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

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

REPLY COMMENTS OF BELL ATLANTIC[1]

The vast majority of commenters agree that the current accounting and record keeping requirements impose unnecessary burdens and that significant streamlining is warranted. As Bell Atlantic demonstrated in its initial comments, the Commission should eliminate the cumbersome labyrinth of Part 32 rules and instead regulate based on GAAP -- the accounting principals generally accepted throughout the financial and accounting communities. The few parties that oppose significant reforms of the current accounting system provide no legitimate substantive reason to retain the current requirements, and their arguments should be rejected.

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

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1. MCI. MCI argues that both mid-sized and larger local exchange carriers should be required to use the arcane "Class A" chart of accounts, despite the fact that MCI itself relies on GAAP accounting to provide a full and fair picture of its own financial accounting. It is wrong. While MCI attempts to manufacture reasons that the current rules are needed, the reality is any legitimate needs are met by the far less burdensome requirements of GAAP.

For example, MCI raises the familiar bugaboo that the current rules are needed to protect against the risk of cross subsidies. MCI at 2-3. But as Bell Atlantic previously explained, objective factors prove otherwise. The simple fact is that the local exchange carriers long have been allowed to provide competitive services such as information services and CPE with no harm to competition. The combination of this actual market experience and the fact that Bell Atlantic and the other large local exchange carriers are now subject to price cap regulation -- under which rate levels are divorced from underlying accounting costs -- make it clear that the current detailed accounting rules are unnecessary.[2] Bell Atlantic Initial Comments at 4-6.

MCI also argues that there are other specific instances in which detailed cost information is needed, and claims that these justify retaining the current accounting rules. Again, however, it is wrong.

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[2] Contrary to a related MCI claim (at 4), current Part 32 rules are not needed to break costs into homogenous cost categories for separations purposes Just as corporations use GAAP and their own chart of accounts to produce an SEC Form 10K report, local carriers can use GAAP to assign costs to separation categories. As a result, continuation of current FCC accounting rules -- even the less burdensome rules applied to smaller ("Class B") carriers -- are not necessary even on interim basis. *C.f.* SBC at 5-6 (suggesting Class B rules as a transition step towards GAAP).

MCI first points to tariff investigations as an arena where current Part 32 information is needed. MCI at 3-4. But the Commission already can (and has) prescribed the specific cost information that must be filed in support of individual tariffs. *See, e.g.*, *Material to Be Filed in Support of 1998 Annual Access Tariff Filings*, 13 FCC Rcd 6702 (1998). And if the Commission chooses to further investigate the basis for a tariff filing, it already requires carriers to file a direct case to provide additional information deemed necessary by the Commission to evaluate issues raised concerning that particular tariff. 47 U.S.C. § 204; *see, e.g., 1997 Annual Access Tariff Filings*, 12 FCC Rcd 11417 (1997).

MCI next points to pole attachment fees and the calculation of avoided costs for wholesale pricing as examples of where more detailed accounting requirements are necessary. MCI at 4. In fact, they provide good examples of why such detail is superfluous. As Lexcom explained, "if the FCC can regulate pole attachment rates of [other] utilities without Part 32 complexities," then the Part 32 accounting information obviously is not necessary for this purpose. Lexcom at 8. Likewise, the calculations of avoided cost may have been based in the past on information taken from the Part 32 accounts, but this merely reflects the fact that this is the way the information was stored at the time. If the Commission were to switch to GAAP accounting, then avoided costs could be calculated by pulling the same type of cost information from the GAAP accounts.

In addition, MCI claims that the disaggregation of revenues required by Part 32 is necessary to track competitive changes in local markets. MCI at 4-5. But the Commission and the states are separately considering what data they need for this purpose. S*ee Local Competition Survey*, 13 FCC Rcd 9279 (1998). In any event, imposing burdensome accounting rules cannot be justified on the theory that some small part of the information

recorded might provide a backhanded way of estimating how much business competitors are doing. The far more direct, and rational, approach is to simply ask the competitors.

MCI (at 5) also parrots the notion that there is no real burden because local carriers "maintain their financial records in significantly more detail than that required for Class A carriers." This fundamentally misses the point. The level of detail is irrelevant because the Part 32 categories do not match those used for financial purposes. Part 32 therefore represents a redundant cost burden imposed purely by regulatory requirements. In fact, the Commission itself has recognized that the Part 32 rules impose an "additional burden" on companies that are required to adhere to those rules. *Accounting Safeguards Under the Telecommunications Act*, 11 FCC Rcd 17539 at ¶ 170 (1996).

2. Other commenters. The arguments made by other parties to try to justify retaining some or all of the current Part 32 requirements are similarly misplaced.

For example, GSA (Reply at 4) argues that large local exchange carriers retain market power. But this argument misses the point. In areas that are fully competitive, all forms of rate regulation and associated accounting rules should be eliminated altogether. The reforms proposed by Bell Atlantic presuppose at least a temporary continuation of some form of accounting rules – namely, adherence to GAAP -- and do not rely on the level of competition as justification.

GSA also argues that the current rules are necessary to support earnings calculations for those states that continue to operate under rate of return regulation. GSA Reply at 6. But, even aside from the fact that this is an issue for the states (rather that this Commission) to address, this would impose a blanket rule to address the exceptional circumstance. For example, the preponderance of states in Bell Atlantic's local exchange

markets rely on price cap regulation. *See* Bell Atlantic Ex Parte Letter from Susanne Guyer, CC Docket No. 96-262 (filed Aug. 31, 1998). And to the extent an isolated state required additional accounting rules, they would retain the ability to impose such requirements limited to that jurisdiction. Regardless, GAAP accounting is required by the Securities and Exchange Commission for use in calculating earnings and there is no reason why regulatory returns could not be calculated the same way.

One party asserts that "the FCC's Accounting and Cost Allocation requirements are far more accurate and reflective of telecommunications reality" than GAAP. PA PUC Reply at 7. In fact, as a review by a major independent accounting firm confirms, the opposite is true: "In light of the tremendous changes in the industry" since the adoption of the Commission's uniform system of accounts, in many respects its stability "has rendered it obsolete as an accounting system intended to reflect the current results of operations of subject carriers in a consistent and relevant manner." Arthur Andersen LLP, "Accounting Simplification in the Telecommunications Industry" at 2, *ex parte* filed July 15, 1998.

Finally, this same party also argues that the Commission should not consolidate nonregulated revenues into a single account. But the fact is that there is only a single nonregulated account today. As the Commission explained at the time it established that account, there is "no regulatory need for service specific revenue data for nonregulated activities," and the Commission's accounting structure was not designed to accommodate such accounts. *Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities*, 3 FCC Rcd 6701, 6703 (1988). The same holds true today.

Conclusion

The Commission should replace its current accounting and record keeping requirements with a simplified requirement to maintain records in accordance with GAAP.

Respectfully submitted,

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September 4, 1998

CERTIFICATE OF SERVICE

I hereby certify that on this 4th day of September, 1998, a copy of the foregoing "Reply Comments of the Bell Atlantic" was sent by first class mail, postage prepaid, to the parties on the attached list.

Jennifer L. Hoh

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* Via hand delivery.

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