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May 14, 1999

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Universal Service – CC Docket No. 96-45 and Forward-Looking Mechanism for Non-Rural LECs – CC Docket No. 97-160

Dear Ms. Salas,

On May 13, 1999, GTE submitted an *ex parte* letter responding to questions raised in a meeting with the staff of the Accounting Policy Division. In response to question No. 6, an attachment labeled "What's in GTE Florida's Common Costs" was inadvertently omitted. A copy of that attachment is provided with this letter along with the original response.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

cc: Craig Brown
Steve Burnett
Paula-Ann Cech
Brian Clopton
Katie King
Dick Kwiatkowski
Bob Loube
Richard Smith

Questions and Responses from FCC Ex Parte on March 1, 1999:

1. Does GTE have wire center boundaries that could be used to compare/validate BLR boundaries used by FCC model?

   Response:
   Maps comparing wire center boundaries to BLR boundaries will be provided as soon as practical.

2. GTE can calculate its duct feet/route feet ratio through the use of ARMIS 43-08, IA, columns w,x. Does GTE have a similar method or any method of calculating a buried or underground cable sheath feet to route feet ratio?

   Response:
   GTE is unable to provide route miles or route feet of cable or to determine a ratio.

3. What impact would there be on switching expense to investment ratio if software is capitalized?

   Response:
   Effective January 1, 1999, consistent with Statement of Position (SOP) 98-1, GTE has modified the accounting for Right-to-Use fees and software costs. Prior to SOP 98-1, GTE recorded RTU and software costs consistent with the requirements of FCC Part 32 and GAAP. These rules required that GTE capitalize initial software costs of the operating systems of Central Office Equipment (COE) and that it be depreciated at the same rate as the switch. COE operating system software is defined as the instruction that controls the management and execution of programs. Operating system software costs incurred subsequent to the initial installation of the equipment and Application system software were expensed. Application system software is defined as the instruction that performs the execution of a specific task.

   The changes set forth in SOP 98-1 requires the identification of *initial* and *subsequent* operating and application network software separately from switch hardware costs. It will be capitalized if the amount is greater than $2,000. The separation of costs between hardware and software will be maintained because of the significant differences in lives of the software and the hardware. This allows for accelerated amortization of software cost versus hardware cost. Although this change may lead to a decrease in operating software expense, there will be a corresponding increase in software amortization expense.

   Site License Agreements or right-to-use fees follow the same rules as software that is purchased.

Software upgrades are classified as operating system or application software. The determination of the expenditure as a capital cost or operating expense is dependent upon the added functionality that the upgrade provides. In order for a software upgrade to be capitalized, the modification must provide significant new features, additional revenue streams or future cost savings. Modifications that merely extend the life of the software will be expensed. To the extent that upgrades resulting in added functionality cannot be reasonably separated from maintenance and relatively minor upgrades, the entire amount will be expensed.

Although, this accounting change would result in a decrease in operating expense related to software costs in the immediate period, GTE projects that within 3 years there will be a return to an equivalent level of operating expense due to the increase in software amortization expense. Thus, the impact of the change in accounting for software cost from SOP 98-1 will have virtually no impact on the overall forward looking level of operating expense.

4. How does our geocode data compare to PNR?

Response:
GTE is currently in the process of extracting information from internal sources that contain geo-coded customer information. The purpose of this effort is to develop a source of reliable, credible, geo-coded demand data from internal sources for use as an input to GTE's own cost models as well as any external costing models GTE may be required to use. Much of this information currently resides with multiple sources within GTE. This requires that GTE must develop methods and processes to extract and compile that information into a format that is compatible with GTE's own integrated cost model (ICM) and any mandated external cost models.

Although much progress has been made in the development, understanding, and retrieval of this information, it is not yet ready for review by external sources nor is it ready for production level usage.

GTE does not know how it compares to alternative sources of geo-coded information that has been made available for purchase in the open market place from PNR. To fully understand how the information GTE is developing compares to alternative sources would require as equally comprehensive an understanding of the development of alternative data. GTE is in the process of negotiating the opportunity to review PNR's data and evaluate its relative reliability and credibility.

5. How does Oregon treat proprietary data? For instance, is there a publicly available requirement (re: proposition that HCPM be used)?

   Response:
   According to an Oregon Commission staff member, there is no requirement that data be available for public review.

6. On "percent Local TSLRIC" backup sheet, what is in the $378M common cost in Florida? (Bob Loube)

   Response:
   See attached sheet "What's in GTE Florida's Common Costs".

What's in GTE Florida's Common Costs

USOA Account	Common Cost Category	1995 Costs $K	Notes
21XX	**General Support Costs**		Capital Costs: Depreciation
2112	Motor Vehicle	$10,201	Return, and taxes associated
2114	Special Purpose Vehicle	$0	with the indicated capital
2115	Garage Work Equipment	$322	account.
2116	Other Work Equipment	$7,932	
2121	Building + Land	$41,681	(Non Central Office Only)
2122	Furniture	$1,797	
2123	Office Support Equipment	$2,113	
2123	Company Communications Equipment	$11,836	
2124	General Purpose Computers	$22,625	
	TOTAL 21XX	$98,486	
61XX	**Plant Specific Operations**		
611X	Network Support Expenses		
6112	Motor Vehicle Expense	$1,466	
6115	Garage Work Equipment Expense	$55	
6116	Other Work Equipment	$0	
612X	General Support Expenses		
6122	Furniture	$2,248	
6123	Office Equipment	$4,734	
6124	General Purpose Computers	$46,416	81% of Account (19% not Common)
	TOTAL 61XX	$54,938	
65XX	**Plant Non-Specific Operations**		
6512	Provisioning Expense	$2,366	
653X	Network Operations Expenses		
6532	Network Administration	$18,814	
6533	Testing	$22,283	
6534	Plant Operations Administration	$19,602	
6535	Engineering	$8,910	
	TOTAL 65XX	$71,974	
	Corporate Operations		
67XX 671X	Executive and Planning		
6711	Executive	$4,869	
6712	Planning	$3,046	
672X	General and Administrative		
6721	Accounting and Finance	$14,152	
6722	External Relations	$8,367	
6723	Human Resources	$11,009	
6724	Information Management	$55,873	87% of Account (13% not Common)
6725	Legal	$2,125	
6726	Procurement	$1,536	
6727	Research and Development	$4,515	
6728	Other G & A	$47,647	
	TOTAL 67XX	$153,136	

TOTAL COMMON COSTS $378,536 K

Percent of Direct Costs (*i.e.*, TELRICs) = 47%