

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

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

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY  
RM-8640

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REPLY COMMENTS OF  
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), by its attorneys and pursuant to Public Notice<sup>1</sup> respectfully replies to certain comments on the above-referenced Petition for Rulemaking (PFR) of the United States Telephone Association (USTA), which comments were filed on July 5, 1995.

I. INTRODUCTION

Almost all of the other local exchange carriers (LECs) that filed comments on the PFR supported the PFR's vintage amortization level (VAL) proposal and most of them included one or more of the following in their supporting comments: (1) VAL provides a more efficient method than the current continuing property record (CPR) process by not having to track each individual unit of property; (2) implementing VAL will not diminish internal controls and security measures, which are more appropriate methods of safeguarding assets than the CPR process; (3) implementation of VAL would be revenue neutral and (4) VAL will furnish sufficient information reasonably necessary for regulatory

<sup>1</sup> DA 95-1027, released May 10, 1995.

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purposes.<sup>2</sup> There is even support from state utility regulators for elimination of detailed CPR and use of a VAL-type system, including those of Pennsylvania and Wisconsin that filed supporting comments in this proceeding.

In view of the wide range of support for USTA's PFR and the compelling reasons for adoption of a streamlined method such as VAL, the Commission should initiate the requested rulemaking over the various objections raised in comments. In any event, the objections raised are not sufficient to justify a refusal to initiate a rulemaking; instead, certain objections are of a type that would be appropriate to examine more closely in the rulemaking proceeding.

## II. THE OBJECTIONS TO VAL WILL NOT WITHSTAND CLOSE ANALYSIS.

As the Commission should find upon close examination, the objections raised by certain commenters are not sufficient to reject VAL as an alternative to burdensome, detailed CPR for support assets. As explained below, some of the objections are clearly irrelevant or insufficient. In any event, none of the objections would justify the Commission to refuse to initiate a rulemaking.

A couple of commenters raise the general objection that detailed CPR is needed for regulatory purposes, such as rate base

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<sup>2</sup> See, e.g., Ameritech at p. 4; Bell Atlantic; BellSouth at pp. 8-10; Cincinnati Bell at pp. 2-3; GTE at pp. 3-5; Pacific Bell and Nevada Bell at pp. 3-4; USTA at pp. 1-2; U S WEST at p. 3. Except as otherwise noted, all references are to comments filed in this proceeding on July 5, 1995.

regulation and "accounting for transfers, reallocations, and adjustments of plant."<sup>3</sup> However, in their brief objections, these commenters do not explain specifically why VAL would not be a reasonable alternative with respect to these support assets. As the Pennsylvania Public Utilities Commission (Pennsylvania PUC) points out, even under a VAL system, there would be normal accounting controls and supporting documentation.<sup>4</sup> Therefore, a VAL system would be auditable and audits could verify that assets are accounted for appropriately.<sup>5</sup> As the Commission will find upon closer examination in the context of the rulemaking, concerns regarding adequacy of information and records reasonably necessary to fulfill regulatory requirements are alleviated by other measures such as those noted in the comments of the Pennsylvania PUC. By adopting VAL-type methods, certain state regulators also recognize the diminishing benefit of such detailed records.<sup>6</sup> In effect, continuation of detailed CPR records is like requiring telecommunications companies to spend a dollar in order to keep track of a dime, when their competitors are not subject to similar requirements. Certain state and federal regulators have also

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<sup>3</sup> NARUC at p. 6.

<sup>4</sup> Pennsylvania PUC at p. 3.

<sup>5</sup> See also Wisconsin Public Service Commission Comments at p. 1 (June 27, 1995) ("Adequate control of general plant assets would have to be maintained by utility, supervisory and budget controls.").

<sup>6</sup> See BellSouth at pp. 2-3.

recognized that they can make more efficient use of the utilities' and their own resources by adopting a VAL-type system.<sup>7</sup>

Raising a more specific objection, the Ohio Public Utilities Commission (Ohio PUC) states that "VAL would sever the link between the company's books and the physical property. There would be property on the company's books that is no longer in service and there would be property in service that is no longer on the company's books."<sup>8</sup> However, upon closer examination of VAL and its requirements along with other accounting controls, the Commission should come to the conclusion that VAL will produce books which are representative of what is actually in service and will result in a proper record of the "used and useful" assets from an accounting materiality standpoint, especially given that these support assets represent only a small portion, generally 5% or less, of the total. Upon consideration of the merits of this proposal, the Commission should conclude that it can simplify the process with respect to this small segment of a LEC's assets without any material adverse impact on any regulatory process.

While acknowledging that the Commission should initiate the requested rulemaking, NARUC also raises certain specific objections, such as its apparent belief that detailed CPR is necessary for development of depreciation factors and rates. However, NARUC has not focused this objection on the support assets which are the subject of USTA's request, nor has NARUC considered

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<sup>7</sup> Id.

<sup>8</sup> Ohio PUC at p. 1.

possible alternatives for determining the life and salvage factors for these particular assets. Such issues should be considered fully in the context of the rulemaking USTA has requested.

Contending that the Commission should not even initiate a rulemaking, MCI raises two irrelevant objections. First, the Show Cause Orders referenced in MCI's Comments are not relevant to a determination whether to initiate a rulemaking proceeding to establish the most appropriate property record system for these support assets. Likewise, MCI's belief that USTA has not satisfied some burden of proof that MCI believes necessary for the adoption of USTA's proposal is not relevant in determining whether a rulemaking should be initiated to begin to consider the merits of such a proposal. On the contrary, not only has USTA demonstrated that a rulemaking is needed, it has also presented a compelling case for adopting VAL, without even considering the supporting comments of other parties.

The Commission should ignore those objections that are irrelevant and initiate a rulemaking to examine closely those objections that may be material. SWBT believes that upon close examination, the Commission will find that VAL is a reasonable and effective alternative to the current property record system with respect to these support assets.

III. AN INCREASE IN THE EXPENSE LIMIT WOULD NOT OBVIATE THE NEED TO ELIMINATE UNNECESSARY DETAILED PROPERTY RECORDS FOR SUPPORT ASSETS.

Some commenters, such as the New York Department of Public Service (NYDPS), suggest that it is not necessary to eliminate detailed CPR for support assets in view of the pending proposal in RM-8448 to increase the expense limit for such assets.<sup>9</sup> For example, NYDPS states that "USTA's concerns regarding the burden of maintaining CPRs would be addressed by raising the expense threshold to \$1,000."<sup>10</sup> On the contrary, adoption of VAL instead of detailed CPR is necessary to achieve a meaningful reduction of administrative costs for those support assets that exceed the expense limit. A much greater reduction in costs is achievable if the VAL property record system is adopted than by merely increasing the expense limit (e.g., to \$2,000) because the VAL property record system does not require detailed tracking of hundreds of thousands of assets on an item-by-item basis. The same magnitude of savings cannot be realized by merely increasing the expense limit because personnel and computer programs will still be required to track those items exceeding the expense limit. The Pennsylvania PUC recognizes this in its suggestion that there should be three levels of accounting for property units, as follows:

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<sup>9</sup> 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 (Released May 31, 1995).

<sup>10</sup> NYDPS Comments at p. 2 (June 28, 1995).

- (1) Below a certain level would be expensed;
- (2) For the next highest level, VAL accounting would be used; and
- (3) At the highest level, traditional detailed CPR would be maintained.<sup>11</sup>

In making this suggestion, the Pennsylvania PUC illustrates the complementary nature of the expense limit and VAL property record proposals, which the Commission should consider fully in the VAL rulemaking proceeding.

IV. THE COMMISSION SHOULD NOT DELAY CONSIDERATION OF THE VAL PROPERTY RECORD PROPOSAL.

Two commenters, NYDPS and the Ohio PUC, suggest that it is too soon to eliminate detailed property records because -- as NYDPS states it -- "companies are not entirely or permanently free from rate base regulation."<sup>12</sup> SWBT disagrees. In view of the rapidly changing competitive and regulatory environment, including adoption of price cap regulation at the federal level, and in a number of states, the time to begin consideration of streamlined regulation that is not reasonably necessary in the current and imminent environment is now. Delay in certain states' adoption of progressive forms of regulation should not be used as an excuse to delay adoption of streamlined federal regulation.

Likewise, the Commission should reject dilatory proposals, such as NARUC's suggestions to delay this proceeding due

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<sup>11</sup> Pennsylvania PUC at p. 3.

<sup>12</sup> NYDPS Comments at p. 3 (June 28, 1995).

to the pendency of the expense limit proceeding (RM-8448).<sup>13</sup> Instead, the Commission should take prompt, parallel action in both proceedings.

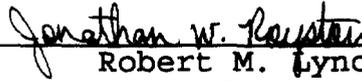
V. CONCLUSION

For all the foregoing reasons, SWBT respectfully submits that none of the objections voiced by commenters justifies rejection of USTA's PFR, nor any delay in its consideration. SWBT urges the Commission to commence a rulemaking as soon as possible to adopt the VAL property record system by 1996.

Respectfully submitted,

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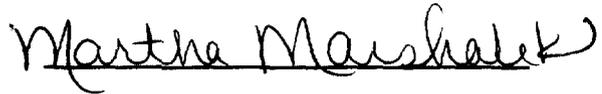
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<sup>13</sup> NARUC at p. 5.

**CERTIFICATE OF SERVICE**

I, Martha Marshalek, hereby certify that the foregoing Reply Comments of Southwestern Bell Telephone Company, RM - 8640, have been served this 1st day of August, 1995 to the Parties of Record.



**Martha Marshalek**

**August 1, 1995**

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