Without exception, the arguments that the ILECs raise in support of their proposals have been specifically rejected by the Commission. In the Accounting Safeguards Order, the Commission rejected the ILECs' argument that price cap rules rendered the cost allocation and affiliate transactions rules unnecessary.[57] The Commission also considered, and rejected, ILEC suggestions that (1) fully distributed cost valuation alone was sufficient for service transactions, (2) there was no need to define a threshold for use of the prevailing price method of valuation; and (3) competitive regulated activities should not be treated as nonregulated for accounting purposes.

Similarly, in the Filing Requirements Reform Order, adopted only a year ago, the Commission specifically rejected the ILECs' arguments that requiring submission of CAM changes to the Commission was inconsistent with section 402(b)(2)(B).[58] In that order, the Commission also stated that the original purpose of the CAM filing requirements remained valid "[d]espite recent and expected changes in the industry due to increased competition."[59]

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regulated services be treated as nonregulated for accounting purposes (Accounting Safeguards Order at ¶¶75, 176.)

[57] Accounting Safeguards Order at ¶271.

[58] Implementation of the Telecommunications Act of 1996; Reform of Filing Requirements and Carrier Classifications, Report and Order, 12 FCC Rcd 8071, 8087 (1997) (Filing Requirements Reform Order).

[59] Id.

There is no reasoned basis for the Commission to change course so soon after the adoption of the Accounting Safeguards Order and the Filing Requirements Reform Order.[60] While the Commission suggested in the Accounting Safeguards Order that changes in the competitive conditions of local telecommunications markets may cause it to re-examine the continued need for accounting safeguards,[61] there has been no substantial change in the level of local competition in the eighteen months since the release of the Accounting Safeguards Order. Contrary to Bell Atlantic's suggestion,[62] the elimination of the sharing mechanism from the Commission's price cap regime does not provide any basis for the Commission to revise its accounting safeguards. The sharing mechanism is only one of several factors that the Commission has cited in concluding that effective cost allocation and affiliate transactions rules remain essential even under price cap regulation.[63]

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[60] See, e.g., Motor Vehicle Manufacturers Association v. State Farm Automobile Insurance Company, 463 U.S. 29, 41-4.

[61] Accounting Safeguards Order at ¶271.

[62] Bell Atlantic Comments at 4-5.

[63] See, e.g., Accounting Safeguards Order at ¶271;

V. Conclusion

For the reasons stated herein, the Commission should reject the ILECs' proposals for wide-ranging changes to the Commission's accounting rules.

Respectfully submitted,
MCI TELECOMMUNICATIONS
CORPORATION

Alan Buzacott

Alan Buzacott
Regulatory Analyst
1801 Pennsylvania Ave., NW
Washington, DC 20006
(202) 887-3204

September 4, 1998

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on September 4, 1998.

Al Buzacott

Alan Buzacott
Regulatory Analyst
1801 Pennsylvania Ave. NW
Washington, D.C. 20006
(202) 887-3204

CERTIFICATE OF SERVICE

I, Vivian I. Lee, do hereby certify that copies of the foregoing Reply Comments were sent via first class mail, postage paid, to the following on this 4th day of September, 1998.

International Transcription Services**
1231 20th Street, N.W.,
Washington, DC 20036

Warren Firschein
Accounting Safeguards Division
Common Carrier Bureau
FCC
2000 L Street, Suite 200
Washington, DC 20554

Jane Jackson**
Chief, Competitive Pricing Division
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, D.C. 20554

Rich Lerner**
Federal Communications Commission
Room 518
1919 M Street, N.W.
Washington, DC 20554

Ken Moran
Federal Communications Commission
Room 812
2000 L Street, N.W.
Washington, DC 20554

Fatina Franklin
Federal Communicatins Commission
Room 257
2000 L Street, N.W.
Washington, DC 20554

Andrew Mulitz
Federal Communications Commission
Room 257
2000 L Street
Washington, DC 20554

Robert M. Lynch
Durward D. Dupre
Darryl W. Howard
Jonathan W. Royston
SBC
One Bell Plaza
Room 3022
Dallas, TX 75202

James U. Troup
Robert H. Jackson
Arter & Hadden LLP
1801 K Street, NW
Suite 400K
Washington, DC 20006-1301

Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
USTA
1401 H Street, NW
Suite 600
Washington, DC 20005

Leander R. Valent
Ameritech
9525 West Bryn Mawr, Suite 600
Rosemont, IL 60018

M. Robert Sutherland
Stephen L. Earnest
BellSouth
Suite 1700
1155 Peachtree Street, N.E.
Atlanta, GA 30309-3610

James T. Hannon
U S West, Inc.
Suite 700
1020 19th Street, N.W.
Washington, DC 20036

John F. Raposa
GTE Service Corporation
600 Hidden Ridge, HQE03J27
P.O. Box 152092
Irving, TX 75015-2092

Andre J. Lachance
GTE Service Corporation
1850 M Street, N.W.
Washington, DC 20036

Neal T. Kilminster
Associate General Counsel
John E. Benedict
Senior Counsel
COMSAT Corporation
6560 Rock Spring Drive
Bethesda, MD 20817

Gregg C. Sayre
General Attorney
Frontier Telephone of Rochester, Inc.
180 South Clinton Avenue
Rochester, NY 14646

Nancy Rue
Attorney for Cincinnati Bell
Telephone Company
Frost & Jacobs LLP
2500 PNC Center
201 East Fifth Street
Cincinnati, OH 45202

Jay C. Keithley
Sprint
1850 M Street, N.W., 11th Floor
Washington, DC 20036-5807

David W. Zeisiger
Executive Director
Donn T. Wonnell
Counsel
Independent Telephone &
Telecommunications Alliance
1300 Connecticut Avenue, Suite 600
Washington, D.C. 20036

Carolyn C. Hill
ALLTEL Communications Services
Corp.
655 15th Street, N.W.
Suite 220
Washington, DC 20005

Edward Shakin
Bell Atlantic
1320 North Court House Road
8th Floor
Arlington, VA 22201

**HAND DELIVERED

Vivian I. Lee
Vivian I. Lee

REPORT ON ANDERSEN POSITION PAPER

PREPARED BY

SNAVELY KING MAJOROS O'CONNOR & LEE, INC.

SEPTEMBER 4, 1998

REPORT ON ANDERSEN POSITION PAPER

Prepared By Snavely King Majoros O'Connor & Lee, Inc.

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REPORT ON ANDERSEN POSITION PAPER

Prepared By Snavely King Majoros O'Connor & Lee, Inc.

I. INTRODUCTION

This report was prepared by Snavely King Majoros O'Connor & Lee, Inc., ("Snavely King") at the request of MCI Telecommunications Corporation ("MCI").[1] It examines the relevance and advisability of the recommendations contained in the July 15, 1998, position paper by Arthur Andersen LLP ("Andersen"), titled "Accounting Simplification in the Telecommunications Industry" ("Andersen Paper") in light of the present regulatory obligations of the Federal Communications Commission ("Commission") and the State commissions, and the current competitive environment of the local exchange telephone industry.

The Andersen Paper was prepared at the request of five of the six Incumbent Local Exchange Carriers ("ILECs") that would be classified as "Class A" reporting carriers under the Accounting NPRM in CC Docket No. 98-81, issued by the Commission on June 17, 1998.[2] The paper purports to analyze the Commission's Uniform System of Accounts ("USOA") for telecommunications companies contained in Part 32 of the Commission's Rules and Regulations.

Andersen's basic conclusion is that the USOA has evolved into a regulatory reporting system solely to meet regulatory reporting requirements and, as such, imposes an "unnecessary and costly constraint on the carriers subject to its requirements."[3] It presents a number of recommendations

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[1] Snavely King was founded in 1970 to conduct research on a consulting basis into the rates, revenues, costs and economic performance of regulated firms and industries. Members of the firm have participated in over 500 proceedings before almost all of the State commissions and all Federal commissions that regulate utilities or transportation industries.

[2] 1998 Biennial Regulatory Review - Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, Notice of Proposed Rulemaking, FCC 98-108, released June 17, 1998 ("Accounting NPRM"). The "LEC Coalition" excludes Bell Atlantic.

[3] Andersen Paper, p. 1.

which it claims would simplify and streamline the ILECs' accounting and reporting requirements.

Andersen's recommendations relate to three broad areas of accounting, record keeping and reporting: (1) Part 32 account structure and accounting requirements, (2) property records and depreciation requirements, and (3) affiliate transaction rules.

With respect to Part 32 requirements, Anderson proposes that all carriers, not just those below a prescribed revenue threshold, be permitted to maintain Class B level account detail, and that the current requirements for subsidiary record categories be reduced or eliminated. It proposes that the requirement for "expense matrix categorization," that is, the breakdown of accounts among salaries and wages and other types of expenses, be eliminated. It recommends reliance on Generally Accepted Accounting Principles ("GAAP") for establishing the materiality of items to be capitalized, recognition of extraordinary items, adjustments and contingencies. Finally it recommends automatic adoption of new accounting standards without the current advance notice requirement.

Andersen proposes that the property record-keeping and depreciation requirements effectively be reduced to those of unregulated companies. The ILECs would set the level of subaccount, location and plant element detail according to GAAP asset management requirements. The carriers would set their own depreciation rates, capitalization rules and depreciation methods within GAAP guidelines.

Finally, Andersen would relax the rules on affiliate transactions by eliminating the asymmetrical valuation of assets transferred and services provided between regulated and [redacted]

According to Andersen, these changes will allow regulators to become "more proactive, facilitating the implementation of the Telecommunications Act by instituting less regulation rather than more."[4] Regulators would rely on GAAP-based accounting information that would reconcile with the financial reports. This would allow their accounting reviews to be "more focused" and "issue-driven."

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[4] Id., p. 7.

II. STRINGENT ACCOUNTING SAFEGUARDS REMAIN NECESSARY

A. Analysis of Andersen's Position

The principal shortcoming of the Andersen Paper lies in its perception of the objectives of the Commission's accounting rules. This problem of perception is evident in Andersen's initial overall conclusion that the USOA does not "reflect the existing regulatory and competitive paradigm", but instead "has evolved into a regulatory reporting system solely to meet regulatory reporting requirements".[5] On this basis, Andersen concludes that the USOA imposes an unnecessary and costly constraint on the carriers subject to its requirements. Each element in this conclusion displays a misperception of the objectives of the Commission's accounting rules, the USOA, and the environment in which they operate.

Andersen does not describe the "existing regulatory and competitive paradigm" that the USOA purportedly fails to reflect. That paradigm is in fact much more complex than Andersen's analysis implies. At present, over 98 percent of the local exchange telephone market remains under the control of the ILECs, which suggests a continuing need for regulation of exchange and exchange access services. These ILECs offer a mix of competitive and non-competitive services which require service classification according to the degree of regulation, the jurisdiction of that regulation, and the functions being performed. Moreover, the Telecommunications Act of 1996 has imposed difficult and complex requirements for unbundled network elements, resale, and universal service costing. This regulatory and competitive paradigm suggests a continuing requirement for uniformly defined and detailed revenue and cost data.

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[5] Id., p. 1.

Andersen next condemns the USOA for having evolved into a "regulatory reporting system solely to meet regulatory reporting requirements." This phrase is a simple truism: The USOA is a regulatory reporting system; it is designed to meet regulatory reporting requirements. If it does so, then it meets its objective. This can hardly be considered a valid basis for criticizing the USOA.

Andersen's objection to the USOA apparently lies in the word "solely," specifically that the USOA has no other use than regulatory reporting. Indeed, much of the paper focuses on the irrelevance of the USOA to management requirements and financial reporting. From the viewpoint of the Commission, this issue is itself irrelevant. The Commission is charged by Section 220(a)(2) of the Communications Act to develop a uniform system of accounts to "ensure a proper allocation of all costs to and among telecommunications services, facilities and products...." "Proper allocation" in the Communications Act has to mean "proper" for purposes of implementing that Act, that is, for regulating telecommunications companies. The sole purpose of the USOA is for regulation. If it has other uses, they are an added benefit, but if there are no such other uses, that is irrelevant.

Andersen appears to recognize that the Commission could never design an accounting system that would provide ILEC managements all the data needed to operate their companies. Management data requirements change as services and markets change, and they differ among companies. A USOA that fully serves both regulatory and management accounting objectives is therefore impossible.

The differences between regulatory reporting and GAAP-based financial reporting are probably inevitable. As discussed in detail later in this report, these differences arise primarily from the disparity in the objectives of the two reporting procedures. Regulatory reporting is designed to protect consumers from pricing abuses arising from the market power of telephone utilities. Financial reporting and the underlying GAAP concepts are designed to protect public shareholders from inconsistencies and misrepresentations of financial results by company managements. Financial reporting simply does not address many of the principal issues of concern to regulators: supracompetitive and non-compensatory prices, discrimination among services and customers, and the maintenance of universal telephone service.

A USOA designed solely for regulatory purposes is hardly "an unnecessary burden" unless viewed from the prospective of ILEC managements, some of whom might as soon be rid of regulation altogether. The overwhelming weight of the public interest requires that this burden be imposed on ILECs as long as they exert market power over a vital public service.

Finally, claim that there is a severe cost "burden" resulting from the USOA is refuted by the Andersen study itself. The following table summarizes the differences between the accounting and record-keeping costs incurred by the LEC Coalition and the corresponding costs incurred by Non-Telco companies surveyed by Andersen:

Activity	Range ($M)	Average ($M)
General Accounting (p.20)	0 - 3.0	2.2
Plant Accounting (p.32)	3.2 - 9.6	7.0
Affiliate Transactions (p.44)	0.4 - 0.9	1.3
Total Differences	3.6 - 13.5	10.5

Given that the average Coalition ILEC had operating telephone company revenues of $13.8 billion in 1997, an added expenditure of $10.5 million, or even $13.5 million, in the public interest, can be considered a trivial cost burden.[6]

B. Price Cap Regulation Has Not Eliminated The Need For Accounting Safeguards.

The only relevant remaining issue is whether accounting safeguards continue to be required under the existing "regulatory and competitive paradigm." Andersen dismisses the need for detailed regulatory accounting data on the grounds that price cap regulation without earnings sharing has rendered the calculation of earnings totally irrelevant and the identification of more than the grossest of investment and expense information largely unnecessary.

Notably, Andersen never addresses the specific statutory requirements identified in paragraph 6 of the Accounting NPRM, nor does it consider the need of State commissions for consistent regulatory reporting. These requirements are discussed in greater detail later in this report, but they can be summarized briefly as follows:

<u>The calculation of federal (interstate) earnings</u> continues to be necessary notwithstanding price cap regulation because the FCC's plan contains a "low-end adjustment" for carriers that underearn and because the Commission must monitor the success of price caps in containing the market power of the ILECs. This monitoring is the principal basis upon which the Commission has adjusted -- and will continue to adjust -- the price cap formula.

<u>The calculation of intrastate earnings</u> using a nationwide USOA continues to be necessary because 18 state commissions and the District of Columbia continue to regulate on a traditional revenue requirements basis. Many of the remaining 32 price cap states have limited the term of their plans, calling for earnings reviews at the end of those terms. Almost all of the price cap states monitor regulated earnings so as to be able to adjust their formulas as required.

[6] See Attachment 1 for list of LEC Coalition member 1997 revenues.

Detailed interstate cost data continue to be required in order to implement the "exogenous factor" element of the price cap formula, to develop subscriber line charges, to set the initial prices of new services, and to review and verify the cost data underlying rates that exceed price caps. Service cost studies supporting the setting of initial prices and prices that exceed price caps must be performed with particular care to ensure the maintenance of just and reasonable rates. After all, no price cap plan can protect ratepayers if the initial rates, upon which the plan is based, are excessive. Detailed historical cost data provides the foundation for every reliable service cost study.

Detailed intrastate cost data continue to be required because every state commission faces pressure to adjust intrastate rate structures to resolve alleged differences in cost-revenue relationships among services and customer classes. The appropriate resolution of these differences depends upon the performance of comprehensive and accurate service cost studies. Without the benefit of detailed historical cost data, such studies cannot be properly prepared or evaluated.

Finally, the Telecommunications Act of 1996 has increased, not decreased, the requirement for detailed cost data by requiring cost-based discounts for wholesale services, by specifying that unbundled network elements shall be sold to competitive LECs on the basis of their costs, and by establishing a cost-based procedure for compensating carriers offering services needed to maintain universal access to the telephone network.[7] Although the methodology used for much of the costing under the 1996 Act is forward-looking and does not rely explicitly on historical accounting data, the models used for this costing often employ factors, e.g. expense-to-investment ratios, that are derived from USOA-based financial reports.

[7] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) ("1996 Act"), amending the Communications Act of 1934.

III. GAAP PROTECTS INVESTORS, NOT RATEPAYERS

In its GAAP Order, the Commission adopted GAAP into the revised USOA to the extent regulatory considerations permit.[8] The Commission stated that it would "adopt all future changes in GAAP unless the revenue requirement study that the carriers file with the Commission shows that the change will have a significant impact on revenue requirements."[9] Andersen recommends that the Commission "ease the accounting and recordkeeping requirements on all LECs with the ultimate goal being full reliance on GAAP."[10]

As the Commission has recognized, full reliance on GAAP is not appropriate for regulatory purposes. This is because the basic purpose of GAAP is to protect investors, not ratepayers. To this end, conservatism is considered a basic principle of GAAP:

> Any discussion of the qualitative characteristics of accounting information would be incomplete without some reference to the doctrine of conservatism. Conservatism is a reaction to uncertainty. For many years, accountants have been influenced by conservatism. Conservatism in accounting may mislead users if it results in a deliberate understatement of net assets and net income. Such understatement is undertaken to minimize the risk of uncertainty to outside lenders.[11]

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[8] Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles (Parts 31, 33, 42, and 43 of the FCC's Rules), CC Docket No. 84-469, Report and Order, FCC 85-581, released November 14, 1985 ("GAAP Order"), para. 70.

[9] Id., para. 73.

[10] Andersen Paper, p. 3.

[11] GAAP, Interpretation and Application, 1994 Edition, Patrick R. Delaney, Ph.D., CPA, et al., John Wiley & Sons, p. 26.

As GTE has noted, the GAAP conservatism principles "prefers the understatement (versus overstatement) of net income and net assets where any potential measurement problems exist."[12] In its October 1993 Prescription Simplification Order, the Commission agreed with GTE, stating:

> One of the primary purposes of GAAP is to ensure that a company does not present a misleading picture of its financial condition and operating results by, for example, overstating its asset values or overstating its earnings, which would mislead current and potential investors. GAAP is guided by the conservatism principle which holds, for example, that, when alternative expense amounts are acceptable, the alternative having the least favorable effect on net income should be used. <u>Although conservatism is effective in protecting the interest of investors, it may not always serve the interest of ratepayers</u>. Conservatism could be used under GAAP, for example, to justify additional (but, perhaps not "reasonable") depreciation expense by a LEC....[13]

It is the responsibility of regulators to balance the interests of investors and ratepayers at all times. Full reliance on GAAP, as Andersen has proposed, might sometimes lead to rates which are neither just nor reasonable. As will be discussed throughout this report, the Commission's current rules strike an appropriate balance between the interests of investors and those of ratepayers.

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[12] Simplification of the Depreciation Prescription Process, CC Docket No. 92-296 ("Prescription Simplification"), Comments of GTE, March 10, 1993, p. 14.

[13] Prescription Simplification, Report and Order, FCC 93-452, released October 20, 1993, para. 46. (Emphasis added).

IV. THE COMMISSION'S PART 32 ACCOUNTING RULES REMAIN NECESSARY

A. Analysis of Andersen's Position

Andersen's position with respect to the Part 32 accounting structure is summarized as follows:

> The Part 32 accounting structure is overly detailed and in many cases exceeds the accounting requirements of GAAP. Further, the Part 32 account structure does not facilitate management or external reporting and is used only for regulatory reporting in the current environment contrary to the original intent of the USOA. Charts of accounts in other industries are more closely aligned with the external reporting requirements and management information needs of the business.[14]

Andersen's criticisms ignore the primary purpose of Part 32. As the Commission stated in its Part 32 Order, the Uniform System of Accounts ("USOA") is intended as "a regulatory information system that would meet all the ordinary needs of the Commission for the regulation of telephone common carriers."[15]

The Commission's accounting and cost allocation responsibilities are clearly stated in the Communications Act of 1934:

> The Commission shall, by rule, prescribe a uniform system of accounts for use by telephone companies. Such uniform system shall require that each common carrier shall maintain a system of accounting methods,

[14] Andersen Paper, p. 14.

[15] Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42 and 43 of the FCC's Rules), CC Docket No. 78-196, Report and Order, FCC 86-221, released May 15, 1986 ("Part 32 Order"), para. 3.

> procedures, and techniques (including accounts and supporting records and memoranda) which shall ensure a proper allocation of all costs to and among telecommunications services, facilities, and products (and to and among classes of such services, facilities, and products) which are developed, manufactured, or offered by such common carrier.[16]

The USOA as detailed in Part 32 provides the foundation for meeting these responsibilities.

Part 32 was the result of a comprehensive, eight year effort by the Commission to improve the quality of information it received.[17] The Commission envisioned "an up-to-date financial based system maintained in sufficient detail to facilitate recurrent regulatory decision making without undue reliance on ad hoc information requests and special studies."[18] The Commission was assisted in this effort by the Telecommunications Industry Advisory Group and the comments of 163 parties, including Arthur Andersen.[19]

As discussed above, the Commission's need for detailed information for regulatory purposes has not changed. Andersen's criticisms, however, focus on the purported lack of usefulness of the USOA for external reporting and management purposes.

Interestingly, Andersen's own analysis fails to support even these contentions. Andersen admits that for Coalition LECs "[f]inancial results are generally derived from the Part 32 accounting, as adjusted for differences between Part 32 accounting requirements and GAAP...."[20] Since external

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[16] Communications Act of 1934, Section 220(a)(2).

[17] Part 32 Order, para. 2.

[18] Id.

[19] Id., para. 4-6 and Appendix B.

[20] Andersen Paper, p. 21.

financial reports are derived from the Part 32 accounting, the USOA is obviously useful for external reporting.

Similarly, Andersen states "the LECs believe that removing Part 32 completely would not necessarily result in fewer accounts, because many of those accounts would still be necessary for management purposes."[21] It is hard to reconcile this statement with Andersen's contention that the Coalition LECs "are not able to use Part 32 to capture useful management information."[22] Of course, management's information needs do go beyond the needs of regulators, and the USOA was never intended to provide all the information management finds useful. Regulators have no need for data by business unit or organization, for example, while this is often of great importance to management. While the Commission expected the USOA to provide some information useful to management, it must be remembered that its primary purpose is to provide information useful for regulatory purposes.

In conjunction with the preparation of its position paper, Andersen accumulated certain information from "other capital-intensive companies of similar size operating in industries outside of the regulated telecommunications industry."[23] Andersen's comparison of annual general accounting costs indicates that the cost for the average LEC Coalition member is about $2 million more than for companies in its Non-Telco group.[24] Since most of its survey companies are

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[21] Id., p. 21.

[22] Id., p. 20.

[23] Id., p. 13. The specific companies surveyed were in the following industries: electric and gas utilities, airlines, transportation, oil and gas, high technology, lumber/paper products and manufacturing.

[24] Id., p. 20.

assumedly non-regulated, this difference might generally be viewed as a cost of regulation.[25] As such, it represents a real bargain. This $2 million is less than two-hundredths of one percent (.0002) of the 1997 operating telephone company revenues of the average LEC Coalition member ($13.8 billion).[26]

B. Andersen's Recommendations Should Be Rejected

1. Class A Account Level Detail Remains Necessary

Andersen recommends that all ILECs be permitted to report on a Class B level of detail, instead of a Class A level, since this would reduce the amount of detail required for regulatory reporting.[27] In its Accounting NPRM, the Commission proposed this change for carriers having annual revenues of less than $7 billion, but specifically proposed the retention of Class A detail for the largest ILECs.[28]

The Commission found that the more detailed Class A accounting is required to monitor the large ILECs as competition begins to develop in local telephony markets.[29] The Commission noted that the Class A level of detail allows it to identify potential cost misallocations beyond those

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[25] The Non-Telco group does include one or more electric utilities which are subject to regulation. It is interesting to note that the USOA for these companies, as prescribed by the Federal Power Act (18 CFR 101), contains far more accounts (396) than the USOA for Class A telephone companies (261). There are 65 electric plant accounts versus 40 telephone plant accounts. There are 125 electric operating expense accounts versus 71 for telephone companies.

[26] See Attachment 1 for list of LEC Coalition member 1997 revenues.

[27] Andersen Paper, p. 22.

[28] Accounting NPRM, para. 4-6.

[29] Id., para. 6.

revealed by the Class B system of accounts.[30] The Commission also noted that Class A accounting provides the level of detail needed to ensure that a carriers' emerging competitive activities are not subsidized by its noncompetitive activities.[31] In summary, the Commission found that the use of Class A accounts provides more refined cost allocations without imposing an undue burden on the largest ILECs.[32]

The Commission is correct in its description of the importance of Class A detail to sound cost accounting. To illustrate the difference between Class A and Class B cost accounting, 1997 Telephone Plant In Service ("TPIS") has been listed on Page 1 of Attachment 2 for all ILECs providing full financial reports to the Commission. TPIS by Class A account is shown in Column a, and TPIS by Class B account is shown in Column b.

It is obvious from comparing column a to column b that a move to Class B accounting would deprive the Commission of data needed to make meaningful cost allocations pursuant to its Part 64 Rules for the separation of regulated and non-regulated costs. For example, the appropriate attribution of building investment (Account 2121) may be very different from that for motor vehicles (Account 2112) and general purpose computer equipment (Account 2124).[33] Similarly, the appropriate attribution of poles (Account 2411) and aerial cable (Account 2421), may be very

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[30] Id.

[31] Id.

[32] Id.

[33] U S West, for example, allocates building investment based on direct reporting to Field Reporting Codes, motor vehicles by a study of all motor vehicle subsidiary records, and general purpose computer equipment by a computer usage study. U S West Cost Allocation Manual, Section VI.

different from that for underground cable (Account 2422) and conduit systems (Account 2441). Such distinctions apply throughout the list of plant and expense accounts.[34]

For jurisdictional separations purposes, it may be adequate to allocate costs according to Class B accounts, since ratepayers end up paying for both interstate and intrastate costs. But prior to jurisdictional separations, it is imperative that an accurate job be done in removing the costs of non-regulated and competitive services to protect both interstate and intrastate ratepayers. Indeed, detailed and accurate cost allocations will be especially important should the Commission implement its proposals concerning the deployment of high-speed, high capacity advanced services.[35]

Attachment 2, Page 2, illustrates why Class A detail is important for cost of service use, as well as for cost accounting use. Column a lists TPIS by Class A account, with Class B accounts shown in bold (see, e.g. Account 2110). Columns b and c show plant specific expenses and plant specific expense ratios by Class A account. Columns d and e show plant specific expenses and plant specific expense ratios by Class B account.

Most cost of service studies determine the investment required to provide a service, and then calculate the annual cost of this investment. The investment is multiplied by depreciation rates to determine annual depreciation expense, for example. The investment is also multiplied by plant specific expense ratios to determine annual plant specific expense. As can be seen from Column c, the annual plant specific expense ratios for various investment categories vary widely. The accuracy

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[34] The Commission has proposed the consolidation of Accounts 2114-2116 (Accounting NPRM, para. 14). As can be seen on Page 1 of Attachment 2, this will have a de minimis effect on Part 64 cost allocations.

[35] Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 98-147, et. al., Memorandum Opinion and Order, and Notice of Proposed Rulemaking, FCC 98-188, released August 7, 1998.

of cost of service studies of all types would thus suffer greatly in a change from Class A detail to Class B detail, since only composite plant expense ratios would be available.

2. Expense Matrix Detail Remains Necessary

Andersen recommends the elimination of the expense matrix for each expense account for salaries and wages, benefits, rents, other expenses, and clearances.[36] Andersen notes that non-regulated companies are not restricted as to how they track expense elements.[37]

Once again, Andersen fails to recognize the needs of regulators for information. The evaluation of exogenous factor submissions and service cost studies of all types often require the regulator to check the reasonableness of ILEC projections by element. The exogenous factor impact of a change in social security taxes, for example, would be related to salaries and wages. In service cost studies, labor costs are invariably and appropriately projected separately from materials and other costs.

Ironically, Andersen itself notes that activity-based cost information (e.g. salaries and wages) is often a focus of management information systems used to present a clear picture of activities performed to produce a product or service.[38] Regulators, and the public, must not be deprived of the cost detail necessary to evaluate ILEC exogenous factor and cost of service projections.

3. Subaccount Details Remain Necessary

Andersen recommends that subaccount detail be eliminated to reduce ILEC system

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[36] Andersen Paper, p. 23.

[37] Id.

[38] Id., p. 2.