BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D. C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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

[redacted]

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REPLY COMMENTS OF
BELLSOUTH TELECOMMUNICATIONS, INC.

BellSouth Telecommunications, Inc. (BellSouth), through its undersigned counsel, hereby submits its Reply Comments in the above referenced proceeding, pursuant to the Public Notice released by the Commission on May 10, 1995 requesting comments and reply comments on the Petition for Rulemaking (PFR) filed by the United States Telephone Association (USTA) on May 31, 1994. The USTA PFR requested the Commission to establish a rulemaking proceeding to amend its Part 32 accounting rules to permit vintage amortization level accounting (VAL) for certain support assets and the elimination of the related detailed continuing property records (CPRs).

Sixteen parties filed comments on the USTA PFR. Eleven of these commenting parties, including two state public service/utility commissions support the USTA PFR. In these reply comments BellSouth addresses the legitimate concerns raised by NARUC, NYSDPS and NYNEX. Also, BellSouth replies to

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yet another attempt by MCI to obfuscate the issues and transform a straight-forward request for rulemaking into another round of "LEC bashing." Finally, BellSouth shows that many regulatory agencies have already embraced VAL as a useful and beneficial accounting process.

National Association of Regulatory Utility Commissioners (NARUC)

NARUC recommends the USTA PFR be considered at the same time the Commission considers the Notice of Proposed Rulemaking initiated to consider an increase in the current expense limit for certain support assets (Expense Limit NPRM). In the Matter of: 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; Notice of Proposed Rulemaking, released May 31, 1995, CC Docket No. 95-60.

NARUC appears to suggest that depreciation rates are set at the detailed property account level and that this PFR is simply the beginning of LEC attempts to unnecessarily eliminate all CPRs and therefore impede existing depreciation accounting. This is not the case. In the first place, depreciation rates are not set at the detailed property record level. Instead, depreciation rates are set at the Part 32 detailed plant account or subaccount level. Moreover, there is no basis for NARUC's concern that this is the beginning of LEC efforts to eliminate all CPRs. A cursory review of the

USTA petition shows that detailed CPRs would still be maintained for all accounts not mentioned in the petition, as well as for mainframe and mini computers recorded in Account 2124, General Purpose Computers. Moreover, the value of the support assets subject to the USTA PFR represents only 3.10% of BellSouth's total gross assets of $41 billion as of December 31, 1994. Thus, clearly USTA's PFR is much more limited in scope than suggested by NARUC.

BellSouth is also perplexed by the fact that NARUC seems to take a position contrary to the VAL proposal, particularly in light of the fact that at least thirteen of its member states and FERC have adopted VAL-type accounting for gas and electric utilities subject to their jurisdiction, and some other states have adopted or are considering the adoption of such accounting for telephone companies.

New York State Department of Public Service (NYSDPS)

NYSDPS filed consolidated comments in response to both the expense limit NPRM and the Public Notice on the USTA PFR. The NYSDPS recommends the expense limit be increased to $1,000. Like NARUC, NYSDPS acknowledges and supports the principle of eliminating detailed CPRs for certain support assets but mistakenly believes that increasing the expense limit to $1,000 will significantly reduce a large portion of the administrative burden associated with maintaining CPRs for these support assets.

As BellSouth has demonstrated in its comments in the expense limit NPRM, even at a $2,000 expense limit level, the administrative cost savings are only about half (i.e., $3 million) of the savings that would be realized if VAL accounting and property records requirements are instead permitted for these support assets.

NYSDPS has clearly supported in principle the elimination of detailed CPRs for certain support assets for industries other than telecommunications. Indeed, BellSouth's research indicates NYSDPS has approved similar accounting for electric utilities subject to its jurisdiction.

NYNEX Telephone Companies (NYNEX)

NYNEX commends USTA's efforts to simplify the regulatory process and states that:

> "USTA's efforts to ameliorate the record keeping burden associated with detailed CPRs for small dollar amount items in the support asset accounts is laudable." (NYNEX, at p. 2)

NYNEX nevertheless suggests that the Commission increase the expense limit rather than embrace the VAL proposal. NYNEX also expresses concern that the FCC might adopt a VAL system without corresponding relief from the states, thus resulting in a net increase in NYNEX's regulatory accounting requirements. NYNEX also expresses concerns about the need to develop a method to modify VAL lives to take into account technological or market changes impacting expected lives.

BellSouth is puzzled as to why NYNEX thinks changing the expense limit is the best way to achieve simplification and/or reduction in the record keeping burden associated with CPRs for support assets. Even more perplexing is NYNEX's recommendation that a joint federal-state study be conducted to determine an appropriate expense limit level. Such a suggestion runs contrary to NYNEX's position that a meaningful change in the expense level should be "quick and simple." If NYNEX's suggestion was followed, the more likely result would be another year or more of procrastination and inaction. It has already taken a year to get a rulemaking commenced. BellSouth sees no public benefit to expending additional time and resources on the NYNEX proposal.

BellSouth acknowledges NYNEX's valid concern that FCC approval of VAL without state concurrence could result in a net increase in regulatory accounting requirements. BellSouth currently has a similar problem in Florida, where VAL accounting and property records have been approved by the Florida PSC but not by the Commission. The fact is that all state commissions could approve VAL for support assets but no real savings would be gained unless and until the FCC also permits VAL. USTA, while understanding that carriers would need to obtain concurrence from state regulators to receive any real benefits, did not ask that the VAL accounting and property record requirements be made mandatory. Instead, at page 2 of the petition USTA states:

> "In place of detailed property records, USTA requests that the Commission permit exchange carriers to adopt a vintage amortization level property record system." (emphasis added)

At page 3 the petition states:

> "The FCC can permit carriers to keep VAL property records..." (emphasis added)

and "The new rule" would read as follows:

> "...except that carriers will be permitted to adopt vintage amortization level property records for support assets recorded in the following accounts:..." (emphasis added)

The operative words are "permit/permitted." Such language was carefully chosen by USTA because of the exact concerns now raised by NYNEX in its comments. Since the requested change is permissive, BellSouth believes the Commission should amend Part 32 consistent with the USTA VAL proposal. In this manner, when a LEC gains acceptance of VAL at the state PSC levels, the LEC could implement the VAL option for both FCC and state purposes.

MCI TELECOMMUNICATIONS CORPORATION (MCI)

Having no logical or sensible basis for its opposition, MCI first argues that USTA has not provided sufficient information to assess the validity of the claim that detailed CPRs for support assets require a disproportionate amount of resources. Curiously, the comments of all other parties, including those discussed above, accepted this fact as a given. Second, MCI drags out alleged violations of rate base rules and attempts to use these unfounded claims to support

its belief that it would be "counter-intuitive" for the Commission to reduce the LECs' record keeping requirements. MCI has resorted to using irrelevant, unsupported allegations as a basis for its anti-LEC comments. MCI's comments should be disregarded as a school of "red herrings."

MANY REGULATORY AGENCIES EMBRACE VAL

Many parties support the USTA VAL proposal. Obviously, the LECs that are burdened with the existing system favor the simplified USTA proposal. However, the favorable comments submitted by the Public Service Commission of Wisconsin (PSCW) are also quite compelling because they are submitted by a regulatory agency with experience in implementing the VAL concept. It should be noted that in addition to PSCW, at least twelve other state PSCs, FERC, and the National Energy Board of Canada have also approved VAL accounting for utilities regulated by these agencies. Certainly the positive experiences of the PSCW and other regulatory agencies should provide powerful credibility for the VAL proposal.

In adopting its VAL method of accounting and amortizing support assets, the PSCW basically echoed the same benefits presented by USTA for the VAL proposal. These are also the same benefits embraced by supporters of the USTA proposal, which comprise, by far, the majority of commenting parties. The PSCW found that:

> 1) an amortization method for general plant equipment has potential cost saving benefits; 2) the dollar level of plant in the general accounts

> is minimal in comparison to the total utility plant investment; 3) an amortization method will have a minimal effect on the total annual utility depreciation expense; 4) adequate control of general plant assets could be maintained by utility supervisory and budget controls; 5) staff audit procedures could be developed to test utility procedures regarding the transfer of general plant assets; and 6) potential cost savings could be realized by removing the need to identify, track and inventory large amounts of retirement units with small unit costs by eliminating the need for office and field procedures to monitor and record retirement or equipment which is broken, lost or removed from service; and 7) it frees time of present utility and regulatory employees for more material tasks. (PSCW, at pp. 1-2)

The Commission simply cannot ignore the promised benefits of the VAL proposal; nor can it ignore the fact that other responsible regulators have recognized these benefits, while also concluding that such benefits favor both the regulated companies and their ratepayers.

CONCLUSION

BellSouth urges the Commission to accomplish a very positive regulatory change by embracing VAL for LECs, and to initiate a rulemaking to establish a record to support such a change.

Respectfully submitted,

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Date: August 1, 1995

CERTIFICATE OF SERVICE

I hereby certify that I have this 1st day of August, 1995, served the following parties to this action, with a copy of the foregoing REPLY COMMENTS OF BELLSOUTH TELECOMMUNICATIONS, INC. referenced to RM 8640 by hand delivery or by placing a true and correct copy of the same in the United States mail, postage prepaid.

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