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

In the Matter of	)	
	)	
Comprehensive Review of the	)	CC Docket No. 99-253
Accounting Requirements and	)	Phase 1
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers	)	

COMMENTS OF GTE

GTE Service Corporation and its affiliated local exchange telecommunications companies (collectively "GTE")[1] respectfully submit their Comments on the Notice of Proposed Rulemaking[2] ("NPRM") in the above-captioned proceeding. GTE applauds the Commission for initiating a comprehensive review of its accounting and reporting requirements with the purpose of modifying or eliminating unnecessary requirements as change occurs in the telecommunications industry. The Commission intends to conduct the review in two phases. The instant NPRM addresses Phase 1 of the review and focuses on changes that "can be implemented without delay and still retain

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[1] 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., Contel of the South, Inc., GTE Communications Corporation, and GTE Hawaiian Tel International Incorporated.

[2] *In the Matter of Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I,* CC Docket

(Continued...)

sufficient information for the Commission and state commissions to meet their responsibilities."[3] Phase 2 will examine the need for long-term changes brought about by competition in the local exchange marketplace.

While GTE commends the Commission for moving to reduce outdated and unnecessary requirements, GTE believes that the proposals in this NPRM fall short and miss many opportunities to provide the type of relief that should have been included in Phase 1 of this review. GTE urges the Commission to swiftly grant the regulatory relief proposed in Phase 1 of the review and immediately proceed to Phase 2. In Phase 2, GTE urges the Commission to expand the scope of the review to include the relief proposed by the LEC industry in previous meetings and proceedings.

I. GTE Urges the Commission to Adopt the Following Changes to Its Accounting Rules.

A. The Expense Matrix should be eliminated.

The Commission tentatively concludes that the Section 32.5999(f) requirement to maintain and report disaggregated financial data can be eliminated or reduced substantially.[4] Should certain information later be proved necessary, the Commission believes that carriers can provide the information on an "as-needed" basis. GTE supports the Commission's conclusion. Companies already maintain subsidiary

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(...Continued)
No. 99-253, Notice of Proposed Rulemaking, FCC 99-174, rel. July 14, 1999.

[3] NPRM at ¶2.

[4] NPRM at ¶8.

records at the level of detail necessary to meet their managerial needs while avoiding the unnecessary costs that so often result when outside mandates are placed on them. By adopting an “as-needed” approach to requests for accounting detail, the Commission will still be able to obtain all necessary information, but the carriers will be given relief from the cost of maintaining an unnecessary level of detail for each and every account.

GTE opposes any alternative modification to Section 32.5999(f) that would replace the existing expense matrix with a new classification matrix (*e.g.*, a two-classification matrix consisting of (1) salary and wages and (2) other). This alternative would prove to be just as administratively burdensome and expensive. The accounting system changes required to implement this alternative would entail additional cost and would offer no real relief to carriers from the current matrix requirements.

GTE is unaware of any regulatory process that is dependent on the level of detail that is contained in the current expense matrix. While certain activities may require expense detail (*e.g.*, salary and wages), it is usually at an aggregated level well above the account level. Nevertheless, should the Commission require expense detail for specific calculations, an “as-needed” data request would be the most efficient collection method. Moreover, GTE agrees with the Commission that carriers would be able to calculate pole attachment rates through data in the ARMIS reports. Calculation of the pole attachment rates is not dependent on the existing expense matrix.

In light of these costs and lack of benefits, GTE urges the Commission to eliminate the expense matrix requirement.

B. An attestation audit would provide CAM Audit relief.

Section 64.904 of the Commission's rules requires a carrier to obtain an independent audit of its cost allocation data. Recently, the Commission granted mid-sized ILECs relief in this matter by allowing the companies to obtain an attestation audit in place of a financial audit. Financial audits require that an ILEC's independent auditor provide assurance that the data is fairly reported. An attestation audit requires the auditor to provide assurance that specific management assertions are fairly stated. The larger scope of the financial audit increases the amount of testing and consequently the cost of the audit to the carrier.

In the instant NPRM, the Commission tentatively concludes that "if properly implemented, a less stringent audit requirement for the large ILECs will provide the necessary assurance that carriers' cost allocations are consistent with our rules and at the same time result in significant savings in both time and money for the carriers."[5] Thus, the Commission proposes to extend the relief given to mid-sized ILECs to the large ILECs. GTE supports the Commission's proposal. The attestation audit was the original approach used when Part 64 was implemented and still provides all the assurance necessary that ILECs are in compliance with their CAMs. This is especially true now that all the large ILECs are under price cap regulation and have little or no incentive to engage in cost shifting.

Under an attestation audit, the focus of the CAM audit will shift from reporting on the actual cost allocation results as filed in ARMIS 43-03 to compliance testing of cost

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[5] NPRM at ¶12.

allocation systems and supporting methods and procedures of the LEC. This shift is expected to reduce audit costs substantially. At the same time, independent auditors would be expected to conduct a thorough review of the LEC's CAM processes before issuing an opinion that the LECs' accounting and cost methodologies adhere to the Commission's rules.

These procedures would include an evaluation of consistency of cost allocation methods employed, the materiality and criticality of data sources, the reasonableness of data sources used in providing costing information for selected cost allocation methods, and a review of policies and procedures relating to affiliate transactions and a determination that these transactions are accounted for in conformity with the CAM. Further, the auditor would determine that the data reported in columns (b) through (j) of the LEC's 43-03 Report agrees with information produced by its cost allocation system. Errors and findings uncovered in the attestation audit, if pervasive, could still result in adjustments to the 43-03 data. GTE believes an opinion supported by the results of these procedures would be more than adequate for the Commission to be assured that its cost allocation rules have been followed.

The Commission requests comment on whether the new audit procedures should be an annual or biennial requirement. GTE believes a biennial audit is more than sufficient to assure regulators that carriers are in compliance with their CAMs. Testing under the attestation audit would be performed throughout the two-year period to insure the LEC's policies, procedures and controls were operating effectively during the period. To guarantee the cost savings inherent under the attestation approach,

tests performed in year one would not be duplicated in year two, and all test results would be reported after the close of the two-year audit period.

The Commission seeks comment on whether it should adopt an "agreed upon procedures" audit requirement for large ILECs similar to the Section 272 biennial audit. GTE opposes this approach. First, there is no reason to maintain a distinction between the CAM audit requirements imposed on mid-size companies, which involve an attest audit, and those of the larger ILECs. Second, it is likely that the resources that may be required to complete this type of audit might in fact exceed the costs of the current financial audit requirement. Given the time and effort it would take to work out the details of this alternative, GTE urges the Commission to adopt the straightforward attestation audit requirement that is currently in place for mid-sized ILECs for all ILECs.

C. The Commission must establish a realistic threshold for the *de minimis* exemption for affiliate transactions subject to fair market value studies.

The Commission's experience over the past two years leads it to conclude that costs of doing fair market value studies of services between a carrier and its affiliate may exceed the regulatory benefit when the annual value of the transactions are *de minimis*.[6] In addition, the Commission concludes that a *de minimis* exception would not lessen the effectiveness of its rules, but would reduce the costly burden of doing fair market value studies. GTE agrees. Although the Commission tentatively proposes to "eliminate the requirement that carriers make a good faith determination of fair market

[6] As required in *Accounting Safeguards under the Telecommunications Act of 1996*, CC Docket No. 96-150, Report and Order, 12 FCC Rcd 2993 (1996).

value for each service in which the total annual value of transactions for that service is less than $250,000,"[7] GTE believes that this threshold would be too low. Instead, a threshold set at a minimum of $500,000 would afford appropriate relief.

The affiliate transaction rules exist to safeguard against potential abuse. In considering the reasonableness of the two valuation methods used, the relevant consideration for the Commission is the difference between the Fully Distributed Cost ("FDC") and the Estimated Fair Market Value ("EFMV"). For example, if a service with an annual value of $5,000,000 has a 10% difference between FDC and FMV, the amount in question would only be $500,000. Thus, the $500,000 threshold for the *de minimis* exception would provide more than enough protection. The Commission must also keep in mind that price cap companies, as it has been well documented, have little or no incentive to engage in cost shifting. Given that the majority of companies that will be affected by this NPRM are under price caps, the Commission can comfortably adopt the higher threshold and grant more meaningful relief to carriers.

D. GTE supports the Commission's tentative conclusions on the majority of other accounting items in the NPRM.

GTE agrees with the Commission's conclusion to eliminate the 15-day pre-filing requirement in Section 645.903. Requiring some -- but not all carriers -- in a competitive market to disclose sensitive data in advance of the implementation of a service is patently unfair. Eliminating the 15-day pre-filing requirement is an easy and small step toward regulatory parity. GTE believes additional relief should be granted

[7] NPRM at ¶15.

by not requiring carriers to file CAM changes – including changes to the cost apportionment table and time-reporting procedures – more frequently than the annual requirement in Section 402(b)(2) of the Telecommunications Act of 1996.

GTE also agrees with the Commission's tentative conclusion that the 30-day notification for the establishment of temporary or experimental accounts no longer serves a purpose. As the Commission states, other accounting safeguards are sufficient. The notification requirement should be eliminated.

The Commission tentatively concludes that it is no longer necessary for carriers to seek Commission review and approval under Section 32.25 for journal entries detailing certain accounting items. GTE agrees that the routine filing of journal entries for extraordinary items, contingent liabilities, and material prior period adjustments for Commission review should be eliminated. More than ample safeguards currently exist to ensure that carries comply with the Commission's accounting requirements.

II. ARMIS 43-02 USOA Reporting Requirements.

GTE supports the Commission's proposal to streamline the ARMIS 43-02 USOA Report. As the Commission states, the information in the tables affected by the changes may be more efficiently obtained through other sources. Should the Commission find it needs additional data, a carrier can provide the information on an "as-needed" basis. While the instant NPRM is a step forward, GTE believes that a

more appropriate level of reporting is the level established for mid-size companies in the Commission's recent Report and Order in CC Docket No. 98-117.[8]

A. Table C-5, Important Changes During the Year

GTE supports the Commission's tentative conclusion to eliminate the reporting of changes in direct and indirect control. In addition, GTE believes that before carriers are required to report information, the information must be material and significant. GTE proposes the Commission adopt a threshold of $1,000,000 for reporting information on Table C-5.

B. B Tables

GTE agrees with the Commission's proposal to eliminate Tables B-8: (Capital Leases), B-9: (Deferred Charges), B-11: (Long-Term Debt), B-12: (Net Deferred Income Taxes), B-13: (Other Deferred Credits), B-14: (Capital Stock), and B-15: (Capital Stock and Funded Debt Reacquired or Retired During the Year). Under the "as-needed" approach, should the need arise, the Commission will continue to have access to the underlying data that would support these tables and the carrier will be able to use the most efficient method to maintain the data.

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[8] *Fifth Memorandum Opinion and Order in AAD File No, 98-43*, FCC 99-107, released, June. 30, 1999.

C. Table I-6, Special Charges

For the categories of information titled "Abandoned Construction Projects" and "Penalties and Fines", GTE recommends a $1,000,000 threshold for each category. The current threshold for reporting is unrealistically set at $100,000. Under the GTE recommendation, only material and significant levels of information would be reported. Given the scope of most construction projects and recent level of fines that have been assessed, $1,000,000 is a more appropriate threshold.

D. Table I-7, Donations or Payments for Services Rendered by Other than Employees

GTE recommends that carriers be allowed to report in aggregate the amount donated to academia, rather than the current requirement to report by individual recipient. Should a greater level of detail be required, the Commission could always request the information on an “as-needed” basis. Based on its experience, GTE recommends the following threshold levels for the categories reported on Table I-7. These recommendations will offer some relief to carriers and make the reports more usable by others.

CATEGORY	CURRENT THRESHOLD	GTE PROPOSED THRESHOLD
Advertising and Information Services	$250,000	$1,000,000
Audit and Accounting Services	$25,000	$250,000
Clerical and Office Services	$250,000	$1,000,000
Computer and Data Processing Services	$250,000	$1,000,000
Consulting and Research Services	$25,000	$1,000,000
Financial Services	$25,000	$750,000
Legal Services	$25,000	$750,000
Membership Fees and Dues	$10,000	$50,000
Personnel Services	$250,000	$750,000
Printing and Design Services	$250,000	$750,000
Security Services	$250,000	$1,000,000

E. ARMIS 495A and B Reports

The NPRM does not propose immediate elimination of all B tables. However, GTE believes some changes should be implemented immediately. Specifically, GTE recommends that the ARMIS 495A and B Reports be eliminated. USTA's data clearly demonstrates that the level of shared investment does not justify the costly preparation and filing of the ARMIS 495 reports. The amount of Total Central Office and Outside Plant Investment supporting nonregulated activities (direct as well as shared), also included in ARMIS, is likewise a small portion of total investment. GTE supports

USTA's proposal to eliminate the current requirements to forecast usage for Central Office and Outside Plant assets and to file the ARMIS 495 A and B reports. Allocations based on actual amounts (those used to allocate plant maintenance and repair) can be used to allocate the related investment.

III. CONCLUSION

GTE urges the Commission to adopt these straightforward modifications to the accounting and ARMIS reporting requirements. The modifications recommended by GTE will in no way deny the Commission or state commissions any information that is required to make informed decisions on matter involving incumbent local exchange carriers. While the modifications contained in Phase 1 are only a small part of the complete effort needed to streamline the accounting and ARMIS reporting requirements, they are nevertheless important first steps that must not be delayed. GTE urges the Commission to quickly proceed to Phase 2 of the review with a sufficiently broad scope to include items that offer substantial relief from the outdated

and unnecessary regulatory burdens that are no longer appropriate in a competitive marketplace.

Respectfully submitted,

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