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PACIFIC  **TELESIS**
Group - Washington

August 1, 1995

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Dear Mr. Caton:

*Re: RM-8640, Petition For Rulemaking to Amend Part 32 of the Commission's
Rules to Eliminate Detailed Property Records for Certain Support Assets*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "Reply Comments by Pacific Bell and Nevada Bell in Support of USTA's Petition for Rulemaking" in the above referenced proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

S.L. Herauf (JTB)

Enclosure

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

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In the Matter of

Petition for Rulemaking to Amend Part 32 of
the Commission's Rules to Eliminate Detailed
Property Records for Certain Support Assets

RM-8640

DOCKET FILE COPY ORIGINAL

**Reply Comments by Pacific Bell and Nevada Bell
in Support of USTA's Petition for Rulemaking**

Pacific Bell and Nevada Bell respectfully submit these reply comments in response to the Commission's Public Notice regarding USTA's Petition for Rulemaking in the above-captioned docket.¹

The comments indicate strong support for VAL property records. In addition to the support of local exchange carriers, several state public utilities commissions also endorse USTA's Petition.² They too recognize the opportunity for conserving limited resources by eliminating the detailed continuing property records (CPR) system for the many inexpensive assets as described by USTA's Petition. In

¹ Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets, RM 8640, Public Notice, May 10, 1995.

² Comments of the Pennsylvania Public Utilities Commission and Public Service Commission of Wisconsin.

contrast, only MCI and the Ohio Public Service Commission oppose the adoption of VAL. We respond to their opposition below.

MCI alleges that USTA fails to substantiate its claim that disproportionate amounts of resources are being used for CPR for support assets. The initial comments in this proceeding filed by seven LECs, however, supply specific information that substantiates USTA's claim.³

The comments raise only one other substantive concern. MCI and the Public Utilities Commission of Ohio suggest that LECs should be required to keep detailed records so that asset existence and location can be verified. This concern is not significant for the following reasons.

First, the VAL proposal is limited in scope. Under USTA's proposal, companies will continue to keep detailed CPR for the vast majority of their assets.⁴ VAL property records will be kept only for the assets specifically listed in USTA's Petition (VAL assets). The only change for the numerous, inexpensive VAL assets would be to eliminate tracking procedures after they are placed in service. As commentors point out, companies will continue to document the purchase, receipt and

³ Information is provided by the following companies: Pacific Bell, p.3 (\$900,000 annual savings for 6% of our \$25B ratebase); Ameritech, pp. 2,3 (\$3.4M annual savings for 6% of gross plant); Bell Atlantic, p. 2 (\$4M annual savings for 300,000 items, which are 5% of its total plant); Cincinnati Bell, p. 3 (VAL assets are 6% of gross plant in service); Bell South, p. 6 (\$6M savings); GTE, p. 3 (14% of CPR costs for only 5% of its fixed asset base); USWest, p. 3 (5% of total investment with 25% of its fixed asset accounting costs).

⁴ We will continue to keep detailed CPR for about 84% of our assets. All assets in accounts other than those described in USTA's Petition will continue to be tracked as we do today.

initial placement of all assets into service. We would not, however, record subsequent transfers, adjustments, reclassifications and retirements of VAL assets.

Second, detailed record keeping for VAL assets does not benefit ratepayers. Today we compare our detailed tracking with physical inventories of the assets. When inventories are done, the sole effect of not locating an asset is to retire that asset from the CPR. In other words, all that we learn from maintaining detailed CPR and taking costly physical inventories is that our retirements are over- or understated. The end result of a physical inventory discrepancy is that we simply adjust our retirements. These adjustments have no effect on rates under the “no sharing” option of price cap regulation.

Finally, detailed tracking of the numerous, inexpensive VAL assets is not consistent with good business practices. Whereas in the past, regulatory accounting practices found value in keeping track of every asset at all times, no matter the cost or quantity of items, that is not prudent in today’s competitive environment. Our competitors do not maintain detailed records for assets such as those listed in USTA’s Petition because there is no business reason to do so. The Commission’s regulations should be revised to permit carriers to respond to the increasingly competitive environment encouraged by the Commission by adopting regulatory asset management policies that consider costs relative to benefits.

The comments raise another concern. Several commentors indicate that if the Commission adopts the VAL property records, some LECs would have to continue

to provide CPR to meet their state regulator's requirements.⁵ These carriers would have to maintain two different records, which would not only obviate the benefit of adopting the VAL system but increase these carriers' administrative burden. For that reason, the Commission should permit, but not require, carriers to use VAL property records. Some carriers will be able to save considerable administrative costs by implementing VAL while other carriers, like NYNEX that will have continuing state requirements for CPR systems, can avoid the burden of maintaining two different record keeping systems for their assets.

Finally, the Pennsylvania Public Utilities Commission's (PAPUC) proposal for a three tiered plan reflects in essence USTA's Petition and should be considered.⁶ PAPUC suggests that benchmarking for individual property units would determine the appropriate level of accounting. We think this is a very workable plan if the type of asset, not strictly its cost as suggested by PAPUC, is the basis of assigning assets into categories. Assets in some categories would be expensed; VAL accounting would be permitted for the next grouping; and traditional CPR would be maintained for other individual property units.

⁵ Comments Submitted by Public Utilities Commission of Ohio; NYNEX Comments.

⁶ Comments of the Pennsylvania Public Utility Commission, p. 3.

For the reasons above, we urge the Commission to adopt USTA's Petition to adopt the VAL property records system.⁷

Respectfully submitted,

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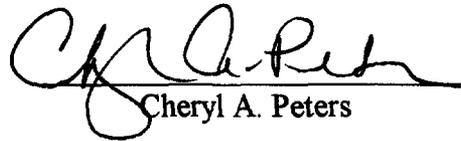
Their Attorneys

Date: August 1, 1995
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⁷ Pacific and Nevada Bell also support USTA's Petition to increase the expense limit from \$500 to \$2000. However, we do not support the Commission's tentative conclusion that the expense limit should only be increased to \$750. See Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from \$500 to \$750, RM 8448, Notice of Proposed Rulemaking, rel. May 31, 1995; Comments by Pacific Bell and Nevada Bell, dated July 24, 1995.

CERTIFICATE OF SERVICE

I, Cheryl A. Peters, hereby certify that on this 1st of August, 1995, a true and correct copy of the foregoing **Reply Comments of Pacific Bell and Nevada Bell** was mailed, first-class postage prepaid, to the parties shown on the attached list.


Cheryl A. Peters

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