  
20 **usage.”<sup>41</sup> Does Sprint have the ability to measure and bill based on**  
21 **actual usage?**

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<sup>41</sup> Pellerin Direct, Page 62, Lines 11-12.

1 A. Yes. As I stated in my Direct Testimony, Sprint has had that capability for  
2 years.<sup>42</sup>

3

4 **Q. Even if Sprint did not have that capability, would Sprint object to**  
5 **AT&T's language?**

6 A. Yes. Aside from the reasons set forth in my Direct Testimony,<sup>43</sup> Sprint  
7 further objects to AT&T's proposed "surrogate factor billing" process.

8

9 **Q. Why?**

10 A. AT&T's surrogate billing factor process relies upon AT&T's faulty view of  
11 the proper methodology of Interconnection Facility sharing.<sup>44</sup> Additionally,  
12 as I discuss in my Direct Testimony,<sup>45</sup> Sprint disagrees with the universe of  
13 traffic to which AT&T intends to apply the surrogate billing factor (i.e.,  
14 AT&T's exclusion of 1+ land-to-mobile originated IntraMTA traffic).

15

16 **Q. How does Sprint propose for the Authority to resolve this issue?**

17 A. Sprint proposes the following language to resolve this issue:

18 6.3.6.1 Actual traffic Conversation MOU measurement in each of the  
19 applicable Authorized Service categories is the preferred method of  
20 classifying and billing traffic. If, however, either Party cannot measure  
21 traffic in each category, then the Parties shall agree on a surrogate  
22 method of classifying and billing those categories of traffic where  
23 measurement is not possible, taking into consideration as may be

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<sup>42</sup> Felton Direct, Page 42, Line 14.

<sup>43</sup> Felton Direct, Page 42, Line 17 through Page 43, Line 2.

<sup>44</sup> Addressed by Sprint witness Farrar in Issue III.E.(1).

<sup>45</sup> Felton Direct, Page 42, Lines 18-22.

1           pertinent to the Telecommunications traffic categories of traffic, the  
2           territory served (e.g., MTA boundaries) and traffic routing of the Parties.  
3  
4

5           **Issue III.A.1.(3) – What are the appropriate compensation rates, terms**  
6           **and conditions (including factoring and audits) that should be included**  
7           **in the CLEC ICA for traffic subject to reciprocal compensation?**  
8

9   **Q.   AT&T witness McPhee discusses at length the necessity of including**  
10   **Calling Party Number (“CPN”) provisions in the ICA.<sup>46</sup> Does Sprint**  
11   **object to the concept of Calling Party Number being included in the**  
12   **CLEC ICA?**

13   **A.**   No. In fact, as Mr. McPhee acknowledges, the parties have agreed to  
14   language that provides for the parties to transmit CPN to each other. What  
15   Sprint does object to is the punitive nature of AT&T’s language if one party  
16   is unable, for whatever reason, to provide CPN to the other. Under Sprint’s  
17   proposal, the parties would work cooperatively to resolve any technical  
18   issues with passing CPN and either party would have the dispute resolution  
19   process available if a dispute arose regarding CPN. AT&T’s language once  
20   again resorts to the most extreme position it could take – billing intrastate  
21   access rates on any traffic passed without CPN if AT&T’s arbitrary  
22   threshold of traffic with CPN is not met.  
23

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<sup>46</sup> McPhee Direct, Pages 36-38.

1   **Q.   Does the parties' existing ICA contain the 90% CPN threshold**  
2       **proposed by AT&T?**

3   A.   No.

4

5   **Q.   Does the parties' existing ICA contain any CPN threshold?**

6   A.   No.

7

8   **Q.   Have the parties had any dispute about the transmission of CPN during**  
9       **the life of the existing ICA?**

10  A.   Not to my knowledge.

11

12  **Q.   So, is Sprint's intention to "game the system"<sup>47</sup> under the CPN**  
13       **language the parties have already agreed to?**

14  A.   Absolutely not. As I've stated, the parties have not had an issue under the  
15       existing ICA, which does not include the type of CPN threshold language  
16       AT&T proposes here.

17

18  **Q.   What is Sprint's proposed resolution for this issue?**

19  A.   Sprint proposes the following language to resolve this issue:

20           6.3.6.1       Actual traffic Conversation MOU measurement in each of  
21       the applicable Authorized Service categories is the preferred method of  
22       classifying and billing traffic. If, however, either Party cannot measure  
23       traffic in each category, then the Parties shall agree on a surrogate  
24       method of classifying and billing those categories of traffic where  
25       measurement is not possible, taking into consideration as may be

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<sup>47</sup> McPhee Direct, Page 39, Line 15.

1           pertinent to the Telecommunications traffic categories of traffic, the  
2           territory served (e.g. Exchange boundaries, LATA boundaries and state  
3           boundaries) and traffic routing of the Parties.  
4

5           **Issue III.A.1.(4) – Should the ICAs provide for conversion to a bill and**  
6           **keep arrangement for traffic that is otherwise subject to reciprocal**  
7           **compensation but is roughly balanced?**

8           **Issue III.A.1.(5) – If so, what terms and conditions should govern the**  
9           **conversion of such traffic to bill and keep?**  
10

11   **Q.   Having read the testimony of Mr. McPhee, do you have any general**  
12   **observations?**

13   A.   Yes. Sprint’s proposed language, which Mr. McPhee calls “defective,”<sup>48</sup> a  
14       means to “game the system,”<sup>49</sup> and “unreasonable,”<sup>50</sup> was put in place  
15       because, during negotiations, AT&T would not consider including any  
16       mention of bill and keep in the ICA. Therefore, Sprint’s proposed approach  
17       to reciprocal compensation between the parties is absent any substantive  
18       discussion with AT&T, so, obviously it contemplates the arrangements  
19       Sprint would prefer. Only now does Sprint see in Mr. McPhee’s Direct  
20       Testimony a proposal from AT&T regarding how to handle Bill and Keep.  
21

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<sup>48</sup> McPhee Direct, Page 46, Line 5.

<sup>49</sup> McPhee Direct, Page 55, Line 7.

<sup>50</sup> McPhee Direct, Page 57, Line 1.

1 **Q. So, if there have not been any substantive discussions on the topic**  
2 **during the negotiations, do you believe the parties could engage in**  
3 **further negotiations and reach agreement on this issue?**

4 A. No. AT&T has clearly indicated its intransigence on this issue to Sprint and  
5 it should also be evident to the Authority after reading Mr. McPhee's Direct  
6 Testimony. Sprint is certainly willing to engage in further negotiations with  
7 AT&T, but, the Authority should be realistic in its expectation that the  
8 parties will never be able to reach agreement on this issue as long as AT&T  
9 remains inflexible in its position.

10  
11 **Q. Mr. McPhee discusses § 51.713 in his Direct Testimony.<sup>51</sup> Do you have**  
12 **any comment?**

13 A. Yes. FCC Rule 51.713 is controlling with respect to this issue. Mr. McPhee  
14 correctly points out that the FCC has delegated authority to the Authority to  
15 impose bill and keep arrangements if the Authority *presumes* traffic  
16 between AT&T and Sprint is roughly balanced, is expected to remain so,  
17 and neither party has sought to charge asymmetrical reciprocal  
18 compensation rates. Interestingly, while the FCC grants the latitude to the  
19 Authority to presume traffic is roughly balanced, AT&T seeks to impose its  
20 will upon the Authority as well and remove the Authority's prerogative  
21 granted under § 51.713.<sup>52</sup>

22  

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<sup>51</sup> McPhee Direct, Pages 49-50.

<sup>52</sup> McPhee Direct, Page 62, Line 23 through Page 63 Line 1.

1 **Q. Mr. McPhee goes on to point out that, in ¶ 1112 of the Local**  
2 **Competition Order, the FCC said that bill and keep arrangements are**  
3 **economically inefficient because they distort carriers' incentives by**  
4 **encouraging them to originate more traffic than they terminate.<sup>53</sup> Is**  
5 **there more to that paragraph?**

6 A. Yes. The FCC goes on to say that "bill-and-keep arrangements may  
7 minimize administrative burdens and transactions costs" and that, "in certain  
8 circumstances, the advantages of bill-and-keep outweigh the disadvantages,  
9 but no party has convincingly explained to us why, in such circumstances,  
10 parties themselves would not agree to bill-and-keep."

11

12 **Q. Is that the case here?**

13 A. I believe it is.

14

15 **Q. What administrative savings have the parties realized using a bill and**  
16 **keep arrangement for the past 10 years?**

17 A. Mr. McPhee focuses on the recording and processing of call usage data as  
18 the areas where the parties should realize cost savings to justify bill and  
19 keep and he says that there are "almost none."<sup>54</sup> He is probably right,  
20 however, he overlooks one obvious (and very significant) administrative  
21 benefit the parties have realized – there has not been one single reciprocal  
22 compensation billing dispute between the parties during the period the

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<sup>53</sup> McPhee Direct, Page 49, Lines 29-31.

<sup>54</sup> McPhee Direct, Page 50, Line 22 through Page 51 Line 6.

1 parties have operated under the existing ICA. In my experience, I have  
2 seen billing disputes that consume countless person-hours to resolve and  
3 drag on for months, and even years. That is to say nothing of the costs  
4 associated with bill verification and auditing.

5  
6 **Q. What other administrative savings have been realized as a result of the**  
7 **bill and keep arrangement currently in place between the parties?**

8 A. The parties have disagreed on the proper treatment of 1+ intraMTA traffic  
9 for years. However, heretofore there has been no compelling reason to  
10 resolve that dispute since resolution of the issue would have no practical  
11 effect on billing between the parties as long as they were exchanging traffic  
12 on a bill and keep basis. Similarly in this proceeding, and as previously  
13 indicated, if the Authority embraces Sprint's position on bill and keep, the  
14 resolution of Issue III.A.1.(1) becomes moot.

15  
16 **Q. Mr. McPhee discusses the incentive carriers have under bill and keep to**  
17 **game the system.<sup>55</sup> Please comment.**

18 A. It is true that ILECs that *insisted* on reciprocal compensation after the Act  
19 was passed later claimed some CLECs "gamed" the reciprocal  
20 compensation system by seeking out customers with significant inbound  
21 traffic. Mr. McPhee even points to one of the best-known examples – dial-

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<sup>55</sup> McPhee Direct, Page 51, Lines 14-22.



1 up ISP traffic.<sup>56</sup> But that issue is a red herring here—inbound traffic is not  
2 the issue AT&T seems concerned about. Rather, AT&T claims that bill and  
3 keep creates an incentive for Sprint to “maximize” the amount of traffic it  
4 sends to AT&T. Perhaps, but Sprint can only do that by *winning more*  
5 *customers and encouraging them to use Sprint’s services*. Those are  
6 desirable outcomes for any carrier, and AT&T has the exact business  
7 opportunity to “maximize” its own traffic sent to Sprint.  
8

9 **Q. How might a carrier arbitrage a bill and keep arrangement?**

10 A. Mr. McPhee describes a hypothetical in which a carrier with a bill and keep  
11 arrangement might attempt to aggregate local traffic that originates on third  
12 party networks for delivery to the other party of the bill and keep  
13 arrangement.<sup>57</sup> In the 10 years Sprint and AT&T have enjoyed a bill and  
14 keep arrangement, Sprint has not attempted any such strategy, nor does it  
15 make much sense – Sprint opens itself up to the exact same risk of AT&T  
16 engaging in such arbitrage for which Sprint would not get paid either.  
17 Moreover, Mr. McPhee himself acknowledges that the traffic balance gap  
18 has been narrowing between Sprint and AT&T,<sup>58</sup> so it follows that Sprint  
19 has not engaged in any efforts to artificially boost its originating traffic to  
20 take advantage of the bill and keep arrangement the parties currently enjoy.  
21

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<sup>56</sup> McPhee Direct, Page 52, Lines 4-16.

<sup>57</sup> McPhee Direct, Page 52, Line 18 through Page 53, Line 6.

<sup>58</sup> McPhee Direct, Page 63, Line 8.

1 **Q. But shouldn't the Authority protect AT&T against the prospect of an**  
2 **unscrupulous carrier adopting Sprint's agreement and engaging in the**  
3 **arbitrage tactics described above?**

4 A. Not necessarily, but, if the Authority feels compelled to do so, it can  
5 certainly do so without adopting AT&T's language. The Authority could,  
6 for example, direct the parties to insert further language into the ICA stating  
7 that the Authority has recognized that bill and keep is a continuation of the  
8 parties' existing compensation mechanism, and, to obtain the immediate  
9 benefit of such provisions, any party adopting the ICA must independently  
10 establish that, either it had a pre-existing bill and keep arrangement with  
11 AT&T, or, a rough balance of traffic exists at the time the ICA is adopted.

12  
13 **Q. Is Sprint's "strong push for bill and keep" an indication that Sprint "is**  
14 **looking for an unfair economic edge?"**<sup>59</sup>

15 A. Absolutely not. Rather, it is an indication of Sprint's desire to maintain the  
16 status quo between the parties based upon the belief that the costs of  
17 commencing a system of reciprocal compensation payments would exceed  
18 the benefits realized by either party.

19  
20 **Q. Mr. McPhee puts forth a three-pronged criticism of Sprint's proposal.**<sup>60</sup>  
21 **Please address his critique of Sprint's approach.**

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<sup>59</sup> McPhee Direct, Page 54, Lines 6-7.

<sup>60</sup> McPhee Direct, Pages 57-62.

1 A. First, Mr. McPhee claims 60%/40% is too great a disparity to be considered  
2 in balance. However, he acknowledges that neither the FCC nor the  
3 Authority have established the appropriate threshold at which traffic would  
4 be considered roughly balanced.

5

6 **Q. Mr. McPhee next claims Sprint's proposal is defective because it "does**  
7 **not provide for a return to billing and paying reciprocal compensation**  
8 **if the parties convert to bill and keep and the traffic then goes out of**  
9 **balance."**<sup>61</sup> **Is that true?**

10 A. Yes and it is not an oversight. It is simply recognition of what the parties  
11 currently enjoy in the existing ICA. Sprint's language is no more  
12 "defective" than AT&T's in that once traffic falls out of rough balance and  
13 the parties move away from bill and keep to a system of payments, AT&T's  
14 language does not provide for a return to bill and keep should the traffic  
15 return to rough balance. It is not surprising to me that AT&T would attempt  
16 to justify its approach as somehow superior to Sprint's, but, the fact is,  
17 AT&T's approach is the simply the polar opposite of Sprint's. The  
18 difference is that Sprint's approach represents a continuation of the current  
19 arrangement utilized by the parties, whereas AT&T's proposal represents a  
20 180 degree change.

21

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<sup>61</sup> McPhee Direct, Page 60, Line 13 through Page 61, Line 3.

1   **Q.   Finally, Mr. McPhee states that AT&T has made “no such**  
2       **acknowledgement” that the traffic the parties are exchanging is in**  
3       **balance. Is that true?**

4   A.   Fair enough. To put Mr. McPhee’s Direct Testimony in the proper context,  
5       though, the statement that the parties acknowledge that the traffic is in  
6       balance was Sprint’s proposed language – Sprint has not represented that  
7       AT&T agrees.

8  
9   **Q.   Mr. McPhee then suggests that it is Sprint’s burden to prove the traffic**  
10       **is in balance.<sup>62</sup> Do you agree?**

11   A.   No, not in this instance. The parties have been operating under a bill and  
12       keep arrangement for 10 years, and it is AT&T that seeks to deviate from  
13       the status quo. Moreover, Sprint would have been willing – and still is  
14       willing – to cooperate with AT&T to evaluate traffic volumes to determine  
15       what the balance truly is. Based on AT&T’s unyielding position that bill  
16       and keep has no place in any ICA, the parties were unable to have a  
17       productive discussion on the issue.

18  
19   **Q.   How should the Authority arrive at the presumption that traffic**  
20       **between AT&T and Sprint is roughly in balance?**

21   A.   The FCC did not prescribe a definitive range for determining rough balance,  
22       so, I believe it is clearly (and intentionally) left to the Authority’s discretion.

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<sup>62</sup> McPhee Direct, Page 62, Lines 7-9.

1 As is obvious from its proposed language, Sprint believes rough balance is  
2 achieved when the parties are no more than +/- 10% from equilibrium. Mr.  
3 McPhee makes some vague references to what he believes the balance to  
4 be<sup>63</sup> (based, I am sure, upon AT&T's incorrect view of the treatment of 1+  
5 intraMTA traffic as I discuss in Issue III.A.1) but he provides no frame of  
6 reference in regards to time period or geography. Assuming for the sake of  
7 discussion that Mr. McPhee's 70%/30% was historically close to accurate,  
8 when that ratio is adjusted for the natural narrowing of that ratio as  
9 conceded by Mr. McPhee, and a proper view of the treatment of 1+  
10 intraMTA traffic, common sense dictates that any gap that may still exist in  
11 the traffic exchange ratio between the parties would be considerably closer  
12 than it was been 10 years ago – when the parties adopted bill and keep  
13 without any balance of traffic requirement at all.

14  
15 **Q. Please summarize your Rebuttal Testimony on this issue.**

16 A. Sprint and AT&T have operated under a bill and keep arrangement for  
17 nearly 10 years. During negotiations, AT&T made it clear that it would not  
18 agree to a bill and keep arrangement going forward under any  
19 circumstances. It is only now, in Direct Testimony, that Sprint learns the  
20 details of how AT&T might handle bill and keep if forced to do so in the  
21 future, but, the parties have been unable to have any fruitful discussions in  
22 an effort to amicably resolve this issue. AT&T would not voluntarily

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<sup>63</sup> McPhee Direct, Page 63, Lines 7-8.

1 participate in data analysis to determine the true traffic balance (although  
2 doing so would have likely been futile given the philosophical differences  
3 on important issues such as 1+ intraMTA traffic). If the Authority is  
4 inclined to adopt AT&T's position on this issue, Sprint urges the Authority  
5 to ensure AT&T utilizes proper methodology in measuring traffic and, in  
6 doing so, Sprint believes traffic will be well within rough balance.  
7

8 **Q. What does Sprint propose to resolve this issue?**

9 A. Unless and until AT&T can rebut the presumption that all of the IntraMTA  
10 traffic exchanged between the parties is roughly balanced to warrant any  
11 edit to Sprint's proposed language, Sprint proposes the Authority order the  
12 following language:

13 6.3.7 Conversion to Bill and Keep for wireless IntraMTA traffic or  
14 wireline Telephone Exchange Service traffic.  
15

16 [CMRS] a) If the IntraMTA Traffic exchanged between the Parties  
17 becomes balanced, such that it falls within the stated agreed balance  
18 below ("Traffic Balance Threshold"), either Party may request a bill and  
19 keep arrangement to satisfy the Parties' respective usage compensation  
20 payment obligations regarding IntraMTA Traffic. For purposes of this  
21 Agreement, the Traffic Balance Threshold is reached when the  
22 IntraMTA Traffic exchanged both directly and indirectly, reaches or  
23 falls between 60%/40%, in either the wireless-to-landline or landline-to-  
24 wireless direction for at least three (3) consecutive months. When the  
25 actual usage data for such period indicates that the IntraMTA Traffic  
26 exchanged, both directly and indirectly, falls within the Traffic Balance  
27 Threshold, then either Party may provide the other Party a written  
28 request, along with verifiable information supporting such request, to  
29 eliminate billing for IntraMTA Traffic usage. Upon written consent by  
30 the Party receiving the request, which shall not be withheld  
31 unreasonably, there will be no billing for IntraMTA Traffic usage on a

1 going forward basis unless otherwise agreed to by both Parties in  
2 writing. The elimination of billing for IntraMTA Traffic carries with it  
3 the precondition regarding the Traffic Balance Threshold discussed  
4 above. As such, the two points are interrelated terms containing specific  
5 rates and conditions, which are non-separable for purposes of this  
6 Subsection 6.3.7.  
7

8 b) As of the Effective Date, the Parties acknowledge that the IntraMTA  
9 Traffic exchanged between the Parties both directly and indirectly has  
10 already been established as falling within the Traffic Balance Threshold.  
11 Accordingly, each Party hereby consents that, notwithstanding the  
12 existence of a stated IntraMTA Rate in the Pricing Sheet to this  
13 Agreement, there will be no billing between the Parties for IntraMTA  
14 Traffic usage on a going forward basis unless otherwise agreed to by  
15 both Parties in writing  
16

17 [CLEC] a) If the Telephone Exchange Service Traffic exchanged  
18 between the Parties becomes balanced, such that it falls within the stated  
19 agreed balance below ("Traffic Balance Threshold"), either Party may  
20 request a bill and keep arrangement to satisfy the Parties' respective  
21 usage compensation payment obligations regarding Telephone Exchange  
22 Service Traffic. For purposes of this Agreement, the Traffic Balance  
23 Threshold is reached when the Telephone Exchange Service Traffic  
24 exchanged both directly and indirectly, reaches or falls between 60% /  
25 40%, in either the wireless-to-landline or landline-to-wireless direction  
26 for at least three (3) consecutive months. When the actual usage data for  
27 such period indicates that the Telephone Exchange Service Traffic  
28 exchanged, both directly and indirectly, falls within the Traffic Balance  
29 Threshold, then either Party may provide the other Party a written  
30 request, along with verifiable information supporting such request, to  
31 eliminate billing for Telephone Exchange Service Traffic usage. Upon  
32 written consent by the Party receiving the request, which shall not be  
33 withheld unreasonably, there will be no billing for Telephone Exchange  
34 Service Traffic usage on a going forward basis unless otherwise agreed  
35 to by both Parties in writing. The elimination of billing for Telephone  
36 Exchange Service Traffic carries with it the precondition regarding the  
37 Traffic Balance Threshold discussed above. As such, the two points are  
38 interrelated terms containing specific rates and conditions, which are  
39 non-separable for purposes of this Subsection 6.3.7.  
40

41 b) As of the Effective Date, the Parties acknowledge that the Telephone  
42 Exchange Service Traffic exchanged between the Parties both directly  
43 and indirectly has already been established as falling within the Traffic  
44 Balance Threshold. Accordingly, each Party hereby consents that,

1 notwithstanding the existence of a stated Telephone Exchange Service  
2 Rate in the Pricing Sheet to this Agreement, there will be no billing  
3 between the Parties for Telephone Exchange Service usage on a going  
4 forward basis unless otherwise agreed to by both Parties in writing.  
5

6 **Issue III.A.2 – ISP-Bound Traffic**  
7

8 **Issue III.A.2 – What compensation rates, terms and conditions should**  
9 **be included in the ICAs related to compensation for ISP-Bound traffic**  
10 **exchanged between the parties?**  
11

12 **Q. Does AT&T witness McPhee adequately address the CMRS ICA**  
13 **dispute between the parties with respect to ISP-bound traffic?**

14 A. No. Mr. McPhee makes no mention of AT&T's proposed limitation in the  
15 CMRS ICA that there can be no land-to-mobile ISP-bound traffic. As I  
16 stated in my Direct Testimony,<sup>64</sup> the FCC placed no such limitation on  
17 wireless carriers in the ISP Remand Order.<sup>65</sup> Mr. McPhee also neglects to  
18 address AT&T's proposed language stating that ISP-bound traffic would be  
19 jurisdictionalized based upon the end-points of the call. Again, as I stated in  
20 my Direct Testimony, one of the very reasons the FCC took jurisdiction of  
21 ISP-bound traffic is because of the impossibility of jurisdictionalizing the

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<sup>64</sup> Felton Direct, Page 50, Lines 27-28.

<sup>65</sup> *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Intercarrier Compensation for ISP-Bound Traffic*, CC Docket No. 96-98, CC Docket No. 99-68, Declaratory Ruling, 14 FCC Rcd 3689, 3699-3700 (February 26, 1999) ("Declaratory Ruling" or "Intercarrier Compensation NPRM").



1 traffic and the strong likelihood that a great proportion of the traffic is  
2 interstate in nature.

3  
4 **Q. How about the CLEC ICA? Does Mr. McPhee completely address the**  
5 **issue there?**

6 A. No. Mr. McPhee makes no attempt to justify AT&T's proposal to bill for  
7 Multiple Tandem Access ("MTA") associated with ISP-bound traffic.  
8 When an ILEC opts into the FCC's ISP rate plan, the \$0.0007 rate is  
9 intended to cover all intercarrier compensation. The FCC did not leave  
10 room for an ILEC such as AT&T to layer on additional charges.

11  
12 **Q. How does Sprint propose to resolve this issue?**

13 A. Sprint urges the Authority to reject AT&T's superfluous language and adopt  
14 Sprint's language as follows:

15 Attachment 3 Pricing Sheet – CMRS and CLEC

16  
17 - Information Services Rate: .0007

18 - Interconnected VoIP Rate: Bill & Keep until otherwise determined by  
19 the FCC.  
20

21 **Issue III.A.7 – CMRS ICA Meet Point Billing Provisions**  
22

23 **Issue III.A.7.(1) – Should the wireless meet point billing provisions in**  
24 **the ICA apply only to jointly provided, switched access calls where both**  
25 **Parties are providing such service to an IXC, or also to Transit Service**

1        **calls, as proposed by Sprint?**

2

3        **Q.    Do you have any response to AT&T witness Pellerin's Direct Testimony**  
4        **on this issue?**

5        A.    Yes. Ms. Pellerin discusses meet point billing in a traditional sense as used  
6        between LECs. She even refers to Sprint wireless as a LEC,<sup>66</sup> which is  
7        obviously incorrect. Nevertheless, as I stated in my Direct Testimony, I  
8        described the expanded sense in which AT&T and Sprint PCS have utilized  
9        the term "meet point billing" since the inauguration of the existing ICA.  
10       That expanded use of the term included the provision of transit service  
11       pursuant to the ICA. As I discussed in my Direct Testimony, AT&T  
12       disagrees with the inclusion of a transit obligation within the ICA, and that  
13       issue will be resolved in Issue I.C.2. The other disagreements with respect  
14       to this issue were adequately discussed within my Direct Testimony.

15

16       **Q.    What language does Sprint propose to resolve this issue?**

17       A.    Sprint's proposed language for this issue is included in my testimony for  
18       Issue III.A.7(2) below.

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<sup>66</sup> Pellerin Direct, Page 66, Line 6.

1

2       **Issue III.A.7.(2) – What information is required for wireless Meet Point**  
3       **Billing, and what are the appropriate Billing Interconnection**  
4       **Percentages?**

5

6       **Q.   AT&T witness Pellerin describes in her Direct Testimony why Sprint**  
7       **wireless must provide PIU, PLU, and 800 PIU from meet point billing.<sup>67</sup>**  
8       **Please respond.**

9       A.   PIU and PLU are unnecessary because Sprint wireless will never route its  
10       originated traffic to an IXC other than its own affiliate for carriage to a  
11       terminating party. Additionally, since Sprint wireless is currently unable to  
12       bill IXCs access charges for either the origination or termination of traffic,  
13       those factors are meaningless to Sprint wireless for traditional meet point  
14       billing purposes.

15

16       **Q.   In her Direct Testimony, Ms. Pellerin also addresses the default BIP**  
17       **between the parties.<sup>68</sup> Do you agree with her testimony?**

18       A.   No. My Direct Testimony clearly reflects the reasons that a 95% AT&T –  
19       5% Sprint BIP is not appropriate. It is inconsistent and inequitable for the  
20       BIP to default to anything other than the percentage that each pays for the  
21       facility. AT&T is suggesting that it should be permitted to pay for less than  
22       half of the cost of the facility used by the parties to exchange traffic, yet bill

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<sup>67</sup> Pellerin Direct, Page 70, Lines 6-10.

<sup>68</sup> Pellerin Direct, Page 70, Line 13 through Page 71, Line 2.

1 third-party IXC's that terminate traffic to Sprint using that facility as if they  
2 provided 95% of the facility. I am at a loss to adequately describe the  
3 inconsistency of such a proposal. When considered in its totality, AT&T's  
4 proposal would be analogous to a landlord renting an apartment to one party  
5 and then attempting to collect rent from another party that visits the renter.

6  
7 **Q. How does Sprint request the Authority resolve the Wireless Meet Point**  
8 **Billing Issues III. A. 7 (1), (2) and (3)?**

9 A. Sprint proposes the Authority adopt the following language to resolve these  
10 issues:

11 **Wireless Meet Point Billing**

12 7.2.1 For purposes of this Agreement, Wireless Meet Point Billing, as  
13 supported by Multiple Exchange Carrier Access Billing (MECAB)  
14 guidelines, shall mean the exchange of billing data relating to jointly  
15 provided Switched Access Service calls, where both Parties are  
16 providing such service to an IXC, and Transit Service calls that transit  
17 AT&T-9STATE's network from an originating Telecommunications  
18 carrier other than AT&T-9STATE and terminating to a  
19 Telecommunications carrier other than AT&T-9STATE or the  
20 originating Telecommunications carrier. Subject to Sprint providing all  
21 necessary information, AT&T-9STATE agrees to participate in Meet  
22 Point Billing for Transit Service traffic which transits its network when  
23 both the originating and terminating parties participate in Meet Point  
24 Billing with AT&T-9STATE. Traffic from a network which does not  
25 participate in Meet Point Billing will be delivered by AT&T-9STATE,  
26 however, call records for traffic originated and/or terminated by a non-  
27 Meet Point Billing network will not be delivered to the originating  
28 and/or terminating network.

29  
30 7.2.2 Parties participating in Meet Point Billing with AT&T-9STATE  
31 are required to provide information necessary for AT&T-9STATE to  
32 identify the parties to be billed. Information required for Meet Point  
33 Billing includes Regional Accounting Office code (RAO) and Operating

1 Company Number (OCN) per state. The following information is  
2 required for billing in a Meet Point Billing environment and includes,  
3 but is not limited to; (1) a unique Access Carrier Name Abbreviation  
4 (ACNA), and (2) a Billing Interconnection Percentage. A default  
5 Billing Interconnection Percentage of 50% AT&T-9STATE and 50%  
6 Sprint will be used if Sprint does not file with NECA to establish a  
7 Billing Interconnection Percentage other than default. Sprint must  
8 support Meet Point Billing for all Jointly Provided Switched Access  
9 calls in accordance with Mechanized Exchange Carrier Access Billing  
10 (MECAB) guidelines. AT&T-9STATE and Sprint acknowledge that the  
11 exchange of 1150 records will not be required.  
12

13 7.2.3 Meet Point Billing will be provided for Transit Service traffic  
14 which transits AT&T-9STATE's network at the Tandem level only.  
15 Parties desiring Meet Point Billing will subscribe to Tandem level  
16 Interconnections with AT&T-9STATE and will deliver all Transit  
17 Service traffic to AT&T-9STATE over such Tandem level  
18 Interconnections. Additionally, exchange of records will necessitate  
19 both the originating and terminating networks to subscribe to dedicated  
20 NXX codes, which can be identified as belonging to the originating and  
21 terminating network. When the Tandem, in which Interconnection  
22 occurs, does not have the capability to record messages and either  
23 surrogate or self-reporting of messages and minutes of use occur, Meet  
24 Point Billing will not be possible and will not occur. AT&T-9STATE  
25 and Sprint will work cooperatively to develop and enhance processes to  
26 deal with messages handled on a surrogate or self-reporting basis.  
27

28 7.2.4 In a Meet Point Billing environment, when a party actually  
29 uses a service provided by AT&T-9STATE, and said party desires to  
30 participate in Meet Point Billing with AT&T-9STATE, said party will  
31 be billed for miscellaneous usage charges, as defined in AT&T-  
32 9STATE's FCC No.1 and appropriate state access tariffs, (i.e. Local  
33 Number Portability queries) necessary to deliver certain types of calls.  
34 Should Sprint desire to avoid such charges Sprint may perform the  
35 appropriate LNP data base query prior to delivery of such traffic to  
36 AT&T-9STATE.  
37

38 7.2.5 Meet Point Billing, as defined in section 7.2.1 above, under this  
39 Section will result in Sprint compensating AT&T-9STATE at the Transit  
40 Service Rate for Sprint-originated Transit Service traffic delivered to  
41 AT&T-9STATE network, which terminates to a Third Party network.

1 Meet Point Billing to IXC's for Jointly Provided Switched Access traffic  
2 will occur consistent with the most current MECAB billing guidelines.  
3

4 **Issue III.C – Should Sprint be required to pay AT&T for any**  
5 **reconfiguration or disconnection of interconnection arrangements that are**  
6 **necessary to conform with the requirements of this ICA?**

7  
8 **Q. Is Sprint's proposal on this issue "a self-serving attempt to avoid paying**  
9 **AT&T for significant amounts of work"<sup>69</sup> as AT&T witness Ferguson**  
10 **alleges?**

11 A. No. As I stated in my Direct Testimony, the parties have been  
12 interconnected for years and no major network reconfigurations should be  
13 necessary. To the extent any are, they will likely be driven by an AT&T  
14 request and, therefore, AT&T should bear the cost of the work.

15  
16 **Q. Mr. Ferguson says that Sprint "maintains that it should not have to**  
17 **compensate AT&T for processing Sprint's orders."<sup>70</sup> Is that true?**

18 A. No, and I am surprised at Mr. Ferguson for taking Sprint's proposed  
19 language out of context to make such an insinuation. Sprint's proposed  
20 language is as follows:

21  
22 3.4 Neither Party intends to charge rearrangement, reconfiguration,  
23 disconnection, termination or other non-recurring fees that may be

---

<sup>69</sup> Ferguson Direct, Page 6, Lines 7-8.

<sup>70</sup> Ferguson Direct, Page 6, Lines 17-18.

1 associated with the *initial reconfiguration of either Party's network*  
2 *Interconnection arrangement to conform to the terms and conditions*  
3 *contained in this Agreement.* Parties who initiate SS7 STP changes  
4 may be charged authorized non-recurring fees from the appropriate  
5 tariffs, but only to the extent such tariffs and fees are not inconsistent  
6 with the terms and conditions of this Agreement. [Emphasis added]  
7

8 Clearly, Sprint's proposal only applies to any "initial reconfiguration" of the  
9 network, not the ongoing placement of orders.  
10

11 **Q. Is there any other justification for Sprint's proposed language?**

12 A. Yes. It is substantially similar to what the parties included in the existing  
13 agreement at Attachment 3, Section 4.4. That language is as follows:  
14

15 4.4 Neither party intends to charge rearrangement, reconfiguration,  
16 disconnection, termination or other non-recurring fees that may be  
17 associated with the initial reconfiguration of either party's network  
18 interconnection arrangement contained in this Agreement. However, the  
19 interconnection reconfigurations will have to be considered individually  
20 as to the application of a charge. Notwithstanding the foregoing,  
21 BellSouth and Sprint PCS do intend to charge non-recurring fees for any  
22 additions to, or added capacity to, any facility or trunk purchased.  
23 Parties who initiate SS7 STP changes may be charged authorized non-  
24 recurring fees from the appropriate tariffs.  
25

26 **Q. How does Sprint propose to resolve this issue?**

27 A. Sprint requests the Authority adopt its proposed language for this issue as  
28 follows:

29 Neither Party intends to charge rearrangement, reconfiguration,  
30 disconnection, termination or other non-recurring fees that may be  
31 associated with the initial reconfiguration of either Party's network  
32 Interconnection arrangement to conform to the terms and conditions  
33 contained in this Agreement. Parties who initiate SS7 STP changes may  
34 be charged authorized non-recurring fees from the appropriate tariffs,

1 but only to the extent such tariffs and fees are not inconsistent with the  
2 terms and conditions of this Agreement.  
3

4 **Issue III.F – CLEC Meet Point Billing Provisions**  
5

6 **Issue III.F – What provisions governing Meet Point Billing are appropriate**  
7 **for the CLEC ICA?**

8 **Q. Do you have any response to AT&T witness McPhee's testimony on this**  
9 **issue?**<sup>71</sup>

10 A. Yes. The substance of this issue falls into the category of the parties not  
11 having adequate time to thoroughly discuss the proposed language and  
12 attempt to work out any differences.  
13

14 **Q. Why do you say that?**

15 A. I say that because some of what AT&T proposes as described in Mr.  
16 McPhee's Direct Testimony is not objectionable to Sprint.  
17

18 **Q. Can you provide an example?**

19 A. Yes. Mr. McPhee discusses AT&T's proposal to change from a multi-bill,  
20 multi-tariff billing arrangement to a multi-bill, single-tariff arrangement.<sup>72</sup>

21 Sprint does not object to this change.  
22

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<sup>71</sup> McPhee Direct, Pages 88-91.

<sup>72</sup> McPhee Direct, Page 89, Lines 9-21.



1 **Q. Is there any other AT&T proposal Sprint agrees to with respect to this**  
2 **issue?**

3 A. Yes. Sprint also agrees to AT&T's proposal to eliminate the use of  
4 Summary Usage Records ("SURs") and begin using the Exchange Message  
5 Interface ("EMI") format for the exchange of call detail records.

6

7 **Q. Does Sprint's agreement on the two aspects of this issue addressed**  
8 **above completely resolve this issue?**

9 A. No. AT&T has proposed language relative to records retention and the  
10 recreation of lost data. Mr. McPhee represents in his Direct Testimony that  
11 the parties disagree on these provisions.<sup>73</sup> That is not necessarily the case.  
12 However, similar language is already incorporated in Section 6.3 of  
13 Attachment 7 and Sprint sees no need to include language covering the same  
14 subject, yet with different timeframes, in Attachment 3, creating potential  
15 contractual ambiguity.

16 **Issue III.I – Pricing Schedule**

17

18 **Issue III.I.(1)(a) – If Sprint orders (and AT&T inadvertently provides) a**  
19 **service that is not in the ICA, (a) should AT&T be permitted to reject future**  
20 **orders until the ICA is amended to include the service? (b) Should the ICAs**  
21 **state that AT&T's provisioning does not constitute a waiver of its right to bill**  
22 **and collect payment for the service?**

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<sup>73</sup> McPhee Direct, Page 90, Lines 17-18.

1

2 **Q. Having read AT&T witness Pellerin's Direct Testimony on this issue do**  
3 **you believe it is possible that AT&T may provide a service that is not in**  
4 **the ICA?**

5 A. Yes, I believe it is possible (as I believed before reading her Testimony), but  
6 I still do not believe it is likely. As I stated in my Direct Testimony, in 11  
7 years of negotiating and implementing ICAs, I have never seen this happen.

8

9 **Q. Assuming this does happen, is rejecting future orders the appropriate**  
10 **remedy?**

11 A. No. This seems to be an overarching theme with AT&T – reject orders from  
12 or disconnect the services of requesting carriers as the first alternative to  
13 remedy issues that arise under the ICA. This is intercarrier extremism and  
14 should be rejected by the Authority.

15

16 **Q. Then what is the appropriate remedy?**

17 A. As I stated in my Direct Testimony,<sup>74</sup> a more cooperative way to deal with  
18 this issue would be to provide the service under an interim rate, negotiate an  
19 amendment to the ICA, and true the rate up or down, as appropriate.

20

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<sup>74</sup> Felton Direct, Page 61, Lines 11-14.

1   **Q.   Does Sprint hold the view that the omission of a product or service that**  
2       **AT&T provides from the ICA constitutes a waiver of AT&T's right to**  
3       **bill for such service?**

4   A.   No.

5

6   **Q.   What is Sprint's proposed resolution to this issue?**

7   A.   Sprint requests that the Authority reject AT&T's proposed language or, at a  
8       minimum, require AT&T to eliminate that language which would authorize  
9       the rejection of future orders.

10

11   **Issue III.I.(2) – Should AT&T's language regarding changes to tariff rates be**  
12   **included in the agreement?**

13

14   **Q.   After reading Ms. Pellerin's Direct Testimony, do you believe the**  
15       **parties have a legitimate dispute?**

16   A.   I don't know. As I stated in my Direct Testimony,<sup>75</sup> if the parties have  
17       simply incorporated a rate from an AT&T tariff by reference, Sprint agrees  
18       that any changes in the tariff would apply to Sprint. Moreover, if Sprint  
19       purchases a product or service directly out of the tariff, certainly any change  
20       to the tariff price would apply to Sprint. AT&T cannot, however, avoid its  
21       obligation to provide interconnection-related services that are subject to

---

<sup>75</sup> Felton Direct, Page 63, Lines 13-15.

1 Section 252(d)(2) pricing (e.g. Interconnection Facilities) by only offering  
2 such services via a tariff that does not include the appropriate pricing.

3  
4 **Q. Is there more than one perspective from which to view this issue?**

5 A. Yes, and I covered these in my Direct Testimony. The first scenario is  
6 where a rate (e.g., \$0.002173) is actually “lifted out of” the underlying tariff  
7 and populated in the ICA price sheet so that the actual rate appears in the  
8 ICA. The second scenario is where a reference to the tariff (e.g., FCC Tariff  
9 No. 1, Section 6.1(b)) is populated in the ICA price sheet such that no rate  
10 for that particular product or service appears in the ICA.

11  
12 **Q. What about a situation where a rate is “lifted out of” an AT&T tariff**  
13 **and populated directly in the ICA price sheet?**

14 A. In those situations, the price becomes part of the ICA and is disassociated  
15 with the tariff from which it originated. Any future changes to the actual  
16 tariff rate would no longer have any effect on the ICA rate, although the  
17 tariff was the original source of the rate.

18  
19 **Q. If a tariff reference is populated in the ICA price sheet, do future tariff**  
20 **rate changes apply to Sprint?**

21 A. Yes, to the extent the “tariff” service is not otherwise subject to Section  
22 252(d) pricing. If the tariff service is subject to Section 252(d) pricing (e.g.,  
23 facilities used for interconnection), the appropriate cost-based rate itself

1       should be incorporated into the price sheet rather than a mere reference to a  
2       tariff.

3

4     **Q.   Are you able to make a clear distinction based on Ms. Pellerin's Direct**  
5       **Testimony or AT&T's proposed language which of those two scenarios**  
6       **actually apply here?**

7     A.   No. Neither AT&T's proposed language nor Ms. Pellerin's Direct  
8       Testimony describing it clearly distinguish between these two alternatives.

9

10    **Q.   Under what circumstances would Sprint agree to utilize a tariff rate for**  
11       **an interconnection service?**

12    A.   Sprint would agree to utilize a rate from a tariff for an interconnection  
13       service if Sprint was comfortable that the rate was based upon TELRIC  
14       pricing principles, or when ordered to do so by the Authority.

15

16    **Q.   So, is Sprint trying to gain some kind of "competitive advantage"<sup>76</sup> or**  
17       **"receive preferential treatment"<sup>77</sup> as Ms. Pellerin alleges in her Direct**  
18       **Testimony?**

19    A.   No. This is a matter of Sprint seeking clear and unambiguous language in  
20       the ICA with respect to this issue.

21

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<sup>76</sup> Pellerin Direct, Page 102, Line 15.

<sup>77</sup> Pellerin Direct, Page 102, Line 23.

1   **Issue III.I.(3) – What are the appropriate terms and conditions to reflect the**  
2   **replacement of current rates?**

3

4   **Q.   In her Direct Testimony, AT&T witness Pellerin claims that Sprint’s**  
5       **proposed language obligates the parties to incorporate changes to**  
6       **current rates affected by an FCC or Authority order.<sup>78</sup> Is that true?**

7   A.   No. The parties are always free to negotiate rates that differ from Authority  
8       orders and nothing in Sprint’s language eliminates that right.

9

10   **Q.   Does Sprint really expect AT&T to notify Sprint of Authority-ordered**  
11       **rate changes as Ms. Pellerin claims?<sup>79</sup>**

12   A.   Yes.

13

14   **Q.   Why?**

15   A.   It is AT&T’s obligation to provide interconnection services at cost-based  
16       rates pursuant to Section 252(d)(2) of the Act. To the extent the FCC or the  
17       Authority modifies a cost-based rate, AT&T must notify all carriers with  
18       ICAs that include that particular rate element of the change.

19

20   **Q.   And, Sprint’s proposal would apply that rate change retroactively to**  
21       **the date of the FCC’s or Authority’s order?**

---

<sup>78</sup> Pellerin Direct, Page 103, Lines 16-17.

<sup>79</sup> Pellerin Direct, Page 105, Lines 11-14.

1 A. Yes, otherwise AT&T would have the incentive to delay notification for rate  
2 decreases and expedite notification for rate increases. If all rate changes  
3 apply back to the date of the relevant order, AT&T and every affected  
4 carrier is treated equally. And this proposal doesn't necessarily advantage  
5 one party or the other as rate changes could be up or down.

6

7 **Q. What about Ms. Pellerin's concern that huge balances due or refunds**  
8 **due could accrue if too much time passes before notification is made**  
9 **and the billed or billing party has not set aside adequate funds to meet**  
10 **that obligation?**

11 A. Under Sprint's proposal, that would not happen as AT&T would have the  
12 affirmative obligation to notify Sprint of a change when Sprint was not a  
13 party to the relevant proceeding instituting the change. When both parties  
14 were participants in the relevant proceeding, the party receiving the benefit  
15 of the rate change will undoubtedly notify the other party promptly of its  
16 desire to amend the ICA with the new rate.

17

18 **Q. Finally, Sprint's proposal requires an amendment to the ICA to**  
19 **effectuate the rate change. Why?**

20 A. Congress established interconnection agreements as the means to  
21 accomplish the goals of the Act. Amendments to implement rate changes  
22 are just the natural extension of that process. If AT&T disagrees with that  
23 process, its disagreement is with Congress, not Sprint.

1

2 **Q. What language does Sprint propose to resolve this issue?**

3 A. Sprint proposes the following language:

4 1.2 Replacement of Current Section 252(d) Rates

5

6 1.2.1 Certain of the current rates, prices and charges set forth in this  
7 Agreement have been established by the Commission to be rates, prices  
8 and charges for Interconnection Services subject to Section 252(d) of the  
9 Act ("Current Section 252(d) Rate(s)").  
10

11 1.2.2 If, during the Term of this Agreement the Commission or the FCC  
12 modifies a Current Section 252(d) Rate, or otherwise orders the creation  
13 of new Current Section 252(d) Rate(s), in any order or docket that is  
14 established by the Commission or FCC to be applicable to  
15 Interconnection Services subject to this Agreement, either Party may  
16 provide written notice of the ordered new Current Section 252(d) Rates  
17 ("Rate Change Notice"). Notwithstanding the foregoing, if Sprint is not  
18 a party to the proceeding in which the Commission or FCC ordered such  
19 modification or creation of new Section 252(d) Rate(s), AT&T-9STATE  
20 shall provide a Rate Change Notice to Sprint within sixty (60) days after  
21 the effective date of such order.  
22

23 1.2.3 Upon either Party's receipt of a Rate Change Notice, the Parties  
24 shall negotiate a conforming amendment which shall reflect replacement  
25 of the affected Current Section 252(d) Rate(s) with the new Section  
26 252(d) Rate(s) as of the effective date of the order that determined a  
27 change in rates was appropriate, and shall submit such amendment to the  
28 Commission for approval. In addition, as soon as is reasonably  
29 practicable after such Rate Change Notice, each Party shall issue to the  
30 other Party any adjustments that are necessary to reflect the new Rate(s).  
31

32 **Issue III.I.(4) – What are the appropriate terms and conditions to reflect the**  
33 **replacement of interim rates?**

34



1   **Q.   Does Sprint’s process for the replacement of interim rates require the**  
2       **parties to modify such interim rates?**<sup>80</sup>

3   A.   Yes.

5   **Q.   Why?**

6   A.   Sprint’s process requires the parties to replace interim rates when permanent  
7       rates are ordered by the Authority because interim rates are by definition  
8       *interim*. Calling a rate “interim” assumes the parties are including the rate  
9       in the ICA with the expectation that a replacement rate will be developed at  
10      some point in the future and will be incorporated in the ICA with an  
11      amendment.<sup>81</sup> Sprint’s proposed language is simply recognition of this fact.

13   **Q.   Are the parties free to agree to rates that differ from an Authority**  
14      **order or continue use of the interim rates?**

15   A.   Yes. The parties are always free to mutually agree to rates, terms, or  
16      conditions that differ from an Authority order, regardless of what the ICA  
17      provisions require, as long as such rate, term, or condition conforms with  
18      applicable law and is non-discriminatory.

20   **Q.   What language does Sprint propose to resolve this issue?**

21   A.   Sprint proposes the following language to resolve this issue:

---

<sup>80</sup> Pellerin Direct, Page 108, Lines 2-4.

<sup>81</sup> See discussion on necessity of ICA amendments above (Issue III.I.(3)).

1.3.1 Certain of the rates, prices and charges set forth in this Agreement may be denoted as interim rates ("Interim Rates"). Upon the effective date of a Commission Order establishing rates for any rates, prices or charges applicable to Interconnection Services specifically identified in this Agreement as Interim Rates, the Parties shall negotiate a conforming amendment which shall reflect replacement of the affected Interim Rate(s) with the new rate(s) ("Final Rate(s)") as of the effective date of the order that established such Final Rates or such other date as may be mutually agreed upon), and shall submit such amendment to the Commission for approval. In addition, as soon as is reasonably practicable after approval of such amendment, each Party shall issue to the other Party any adjustments that are necessary to implement such Final Rate(s).

**Issue III.I.(5) – Which Party’s language regarding prices noted as TBD (to be determined) should be included in the agreement?**

**Q. Do you have any issues with AT&T witness Pellerin’s Direct Testimony with respect to this issue?**

A. Yes. Ms. Pellerin’s Direct Testimony implies that AT&T has the right to unilaterally establish rates without Authority oversight and approval, and such rates would automatically apply to Sprint.<sup>82</sup> Sprint believes this is contrary to the spirit of the Act and FCC rules. As I’ve stated repeatedly, interconnection services should be priced at cost-based rates, and Authority oversight is necessary to ensure Congress’ intentions are faithfully carried out.

**Q. What is Sprint’s proposed resolution for this issue?**

A. Sprint asks the Authority to adopt its proposed language as follows:

---

<sup>82</sup> Pellerin Direct, Page 110, Lines 1-8.

1.5.1 When a rate, price or charge in this Agreement is noted as “To Be Determined” or “TBD” for an Interconnection Service, the Parties understand and agree that when a rate, price or charge is established for that Interconnection Service as approved by the Commission, that such rate(s), price(s) or charge(s) (“Established Rate”) shall, to the extent a Party provided such Interconnection Services under this Agreement, automatically apply back to the Effective Date of this Agreement without the need for any additional modification(s) to this Agreement or further Commission action. AT&T-9STATE shall provide Written Notice to Sprint of the Established Rate when it is approved by the Commission, Established Rate, and the Parties’ billing tables will be updated to reflect and charge the Established Rate, and the Established Rate will be deemed effective between the Parties as of the Effective Date of the Agreement. The Parties shall negotiate a conforming amendment, which shall reflect the Established Rate that applies to such Interconnection Service pursuant to this Section 1.5 above, and shall submit such Amendment to the State Commission for approval. In addition, as soon as is reasonably practicable after such Established Rate begins to apply, the Parties, as applicable, for such Interconnection Services to reflect the application of the Established Rate retroactively to the Effective Date of the Agreement between the Parties.

1.5.2 A party’s provisioning of such Interconnection Services is expressly subject to this Section 1.5 above and in no way constitutes a waiver of a party’s right to charge and collect payment for such Interconnection Services, or the Billed Party’s right to dispute such charges as provided in this Agreement.

#### **Section IV. – Billing Related Issues**

##### **Issue IV.A – General**

##### **Issue IV.A(1) – What general billing provisions should be included in Attachment 7?**

1   **Q.   In your Direct Testimony, you address Sprint’s concern that AT&T’s**  
2       **proposed general billing provisions did not recognize that Sprint may**  
3       **be a billing party. Has that aspect of this issue been resolved?**

4   A.   Yes. As I understand it, the parties have resolved the reciprocity aspect to  
5       this issue by agreeing to Sprint’s language for Sections 1.4 – 1.6 as follows:

6       1.4 Each Party shall bill the other on a current basis all applicable  
7       charges and credits.

8  
9       1.5 Payment Responsibility. Payment of all charges will be the  
10      responsibility of the Billed Party. The Billed Party shall make payment  
11      to the Billing Party for all services billed and due as provided in this  
12      Agreement. AT&T-9STATE is not responsible for payments not  
13      received by Sprint from Sprint's customer, and Sprint is not responsible  
14      for payments not received by AT&T-9STATE from AT&T-9STATE's  
15      customer. In general, one Party will not become involved in disputes  
16      between the other Party and its own customers.

17  
18      1.6      The Billing Party will render bills each month on established  
19      bill days for each of the Billed Party’s accounts.  
20

21   **Q.   Is Sprint’s concern with AT&T’s proposed methodology for**  
22       **effectuating the facility cost sharing provisions of the ICA still an issue?**

23   A.   Yes.

24

25   **Q.   AT&T witness Ferguson claims that AT&T “has been manually**  
26       **applying the Shared Facility Factor for Sprint.”<sup>83</sup> Is that accurate?**

27   A.   Generally, yes. However, contrary to Mr. Ferguson’s assertion, this process  
28       has not been unilaterally undertaken by AT&T at its sole cost.<sup>84</sup> It is more  
29       accurate to say that it is a cooperative process between both parties and that

---

<sup>83</sup> Ferguson Direct, Page 8, Lines 20-21.

<sup>84</sup> Ferguson Direct, Page 8, 23 through Page 9, Line 2.

1 both parties share in the cost to ensure the Shared Facility Factor is  
2 appropriately applied.

3

4 **Q. Mr. Ferguson also states that the easiest way to accomplish the sharing**  
5 **of facility costs would be for AT&T to render a bill for only Sprint's**  
6 **proportionate use of the facility. Do you agree?**

7 A. Absolutely. In fact, the FCC agrees with this premise as well. In 47 C.F.R.  
8 § 51.709(b) the FCC clearly provides that:

9 The rate of a carrier providing transmission facilities dedicated to the  
10 transmission of traffic between two carriers' networks shall recover only  
11 the costs of the proportion of that trunk capacity used by an  
12 interconnecting carrier to send traffic that will terminate on the  
13 providing carrier's network. Such proportions may be measured during  
14 peak periods.  
15

16 **Q. Can you paraphrase this FCC rule in layman's terms?**

17 A. Yes. Applying this rule to the instant issue, AT&T should only bill Sprint  
18 for that portion of the Interconnection Facility used by Sprint to terminate  
19 Authorized Services traffic that Sprint sends to AT&T.

20

21 **Q. It seems that, based on a clear reading of 51.709(b), the parties are not**  
22 **following the proper process for billing for the shared Interconnection**  
23 **Facility today. Please comment.**

24 A. I would agree. Mr. Ferguson characterizes the currently utilized practice as  
25 a "special accommodation that AT&T first made to Sprint – and only Sprint

1 – in 2001”.<sup>85</sup> This couldn’t be further from the truth. In actuality, this was  
2 an accommodation ***Sprint made to AT&T***. It was AT&T, not Sprint, whose  
3 billing system lacked the functionality to properly implement Rule  
4 51.709(b). Just as Sprint was cooperative in accommodating AT&T’s  
5 billing system limitations in the current agreement, Sprint is willing to  
6 continue that accommodation, although technically, under Rule 51.709(b),  
7 Sprint has no obligation to do so.

8  
9 **Q. Why is Sprint opposed to AT&T’s proposed new process?**

10 A. AT&T’s proposed language shifts the entire burden for operationalizing this  
11 contract provision to Sprint. In fact, the burden placed on Sprint by the  
12 AT&T proposed language is greater than the burden currently shared by the  
13 parties with the long-standing existing practice.

14  
15 **Q. Why does Sprint believe that the burden imposed by AT&T in its**  
16 **proposed language is greater than the burden that the parties currently**  
17 **share?**

18 A. In order for Sprint to comply with AT&T’s proposed language, Sprint  
19 would be required not only to audit circuit activity against the invoice  
20 rendered by AT&T but also track all AT&T rate elements, AT&T rates, and  
21 commission orders that impact the amounts Sprint would use to render such

---

<sup>85</sup> Ferguson Direct Page 8, Lines 18-19.

1 an invoice to AT&T. This burden is much greater than rendering a bill  
2 using one's own pricing and circuit activity systems.

3  
4 **Q. Mr. Ferguson states in his Direct Testimony<sup>86</sup> that he does not know**  
5 **Sprint's reasoning for objecting to AT&T's proposed language in**  
6 **2.10.1.1. Can you explain Sprint's reasoning?**

7 A. Yes. Sprint does not object to language regarding time periods for billing  
8 disputes ("credit claims"), however, language regarding disputes<sup>87</sup> is  
9 already included in Section 3 of Attachment 7 (as appropriate) and should  
10 not be duplicated here.

11  
12 **Q. What further objections does Sprint have to AT&T's proposed**  
13 **language for 2.10.1.1?**

14 A. Sprint also objects to AT&T's proposed language regarding the ability of a  
15 party to back-bill for existing products and/or services for which prices are  
16 altered by an Authority order. Sprint recognizes that the Authority has the  
17 authority to address back-billing time periods when altering ICA provisions.  
18 Sprint also recognizes that the parties will comply with any Authority order.  
19 However, this agreement should not presuppose the timelines within which  
20 the Authority may rule or add additional framework beyond what is  
21 provided for in such Authority order. Moreover, any Authority action that

---

<sup>86</sup> Ferguson Direct, Page 10, Line 4.

<sup>87</sup> Addressed as Issue IV.C in this arbitration.

1 does not specify a back-billing period should apply on a prospective basis  
2 only.

3  
4 **Issue IV.A(2) – Should six months or twelve months be the permitted back-**  
5 **billing period?**

6  
7 **Q. Mr. Ferguson repeatedly refers to the “consistency” of AT&T’s**  
8 **proposed back billing and back disputing time limits in his Direct**  
9 **Testimony.<sup>88</sup> Is there any compelling reason for making back billing**  
10 **and back disputing time limits equal?**

11 A. No. The billing party is auditing its own internal data to ensure accuracy of  
12 its billing. Since the data used to perform such audits is internal and  
13 available, it is not unreasonable for a billed party to expect timely and  
14 accurate bills within six (6) months of receiving service. On the other hand,  
15 the billed party must audit the invoice received from the billing party using  
16 not only internal data but external data found in the billing party’s tariffs,  
17 price lists, commission orders, etc. The billed party’s audit process is  
18 impacted by the availability of these external documents as well as the  
19 amount of detail (or lack thereof) provided on the invoice by the billing  
20 party.

21  

---

<sup>88</sup> Ferguson Direct, Page 12, Lines 3-5; Page 12, Lines 10-13; Page 35, Lines 1-2.



1   **Q.   Mr. Ferguson argues that charges for services rendered between 6**  
2       **months and 12 months ago are not more difficult to validate.<sup>89</sup> Why**  
3       **does Sprint believe that billing over 6 months old is more difficult to**  
4       **validate?**

5   A.   Even computer records are archived after certain periods of time making the  
6       validation of delayed (or stale) billing more difficult. For example, traffic  
7       records (which include millions of call records each day) become more  
8       difficult to analyze for a specific vendor and period of time when a billing  
9       party back-bills more than 6 months. Sprint stores archived data in summary  
10      format making it more costly and time consuming to perform audits.

11

12   **Q.   Does Sprint's proposed language benefit Sprint more than AT&T?**

13   A.   No. Mr. Ferguson's assertion<sup>90</sup> does not make sense to me. Unless and  
14       until AT&T demonstrates otherwise, using an appropriate measurement of  
15       exchanged IntraMTA traffic, the parties' traffic exchange is presumed to be  
16       roughly balanced so the billing would also be balanced - resulting in no  
17       added benefit to either party. Moreover, the size or quantity of the billed  
18       amounts bears no relationship to whether the billing party should be  
19       provided more leniency in producing an accurate and timely bill.

20

21   **Q.   What language does Sprint propose to resolve this issue?**

22   A.   Sprint proposes the following language:

---

<sup>89</sup> Ferguson Direct, Page 12, Line 8 through Page 13, Line 18.

<sup>90</sup> Ferguson Direct, Page 14, Lines 7-13.

1           2.10 Limitation on Back-billing

2  
3           2.10.1 Notwithstanding anything to the contrary in this Agreement, a  
4           Party shall be entitled to:  
5

6           2.10.1.1 Back-bill for any charges for services provided pursuant to this  
7           Agreement that are found to be unbilled or under-billed but only when  
8           such charges appeared or should have appeared on a bill dated within the  
9           six (6) months immediately preceding the date on which the Billing  
10          Party provided written notice to the Billed Party of the amount of the  
11          back-billing. The Parties agree that the six (6) month limitation on back-  
12          billing set forth in the preceding sentence shall be applied prospectively  
13          only after the Effective Date of this Agreement, meaning that the six (6)  
14          month period for any back-billing may only include billing periods that  
15          fall entirely after the Effective Date of this Agreement and will not  
16          include any portion of any billing period that began prior to the Effective  
17          Date of this Agreement.  
18

19          2.10.1.2 Back-billing, as limited above, will apply to all services  
20          purchased under this Agreement.  
21

22   **Issue IV.B – Definitions**  
23

24   **Issue IV.B(1) – What should be the definition of “Past Due”?**  
25

26   **Q.   Mr. Ferguson states in his Direct Testimony that the parties agree**  
27       **charges are “Past Due” when payment is not received by the Bill Due**  
28       **Date, received after the Bill Due Date, or not received in funds that are**  
29       **readily available.<sup>91</sup> Does Sprint concur with his statement?**

---

<sup>91</sup> Ferguson Direct, Page 14, Line 22 through Page 15, Line 2.

1 A. Yes. Sprint does not dispute the fact that payments of valid charges should  
2 be made by the due date or will be considered "Past Due." However, as I  
3 state in my Direct Testimony,<sup>92</sup> once a charge is disputed it becomes a  
4 Disputed Amount rather than a Past Due amount and is not "rightly" due  
5 until the dispute is resolved.

6

7 **Q. What is the benefit to AT&T if its proposed definition of "Past Due" is**  
8 **approved?**

9 A. AT&T's apparent reason for including disputed charges as part of the  
10 definition of "Past Due" hinges on its ability to assess late payment charges  
11 ("LPC") for amounts that are part of a good faith dispute.

12

13 **Q. Should the billing party assess LPC associated with disputed amounts?**

14 A. No. Charges in dispute are not subject to billing and collection treatment by  
15 the billing party until the dispute is resolved. As a matter of fact, Mr.  
16 Ferguson states in his own testimony<sup>93</sup> that if a disputed amount is resolved  
17 in favor of the billed party a credit for the LPC would be required.

18

19 **Q. When is a disputed amount subject to LPC?**

20 A. LPC are never applicable while a dispute is pending resolution. LPC are  
21 only applicable if the dispute is resolved in favor of the billing party at

---

<sup>92</sup> Felton Direct, Page 74, Lines 21-22.

<sup>93</sup> Ferguson Direct, Page 16, Lines 13-16.

1 which time it is no longer a disputed amount but an unpaid ("Past Due")  
2 amount.

3

4 **Q. What is Sprint's proposed language to resolve this issue?**

5 A. Sprint's proposed language is as follows:

6 "Past Due" means when a Billed Party fails to remit payment for any  
7 undisputed charges by the Bill Due Date, or if payment for any portion  
8 of the undisputed charges is received from the Billed Party after the Bill  
9 Due Date, or if payment for any portion of the undisputed charges is  
10 received in funds which are not immediately available to the Billing  
11 Party as of the Bill Due Date (individually and collectively means Past  
12 Due).  
13

14 **Issue IV.B(2) – What deposit language should be included in each ICA?**  
15

16 **Q. What is AT&T's logic for exempting itself from being subject to the**  
17 **deposit provision?**

18 A. Mr. Ferguson states that AT&T has lost tens of millions of dollars over the  
19 years due to non-payment.<sup>94</sup> He also erroneously states that Sprint has not  
20 incurred any losses due to non-payment by billed parties. Further, Mr.  
21 Ferguson provides a comparison that is somewhat confusing. He compares  
22 the payment histories of AT&T's billing to any and all customers (not just  
23 Sprint) to AT&T's payment history with Sprint. This comparison is  
24 immaterial since it assumes that Sprint doesn't bill any other party. While  
25 AT&T has a good payment history with Sprint, Sprint also has a good  
26 payment history with AT&T (as well as every other vendor with which it

---

<sup>94</sup> Ferguson Direct, Page 20, Lines 3-4.

1 does business). By extension, AT&T's logic in exempting itself from a  
2 deposit requirement (in a reciprocal fashion) would imply that Sprint should  
3 also be exempted and the entire section removed. Finally, Mr. Ferguson  
4 suggests that it is fair to exempt itself from the symmetrical language  
5 proposed by Sprint out of concern that a carrier might opt-in to this ICA and  
6 somehow disadvantage AT&T. AT&T's imagined threats are no reason for  
7 it to disadvantage Sprint.

8  
9 **Q. Is Sprint's desire then to remove the section altogether?**

10 A. No. As I have stated, Sprint is amenable to including deposit provisions in  
11 the ICA but believes that such provisions should be fair and balanced.

12  
13 **Q. Does the reciprocal deposit language in any way harm AT&T?**

14 A. No. In fact the same provisions that exempt credit worthy companies would  
15 protect AT&T from paying a deposit just as it does Sprint. That is, AT&T  
16 by virtue of a good payment history would also not represent a significant  
17 risk and could be exempt from the deposit provision under the same rules as  
18 Sprint.

19  
20 **Q. Is AT&T's proposed language and associated testimony consistent with**  
21 **the reciprocity of the other sections in Attachment 7?**

22 A. No. AT&T and Sprint have agreed on reciprocal language concerning  
23 billing, payment, disputes, etc. The deposit language discussed here is just

1 one more aspect of billing and should be addressed in a reciprocal fashion as  
2 well.

3  
4 **Q. Why does Sprint object to AT&T's language regarding new and certain**  
5 **existing CLECs in paragraph 1.8.1?**

6 A. Sprint objects to AT&T's proposed language regarding new and certain  
7 existing CLECs in 1.8.1 because those references make the provision non-  
8 reciprocal. Mr. Ferguson states that Sprint fails to address circumstances  
9 involving new CLECs and certain existing CLECs who have filed for  
10 bankruptcy. To the contrary, Sprint's language would allow the billing  
11 party (whether AT&T or Sprint) to secure the accounts of the Billed Party  
12 based on appropriate financial and billing history criteria. Sprint's provision  
13 would include new CLECs or existing CLECs that have filed bankruptcy.

14  
15 **Q. Sprint's proposed language in Section 1.8.3 requiring that subsequent**  
16 **determinations of creditworthiness be governed by certain rules is**  
17 **characterized by Mr. Ferguson as "too limiting."<sup>95</sup> Please comment.**

18 A. Both parties agreed that parameters would be included to describe when a  
19 subsequent audit would be conducted. Sprint has offered that an increase in  
20 the Billed Party's gross billing of 25% over the most recent six-month  
21 period and the current financial position of the Billed Party would provide  
22 adequate guidelines for determining when/if a subsequent review of

---

<sup>95</sup> Ferguson Direct, Page 25, Line 13..

1 creditworthiness should occur. AT&T on the other hand, proposes language  
2 that is completely ambiguous.

3  
4 **Q. What makes AT&T's proposed language ambiguous?**

5 A. AT&T's proposed language provides that the increase in gross monthly  
6 billing is "beyond the level most recently used to determine the level of  
7 security deposit." AT&T's language would basically give it the unilateral  
8 authority to, at any point, request whatever deposit amount it chooses and  
9 then threaten the billed party with discontinuance of service if the billed  
10 party does not provide the deposit.

11  
12 **Q. What recourse is available to the billed party if it does not agree with**  
13 **the AT&T deposit request under the AT&T proposed language?**

14 A. Even if Sprint disagreed with AT&T's deposit request and sought redress  
15 through the dispute resolution process in the ICA, nothing in AT&T's  
16 proposed language would prevent it from discontinuing service to Sprint  
17 pending the outcome of the dispute resolution process.

18  
19 **Q. Is the timeframe proposed by AT&T for deposit payments adequate**  
20 **time to review and pay/dispute the requested deposit?**

21 A. No. If AT&T's proposed language is approved, Sprint would have only 15-  
22 30 days to request the associated back-up, wait for its arrival, conduct  
23 audits, dispute or enter the payment cycle and escalate as needed. This is

1 not a sufficient amount of time, especially since AT&T's language further  
2 would provide that after the 15 or 30 days, it may begin to disconnect  
3 service.

4  
5 **Q. Mr. Ferguson states that the insertion of "agreed to or Authority-**  
6 **ordered" is not necessary for Section 1.8.5.<sup>96</sup> Why is the descriptive**  
7 **"agreed to or Authority-ordered" appropriately inserted by Sprint?**

8 A. The insertion by Sprint provides clarity concerning the security that is the  
9 subject of this section. The security described in 1.8.5 is one that has been  
10 either agreed to or Authority-ordered. Besides that, Mr. Ferguson concedes  
11 that "[i]f a security deposit is in place, it is in place because the Parties  
12 agreed or a [C]ommission ordered it." Therefore, it is unclear why AT&T  
13 would object to explicitly saying as much when the parties are in conceptual  
14 agreement.

15  
16 **Q. Mr. Ferguson states that Sprint did not provide alternative language for**  
17 **Sections 1.8.7 and 1.8.8.<sup>97</sup> Is that a correct statement?**

18 A. Not completely. Sprint has provided proposed language for Section 1.8.7 as  
19 below. Sprint's proposed language would simply seek to make the section  
20 reciprocal.

21 'The Billing Party shall release or return any security deposit,  
22 within thirty (30) days of its determination that such security is no  
23 longer required by the terms of this Attachment, or within thirty (30)

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<sup>96</sup> Ferguson Direct, Page 29, Lines 1-7.

<sup>97</sup> Ferguson Direct, Page 30, Line 5.



1 days of the Parties establishing that the Billed Party satisfies the  
2 standards set forth in this Attachment or at any such time as the  
3 provision of service to the Billed Party is terminated pursuant to this  
4 Agreement as applicable. The amount of the deposit will first be  
5 credited against any of the Billed Party's outstanding account(s), and  
6 any remaining credit balance will be refunded within thirty (30) days.'

7  
8 Sprint did not propose language for Section 1.8.8 because the provision for a  
9 subsequent determination of creditworthiness is already covered by Section  
10 1.8.3. AT&T's proposed language in 1.8.8 is repetitive.

11  
12 **Q. Did Sprint provide any alternative language for Section 1.8.9?**

13 A. No. Sprint's proposed language regarding deposits does not include  
14 references to Letters of Credit or Surety Bonds so there was no need for this  
15 section.

16  
17 **Q. What language does Sprint propose to resolve this issue?**

18 A. Sprint proposes the following language:

19 1.8.1 General Terms. If the Party that is billed for services under this  
20 Agreement (the "Billed Party") fails to meet the qualifications described  
21 in this Section for continuing creditworthiness, the other Party (the  
22 "Billing Party") reserves the right to reasonably secure the accounts of  
23 the Billed Party for the purchase of services under this Agreement with a  
24 suitable form of security pursuant to this Section.

25  
26 1.8.2 Initial Determination of Creditworthiness. Upon request, the  
27 Billing Party may require the Billed Party to provide credit profile  
28 financial information in order to determine whether or not security  
29 should reasonably be required, and in an amount that does not exceed  
30 more than an amount equal to one (1) month's total net billing between  
31 the Parties under this Agreement in a given state. The Parties have  
32 discussed one another's creditworthiness in accordance with the  
33 requirements of this Section and determined that no additional security

1 of any kind is required from one Party to the other upon the execution of  
2 this Agreement.  
3

4 1.8.3 Subsequent Determination of Creditworthiness. On an annual  
5 basis, beginning not earlier than one (1) year after execution of this  
6 Agreement, the Billing Party may review the need for a security deposit  
7 if (i) subject to a standard of commercial reasonableness, a material  
8 change in the circumstances of the Billed Party so warrants and gross  
9 monthly billing by the Billing Party to the Billed Party has increased for  
10 services under this Agreement by more than twenty-five (25%) over the  
11 most recent six-month period, and (ii) the Billed Party (or its parent  
12 holding company) does not have total assets of at least five billion  
13 dollars (\$5,000,000,000.00).  
14

15 1.8.4 If the conditions required in 1.8.3 are met and the Billed Party  
16 does not otherwise have a good payment history, the Billing Party may  
17 provide the Billed Party fifteen (15) days written notice of the Billing  
18 Party's intent to review the Billed Party's credit worthiness. Upon the  
19 Billed Party's receipt of the Billing's Party's intent to review notice, the  
20 Parties agree to work together to determine the need for or amount of a  
21 reasonable initial or increase in deposit. If there is any dispute regarding  
22 whether the conditions required in 1.8.3 have been met, or the Parties are  
23 otherwise unable to agree upon a reasonable initial or increase in  
24 deposit, then the Billing Party must file a petition for resolution of the  
25 dispute. Such petition shall be filed with the Commission in the state in  
26 which the Billed Party has the highest amount of charges billed under  
27 this Agreement. The Parties agree that the decision ordered by such  
28 Commission will be binding within all of the AT&T-9STATES.  
29

30 1.8.5 Any such agreed to or Commission-ordered security shall in no  
31 way release the Billed Party from its obligation to make complete and  
32 timely payments of its bills, subject to the bill dispute procedures set  
33 forth in this Attachment.  
34

35 1.8.7 The Billing Party shall release or return any security deposit,  
36 within thirty (30) days of its determination that such security is no  
37 longer required by the terms of this Attachment, or within thirty (30)  
38 days of the Parties establishing that the Billed Party satisfies the  
39 standards set forth in this Attachment or at any such time as the  
40 provision of service to the Billed Party is terminated pursuant to this  
41 Agreement as applicable. The amount of the deposit will first be credited

1           against any of the Billed Party's outstanding account(s), and any  
2           remaining credit balance will be refunded within thirty (30) days.  
3

4   **Issue IV.B(3) – What should be the definition of “Cash Deposit”?**  
5

6   **Q.   Do you have any Rebuttal Testimony for this issue?**

7   A.   No. My Direct Testimony sufficiently addresses this issue.  
8

9   **Issue IV.B(4) – What should be the definition of “Letter of Credit”?**  
10

11   **Q.   Do you have any Rebuttal Testimony for this issue?**

12   A.   No. My Direct Testimony sufficiently addresses this issue.  
13

14   **Issue IV.B(5) – What should be the definition of “Surety Bond”?**  
15

16   **Q.   Do you have any Rebuttal Testimony for this issue?**

17   A.   No. My Direct Testimony sufficiently addresses this issue.  
18

19   **Issue IV.C – Billing Disputes**  
20

21   **Issue IV.C(1) – Should the ICA require that billing disputes be asserted**  
22   **within one year of the date of the disputed bill?**  
23

1 **Q. Since Mr. Ferguson repeatedly discusses the inconsistency of Sprint's**  
2 **proposed time frames for back-billing versus disputes,<sup>98</sup> what evidence**  
3 **would Sprint provide to support a differing time frame for filing a**  
4 **dispute than for discovering one's own billing errors?**

5 A. Sprint would offer the same support as provided in this rebuttal for issue  
6 IV.A.2. The party who is auditing an invoice (whether it be AT&T or  
7 Sprint) must audit using external resources (invoices received with differing  
8 amounts of detail, tariffs, commission orders, etc.) that are not controlled by  
9 the auditing party to validate against the auditing party's internal resources.  
10 This process is time consuming and the billed party should be afforded  
11 every opportunity to ensure that it is being billed properly for services.  
12 When the billing party conducts audits of its own data to ensure billing  
13 accuracy, there is a reasonable expectation that the billing party should be  
14 able to conduct those audits within 6 months of providing the service.

15  
16 **Q. Mr. Ferguson refers to Sprint's proposed 24 month-limit as "overly**  
17 **liberal."<sup>99</sup> Do you agree that 24 month's is "overly liberal"?**

18 A. No, I don't believe twenty-four months is liberal at all. Rather, it is a  
19 commercially reasonable time frame, particularly when measured against  
20 statutes of limitation. As stated in my testimony,<sup>100</sup> the FCC's statute of  
21 limitations for interstate access billing disputes is 24 months. A general

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<sup>98</sup> Ferguson Direct, Page 12, Lines 3-5; Page 12, Lines 10-13; Page 35, Lines 1-2..

<sup>99</sup> Ferguson Direct, Page 34, Line 21.

<sup>100</sup> Felton Direct, Page 81, Lines 16-17.

1 Tennessee statute of limitations for written contracts is six years (Tenn.  
2 Code Ann. § 28-3-109).

3  
4 **Q. Would the adoption of Sprint's proposed language benefit one party**  
5 **more than the other?**

6 A. No. As stated previously in rebuttal of IV.A.(2), unless and until AT&T can  
7 demonstrate otherwise, the current traffic balance is presumed to be roughly  
8 balanced, resulting in any associated billing also being presumed to be  
9 roughly balanced, making this assertion<sup>101</sup> by AT&T generally incorrect.

10  
11 **Q. Mr. Ferguson notes that the Authority has approved at least seven ICAs**  
12 **that included AT&T's proposed 12-month back-billing limitation.<sup>102</sup>**  
13 **What is the relevance of that fact?**

14 A. There is really no relevance to the fact that AT&T voluntarily agreed to a  
15 12-month back-billing limitation with 7 carriers in the State of Tennessee  
16 and the Authority approved all of those ICAs. If Sprint and AT&T agreed  
17 to a 12-month back-billing limitation, I'm sure the Authority would approve  
18 that aspect of the ICA as well. Since the parties do not agree, however, it is  
19 up to the Authority to consider the importance of a billed party having the  
20 latitude to look back 24 months to ensure the billing party is issuing accurate  
21 bills.

22  

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<sup>101</sup> Ferguson Direct, Page 36, Lines 20-25.

<sup>102</sup> Ferguson Direct, Page 37, Lines 1-2.

1 **Q. What language does Sprint propose to resolve this issue?**

2 A. Sprint proposes the following language:

3 3.1.1 Notwithstanding anything contained in this Agreement to the  
4 contrary, a Party shall be entitled to dispute only those charges which  
5 appeared on a bill dated within the twenty-four (24) months immediately  
6 preceding the date on which the Billing Party received notice of such  
7 Disputed Amounts.  
8

9 **Issue IV.C(2) – Which Party’s proposed language concerning the form to be**  
10 **used for billing disputes should be included in the ICA?**

11

12 **Q. Mr. Ferguson describes unfair costs to AT&T to “correct Sprint’s**  
13 **billing information, populate the missing and incomplete data, look up**  
14 **accounts, and reformat the dispute forms.”<sup>103</sup> Please address these**  
15 **concerns.**

16 A. The parties have successfully agreed on the specific data that is required  
17 when filing a dispute with the other party in this same section 3.3.1. The  
18 only disagreement is the form used to transmit the data and whether one  
19 party should bear the burden of cost related to the other party’s internal  
20 systems. If AT&T is truly altering the information provided by Sprint on its  
21 dispute notice (in substance rather than format), there is a larger concern that  
22 AT&T may be altering the nature of the dispute or critical details. However,  
23 if AT&T is simply reformatting data provided by Sprint so it will fit neatly  
24 within AT&T’s automated bill dispute platform, I would reiterate that Sprint

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<sup>103</sup> Ferguson Direct, Page 38, Line 20 through Page 39, Line 1.

1 has been using its existing bill dispute format for at least 6 years with  
2 AT&T.<sup>104</sup>  
3

4 **Q. Can Sprint elaborate on the cost associated with using AT&T's form**  
5 **for filing billing disputes?**

6 A. Yes. Sprint audits invoices from 2000 different billing parties each month.  
7 Each of those billing parties renders multiple bills to Sprint. Sprint has  
8 implemented mechanized controls to assist with bill processing and payment  
9 in order to facilitate its timely payment to vendors such as AT&T (much like  
10 AT&T has done). These controls include a system generated billing dispute  
11 form that provides all the necessary information required by AT&T and  
12 agreed upon by the parties for a dispute. If Sprint were to alter its system to  
13 accommodate the individual dispute forms for AT&T or each of the other  
14 billing parties who render invoices to Sprint, the cost to Sprint and the  
15 overall bill processing cycle would increase exponentially and have ripple  
16 effects to the other vendors for which Sprint pays bills.  
17

18 **Q. Does use of a form other than the Billing Party's form hinder resolution**  
19 **of the dispute?**

20 A. No, not as long as the dispute form contains all of the relevant information.  
21 It is the content of the dispute notice that drives resolution of a dispute issue,  
22 not the form used to deliver that information. AT&T is simply forcing its

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<sup>104</sup> Felton Direct, Page 83, Line 10.

own internal system limitations on the rest of the industry. Sprint currently accepts AT&T's dispute notices in the format that AT&T chooses to provide and AT&T should *continue* to reciprocate by accepting Sprint's bill dispute format.

**Q. Does Sprint's dispute form contain all of the necessary information to effectively resolve disputes?**

**A.** Yes. As I stated in my Direct Testimony, the parties have successfully used Sprint's dispute form for the past 6 years.

**Q. What language does Sprint propose to resolve this issue?**

**A.** Sprint proposes the following language:

3.3.1 A "Billing Dispute" means a dispute of a specific amount of money actually billed by the Billing Party. The Billed Party may, at its sole option and in its sole discretion, submit disputes through the use of either (a) the Billed Party's internal processes to prepare and submit disputes, or (b) a Billing Party proposed "Billing Claims Dispute Form", subject to the Billing Party paying all non-recurring and recurring costs the Billed Party may incur to modify the Billed Party's internal processes to use such proposed form. The dispute must be made by the Disputing Party in writing and supported by documentation, which clearly shows the basis for dispute of the charges. The dispute must be itemized to show the date and account number or other identification (i.e., CABS/ESBA/ASBS or BAN number) of the bill in question; telephone number, circuit ID number or trunk number in question if applicable; any USOC (or other descriptive information) relating to the item in question; and the amount billed. By way of example and not by limitation, a Billing Dispute will not include the refusal to pay all or part of a bill or bills when no written documentation is provided to support the dispute, nor shall a Billing Dispute include the refusal to pay other amounts owed by the Disputing Party until the dispute is resolved. Claims by the Parties for damages of any kind will not be considered a Billing Dispute for purposes of this Section. Once the Billing Dispute is resolved the Disputing Party will make payment on any of the resolved



1           disputed amount owed to the Billing Party as part of the next  
2           immediately available bill-payment cycle for the specific account, or the  
3           Billing Party shall have the right to pursue normal treatment procedures.  
4           Any credits due to the Disputing Party, pursuant to the Billing Dispute,  
5           will be applied to the Disputing Party's account by the Billing Party  
6           upon resolution of the dispute as part of the next available invoice cycle  
7           for the specific account.  
8

9       **Issue IV.D – Payment of Disputed Bills**  
10

11       **Issue IV.D(1) – What should be the definition of “Non-Paying Party”?**  
12

13       **Q.   Mr. Ferguson states that the use of Sprint's definition would**  
14           **“effectively eliminate [Section 1.12] from the ICA.”<sup>105</sup> Is it Sprint's**  
15           **intention to eliminate Section 1.12 by its proposed definition of Non-**  
16           **Paying Party?**

17       A.   No. Section 1.12 requires the Billed Party to give notice to the Billing Party  
18           of the amount that is unpaid and in dispute by the bill due date. Sprint is in  
19           agreement with the concept of this section. Perhaps the term “Billed Party”  
20           is best used in this reference to ensure the contract term is clear.  
21

22       **Q.   Is the term Non-Paying Party appropriately used under the Sprint's**  
23           **proposed definition in Section 2.4?**

24       A.   Yes. This section addresses a situation where the billing party has not  
25           received notice of dispute or payment of charges and a notice has been sent  
26           to the Non-Paying Party. At this point, there is no dispute so the amounts

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<sup>105</sup> Ferguson Direct, Page 40, Line 24.

1 due are “undisputed and unpaid.” If the Non-Paying Party receives the  
2 notice and determines that a portion or the entire amount due is under  
3 dispute, a dispute is filed. Once the dispute is filed, the billed party would  
4 appropriately be referred to as the Disputing Party as referenced in section 3  
5 of this attachment.

6  
7 **Q. Are there other uses of this definition that should be addressed?**

8 A. Yes. Mr. Ferguson only addresses one other instance.

9  
10 **Q. Which other instance is addressed by Mr. Ferguson?**

11 A. Mr. Ferguson addresses the use of “Non-Paying Party” in AT&T’s proposed  
12 escrow provision addressed in this hearing under Issue IV.D.3. Sprint  
13 opposes the use of escrow for disputed billed amounts, however, if escrow  
14 language is approved, Sprint proposes that the billed party filing a dispute be  
15 referred to as the Disputing Party rather than the Non-Paying Party.

16  
17 **Q. What other section uses the term “Non-Paying Party”?**

18 A. Section 2.2. The term as defined by Sprint is appropriately used in this  
19 section. This section refers to undisputed and unpaid charges so the billed  
20 party would appropriately be referred to as the Non-Paying Party. Further  
21 this section states that the Billing Party will send a disconnect notice to the  
22 Non-Paying Party.

1 **Q. What is the harm if the Authority approves the AT&T definition of**  
2 **“Non-Paying Party” as it relates to Section 2.2?**

3 A. AT&T’s definition of Non-Paying Party would imply that Sprint’s services  
4 could be subject to disconnect even if a billed amount is part of a good faith  
5 dispute. Treatment action such as disconnection of service should only  
6 apply to balances that are undisputed and meet the other qualifications  
7 described in the agreement.

8  
9 **Q. What language does Sprint propose to resolve this issue?**

10 A. Sprint proposes the following language:

11 “Non-Paying Party” means the Party that has not made payment of  
12 undisputed amounts by the Bill Due Date of all amounts within the bill  
13 rendered by the Billing Party.  
14

15 **Issue IV.D(2) – What should be the definition of “Unpaid Charges”?**  
16

17 **Q. Mr. Ferguson states that use of the term “Unpaid Charges” in Section**  
18 **2.4 requires the definition proposed by AT&T in order for the provision**  
19 **to work.<sup>106</sup> Is that a correct statement?**

20 A. No. Section 2.4 addresses the actions required by the billed party if it  
21 desires to dispute any of the “Unpaid Charges.” Since all charges are  
22 undisputed before a dispute has been filed, either AT&T’s or Sprint’s  
23 definition of “Unpaid Charges” would render the same result in Section 2.4.  
24 At the point a dispute is filed, the appropriate term for the amount not paid

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<sup>106</sup> Ferguson Direct, Page 42, Line 23 through Page 43, Line 2.

1 would then be Disputed Amount as used in Section 3 (where dispute  
2 provisions are stated).

3  
4 **Q. Are there other sections that also require the use of Sprint's proposed**  
5 **definition of "Unpaid Charges"?**

6 A. Yes. As mentioned in Issue IV.E below, Section 2.2 provides for the Billing  
7 Party to send disconnect notice associated with Unpaid Charges. If the  
8 Authority approves the definition as proposed by AT&T, Section 2.2 would  
9 imply that Sprint's services could be disconnected if there are amounts in  
10 dispute beyond the bill due date.

11  
12 **Q. What language does Sprint propose to resolve this issue?**

13 A. Sprint proposes the following language:

14 "Unpaid Charges" means any undisputed charges billed to the Non-  
15 Paying Party that the Non-Paying Party did not render full payment to  
16 the Billing Party by the Bill Due Date.  
17

18 **Issue IV.D(3) – Should the ICA include AT&T's proposed language**  
19 **requiring escrow of disputed amounts?**

20  
21 **Q. Mr. Ferguson asserts that AT&T has lost tens of millions of dollars to**  
22 **carriers that disputed bills without a proper basis and then had no**  
23 **funds to pay the amounts owed.<sup>107</sup> Has Sprint disputed AT&T bills**

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<sup>107</sup> Ferguson Direct, Page 44, Lines 4-8.

1       **without a proper basis and then not had the funds to pay amounts**  
2       **owed?**

3     A.   No.   Sprint only files disputes that are good-faith disputes.   Sprint  
4       recognizes the fact that there are situations where a dispute may be filed,  
5       rejected by the billing party with additional facts provided to billed party,  
6       and then paid to billing party as a result of the additional auditable  
7       information.   At the point that a dispute is resolved, Sprint certainly pays  
8       any amounts owed.

9  
10   **Q.   In that same regard, describe other provisions within the agreement**  
11       **that provide adequate protection to both parties for resolution of**  
12       **disputes and associated payments/credits.**

13   A.   Section 3.3.1 of Attachment 7 describes specific requirements associated  
14       with filing a dispute, resolution timelines, and cure based on the final  
15       resolution.   This section provides that either party may take additional  
16       measures beyond informal dispute resolution in the event that a dispute issue  
17       is not being resolved.   In addition, Section 2<sup>108</sup> describes rights to review a  
18       billed party's creditworthiness and collect or increase a security deposit  
19       based on certain criteria.   Both of these sections as proposed by Sprint  
20       would provide adequate protection to both AT&T and Sprint as a Billing  
21       Party.

22  

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<sup>108</sup> As further discussed in Issue IV.B(2).

1   **Q.   What does Sprint recommend to the Authority to resolve this issue?**

2   A.   Sprint requests the Authority reject AT&T's proposed escrow language.

3

4   **Issue IV.E – Service Disconnection**

5

6   **Issue IV.E(1) – Should the period of time in which the Billed Party must**  
7   **remit payment in response to a Discontinuance Notice be 15 or 45 days?**

8

9   **Q.   Why is Mr. Ferguson's assertion that a 15-day period is sufficient time**  
10       **to render payment or file a dispute after receiving a Disconnection**  
11       **Notice<sup>109</sup> unreasonable?**

12   A.   The Disconnect Notice is the first notice to the Billed Party that an issue  
13       exists. Sprint's practice is to either pay the balance due by the due date or  
14       file a good-faith dispute. If there is ever an instance where a Disconnection  
15       Notice is sent to Sprint as a result of an unpaid/past-due balance, the first  
16       action on Sprint's part is to ensure receipt of the original invoice for which  
17       payment is not made. If the invoice was not received, the invoice must first  
18       be sent to Sprint for processing and subsequent payment and/or dispute.  
19       This process takes longer than AT&T's overly aggressive 15 days. It is not  
20       reasonable for AT&T to disconnect service within 15 days in this situation.  
21       Further, if the invoice was received timely but the payment and/or dispute  
22       transmission was lost or misrouted, resolution of this circumstance also

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<sup>109</sup> Ferguson Direct, Page 47, Lines 1-2.

1 requires more than 15 days and should not place Sprint's customers at risk  
2 of losing their service. It is not unheard of that a Billing Party may  
3 misapply a payment or that a payment/dispute transmission may be lost.  
4 Sprint's proposal simply protects the Billed Party in the event that there is  
5 some loss of data that has caused the unpaid/undisputed past due situation.

6  
7 **Q. What language does Sprint propose to resolve this issue?**

8 A. Sprint proposes the following language:

9 "Discontinuance Notice" means the written notice sent by the Billing  
10 Party to the other Party that notifies the Non-Paying Party that in order  
11 to avoid disruption or disconnection of the Interconnection products  
12 and/or services, furnished under this Agreement, the Non-Paying Party  
13 must remit all undisputed Unpaid Charges to the Billing Party within  
14 forty-five (45) calendar days following receipt of the Billing Party's  
15 notice of undisputed Unpaid Charges.  
16

17 **Issue IV.E(2) – Under what circumstances may a Party disconnect the other**  
18 **Party for nonpayment, and what terms should govern such disconnection?**

19  
20 **Q. Based on Mr. Ferguson's testimony regarding the involvement of the**  
21 **Authority prior to termination of Sprint's service to Tennessee**  
22 **consumers,<sup>110</sup> what risk is presented if AT&T's proposed language is**  
23 **approved?**

24 A. Based on AT&T's proposed language, a Tennessee consumer who receives  
25 service from Sprint could be disconnected if there were some issue with  
26 invoicing, payment, or dispute transmission that is not resolved within 15

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<sup>110</sup> Ferguson Direct, Page 48, Lines 15-18.

1 days of an invoice due date. This action is extreme not only for Sprint but  
2 for consumers within Tennessee.

3  
4 **Q. Mr. Ferguson states that adding time for Authority approval of a**  
5 **discontinuance of service is a tactic of delaying payment.<sup>111</sup> Please**  
6 **comment.**

7 **A.** Nothing could be further from the truth. This is an overreaction to  
8 unfortunate circumstances - bills unpaid by other carriers, not Sprint - in the  
9 past. Moreover, the viability of any carrier's business relies on its  
10 customers and their satisfaction with the service they enjoy. It would be  
11 detrimental to Sprint or any other carrier to have service terminated, not to  
12 mention the negative effect on end users. Sprint seeks to have provisions  
13 within the agreement that would protect the consumer as well as Sprint from  
14 premature treatment activities of this severity.

15  
16 **Q. Mr. Ferguson states that the party receiving the notice of**  
17 **discontinuance certainly has the opportunity to take the issue to the**  
18 **Authority.<sup>112</sup> How likely is it that every notice of discontinuance would**  
19 **become an issue before the Authority anyway?**

20 **A.** Very likely. As described above, disconnection of service is the most  
21 extreme measure AT&T could take against the Billed Party and its end

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<sup>111</sup> Ferguson Direct, Page 48, Lines 18-22.

<sup>112</sup> Ferguson Direct, Page 49, Lines 3-6.



1 users. Any “threat” of disconnection (as AT&T describes it) would  
2 immediately be brought before the Authority.  
3

4 **Q. What other protection does the Billing Party have in this ICA?**

5 A. The deposit language,<sup>113</sup> as well as the dispute language, provides adequate  
6 protection to the Billing Party against carriers who “continue to run up bills  
7 it does not pay.”<sup>114</sup>  
8

9 **Q. What language does Sprint propose to resolve this issue?**

10 A. Sprint proposes the following language:

11 2.0 Nonpayment and Procedures for Disconnection  
12

13 2.1 If a party is furnished Interconnection Services, under the terms of  
14 this agreement in more than one (1) state, this section 2.0, shall be  
15 applied separately for each state.  
16

17 2.2 Failure to make payment as required by Section 1.12 will be grounds  
18 for disconnection of the Interconnection Services furnished under this  
19 Agreement, for which payment was required. If a Party fails to make  
20 such payment, the Billing Party will send a Discontinuance Notice to  
21 such Non-Paying Party. The Non-Paying Party must remit all Unpaid  
22 Charges to the Billing Party within forty-five (45) calendar days of the  
23 Discontinuance Notice.  
24

25 2.3 Disconnection will only occur as provided by Applicable Law, upon  
26 such notice as ordered by the Commission.  
27

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<sup>113</sup> See Issue IV.B(2).

<sup>114</sup> Ferguson Direct, Page 52, Lines 7-8.

1 2.4 If the Non-Paying Party desires to dispute any portion of the Unpaid  
2 Charges, the Non-Paying Party must complete all of the following  
3 actions not later than forty-five (45) calendar days following receipt of  
4 the Billing Party's notice of Unpaid Charges:  
5

6 2.4.1 notify the Billing Party in writing which portion(s) of the Unpaid  
7 Charges it disputes, including the total Disputed Amounts and the  
8 specific details listed in the Dispute Resolution Section of this  
9 Attachment 7, together with the reasons for its dispute; and  
10

11 2.4.2 pay all undisputed Unpaid Charges to the Billing Party  
12

13 2.5 Issues related to Disputed Amounts shall be resolved in accordance  
14 with the procedures identified in the Dispute Resolution provision set  
15 forth Section 3.0 below.  
16

17 **Issue IV.F.1 – Should the Parties’ invoices for traffic usage include the Billed**  
18 **Party’s state-specific Operating Company Number (OCN)?**  
19

20 **Q. Mr. Christensen states in his Direct Testimony that Sprint provided a**  
21 **state-specific indicator on the Sprint invoices at one time.<sup>115</sup> What is**  
22 **this state-specific indicator?**

23 A. I am not certain what state specific indicator Mr. Christensen references.  
24 Sprint has never provided the billed (“originating”) party state specific OCN  
25 on an invoice from either its wireless or CLEC entity. The wireless invoice  
26 submitted by Sprint CMRS to AT&T has been a national level invoice since  
27 January 2000. The CLEC invoice submitted by Sprint to AT&T was

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<sup>115</sup> Christensen Direct, Page 15, Lines 2-4.

1 produced by LATA prior to November 2009 and delivered as a national  
2 invoice after that date.

3  
4 **Q. What change was made by Sprint in November 2009?**

5 A. In November 2009, Sprint implemented a Billing Account Number  
6 (“BAN”) consolidation for our CLEC entity. Prior to the consolidation,  
7 Sprint rendered 81 invoices to AT&T for CLEC reciprocal compensation  
8 each month in states other than Tennessee.<sup>116</sup>

9  
10 **Q. Prior to November 2009 when the CLEC invoices were rendered by**  
11 **LATA, was an originating state-specific indicator provided by Sprint on**  
12 **the invoice?**

13 A. No. For LATAs that cross over state boundaries multiple states would be  
14 billed on the same invoice even prior to the BAN Consolidation.

15  
16 **Q. So, is Mr. Christensen’s representation that Sprint formerly provided a**  
17 **state-specific OCN accurate?**<sup>117</sup>

18 A. No. Sprint’s November, 2009 BAN consolidation effort did not alter  
19 whether Sprint provided state-specific OCNs on the bill as Mr. McNiel  
20 claims.

21  

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<sup>116</sup> The parties enjoy a bill & keep compensation mechanism today in North Carolina.

<sup>117</sup> Christensen Direct, Page 15, Lines 2-4.

1   **Q.   In Mr. Christensen’s description of the steps AT&T must perform, he**  
2       **states that the AT&T system allows for mechanized receipt of billing**  
3       **data. What cure is available to AT&T in mechanized format from**  
4       **Sprint that would provide the needed detail?**

5   A.   Sprint offers a mechanized transmission of bill data. Currently AT&T has  
6       chosen not to subscribe to this mechanized invoice media.

7

8   **Q.   Does AT&T have the option to receive totally mechanized invoices from**  
9       **Sprint that would provide the reporting functionality described by Mr.**  
10      **Christensen in his Direct Testimony?**<sup>118</sup>

11   A.   Absolutely. Sprint offers a mechanized invoice through electronic data  
12      transfer that would allow AT&T to mechanically download invoice data for  
13      validation and reporting. This invoice would include state level summaries.

14

15   **Q.   Is there additional cost for AT&T to receive the mechanized invoices**  
16      **described above?**

17   A.   No. If AT&T changes the primary media to a mechanized invoice, there is  
18      no monthly recurring cost to AT&T for the primary media.

19

20   **Q.   If the Authority were to approve AT&T’s proposed language to include**  
21      **the state specific OCN for the billed (“originating”) party, are there**

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<sup>118</sup> Christensen Direct, Page 16, Lines 6-8.

1 **factors that impact Sprint's ability to comply with AT&T's proposed**  
2 **language?**

3 A. Yes. The method in which AT&T publishes its Tennessee numbers in the  
4 Local Exchange Routing Guide ("LERG") impacts Sprint's ability to  
5 comply with the AT&T proposed language. As I mentioned in my Direct  
6 Testimony,<sup>119</sup> Sprint complies with the requirements of Small Exchange  
7 Carrier Access Billing ("SECAB") as provided by the industry. AT&T has  
8 requested that Sprint provide the Originating Party *state specific* OCN on  
9 the invoice. However, because AT&T does not populate state specific  
10 OCNs in the LERG, it would be impossible for Sprint to obtain the  
11 requested information with the resources Sprint has its disposal. To clarify  
12 further, when the Billing Party analyzes the call detail record ("CDR") for  
13 invoicing, the Billing Party may perform a LERG lookup using the CPN or  
14 Local Routing Number to determine the OCN of the originating party  
15 Since AT&T only populates the LERG with an overall regional OCN,  
16 Sprint's query using the CPN that is recorded as part of the CDR, yields  
17 only the regional OCN, not the state-specific OCN AT&T desires.

18  
19 **Q. What is Sprint's recommendation to the Authority?**

20 A. Rather than approve the AT&T proposed language that would be impossible  
21 to operationalize since the state specific codes are not even utilized by  
22 AT&T for its own numbering resources in Tennessee, Sprint recommends

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<sup>119</sup> Felton Direct, Page 93, Lines 20-23.

1 that the Authority approve Sprint's proposed language. Further, as I state  
2 above, Sprint is happy to offer AT&T its mechanized bill format in order to  
3 receive the state level summaries in mechanized form rather than through  
4 the email transmission elected by AT&T.

5  
6 **Q. What language does Sprint propose to resolve this issue?**

7 A. Sprint proposes the following language:

8 1.6.3 Each Party will invoice the other by state, for traffic exchanged  
9 pursuant to this Agreement, by the Central Office Switch, based on the  
10 terminating location of the call and will display and summarize the  
11 number of calls and Conversation MOUs for each terminating office and  
12 usage period. [FOR WIRELESS ONLY] Sprint will display the CLLI  
13 code(s) associated with the Trunk through which the exchange of traffic  
14 between AT&T-9STATE and Sprint takes place as well as the number  
15 of calls and Conversation MOUs.  
16

17 **Issue IV.F.2(1) – How much notice should one Party provide to the other**  
18 **Party in advance of a billing format change?**  
19

20 **Q. Mr. Christensen states that Sprint's proposed language is imprecise and**  
21 **would lead to unnecessary disputes that the Authority might have to**  
22 **decide.<sup>120</sup> Please comment.**

23 A. Sprint actually seeks to provide clarity to this contract provision with two  
24 insertions to the section. I will address each insertion separately.

25  
26 **Q. What is Sprint's first insertion to Section 1.19?**

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<sup>120</sup> Christensen Direct, Page 19, Lines 4-6.

1 A. The first insertion involves limiting the amount of time that the billed party  
2 may withhold payment when notification of a bill format change is not  
3 received at least 90 days prior to the change. The language that AT&T  
4 proposes allows the Billed Party to withhold payment indefinitely, which is  
5 surprising since AT&T claims to have losses in the tens of millions of  
6 dollars due to non-payment of invoices. It is more likely that the Authority  
7 would be called upon to resolve a non-payment issue under AT&T's  
8 proposal.

9

10 **Q. What is Sprint's second insertion to Section 1.19?**

11 A. The second insertion involves the added phrase "*that may impact the Billed*  
12 *Party's ability to validate and pay the Billing Party's invoices.*" Sprint  
13 recognizes that not every bill format change will require programming  
14 changes on the part of the Billed Party in order to process the invoice for  
15 payment. In those situations, there is no reason for the Billed Party to  
16 withhold payment beyond the due date of the invoice regardless of the  
17 notification timeline. This language would certainly not seek to create  
18 uncertainty for the Billing Party. The Billing Party would most certainly  
19 have the option to send notification for every billing format change if it so  
20 chooses. Instead, Sprint's proposal seeks to protect the Billing Party from  
21 non-payment when notification is either not sent or delayed for a bill format  
22 change which does not impact the Billed Party's processing/validation of the  
23 invoice.

1

2 **Q. How do you address AT&T's assertion that 90 calendar days may not**  
3 **provide enough time for necessary preparations by the Billed Party?**<sup>121</sup>

4 A. I do not understand AT&T's assertion. It certainly is not consistent with the  
5 other agreed upon language in this section. AT&T and Sprint have agreed  
6 that 90 calendar days is an appropriate timeframe for sending "timely"  
7 notification of a billing format change. If the notice is provided timely, the  
8 Billed Party has 90 days to prepare for the billing format change. In this  
9 scenario, the Billed Party is not afforded any additional time to make  
10 necessary preparations. If the notice is not provided timely, Sprint's  
11 proposed language would suggest that the Billed Party should have the same  
12 amount of time deemed as "timely" from the date that notice is provided  
13 even if that notice is receipt of the invoice containing the bill format change.  
14 AT&T's proposed language would give the Billed Party an unlimited  
15 amount of time to withhold payment.

16

17 **Q. What language does Sprint propose to resolve this issue?**

18 A. Sprint proposes the following language:

19 1.19 Each Party will notify the other Party at least ninety (90) calendar  
20 days or three (3) monthly billing cycles prior to any billing format  
21 changes that may impact the Billed Party's ability to validate and pay  
22 the Billing Party's invoices. At that time a sample of the new invoice  
23 will be provided so that the Billed Party has time to program for any  
24 changes that may impact validation and payment of the invoices. If the  
25 specified length of notice is not provided regarding a billing format  
26 change and such change impacts the Billed Party's ability to validate and

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<sup>121</sup> Christensen Direct, Page 19, Lines 11-12.



1           timely pay the Billing Party's invoices, then the affected invoices will be  
2           held and not subject to any Late Payment Charges, until at least ninety  
3           (90) calendar days has passed from the time of receipt of the changed  
4           bill.  
5

6       **Issue IV.G.2 – What language should govern recording?**  
7

8       **Q.   Do you have any Rebuttal Testimony for this issue?**

9       A.   No. My Direct Testimony sufficiently addresses this issue.  
10

11       **Issue IV.H – Should the ICA include AT&T's proposed language governing**  
12       **settlement of alternately billed calls via Non-Intercompany Settlement**  
13       **System (NICS)?**  
14

15       **Q.   Mr. Ferguson asserts that Sprint proposes that the ICA include no**  
16       **language for NICS.<sup>122</sup> Is that correct?**

17       A.   No. As a matter of fact, AT&T and Sprint have agreed on all sections  
18       relating NICS with the exception of 5.1.2.  
19

20       **Q.   What is the purpose of section 5.1.2?**

21       A.   This section provides for AT&T to "collect revenue earned by Sprint within  
22       the AT&T-9STATE territory from another LEC also within the AT&T-  
23       9STATE territory where the messages are billed, less a message billing and  
24       collection fee indicated in the Pricing Schedule." This is a service that is

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<sup>122</sup> Ferguson Direct, Page 53, Lines 3-4.

1 provided to Sprint by its Revenue Accounting Office (“RAO”) host  
2 company. At this time, Sprint’s RAO host company is AT&T. However,  
3 Sprint has the option of choosing another RAO host company who will then  
4 perform these functions on our behalf. AT&T’s proposed language would  
5 not allow Sprint to choose a different company as its RAO host.  
6

7 **Q. Mr. Ferguson mentions that AT&T had proposed a revision to address**  
8 **Sprint’s concern.<sup>123</sup> Did the proposal address the concern adequately?**

9 A. No. AT&T offered to add the statement, “This section 5.1.2 applies only if  
10 AT&T and Sprint do not have an RAO Hosting Agreement.” AT&T’s  
11 proposed resolution does nothing more than move the function from one  
12 agreement with AT&T to another. Carriers have the option of choosing any  
13 RAO host company to perform the functions required by NICS. Sprint  
14 should not be stripped of its option to choose another company as its host  
15 company.  
16

17 **Q. Did Sprint offer a counter proposal to resolve this issue?**

18 A. Yes. Sprint counter-offered to accept the paragraph with the following  
19 revision of the additional statement offered by AT&T (as mentioned above):  
20 “This section 5.1.2 applies only if Sprint does not have an RAO Hosting  
21 Agreement.” AT&T declined Sprint’s proposed change.  
22

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<sup>123</sup> Ferguson Direct, Page 53, Lines 9-11.

1   **Q.   What is Sprint's proposed resolution to this issue?**

2   A.   Sprint asks the Authority to reject AT&T's proposed language for this Issue.

3

4   **IV. CONCLUSION**

5

6   **Q.   Does this conclude your Rebuttal Testimony?**

7   A.   Yes.

8

## **ATTACHMENT MGF-2**