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Before the
Federal Communications Commission
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:)	
)	
1998 Biennial Regulatory Review--)	CC Docket No. 98-81
Review of Accounting and Cost Allocation)	
Requirements)	
)	
United States Telephone Association)	ASD File No. 98-64
Petition for Rulemaking)	

**REPLY COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION**

Its Attorneys

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September 4, 1998

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SUMMARY

No commenting party refuted USTA's position that all incumbent LECs should be provided with much-needed regulatory relief as required by Section 11 of the Telecommunications Act of 1996. While the NPRM's proposals are a beneficial first step for mid-sized incumbent LECs, USTA's specific proposals to streamline the current Part 32 and Part 64 rules meet the Section 11 requirement.

MCI is incorrect in stating that mid-sized companies should continue to utilize the current rules because competitive services will increase. USTA recommended that all incumbent LECs should be permitted to move from Class A to Class B accounting. Class B accounting will not affect jurisdictional separations, which uses Class B accounts, and will not impact the cost allocation categories in Part 64. Class A accounting is not required for pole attachment formulas since other entities which are not required to use Class A accounts are subject to Commission authority under Section 224 of the 1996 Act. Class B will not impact the Commission's ability to track competitive changes. The competitors of incumbent LECs do not use Class A accounts and the Commission must receive data from these competitors if it wants to obtain a complete picture of competitive changes. Subjecting incumbent LECs to Class A accounting places them at a competitive disadvantage in the competitive marketplace.

MCI is also incorrect in stating that the costs of continuing to use Class A accounting is minimal. The comments of incumbent LEC provide estimates of the costs of complying with these rules and point out that the Class A accounts serve no internal management or external reporting purpose. Thus, these costs are unnecessary.

Ultimately, incumbent LECs should be permitted to utilize GAAP accounting. As a transition to GAAP USTA recommends the following: adopt Class B accounts, streamline property records and depreciation as defined in Section 32.2000, eliminate the expense matrix as well as other mandated subsidiary records, eliminate the notification requirements to conform to GAAP, adopt the same materiality standards as GAAP, adopt GAAP requirements for inventories, eliminate jurisdictional difference accounts and consolidate the tax accounts.

USTA also recommends the elimination of Part 64. As a transition, USTA recommends the following: eliminate the external audit, eliminate the 15 day notice period for filing certain CAM changes, eliminate the requirement to quantify the CAM changes, eliminate the nonregulated product matrix from the CAM, eliminate the requirement to treat competitive tariffed regulated services as nonregulated for accounting purposes, reduce reporting of affiliates and of affiliate transactions, streamline the valuation of affiliate transactions, exempt from reporting as nonregulated those activities that have incurred only a de minimis amount of revenue and allow the use of fixed factors.

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The United States Telephone Association (USTA) respectfully submits its reply to the comments filed July 17, 1998 in the above-referenced docket.

In its comments, USTA noted that the proposals contained in the NPRM, while providing a good first step for mid-sized incumbent LECs, do not go far enough to provide much-needed regulatory relief for all incumbent LECs as required by Section 11 of the Telecommunications Act of 1996. That Section requires the Commission to review all of its rules and to eliminate or modify those rules which are no longer in the public interest due to meaningful economic competition between providers of telecommunications services. In order to fulfill that mandate, USTA urged the Commission to adopt USTA's proposals for all incumbent LECs subject to the current Part 32 and 64 rules. USTA's proposals meet the Section 11 requirement, are consistent with the pro-competitive, de-regulatory goals of the Act and reflect the current telecommunications environment. In addition, USTA's proposals would remove from price cap

carriers certain accounting requirements which were developed at a time when all carriers operated under traditional cost of service regulation and which are not consistent with price cap regulation.

Specifically, USTA urged the Commission to move from Class A accounting to Class B accounting. As USTA pointed out, neither the volume of transactions, other statutory obligations, jurisdictional separations nor pole attachment formulas require the use of Class A accounting. The Commission's obligations can all be accommodated using Class B accounting. Nothing presented in the comments refutes USTA's assertions. In fact, no commenting party provided any justification for maintaining Class A accounting for those incumbent LECs subject to price cap regulation or in cases where competition has eliminated the need for regulation. While USTA supports increasing the threshold to provide mid-sized LEC relief, USTA requested that the Commission ensure that no LEC below the threshold be required to file a CAM or to conduct an audit.

MCI is incorrect in asserting that because competitive services will increase, mid-sized LECs should continue to incur the costs of complying with the current rules. Furthermore, MCI offers no new rationale to support its assertion. As USTA explained in its comments, the use of Class B accounting would not affect jurisdictional separations, which uses Class B accounts, and would not impact the cost allocation categories in Part 64. In addition, the use of Class A accounting is not required for pole attachment formulas. Section 224 of the Telecommunications Act of 1996 governs not only incumbent LECs, but also electric, gas, water, steam or other public utilities that own or control poles, conduits, ducts or other rights of way. None of these

other entities are subject to the Class A accounts of Part 32 and there is no reason why the Commission cannot exercise its authority without requiring incumbent LECs to comply with the current Part 32 rules.¹

MCI also claims that the aggregation of local service revenue reporting under Class B accounting would limit the Commission's ability to track competitive changes. However, such reporting only serves to place incumbent LECs at a further disadvantage by forcing them to make public information which their competitors are not required to provide.² Class A accounting is not used by competitors whose data would also be required for the Commission to obtain a true picture of competitive changes. Furthermore, the detail MCI claims would not be available is not needed today since the accounts cited by MCI in Section 32.5000-5069 are all directly assigned to regulated and are added together in a single cost category pursuant to Section 36.212.

MCI also states that the cost of continuing to use Class A accounting is minimal. The record clearly demonstrates the folly of such an assertion. Every incumbent LEC explains that Class A accounting serves no internal management or external reporting purpose and as such adds unnecessary costs. For example, Bell Atlantic notes that it spends more than \$8 million per year to maintain continuing property records and over \$9 million per year to comply with current

¹Lexcom at 7-8.

²Pending before the Commission is its proposal to adopt a local competition survey which would apply to all LECs, including CLECs. See, *Public Notice*, CC Docket No. 91-141, CCB-IAD File No. 98-102, DA 98-839 (rel. May 8, 1998). USTA proposed less burdensome means to collect such information.

Part 64 requirements.³ GTE indicates that 20 to 25 percent of its total general ledger system implementation costs were solely attributable to customizing its internal systems to meet the Part 32 requirements.⁴ These administrative costs are unnecessary and only serve to prevent full and fair competition.

Ultimately, USTA believes that the Commission should permit incumbent LECs to utilize GAAP accounting. This will provide incumbent LECs with the flexibility to adopt the same accounting and recordkeeping practices utilized by other companies.⁵ As a transition to the adoption of GAAP, USTA recommended the following changes to the Part 32 rules: adopt Class B accounting, streamline property records and depreciation as defined in Section 32.2000, eliminate the expense matrix as well as other mandated subsidiary records, eliminate the notification requirements to conform to GAAP, adopt the same materiality standards as GAAP, adopt GAAP requirements for inventories, eliminate jurisdictional difference accounts and consolidate the tax accounts.

In addition, USTA recommended that the Part 64 rules should be eliminated. Again, as USTA and the other incumbent LECs explain, these rules are overly complex and costly. No commenting party provided any justification for maintaining these rules. In order to accomplish the ultimate elimination of Part 64, USTA recommended that the following actions be taken: eliminate the external audit, eliminate the 15-day notice period for filing certain CAM changes,

³Bell Atlantic at 5,9.

⁴GTE at 6.

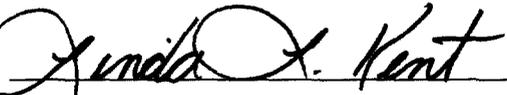
⁵Arthur Andersen at 1.

eliminate the requirement to quantify the CAM changes, eliminate the nonregulated product matrix from the CAM, eliminate the requirement to treat competitive tariffed regulated services as nonregulated for accounting purposes, reduce reporting of affiliates and affiliate transactions, streamline the valuation of affiliate transactions, exempt from reporting as nonregulated those activities that have incurred only a de minimis amount of revenue and allow the use of fixed factors.

USTA's specific proposals should be adopted immediately. These changes are supported in the record and, unlike the proposals contained in the NPRM, fully meet the Commission's responsibility under Section 11.

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

By: 

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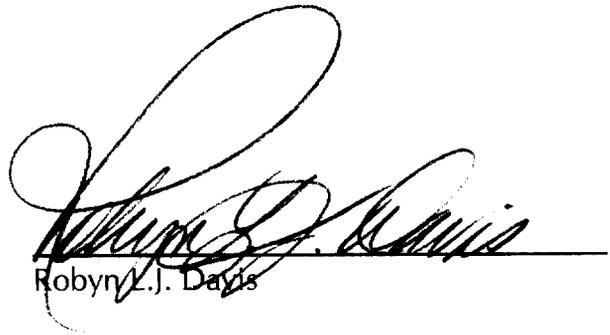
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September 4, 1998

CERTIFICATE OF SERVICE

I, Robyn L.J. Davis, do certify that on September 4, 1998 copies of the Reply Comments of the United States Telephone Association were either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the persons on the attached service list.



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