Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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

COMMENTS OF BELL ATLANTIC[1]

Bell Atlantic supports the Commission's proposals to further streamline its accounting and reporting rules and to conduct a "Phase 2" proceeding to address long-term changes that should take place as the local exchange market becomes more competitive. However, like its previous biennial review proceedings,[2] the Commission's proposals for Phase 1 of this proceeding fall far short of the comprehensive "regulatory reform" mandated by Section 11 of the Act. The Commission proposes relatively minor changes to its accounting rules that would not reduce the number of Part 32 accounts that

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, DC, Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company and New England Telephone and Telegraph Company.

[2] 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, Report and Order, FCC 99-106 (rel. June 30, 1999); 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, CC Docket No. 98-117, Report and Order, FCC 99-107 (rel. June 30, 1999).

the large local exchange carriers must maintain.[3] The Commission's proposals for the automated reporting management information system ("ARMIS") are more significant, but still require a much greater level of detail than is necessary given the data that are already available from other public sources. It would be more consistent with Section 11 for the Commission to eliminate entirely the Part 32 Uniform System of Accounts, and to allow the local exchange carriers to report data to the Commission using the same accounts that they maintain under generally accepted accounting principles for their financial books.

In Attachment A, Bell Atlantic provides its comments supporting many of the specific proposals in the Commission's Notice and offering suggestions for additional improvements. However, these comments should not be taken as an endorsement of the Commission's grudging approach to the congressional directive that the Commission "shall repeal or modify any regulation that it determines to be no longer necessary in the

[3] Although the Commission's public notice states that its proposed rule changes would reduce the number of accounts and subaccounts that a local exchange carrier must maintain by over 50%, the Commission actually proposes only to reduce reporting of the expense matrix, which is not an account or subaccount, but only a subsidiary record. Even as to the expense matrix, the local exchange carriers may have to maintain these data as internal records and provide it on request.

public interest." 47 U.S.C. § 161(b). In Phase 2, the Commission should take a more aggressive approach that would promote the transition to an unregulated environment for the large local exchange carriers.

Respectfully submitted,

By: ______________________

Of Counsel
Michael E. Glover

Joseph DiBella
1320 North Court House Road
Eighth Floor
Arlington, VA 22201
(703) 974-6350

Attorney for the Bell Atlantic
telephone companies

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ACCOUNTING RULES

1. Expense Matrix

The Commission should adopt its tentative decision to eliminate the expense matrix, which breaks down each expense category into salaries and wages, benefits, rents, and "other," in the 43-02 ARMIS report. NPRM, ¶¶ 7-9. The Commission cited several instances where it has used items in the expense matrix for regulatory purposes, but most of these were one-time tasks that do not need regular reports. The Commission can issue data requests as needed to resolve such issues. The Commission also cited the need for these data to determine the "rent" component of pole expenses for purposes of applying its formula for pole attachment rates. ***See*** id., ¶ 9. However, when the Commission issues its rules on pole attachment rates in Docket 97-98, the rules will apply to all pole owners that are "utilities" as defined in Section 224(a)(1) of the Act, including electric, gas, and water companies, as well as local exchange carriers that file ARMIS reports. The Commission should require all such utilities to maintain the same internal records for purposes of ensuring compliance with the pole attachment formula. It would be arbitrary to single out one group of pole owners to report such data on a regular basis in the ARMIS reports.

2. Audits

The Commission should adopt its proposal to reduce the audit requirements for Part 64 cost allocations. ***See*** id., ¶¶ 10-13. Compliance with the Part 64 rules for allocating costs between regulated and unregulated accounts does not require annual audits in perpetuity. As the Commission notes, compliance with the separate subsidiary requirements of Section 272 of the Act is equally important, but the Commission has required an audit only once every two years of the carriers' Section 272 affiliates. ***See*** id., ¶ 12. No other Commission rule requires a perpetual external audit. Considering that the Commission has over a dozen years of experience administering the Part 64 cost allocation rules, it should begin to streamline the audit requirements, and it should adopt a sunset provision regardless of which audit process is selected.

The Commission should adopt its proposal to apply the same standard to the large incumbent local exchange carriers that it recently adopted for the mid-sized carriers, requiring an attestation audit rather than a financial audit, but only if the attestation audit is no more burdensome than the original attestation audit performed from 1988 to 1989.[1] The auditor opinion should state that the carrier's accounting processes conform to its cost allocation manual as approved by the Commission. The Commission also should require an audit only once every two years, as it does for Section 272 separate affiliates, but it should audit only one year of data, and it should not require an agreed-upon procedures audit, which can be more expensive than a positive opinion audit. An attestation audit need not be performed annually or cover more than one year of data, as internal controls are not likely to change from year to year. The Commission should also

[1] Attachment B hereto is a copy of the 1989 attest audit opinion and management assertion statement. The Commission also should modify Section 64.904 of its rules to remove the delegation to the Chief, Common Carrier Bureau, to require an audit to include actions in excess of generally accepted auditing standards ("GAAS") and American Institute of Certified Public Accountants ("AICPA") standards. This would reduce the burden and expense of conducting audits while ensuring that the audits continue to meet GAAS and AICPA requirements.

consider auditing different carriers on a three-year rotation. The carrier would perform the audit in year one, the Commission would review the audit in year two, and the carrier would implement any Commission recommendations for process changes in year three.

3. Affiliate Transaction Rules

The Commission should adopt its proposal to establish a *de minimis* exception to the requirement that carriers estimate the fair market value of services provided to, or purchased from, affiliates where the services are not provided under a tariff, a publicly-filed agreement, or a qualified prevailing price valuation. ***See*** id., ¶¶ 14-16. It is time consuming and expensive to conduct fair market value studies. In many cases, it is extremely difficult to obtain an estimate of fair market value, as some vendors refuse to provide sample prices for competitive or legal reasons. The Commission's proposal to adopt a *de minimis* exemption for services with annual value of $250,000 or less would significantly reduce this burden. Indeed, considering the overall volume of affiliate transactions, a *de minimis* exemption of $500,000 would reduce the burden further while retaining a fair market value comparison for the bulk of the transactions.[2] Regardless of which level the Commission chooses for a *de minimis* exemption, the Commission should adopt the same threshold for reporting affiliate transactions in the ARMIS Form 43-02, Tables B-4 and I-2.

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[2] The Commission should adopt a similar *de minimis* exception for asset transfers, which are subject to the same fair market value rules, and which create the same type of administrative burden. ***See*** 47 C.F.R. § 32.27(b). In 1998, Bell Atlantic had to conduct estimated fair market value comparisons for $528 million of asset transfers to or from affiliates.

It would be far more beneficial to eliminate the fair market value comparison entirely. Such comparisons are no longer necessary with the elimination of the sharing option for price cap local exchange carriers. ***See, e.g.,*** Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions between Carriers and Their Nonregulated Affiliates, 1993 FCC LEXIS 6523, ¶ 101. Without sharing, the carriers have no incentive to shift costs to the regulated local exchange company, since such costs do not affect the price cap indexes. In the absence of an estimate of fair market value, the local exchange carriers would have to report the value of these affiliate transactions using fully distributed cost. This cost standard provides sufficient regulatory oversight concerning the value of services provided to and from affiliates.[3]

Whether the Commission adopts a *de minimis* exemption, or eliminates the fair market value comparison entirely, it should apply the same rules to all affiliate transactions under Sections 260 and 271-276, insofar as those sections require a separate affiliate. However, if the Commission adopts *de minimis* exemptions, it should not require fair market value comparisons where they currently are not applicable. For instance, the Commission has already decided that Section 272 transactions that are subject to non-discrimination requirements do not require estimates of fair market value. ***See*** Accounting Standards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order (rel. Dec. 24, 1996), ¶ 137; ***see also*** 47 C.F.R. § 32.27(d). For any transactions

[3] The Commission has already made an exception to allow the local exchange companies to purchase services from affiliated "service companies" at fully distributed cost, without estimates of fair market value. ***See*** 47 C.F.R. § 32.27(c). At the very least, the Commission should grant a similar exception for sales of services by local exchange carriers to their service companies.

subject to non-discrimination rules, fair market value estimates are unnecessary, as the price offered to an affiliate must be offered as well to non-affiliated entities, making it presumptively the "prevailing market price."

The Commission also should delete the Section V price matrix of the cost allocation manual, and it should allow the carriers to report this information in the statement identifying each affiliate transaction. The matrix is burdensome to prepare, and including this information with each affiliate transaction provides all of information required by the Commission's rules.

4. Elimination of 15-Day Prefiling for Cost Pool Changes

While the Commission's rules require the local exchange carriers to update their cost allocation manuals annually, carriers must also file changes to the cost apportionment table and time-reporting procedures at least 15 days before the changes are implemented. ***See*** 47 C.F.R. § 64.903. The Commission typically requires such changes when a carrier introduces a new service. Because such advance notice discloses sensitive competitive information, the Commission proposes to eliminate the 15 day pre-filing requirement. ***See*** NPRM, ¶ 17.

Although elimination of the 15 day pre-filing requirement would help protect the carriers from disclosure of competitive information about new services, the Commission should take the further step of eliminating the need to file updates prior to the annual filing. Changes to the cost apportionment table and time reporting procedures should be treated the same as other changes to the cost allocation manual. The annual filing should include all changes that have been made since the previous year's filing, including the effective date of each change. This would provide all the information that the Commission would need to assess a carrier's compliance with the cost allocation rules. In addition, it would reduce the administrative burden on both the carriers and the Commission's staff.

5. Revision to Section 32.13, Accounts – general

The Commission should adopt its proposal to eliminate the requirement in Section 32.13(a)(3) that carriers notify the Commission when they establish temporary or experimental accounts. ***See*** id., ¶ 18. Temporary or experimental accounts are intermediary processes by which costs are ultimately journalized into the final Part 32 accounts. Balances or activity in these temporary or experimental accounts are not currently reported in ARMIS or in any other FCC report. The Commission can require the carriers to provide information about these accounts as needed.

6. Revision to 32.25, Unusual items and contingent liabilities

The Commission should adopt its proposal to eliminate the Section 32.25 requirement that the carriers submit journal entries detailing extraordinary items, contingent liabilities, and material prior period adjustments for Commission approval before recording them in their books of account. ***See*** id., ¶ 19. Both generally accepted accounting principles and the Commission's Part 32 rules require the carriers to report these items. Prior approval is not necessary for Commission oversight.

7. Revisions to Section 32.2002, Property held for future telecommunications use

The Commission proposes to eliminate the requirement that carriers reclassify property in Account 2002 (property held for future telecommunications use) after two years to Account 2006 (nonoperating plant) if it has not been put into service at that time. ***See*** id., ¶ 20. The Commission concludes that retaining this property in Account 2002, but requiring the carriers to exclude it, and the associated depreciation expense, from the rate base, would be less burdensome. However, the Commission also proposes to require the carriers to report these items in the "other adjustments" columns of the ARMIS reports. This would require the carriers to continue to separately track these items, which would negate any cost savings from retaining these amounts in Account 2002. Accordingly, the Commission should give the carriers the flexibility either (1) to retain these items in Account 2002 and separately track them, or (2) to transfer these items to Account 2006.

8. Revisions to Section 32.2003, Telecommunications plant under construction

Currently, the Commission's rules require carriers to record to Account 2003 the cost of construction projects, but to reclassify the costs of these projects to Account 2006 (nonoperating plant) if construction has been suspended for 6 months or more. The Commission concludes that the accounting burden would be reduced if it allowed carriers to maintain these costs in Account 2003, but to remove the costs from the rate base if construction has been suspended for 6 months, and to report these costs in ARMIS as "other adjustments." ***See*** id., ¶ 21. However, this would still require the carriers to separately track these amounts, negating any cost savings. Accordingly, the Commission should give the carriers the flexibility either (1) to retain these items in Account 2003 and separately track them, or (2) to transfer these items to Account 2006.

ARMIS REPORTING REQUIREMENTS

1. Revisions to ARMIS 43-02 USOA Report

The Commission proposes to streamline the ARMIS 43-02 Report in several respects for the largest local exchange carriers, but it does not propose the much greater reduction of reporting requirements that it adopted for the mid-sized local exchange carriers in the ARMIS Reductions Order.[4] In that order, the Commission reduced the level of detail in the ARMIS reports for the mid-sized carriers from Class A to Class B, and it eliminated 21 tables from ARMIS Report 43-02 for those carriers. ***See*** NPRM, ¶ 5. However, for the large local exchange carriers, the Commission believes that a greater level of reporting is needed to identify potential cost misallocations. ***See*** id., ¶ 24 & n.35. This concern is misplaced. As is noted above, the Commission's price cap system, which no longer has a sharing option, substantially eliminates concerns about misallocations of costs between regulated and non-regulated accounts. Moreover, the Commission can always request data from the large local exchange carriers as needed, either in rulemaking proceedings or audits. Accordingly, the Commission should adopt the same regulatory

[4] 1998 Biennial Review – Review of ARMIS Reporting Requirements, Petition for Forbearance of the Independent Telephone and Telecommunications Alliance, CC Docket No. 98-117, FCC 99-107 (rel. June 30, 1999) ("ARMIS Reductions Order").

reforms in its reporting requirements for the large local exchange carriers that it has adopted for the mid-sized carriers.

ARMIS 43-02 USOA Report: Table C Reductions

The Commission should adopt its proposal to combine the information in Tables C-1, C-2, C-3, and C-4 into one table that would contain the carrier's name, address, operating states, and executive officers. ***See*** id., ¶ 25. Most of this information is also available in the carriers' Securities and Exchange Commission reports, which are available on the Internet, and any additional information can be supplied to the Commission upon request.

The Commission should eliminate Table C-5. The information in Table C-5 on changes in direct and indirect control of a carrier can be obtained from public sources, or directly from the carriers upon request. Information on changes in services or rate schedules is already available in the tariff filings.

If the Commission, nonetheless, retains Table C-5, it should streamline the table further by adopting a materiality standard for reporting information on important contracts or agreements and important changes in service and rate schedules. A material item should be one that has a monetary impact of 5% or more of total operating revenue.

ARMIS 43-02 USOA Report: Table B Reductions

The Commission should adopt its proposals to eliminate selected tables in the "B" series of the ARMIS 43-02 Report concerning capital leases, deferred charges, long-term debt, net deferred income taxes, other deferred credits, capital stock, and capital stock and funded debt reacquired or retired during the year. ***See*** id., ¶ 27. However, the Commission should go farther and eliminate all of the "B" tables, as the price cap system eliminates the need to regularly monitor these financial data. Since the carriers must keep this information for financial reporting purposes, the Commission can safely assume that the information will be available regardless of whether or not it is reported in Form 43-02. At a minimum, the Commission should eliminate everything except tables B-1 (balance sheet) and B-4 (purchase or sale of assets to affiliates). The other data in the "B" tables are unnecessary for carriers that are no longer under rate of return regulation.

ARMIS 43-02 USOA Report: Table I Reductions

The Commission should adopt its proposal to eliminate Tables I-3 (Pension Costs), I-4 (Operating Other Taxes), and I-5 (Prepaid Taxes and Accruals). ***See*** id., ¶ 28. The Commission correctly observes that it can obtain this information directly from the carriers as needed, and does not need to have it reported annually in the ARMIS reports.

However, for the same reasons as are discussed above, the Commission go farther and eliminate all of the "I" series for carriers under price caps. At a minimum, the Commission should eliminate Tables I-6 (Special Charges) and I-7 (Donations or Payments for Services by Persons Other Than Employees), as it has for the mid-sized carriers. The elimination of sharing in the price cap system has eliminated, as well, the need for regular scrutiny of payments and below-the-line charges in these tables. If the Commission retains these tables, it should raise the reporting threshold to $1 million or greater for each item. The current thresholds, which are as low as $10,000, are far below the materiality level for companies, such as Bell Atlantic, with an average of $2 billion in revenues for each reporting entity.