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November 7, 1997

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Mr. William F. Caton, Secretary  
Federal Communications Commission  
1919 M Street NW - Room 222  
Washington, D.C. 20554

**RE: Ex Parte Meeting**  
**CC Docket 96-149**

Dear Mr. Caton:

Today, the United States Telephone Association ("USTA") as represented by Jeff Reynolds and Glenn Rabin of ALLTEL, Todd Colquitt of USTA, and accompanied by Carl Geppert of Arthur Andersen met with personnel from the Accounting and Audits Division. Those persons included José Luis Rodriguez, Ken Ackerman, John Hays, Alicia Dunhigan, Ron Kaufman, and Anthony Dale. The topic of discussion was the Commission's Second Report and Order in the above-referenced proceeding.

The group focused on how the Commission's rules would impact incumbent local exchange carriers providing interexchange service on a resale basis through an affiliate. Toward that end, USTA provided two handouts (attached) as the basis for discussion on how the Commission's present and soon-to-take-effect rules affect cost allocation and accounting procedures. The group also discussed the Commission's concerns about potential non-price discrimination and to what extent such potential anti-competitive practices overlap into matters of accounting. USTA does not believe that requiring the interexchange affiliate to be a separate legal entity, as called for in the Commission's order, provides for a greater degree of competitive safeguards against anti-competitive and discriminatory behavior. USTA's overall oral comments were consistent with written comments previously submitted by USTA in this proceeding.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two copies of this notice are being submitted today. Please include it in the public record of this proceeding.

Sincerely,

A handwritten signature in black ink that reads "Mary McDermott".  
Mary McDermott  
Vice President, Legal and Regulatory Affairs

cc: Don Stockdale  
José Luis Rodriguez  
Ken Ackerman  
John Hays  
Alicia Dunhigan  
Ron Kaufman  
Anthony Dale

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*FCC Docket No. 96-149*  
*Ex Parte Meeting*

USTA Petition for Reconsideration

November 7, 1997

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# *Accounting Safeguards*

- ◆ Existing safeguards are adequate to prevent cross-subsidy
- ◆ Separate long-distance subsidiaries are not necessary
- ◆ Existing safeguards can easily be applied to ILEC provision of in-region long-distance service

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## *Adequacy of Existing Safeguards*

- ◆ Independent audits focus on proper application of Part 64 Rules
- ◆ On-going FCC monitoring/ audits
- ◆ Commission has strengthened safeguards via CAM Uniformity Order and independent audit guidelines
- ◆ Safeguards significantly strengthened in Accounting Safeguards Order

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## *Accounting Safeguards Application*

- ◆ Classify in-region interLATA long-distance services as Nonregulated
- ◆ Use Part 64 Cost Allocation Rules to separate costs

**OR**

- ◆ Apply Fifth Report and Order nonstructural separation requirements
- ◆ Use §32.27 Affiliate Transaction Rules to record transactions

**CC Docket No. 96-149**

**Long Distance: Relevant Accounts**

	<b>Resold LD (Embedded Access)</b>	<b>Resold LD (Separate Access)</b>	<b>Partial Facility LD (Switching)</b>	<b>Full Facility LD (Switching &amp; IX)</b>
<b>ASSET:</b>				
Switching	n/a	n/a	X	X
IX Facility	n/a	n/a	n/a	X
<b>EXPENSE:</b>				
Bulk LD	X	X		
Terminating Access		X	X	X
Originating Access		X	X	X
Sales & Marketing	X	X	X	X
Billing & Collection	X	X	X	X
Facility Lease			X	
Operator/Card Services	X	X	X	X