

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
Petition for Rulemaking to Amend Part)
32 of the Commission's Rules, Uniform)
System of Accounts for Class A and) RM-9341
Class B Telephone Companies, to)
adopt the Accounting for Software)
Required By Statement of Position 98-1)

REPLY COMMENTS OF GTE

GTE Service Corporation and its affiliated domestic telephone operating companies (collectively "GTE")¹ respectfully submit reply comments in response to the Public Notice in the above-captioned proceeding.² In the *Public Notice*, the Federal Communications Commission ("FCC" or "Commission") seeks comment on the Petition for Rulemaking filed by Bell Atlantic and BellSouth ("Joint Petitioners") to amend the Commission's existing Part 32 rules in order to accommodate recent changes in generally accepted accounting principles ("GAAP"). The Joint Petitioners request that

¹ GTE's domestic telephone operating companies are: GTE Alaska Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., and Contel of the South, Inc.

² BellSouth and Bell Atlantic File a Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Adopt the Accounting for Software Required by Statement of Position 98-1, *Public Notice*, RM-9341, DA 98-1625 (released August 13, 1998) (hereinafter "*Public Notice*").

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the treatment of software costs in Part 32 rules conform to Statement of Position 98-1 ("SOP 98-1"). The Joint Petitioners also seek waiver of the requirement to perform a revenue requirement study when a change in accounting standard is adopted.

I. DISCUSSION

A. There is unanimous agreement that the Commission should adopt SOP 98-1.

All parties filing comments in the *Public Notice* urge the Commission to expeditiously adopt SOP 98-1. Ameritech, for example, states, "[a]doption of the provisions of SOP 98-1 will eliminate the unnecessary burden and costs resulting from maintaining separate regulatory accounting processes, procedures and records while still providing industry uniformity in the accounting for such costs."³ Similarly, the SBC LECs comment that if SOP 98-1 is not quickly adopted, "[I]t would be extremely difficult and administratively costly to treat as an expense for purposes of Part 32 the software costs that will have to be capitalized in the external financial accounting records starting in 1999."⁴ The record therefore demonstrates that the proper course of action for the Commission is to expeditiously adopt SOP 98-1 for Part 32 accounting effective January, 1999.

³ Ameritech Comments at 2.

⁴ SBC LECs Comments at 2.

B. Adopting SOP 98-1 does not necessitate an exogenous price cap adjustment.

All parties addressing the issue agree that adopting SOP 98-1 will have no cash flow implications.⁵ Thus, under Commission Rules, adopting SOP 98-1 will not necessitate an exogenous price cap adjustment.⁶

C. There is no need to require LECs to perform revenue requirement studies regarding the adopting of SOP 98-1.

As noted above, adopting SOP 98-1 will not cause an exogenous price cap adjustment. Thus, for price cap carriers, adopting SOP 98-1 will have no effect on ratepayers. As the SBC LECs correctly observe, a revenue requirement study would be a completely meaningless exercise for price cap carriers.⁷

Among commenters in this proceeding, MCI alone asks the Commission to deny the Joint Petitioners' waiver request, stating that the effect of a change in software accounting "could be substantial."⁸ MCI, however, makes no attempt to explain how the results of a study would affect Commission actions. Adopting SOP 98-1 would only change how the accounting for software costs is treated; it would not change the amount LECs pay for software. Thus, there is no doubt that adopting SOP 98-1 will not have any "substantial" effect on ratepayers. It appears then that MCI's only purpose for

⁵ Ameritech Comments at 3, SBC LECs Comments at 4, MCI Comments at 7, and USTA Comments at 3.

⁶ See, Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, *First Report and Order*, 10 FCC Rcd 8961, 9089-9092 (1995).

⁷ SBC LECs Comments at 4.

⁸ MCI Comments at 2.

asking the FCC to maintain the revenue requirement study is to force LECs to incur unnecessary administrative costs – costs that MCI can conveniently avoid. MCI's self-serving request must be rejected.

D. All software should be classified as intangible.

All of the commenting parties except MCI agree that software should be classified as an intangible asset. MCI contends that software should be characterized as both tangible and intangible, and consequently recommends that operating software be classified with the associated hardware, and all application software be included as an intangible asset. GTE disagrees.

GTE believes that all software should receive consistent accounting treatment. There is no reason to distinguish between the two types of software; both contain the same physical characteristics and can not be differentiated except by the type of program instructions the computer uses to perform its task. The computer can not complete the required task without the presence of both the operating and application software components.

MCI argues, further, that operating software costs should be treated as tangible to ensure that cost allocations remain undisturbed in order to prevent cross-subsidization. Classifying operating software costs as tangible assets, however, would not aid the cost allocation process because the basis for allocating costs to non-regulated operations would be the same regardless of whether the software is classified in the intangible account or a plant account. Indeed, the only impact MCI's recommendation would have is to impose additional administrative burdens on its

competitors. For these reasons, GTE recommends that all software receive the same accounting treatment and be classified as an intangible asset.

E. The Commission should not prescribe ranges of amortization periods for capitalized software.

The majority of commenters in this proceeding agree that there is no need for the Commission to prescribe amortization periods for capitalized software.⁹ SOP 98-1 and GAAP provide all the guidance necessary for carriers to establish amortization periods that recognize the matching of revenues and expenses. Once again, only MCI argues that the Commission should become deeply involved in establishing unnecessary rules that are far more detailed and restrictive than those contained in SOP 98-1 and GAAP. Pursuant to Section 11 of the Telecommunications Act of 1996,¹⁰ the Commission must only impose new regulation when such measures are clearly in the public interest. GTE suggests that no such showing can be made for the regulations proposed by MCI. GTE strongly suggests that the Commission, in the midst of a process aimed at streamlining Part 32 Rules, should not entertain new regulations such as those proposed by MCI.

⁹ Ameritech Comments at 2, Cincinnati Bell Comments at 4, SBC LECs Comments at 3, and USTA Comments at 2.

¹⁰ 47 U.S.C. § 161.

II. CONCLUSION

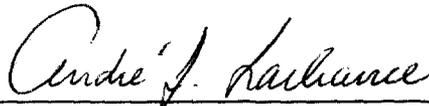
GTE urges the Commission to expeditiously adopt the recommendations of the Joint Petitioners and conform Part 32 to SOP 98-1. Failing to do so will force carriers subject to Part 32 to maintain costly separate records for financial and regulatory purposes. The Commission should reject MCI's request for more detailed regulation where clearly none is needed. The Commission should also waive the revenue requirement study associated with the adoption of SOP 98-1.

Dated: September 28, 1998

Respectfully submitted,

GTE Service Corporation and its affiliated
domestic telephone operating companies

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I, Judy R. Quinlan, hereby certify that copies of the foregoing "Reply Comments of GTE" have been mailed by first class United States mail, postage prepaid, on September 28, 1998 to the parties listed below:

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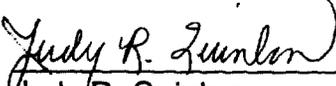
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