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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	CC Docket No. 93-6
Safeguards to Improve the	)	RM 7736
Administration of the Interstate	)	
Access Tariff and Revenue	)	
Distribution Processes	)	

**COMMENTS OF  
ANCHORAGE TELEPHONE UTILITY**

The Municipality of Anchorage, d/b/a Anchorage Telephone Utility ("ATU"), hereby submits comments in this proceeding addressed to the Commission's proposals for independent audits for local exchange carriers that do not participate in the cost and revenue pools administered by the National Exchange Carrier Association ("NECA"). Notice of Proposed Rulemaking, ¶¶ 45-46. ATU is a local exchange carrier ("LEC") serving Anchorage, Alaska. Although ATU currently participates in the NECA pools, it is withdrawing from the NECA traffic-sensitive pool and has filed its own access tariff, to be effective July 1, 1993.

ATU urges the Commission not to require independent audits of the annual cost study submissions of non-pooled LECs. Independent audits of these studies would be unnecessary, expensive and unlikely to provide the level of assurance the Commission would expect of an "audited" filing.

In the Safeguards Report, the independent auditor recommended that all LECs be subjected to the same cost study review standards, methods and procedures, regardless of pool participation. The independent auditor recommended that the Commission "outsource" to NECA the review of cost studies for small

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LECs that file their own tariffs with the Commission. In its Notice, the Commission concluded that it could not "outsource" to NECA the responsibility for reviewing LEC cost studies that do not affect NECA's revenue requirement or revenue distribution computations. The Commission was concerned that LECs may exercise their option of leaving the NECA pools in order to avoid NECA's review of their annual cost study information. There is, however, no real basis for this concern.

As a major cost component of interstate toll rates, LECs' costs are carefully scrutinized by interexchange carriers ("IXCs"). The Tariff Review Process allows not only IXCs, but also other interested parties the opportunity to examine and question any LEC filing. Indeed, non-pooled LECs are subject to a much greater level of scrutiny by interested parties than are NECA-pool LECs, because non-pooled LECs' data stand on their own, as opposed to being aggregated with hundreds of other LEC filings. Given the IXCs' ample resources and their incentive to ensure low access rates, the need for independent verification is greatly reduced.

On the other hand, the additional costs incurred by LECs for independent audits would be passed on to IXCs in the form of higher access costs. IXCs possess the staff resources to protect their own interests, and redundant review processes would add levels of cost without increased benefits. If IXCs believed that independent audits of costs studies were necessary, they would have urged the "outsourcing" of that function to independent auditors long ago.

Moreover, "audits" of forecast numbers differ from "audits" of financial statements and, therefore, do not necessarily provide the same high level of assurance of accuracy provided by audited financial statements. When certified public accountants audit a set of financial statements, they examine historical data and express an opinion based on that historical information. By contrast, annual cost studies start with audited account balances, then are modified for known and measurable changes that are not historical in nature. Further, cost studies contain estimates of customer demand for a future time period. In such cases, independent auditors are able to examine only the methods and procedures used to develop forecast data and opine on those methods and procedures, not the data themselves.

In summary, ATU believes that independent audits of annual cost study filings would add redundant review without increasing real benefits to ratepayers. The premise that a LEC might avoid scrutiny by leaving the NECA pool is unfounded. Any LEC that files its data outside the aggregated pool data faces a much higher level of review at least from interested IXCs.

Finally, audits, by their nature, can provide verification only of historical information, not of projections. Independent audits