

**A Portion Of These GSF Expenses
Support Nonregulated B&C
Services**

<u>Account</u>	<u>Description</u>
6120	General Support Expenses
6121	Land & Building Expenses
6122	Furniture & Artworks Exp
6123	Office Equipment Expense
6124	General Purpose Computer Expense
6560	Depr. & Amort. OF GSF
	Return On GSF Net Inv.

Data Source

1995 Data from The Automated Report
Management Information System
(ARMIS) Reports

- **ARMIS 43-04 (Access Report)**

This report provides regulated financial and operating data that is separated between state and interstate jurisdictions in accordance with Part 36 of the Commissions rules. The interstate data is further allocated to access elements pursuant to the Part 69 rules.

Inappropriate General Support Facilities Expenses in Interstate Carrier Access

This analysis quantifies inappropriate General Support Facilities expenses, including General Purpose Computer expenses, which are embedded in interstate access rates. These expenses are inappropriate in recovery through interstate access rates because they support a nonregulated interstate service provided by the LECs--the Billing & Collection service.

This is not a new issue. As recently as February 23, 1996, the FCC Common Carrier Bureau prepared a white paper "Preparation for Addressing Universal Service Issues: A Review of Current Interstate Support Mechanisms." In that report, the Common Carrier Bureau stated:

"The General Support Facilities ("GSF") investment category in Part 36 includes some computer investment that is used by the LECs to provide nonregulated interstate billing and collection services. The costs of providing interstate billing and collection service are not removed from regulated service costs by Part 64 because many states still regulate intrastate billing and collection services. The separations process allocates these costs to the various separations categories based on the separations of the big three expenses (plant specific expenses, plant non-specific expenses, and customer operations expenses). Part 69 allocates GSF investment among billing and collection, interexchange, and the access elements based on the amount of COE, cable and wire facilities ("CWF"), and information origination/termination equipment ("IO/T") investment allocated to each Part 69 category. Since no COE, CWF, or IO/T investment is allocated to billing and collection, however, no GSF investment gets allocated to billing and collection. Likewise, since expenses related to GSF investment are allocated in the same manner as GSF investment, none of the related computer expenses get allocated to billing and collection. As a result, the computer investment and expenses are allocated to the other Part 69 categories.

Several parties have proposed to amend Part 69, Part 32, Part 64, or Part 36 of the Commission's rules to ensure that GSF investment and related expenses are allocated to the billing and collection category. Making this amendment to the rules would shift some costs from interstate access services to the nonregulated billing and collection category, thereby reducing the cost of access."

The Commission's interest regarding inappropriate General Support Facility and General Purpose Computer-related expenses included in interstate access rates was also addressed in CC Docket No. 87-113, "In the Matter of Amendment of Part 69 of the Commission's Rules and Regulations, Access Charges, To Conform It With Part 36, Jurisdictional Separations Procedures." In the Order on Reconsideration, Released December 12, 1988, AT&T's concerns about the inclusion in interstate access of costs associated with the LEC provision of nonregulated billing and collection services are reviewed in paragraphs 34 through 37.

AT&T's study identifies \$124M of expenses recovered in interstate access that support the nonregulated billing and collection category. Of the \$124M, \$60.1M is included in interstate switched carrier access, and \$20.5M is in interstate special carrier access, with the remainder recovered by the subscriber line charge. The study identifies those portions of the following expense components that are inappropriately included in interstate access:

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6121	Land and Building Expense
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6560	Depreciation & Amortization Expense of GSF
	Return on GSF Net Investment

Utilizing ARMIS 43-04 (Access Report) and ARMIS 43-03 (Joint Cost Report) data, the study developed a Billing & Collection/Total Interstate Access "Big Three Expense" ratio, and applied that ratio to the total interstate access amounts for the above expense components to determine an appropriate allocation of expenses to the nonregulated Billing & Collection category.

Inappropriate General Support Facilities Expenses in Interstate Access

<u>Description:</u>	<u>Source:</u>	<u>(000)</u>
A B&C Big 3 Exp	-04,7333, Col B + C	433,046
B IS Big 3 Exp	-04,7333, Col IS	8,227,118
C B&C Big 3 Ratio	(A/B)	0.053
D 6120 IS GSF Exp	-04,5010, Col IS	1,170,031
E B&C Alloc GSF Exp	(C x D)	61,586
F 6560 GSF DEP+A IS/ACC	-04,6020., TA	582503
G Amort + Cap Lease	-04,6100., TA	41480
H Amort Lease Imp	-04,6170., TA	8805
I B&C Alloc Dep+A	(C x [F + G + H])	33,308
J GSF Inv	-04,1004., TA	8,985,523
K GSF Cap Ls	-04,2001., TA	174,033
L GSF Ls Imp	-04,2070., IS	247,539
M GSF Accum Depr	-04,3010., TA	3,456,094
N GSF Acc Am Cap Ls	-04,3090., TA	81,053
O GSF Acc Am Ls Imp	-04,3160., TA	137,232
P GSF Def Cur Tax	-04,3280., TA	84,502
Q GSF Def N-Cur Tax	-04,3350., TA	755,932
R GSF Net Inv	(J + K + L) - (M + N + O)	4,892,282
S GSF Return	(R x .1125)	550,382
T GSF Ret Alloc B&C	(S x C)	28,970
U Total Costs Alloc B&C	(E + I + T)	\$123,864

ACCESS REFORM

REALLOCATION:

RETAIL EXPENSE..... \$ 840 million
GSF and COMPUTER RELATED EXPENSES..... \$ 124 million

REMOVING THE SLC CAP:

CCL REDUCTION..... \$ 640 million

COST OF CAPITAL ADJUSTMENTS:

AT 11.25%..... \$ 1300 million
AT 10.00%..... \$ 1900 million

PRODUCTIVITY FACTOR :

INCREASE X-FACTOR TO 9.0%..... \$ 600 million

EQUAL ACCESS AND NETWORK RECONFIGURATION..... \$ 110 million