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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Anthony M. Alessi
Director
Federal Relations

December 16, 1998

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
The Portals
445 12th Street, SW
Washington, DC 20554

RE: **Ex Parte Statement**
CC Docket 98-81/ASD 98-64, CC Docket 96-150,
CC Docket 98-117 and CC Docket 98-137/ASD 98-91

Dear Ms. Salas:

On Tuesday, December 15, 1998, Robin Gleason, Director – Regulatory Finance, Jim Deignan, Director – Regulatory Accounting Issues and I met with Ken Moran, Chief, Accounting Safeguards Division, Clifford Rand, Deputy Chief, Accounting Safeguards Division, Tim Peterson, Deputy Chief, Accounting Safeguards Division and Tom Quaile to discuss regulatory accounting reform in the above referenced dockets. The attached material was used as part of our discussion.

Sincerely,

Anthony M Alessi

Attachment
cc: K. Moran
C. Rand
T. Peterson
T. Quaile

REGULATORY ACCOUNTING REFORM

Ameritech
December 15, 1998

The Commission Should Immediately Revise and/or Eliminate Unnecessary Accounting and Reporting Regulations

- Numerous rulemaking proceedings are currently pending before the Commission through which much needed regulatory reform can be accomplished through revisions and/or elimination of unneeded accounting and cost allocation rules, depreciation rules, and ARMIS reporting requirements.
- The Commission's NPRMs repeatedly fail to propose and endorse constructive regulatory relief for large price cap carriers commensurate with the current form of regulation and the continued growth of the competitive marketplace.
- Price cap regulation without detailed accounting rules provides adequate protection of the public interest. Furthermore, the growth of competitive pressures in the dynamic telecommunications marketplace warrant significant revisions and elimination of unnecessary accounting rules.
- Ameritech and others within the industry have submitted on the record detailed proposals and supporting documentation for regulatory accounting reform that enables the Commission to take specific action without further delay.
- Swift action by the Commission does not compromise federal or state oversight responsibilities.
- Ameritech proposes that the Commission can and should immediately initiate accounting regulatory reform for price cap carriers by adopting, at a minimum, Class B for both Accounting and Part 64 purposes in Docket 98-81 with complimentary revisions to the ARMIS Reports in Docket 98-117. The Commission should further permit price cap carriers to file depreciation rates without being bound by Commission prescribed ranges in Docket 98-137.

Transitional Steps in Regulatory Accounting Reform

- FCC, Ameritech, other ILECs, IXCs, and consultants have proposed alternatives to the current regulations. The proposals range from no change to complete elimination of the rules.
- Ameritech has evaluated these alternatives using the FCC's analytical framework in identifying which regulations would be included in the 1998 Biennial Regulatory Review:
  - Current regulation's purpose and continued validity
  - Current regulation's burden compared to advantages
  - Less burdensome alternatives
  - Redundant, interfering, or conflicting regulations
- The following charts delineate specific transitional steps the Commission should undertake now.

Part 32 Accounting

FCC Docket 98-81 NPRM

FCC Proposal For Large ILECs:	Regulatory Accounting Reform Proposals:
• Consolidate six accounts into two accounts for all carriers. – Account 2114 – Special purpose vehicles – Account 2115 – Garage work equipment – Account 2116 – Other work equipment – Account 6114 – Special purpose vehicle expense – Account 6115 – Garage work equipment expense – Account 6116 – Other work equipment expense • Eliminate public telephone revenue account (5010). • Revise three year revenue forecast to a one year revenue forecast, when companies request to adopt new FASB standards. • Eliminate telecommunications plant acquired journal entry submissions.	• Adopt Class B accounting for all carriers, i.e., 109 accounts compared to 261 Class A accounts • Eliminate expense matrix. • Eliminate notification requirements, e.g., change in accounting standards

Part 64 Affiliate Transactions and CAM Requirements

FCC Docket 98-81 NPRM

FCC Docket 96-150 (PFRs)

FCC Proposal For Large ILECs:	Regulatory Part 64 Reform Proposals:
• No changes proposed for large ILECs.	• Adopt Class B CAM for all carriers. • Adopt biennial attest CAM audit for all carriers. • Expand the affiliate transaction 'exemption' rule for performing fair market value studies to services received and provided between regulated entities and their affiliates who exist solely to provide support services. • Adopt a $100K materiality and/or a rotational biennial requirement for completing affiliate transaction fair market value studies to compare to fully distributed costing results.

Accounting and Part 64 (ARMIS) Reporting Requirements

FCC Docket 98-117 NPRM

FCC Proposal For Large ILECs:	Regulatory ARMIS Reform Proposals:
• Eliminate paper filing requirements for all carriers. • Eliminate Equal Access, Payphone, and Inside Wire columns for all carriers.	• No expansion of ARMIS reporting • Adopt Class B ARMIS for all carriers • Eliminate selected 43-02, financial report, schedules (C-1 through C-5, B-2, B-7, B-11, B-14, B-15, and I-3 through I-7).

- The FCC has initiated two public notices (ASD 98-22 and ASD 98-23) which propose expanding the ARMIS 43-05, 43-06, and 43-07 reports.
- Further Commission and industry review should occur during 1999 for all reporting requirements.

FCC Docket 98-137/ASD 98-91"Depreciation" and "USTA Forbearance Petition" NPRM

FCC Proposal For Large ILECs:	Regulatory Depreciation Reform Proposals:
• Expand the range of lives for digital electronic switching equipment for all carriers. • Reduce support documentation for all carriers. • Eliminate depreciation prescription for carriers that select depreciation factors within the ranges for all carriers. • Remove net salvage in the depreciation formula. • Add one new account (6566) to record both salvage receipts and removal costs incurred as a current expense.	• At a minimum, price cap carrier should be allowed to file their depreciation rates without using Commission prescribed ranges and without furnishing supporting data for proposed rates (the 1992 Depreciation Reform Option in CC Docket 92-296). The Commission could also require that depreciation lives not be lower than GAAP lives. This alternative permits Commission oversight of depreciation while granting relief to price cap carriers and moves towards forbearance. • Eliminate annual theoretical reserve study for all carriers. • Refer decisions on net salvage treatment until FASB decision.

Adoption of Regulatory Accounting Reforms is in the Public Interest and Will Not Adversely Impact Ratepayers

- The regulatory accounting reform proposals are pragmatic, practical, and promote the public interest, as they:
  - Do not adversely affect or impact ratepayers under pure cap regulation.
  - Allow for uniform reporting and monitoring of LEC results by all regulators.
  - Allow for an auditable presentation of results.
  - Do not impact subsequent phases of the regulatory process (e.g., Part 64, Part 36, and Part 69).
  - Do not compromise existing safeguards (CAMs, Part 64 Audits, Biennial Section 272 Audit, ARMIS Reporting, and Commission Audit Enforcement Functions).
  - Do not undermine the statutory provisions of the Telecommunications Act of 1996.
- There is an incongruity in not providing regulatory accounting relief to large price cap carriers while providing relief to mid-size price cap carriers and mid-size carriers which are still under rate-of-return regulation.
  - The appropriate trigger for determining the level of regulation should not be based on a revenue threshold, but rather the type of regulation.

Regulatory Reform Proposals Do Not Adversely Impact Ratepayers

- Lower Formula Adjustment Mechanism (LFAM)
  - Properly addressed in the Access Charge Reform proceeding as part of a total reliance on market based pricing, including pricing flexibility framework, phasing out of the price cap X-factor, and removal of services from price caps.
  - LFAM can be calculated using Class B information.
- Exogenous Cost Calculations
  - Exogenous treatment is not automatic.
  - Components of exogenous cost changes are subject to Commission review and approval via the Tariff Review Plan (TRP) filings.
  - Exogenous costs can be calculated and reviewed using Class B information.
- Productivity Factor
  - Depreciation rates do not impact the recalculation of the productivity factor (USTA Gollop Affidavit).
  - Productivity factor can be calculated using Class B information.

Regulatory Reform Proposals Do Not Adversely Impact Ratepayers

- Base Factor Portion (BFP)
  - The current revenue requirement based method is interim.
  - Effective 1/1/99 transition to adjusting BFP elements' rates (EUCL, PICC and CCL) on a revenue basis, rather than a revenue requirement basis.
  - Once the transition is completed, accounting changes and depreciation rate changes will not impact rate setting.
- Universal Service
  - Requires use of forward-looking, not embedded costs.
  - Economic principles, not regulation-determined parameters, should be the guide in producing information.

Regulatory Reform Proposals Do Not Adversely Impact Ratepayers

- Cost Studies For Interconnection/Unbundled Network Elements
  - Requires use of forward-looking, not embedded costs.
  - Pricing resides in the state jurisdiction.
  - States will continue to have the separate authority to request detailed information and to determine depreciation rates.
  - Economic principles, not regulation determined parameters, should be the guide in producing information.
- Statutory Requirements (Sections 254(k), 260, 271, 272, 273, 274, 275, and 276)
  - Section 254(k) applies to all ILECs not just the large ILECs.
  - Class B level of accounting and reporting is sufficient to meet the Commission's statutory obligations in the remaining sections.
- Pole Attachments
  - Other utilities are also subject to this requirement, but are not subject to Part 32 of the Commission's rules.
  - The carriers have the obligation to provide sufficient data to make the necessary calculations.