

LEVINE, BLASZAK, BLOCK & BOOTHBY, LLP

2001 L STREET, NW
SUITE 900
WASHINGTON, D.C. 20036
(202) 857-2550
FAX (202) 223-0833

August 23, 1999

VIA ELECTRONIC COMMENT FILING SYSTEM

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Room TW-A324
445 Twelfth Street, SW
Washington, D.C. 20554

Re: Comprehensive Review of the Accounting Requirements
and ARMIS Reporting Requirements for Incumbent Local
Exchange Carriers: Phase I, CC Docket No. 99-253

Dear Ms. Salas:

Pursuant to the Notice of Proposed Rulemaking in the above captioned matter, enclosed please find an original of the Comments of the Ad Hoc Telecommunications Users Committee. These Comments are being filed via the Federal Communications Commission's Electronic Comment Filing System ("ECFS").

If you have any questions regarding this filing, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink, appearing to read "Betsy Eisen", written in a cursive style.

Betsy Eisen
Legal Assistant

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)
ARMIS Reporting Requirements for)
Incumbent Local Exchange Carriers:)
Phase I)

**Comments of the Ad Hoc
Telecommunications Users Committee**

Lee L. Selwyn
Scott C. Lundquist
Economics and Technology, Inc.
One Washington Mall
Boston, MA 02108-2617
617-227-0900

Colleen Boothby
Levine, Blaszak, Block & Boothby, LLP
2001 L Street, NW
Suite 900
Washington, DC 20036
(202) 857-2550

Economic Consultants

Counsel for
The Ad Hoc Telecommunications
Users Committee

August 23, 1999

Summary

Ad Hoc generally supports the Commission's efforts in Phase I of this proceeding to reduce the costs and administrative burdens of regulatory accounting and reporting practices for the incumbent local exchange carriers ("ILECs"). However, when making determinations about whether to streamline or reduce particular ILEC accounting and reporting rules, the Commission should place the highest priority on ensuring continued access to the information essential for effective and informed regulation. Such information should be kept accessible not only to the Commission, but also to other stakeholders in the Commission's regulatory decision-making. Ad Hoc's response to the specific proposals outlined in the NPRM are as follows:

- Ad Hoc tentatively supports the proposal to eliminate routine reporting of the full expense matrix, as long as interested parties would continue to have access to expense matrix data whenever the Commission obtains it from the ILECs through a special request.
- Ad Hoc does not believe that the Commission should adopt a less-stringent standard for the auditing of large ILECs' CAMs and cost allocations at this time. Instead, the Commission should first evaluate the performance of its new attestation program for mid-sized ILECs, and only after it has gained experience with that regime should the Commission consider extending it to the large ILECs.

- Ad Hoc supports the Commission’s proposal to adopt a \$250,000 threshold for affiliate transactions subject to the fair market valuation requirement, but proposes that the Commission also apply a cap, equal to twenty five percent of the ILEC’s total dollar amount of recorded affiliate transactions for the prior year, to limit the total dollar amount of transactions that could be treated as *de minimis*.
- Consistent with Ad Hoc’s commitment to reducing unnecessary regulatory burdens, Ad Hoc supports a number of additional proposals contained in the NPRM:
 - elimination of the fifteen-day prefiling requirement for CAM cost pool revisions;
 - elimination of the thirty-day prefiling requirement for establishment of temporary/experimental accounts;
 - elimination of the requirement that carriers submit journal entries containing extraordinary items, contingent liabilities and material prior period adjustments for review by the Commission before entering them into their books;
 - revised treatment of property held for future telecommunications use and plant under construction.
- With respect to the ARMIS 43-02 reporting system, Ad Hoc recommends that the Commission put ILECs on notice that its elimination of reporting is conditioned upon the continued availability of adequate information from such other sources, and that reporting directly in ARMIS may resume if those other sources diverge from the Commission’s particular requirements.
- Ad Hoc has no objection to the Commission’s proposals to consolidate the basic carrier and stockholder information supplied

by Table C, because this simplification should not have any impact on the Commission's regulatory oversight of the ILECs.

- Similarly, Ad Hoc believes that the change of control information reported in Table C-5 can be eliminated without adverse consequences. Ad Hoc recommends that the Commission eliminate the routine reporting of changes in control in Table C-5, but otherwise retain Table C-5 for reporting other types of changes useful for comparing and benchmarking ILECs.
- Ad Hoc also has no objection to the elimination of the reporting of the "B" series tables identified in the NPRM, as long as interested parties will have access to that data whenever the Commission obtains it upon special request.
- Finally, Ad Hoc recommends that the reporting thresholds for Tables I-6 and I-7 be updated by increasing them by 30%, commensurate with the percentage increase in overall LEC revenues since the ARMIS thresholds were adopted in 1989.

Table of Contents

	<u>Page</u>
<u>Summary</u>	i
<u>A. Accounting and Reporting Simplification Must Preserve Access to Information Essential for Regulatory Oversight</u>	1
<u>B. Proposed Changes to Accounting Rules</u>	3
<u>1. Expense Matrix Data</u>	3
<u>2. Audit requirements for cost allocation data.</u>	5
<u>3. Affiliate Transaction Rules</u>	7
<u>4. Fifteen-day prefiling period for CAM cost pool changes.</u>	9
<u>5. Elimination of 32.13(a)(3) temporary/experimental accounts.</u>	10
<u>6. Revision to Section 32.25, Unusual Items and contingent liabilities.</u>	10
<u>7. Property Held for Future Telecommunications Use/Telecommunication Plant under Construction.</u>	11
<u>C. Proposed changes to ARMIS Reporting</u>	12
<u>1. ARMIS 43-02 USOA Report: Table C Reductions.</u>	13
<u>2. ARMIS 43-02 USOA Report: Table B Reductions.</u>	15
<u>3. ARMIS 43-02 USOA Report: Table I Reductions.</u>	16
<u>Conclusion</u>	18

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)
ARMIS Reporting Requirements for)
Incumbent Local Exchange Carriers:)
Phase I)
)

**Comments of the
Ad Hoc Telecommunications Users Committee**

The Ad Hoc Telecommunications Users Committee submits the following comments in response to the Commission's July 13, 1999 Notice of Proposed Rulemaking ("*NPRM*" or "*Notice*") in the above captioned proceeding.¹ The members of the Ad Hoc Telecommunications User's Committee ("Ad Hoc") are high-volume users of telecommunications services and facilities who wish to ensure the continued availability of competitively-provided, high-quality, telecommunications services and facilities at reasonable prices.

A. Accounting and Reporting Simplification Must Preserve Access to Information Essential for Regulatory Oversight

Ad Hoc generally supports the Commission's efforts in Phase I of this proceeding to reduce the costs and administrative burdens of regulatory accounting and reporting practices for the incumbent local exchange carriers ("ILECs"). Telecommunications services users, as well as the ILECs, benefit

¹ *Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I*, CC Docket 99-253, Notice of Proposed Rulemaking, FCC 99-174 (rel. Jul. 13, 1999) ("*NPRM*").

when the Commission eliminates regulatory accounting and reporting requirements which are no longer necessary for effective regulatory oversight of ILEC operations. However, when making determinations about whether to streamline or reduce particular ILEC accounting and reporting rules, the Commission must place the highest priority on ensuring that the information essential for effective and informed regulation is collected, maintained, and retrievable when needed. In addition, the Commission must ensure that such information is accessible to other stakeholders in the Commission's regulatory proceedings, particularly end user customers such as Ad Hoc, in ways that will permit those parties to continue participating in, and contributing to, the Commission's deliberations.

Ad Hoc has reviewed the proposals described in the *Notice* and has concluded that several specific proposals have considerable merit from the perspective of end users. Ad Hoc supports adoption of these proposals, in some cases with a few refinements, as discussed in the relevant section below. Certain other proposals in the *Notice* do not appear likely to produce significant administrative cost savings, however. Ad Hoc believes that a better record concerning the ILECs' anticipated cost savings associated with these measures is necessary so that the Commission can more accurately assess their alleged benefits and weigh those benefits against the proposals' potential disadvantages.

Finally, Ad Hoc does not believe that the current regime of annual audits of the large ILECs' cost allocations should be scaled back until the Commission gains some experience with the attestation processes that it adopted less than

two months ago for mid-sized ILECs. The Commission should be particularly cautious about relaxing the auditing and accounting rules which are designed to detect and deter misallocation of costs to ILECs' regulated services, as long as the ILEC price cap plan's "low end adjustment" mechanism remains in place and ILECs retain the ability to assert claims in the future to recover additional costs for their regulated services (*e.g.*, based on alleged constitutional protections against "confiscation").

B. Proposed Changes to Accounting Rules

1. Expense Matrix Data

The Commission's rules require carriers to maintain disaggregated financial data to be reported as part of their ARMIS filings in an expense matrix. Included in this financial data are salaries and wages and rent data that are used by the Commission and other parties to perform a number of studies and trend analyses, including the calculation of the productivity factors used in adjusting price cap indices. The Commission believes that it can reduce the reporting burden associated with the expense matrix, provided that ILECs continue to maintain the data and make it available to the Commission on an "as requested" basis. As an alternative to eliminating the requirement for regular reporting of the full expense matrix, the Commission proposes to consolidate the expense matrix into just two categories: (1) salary and wages; and (2) other.²

² *NPRM*, at para. 7-8.

Ad Hoc tentatively supports the proposal to eliminate routine reporting of the full expense matrix, and to require reporting only in response to Commission request, if the record in this proceeding demonstrates that this approach would result in significant cost savings. However, any "special request" reporting process must provide for review by other interested parties, who have frequently made significant analytical contributions to the Commission's economic and policy determinations in the past. For example, during the Commission's ILEC price caps review proceedings in 1994 and 1996, Ad Hoc provided the Commission with several empirical productivity studies based in part on ILEC accounting data, which assisted the Commission in its efforts to improve the price caps regulatory framework.³

In order to ensure that interested parties will continue to have access to the ILEC information necessary to develop studies of this type, the Commission should adopt a rule requiring that the ILEC expense matrix data previously reported on a routine basis, and henceforth provided pursuant to Commission request, will be made available to other interested parties, under appropriate confidentiality agreements if necessary to protect competitively-sensitive data. The Commission's rules should establish the procedures by which interested

³ See, *Price Cap Performance Review for Local Exchange Carriers*, CC Docket No. 94-1, Ad Hoc Reply Comments, Attachment A; David J. Roddy and Lee L. Selwyn of Economics and Technology, Inc. (ETI), "An Empirical Estimate of the LEC Price Cap 'X' Factor Based Upon Historic National LEC Productivity and Input Price Trends" (June 24, 1994) ("Price Cap Performance"); *Price Cap Performance Review for Local Exchange Carriers and Access Reform*, CC Docket Nos. 94-1 and 96-262, Ad Hoc Comments, Attachment, Lee L. Selwyn and Patricia D. Kravtin of ETI, "Establishing the X-Factor for the FCC Long-Term LEC Price Cap Plan", (Jan. 16, 1996).

parties will receive (1) notice that ILEC data has been reported pursuant to Commission request under the new rule; and (2) access to such data.

Ad Hoc does not support the Commission's alternative proposal to consolidate the expense matrix into two categories. As the NPRM indicates, having ILEC expenses disaggregated into the existing matrix classifications, particularly salaries/wages versus rents, has provided the Commission with the empirical basis to analyze several ongoing issues, including productivity and service quality. The Commission should not simplify the expense matrix in a manner which would eliminate the detailed expense data for which it has a demonstrated need.

2. *Audit requirements for cost allocation data.*

Until the *Accounting Reductions Report and Order* was adopted on June 30, 1999,⁴ the Commission's rules required annual independent audits of ILECs required to file cost allocation manuals ("CAMs"), with a positive opinion, conducted in accordance with generally accepted auditing standards.⁵ This standard was revised in the *Accounting Reductions Report and Order* for mid-sized ILECs, requiring only an attestation, rather than a more stringent financial audit, every two years rather than annually.⁶ The *Notice* now proposes to implement the same, less stringent standards for large ILECs, substituting bi-

⁴ *1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, et al.*, Report and Order in CC Docket No. 98-81, Order on Reconsideration in CC Docket No. 96-150, Fourth Memorandum Opinion and Order in AAD File No. 98-43, FCC 99-106 (rel. June 30, 1999).

⁵ *NPRM*, at para. 10.

⁶ *NPRM*, at para. 11.

annual attestations for annual financial audits with a positive opinion.

Additionally, the *Notice* seeks comment on an audit requirement similar to the Section 272 bi-annual audit, which consists of an independent auditor working from an agreed-upon procedures engagement specified by the regional Federal/State biennial oversight team.⁷

Ad Hoc opposes the adoption of a less-stringent standard for the auditing of the large ILECs' CAMs and cost allocations at this time. While the ILECs understandably urge their regulators to focus on the administrative cost savings they would enjoy as a result of undertaking less comprehensive and less frequent audits, the Commission must also consider the harm to ratepayers that can result if improper shifts of costs from ILECs' nonregulated services to regulated services are not detected and corrected.

The ILECs periodically assert that the price cap regulatory regime has severed the link between accounting costs and rates.⁸ This position ignores the fact that the FCC's price caps system for ILECs continues to include a low-end adjustment mechanism. This mechanism allows carriers to increase their rates to levels above the price cap limit whenever their accounting rates of return fall below a specified low-end threshold.⁹ Since the ILECs' accounting rates of return are a function of their accounting costs, the price caps regime preserves

⁷ *NPRM*, at para. 12-13.

⁸ See, Letter from Kathleen B. Levitz, Vice President – Federal Regulatory, BellSouth, to Magalie Roman Salas, Secretary, Federal Communications Commission, Attachment 1, (June 4, 1999) (on file with the FCC). (“Letter from K. Levitz to M. Salas”)

⁹ *Price Cap Performance Review for Local Exchange Carriers; Access Reform*, CC Docket Nos. 94-1 and 96-262, Fourth Report and Order and Second Report and Order, 12 FCC Rcd 16642 (rel. 1997) at para. 11.

the connection between costs and rates as well as the ILECs' incentive to overstate and/or misallocate their costs to produce the appearance of a lower rate of return. Until such time as the low-end adjustment mechanism is eliminated from the price caps system, improper cost shifting remains a serious potential risk to ratepayers, for which continued regulatory monitoring is critical.

The proposed attestation process would focus the auditor's attention on the ILEC's compliance with the CAM rules, but would not necessarily provide the same degree of insight into the continued effectiveness of the CAM procedures themselves, which was an important consideration at the time that the Commission adopted the current CAM auditing rules and remains so today.¹⁰ Instead of scaling back the auditing requirements for large ILECs at this time, Ad Hoc recommends that the Commission first evaluate the performance of its new attestation program for mid-sized ILECs, and only after it has gained positive experience with that regime should the Commission consider extending it to the large ILECs.

3. *Affiliate Transaction Rules*

Under the Commission's current rules, transactions taking place between a carrier and one of its affiliates "that are not subject to: (1) an existing tariff rate, (2) a publicly-filed agreement or statement, or (3) a qualified prevailing price valuation"¹¹ must be recorded in a manner that protects ratepayers from the

¹⁰ *Computer III Remand Proceeding: Bell Operating Company Safeguards and Tier 1 Local Exchange Company Safeguards*, CC Docket No. 90-623, Report and Order, 6 FCC Rcd 7571 (rel. 1991) at 7593. ("Computer III Proceeding")

¹¹ *NPRM*, at para. 14.

potential cost shifting that can occur when affiliate transactions are not performed on an arm's length basis. The current rules require that transactions involving a service provided by a carrier *to* its affiliate should be accounted for at the higher of fair market value or fully distributed cost, while services received *from* an affiliate should be booked at the lower of these two values.

Carriers are currently required to determine in good faith market values that are not readily available from other sources for use in determining the proper value to record in the books for services provided to and from affiliates. The *Notice* proposes to eliminate this requirement in cases where the total annual value of transactions for a particular service is *de minimis*. The *Notice* proposes the sum of \$250,000 as the ceiling for classifying as *de minimis* the total annual value of transactions for any given service. Thus, for services producing transactions worth less than \$250,000 annually, carriers would be relieved of determining fair market value, and instead would record those transactions at fully distributed costs. The *Notice* seeks comment on both the proposal to eliminate the requirement for determining fair market value for *de minimis* services and on the proposed threshold of \$250,000.¹²

Ad Hoc supports the Commission's proposal to adopt a threshold for affiliate transactions, below which such transactions can be recorded at fully distributed cost (FDC). Ad Hoc agrees with the adoption of a threshold of \$250,000 in total annual value per service, but is concerned that application of the threshold on a service-by-service basis alone might be an insufficient

¹² *NPRM*, at para. 15-16.

safeguard against transactions recorded at inflated costs. Because ILECs have discretion in defining the service categories to which the threshold would apply, an ILEC could expand the number of service categories it uses in order to bring more transactions under the threshold level, thereby evading the more stringent fair market valuation requirement.

Therefore, to limit ratepayer's potential exposure to excessive costs from improper affiliate transactions, Ad Hoc urges the Commission to adopt an overall annual cap on the services exempted from the fair market valuation requirement. Ad Hoc proposes that the Commission apply a cap of twenty-five percent of the ILEC's total dollar amount of recorded affiliate transactions for the prior year, to limit the total dollar amount of transactions that could be classified as *de minimis*. Once the total dollar value of *de minimis* transactions has reached the twenty five percent cap for the current year, subsequent transactions would be subject to the fair market standard. The combination of the \$250,000 *de minimis* threshold and the overall twenty-five percent cap would strike a reasonable balance between administrative simplification and continued protection for ratepayers and ILEC competitors.

4. *Fifteen-day pre-filing period for CAM cost pool changes.*

Current Commission rules require that carriers update their CAMs annually, at a minimum, except that any changes to the cost apportionment table and time-reporting procedures must be filed at least 15 days prior to implementation of the changes by the carrier. The *Notice* seeks comment on BellSouth's proposal to eliminate this 15-day pre-filing- requirement in order to

prevent carriers from having to submit any “sensitive competitive service information” before a service is implemented.¹³ Under this proposal, changes would be filed contemporaneous to the implementation of the change.

Ad Hoc does not believe that continuation of this rule is necessary to maintain an adequate degree of regulatory oversight over CAM procedures. Therefore, Ad Hoc supports this proposal, assuming that the Common Carrier Bureau will continue to retain authority to suspend and investigate any CAM cost pool changes within 180 days after the change had become effective.

5. *Elimination of 32.13(a)(3) temporary/experimental accounts.*

The Commission proposes to eliminate the current requirement that carriers inform them 30 days prior to establishing temporary or experimental accounts as to the nature and purpose of these accounts. The *Notice* observes that other accounting safeguards are in place that provide sufficient regulatory oversight, so that this requirement is superfluous.¹⁴

Ad Hoc supports this proposal, consistent with its commitment to reducing unnecessary regulatory burdens, because such accounts are temporary and do not affect the ultimate recording of information within the Part 32 accounting structure.

6. *Revision to Section 32.25, Unusual Items and contingent liabilities.*

The *Notice* proposes to eliminate the current requirement that carriers submit journal entries containing extraordinary items, contingent liabilities, and

¹³ *NPRM*, at para. 17.

material prior period adjustments for review by the Commission before entering them into their books. The *Notice* states that other accounting safeguards currently in place provide sufficient regulatory oversight, so that this requirement is superfluous.¹⁵

Ad Hoc supports this proposal, which appears to remove an administrative burden on the ILECs without impairing the Commission's ability to monitor the manner in which carriers record their accounting costs.

7. *Property Held for Future Telecommunications Use/Telecommunication Plant under Construction.*

The Commission seeks comment on a proposed alternative accounting treatment for the costs of property held for future telecommunications use and telecommunications plant under construction. Under current rules, these costs are moved to separate accounts (2002 in the case of property; 2003 for construction projects) when it is no longer appropriate to consider the costs part of the ratebase. BellSouth has proposed that these rules be eliminated and that ILECs should be allowed to rely solely on GAAP guidelines and management discretion to determine how these costs are recorded. In response, the Commission proposes that ILECs would cease reclassifying these costs into the 2002/2003 accounts, but the amounts would be separately identified in the ARMIS 43-01 reports under the categories of "All Other Adjustments" (column (e)) and "Other Adjustments" (column (I)), so that they could be excluded from

¹⁴ *NPRM*, at para. 18.

¹⁵ *NPRM*, at para. 19.

the ratebase for regulatory purposes. In the case of abandoned projects, carriers would still be required to move the amounts into account 7370.¹⁶

Ad Hoc disagrees with BellSouth's assertion that "the distinction between operating and non-operating plant is no longer relevant to ratemaking."¹⁷ To the contrary, the Commission's rules must continue to exclude non-operating plant from the ratebase so long as ILECs retain the ability to seek full recovery of regulated services accounting costs through the price cap low-end adjustment and/or claims of confiscation. However, Ad Hoc also believes that the proposal in the *Notice* would allow the costs of non-operating plant to be tracked and removed from rate base via ratemaking adjustments if and when that becomes necessary. Therefore, Ad Hoc supports the Commission's proposed accounting treatment for these costs.

C. Proposed changes to ARMIS Reporting

Ad Hoc generally supports the Commission's specific proposals to eliminate routine reporting of certain ARMIS data that is publicly available from ILEC filings supplied to other governmental entities on a routine basis, such as 10-K reports filed with the Securities and Exchange Commission ("SEC"). However, Ad Hoc urges the Commission to put subject carriers on notice that continued relief from reporting requirements under FCC rules will be conditional upon the continued availability of adequate information from other sources, and that reporting directly in ARMIS may resume if those other sources diverge from

¹⁶ *NPRM*, at para. 20-21.

¹⁷ Letter from K. Levitz to M. Salas, at attachment, at 2.

the Commission's particular requirements (e.g., if the SEC changes its reporting requirements in a manner adverse to the Commission's regulatory oversight of ILECs).

In addition, as discussed in section B.1, *supra*, of these Comments, if the Commission discontinues the data reports required by ARMIS 43-02, the rules should also establish the procedures by which interested parties will receive (1) notice that ILEC data has been reported pursuant to Commission request; and (2) access to data supplied to the Commission pursuant to a specific request (under appropriate confidentiality agreements if necessary to protect competitively-sensitive data).

1. *ARMIS 43-02 USOA Report: Table C Reductions.*

The Commission proposes to consolidate the five tables of carrier and stockholder information currently comprising the "C" series tables of the ARMIS 43-02 USOA Report into two streamlined tables. The first of these two tables would retain certain basic information from tables C-1 through C-4, including the carrier's name, address, operating states, and executive officers.¹⁸ The second table would be a streamlined version of table C-5 (Important Changes During the Year) eliminating entries relating to direct and indirect control of the carrier that are redundant to what is filed in the SEC's Form 10-K Annual Reports or in the carrier's CAMs. Additionally, the Commission seeks comment on establishing a

¹⁸ *NPRM*, at para. 25.

threshold amount to determine changes that are significant or material, and collecting information only on changes that meet or exceed this threshold.¹⁹

Ad Hoc has no objection to the Commission's proposals to consolidate the basic carrier and stockholder information supplied by Table C, because this simplification should not have any impact on the Commission's regulatory oversight of the ILECs. Similarly, Ad Hoc believes that the change of control information reported in Table C-5 can be eliminated without adverse consequences, because this information is routinely reported to the SEC on a public basis (*i.e.*, Form 10-K).

Ad Hoc opposes the proposal to streamline Table C-5. The information required by that table remains useful to the Commission and interested parties for purposes of evaluating trends with respect to ILECs' regulated operations. As the Commission has previously observed, "[t]he ARMIS system contains detailed cost and revenue information that allows the Commission to make benchmark comparisons among the carriers and across time periods to identify discrepancies warranting Commission attention."²⁰ The benchmarking process is also significantly assisted by the existing practice of having ILECs report other important changes during the year on a relatively uniform basis via Table C-5. Other types of reports, such as SEC Form 10-Ks, that focus on financial performance, typically do not systematically include information on changes of particular interest to regulators, such as changes in service and rate schedules (*e.g.*, sales/acquisitions of exchanges), and can not be relied upon for that

¹⁹ *NPRM*, at para. 26.

purpose. Consequently, Ad Hoc urges the Commission to retain Table C-5 for reporting all changes other than changes in control.

2. *ARMIS 43-02 USOA Report: Table B Reductions.*

The *Notice* proposes to simplify the reporting of the ARMIS 43-02 “B” series table relating to balance sheet accounts. The *Notice* proposes to eliminate the following 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). The *Notice* suggests that standard accounting practices and procedures, as well as the internal and external audits already that are required, ensure that these accounts will be properly maintained. Additionally, the *Notice* indicates that the Commission will continue to have access to the source documents and underlying data relating to these accounts as needed.²¹

Ad Hoc agrees that these particular “B” series tables do not need to be reported on a routine basis and can be eliminated from ARMIS reporting requirements. As noted earlier in these Comments, however, the Commission's rules must ensure that Ad Hoc and other interested parties would lose access to such information if it became relevant to Commission decisionmaking so that they can participate fully in the Commission's analysis of regulatory issues. Accordingly, the Commission should also establish in this docket procedures by

²⁰ Computer III Proceeding, at 7593.

²¹ *NPRM*, at para. 27.

which interested parties will receive (1) notice that ILEC data has been reported pursuant to Commission request; and (2) access to data supplied to the Commission pursuant to a specific request (under appropriate confidentiality agreements if necessary to protect competitively-sensitive data) whenever the data formerly supplied in these tables is instead supplied to the Commission pursuant to a specific request.

3. *ARMIS 43-02 USOA Report: Table I Reductions.*

For reasons similar to those identified in the discussion of the “B” series, above, the *Notice* proposes to eliminate the requirement to report three tables from the ARMIS 43-02 “I” series, specifically Tables I-3 (Pension Costs); I-4 (Operating Other Taxes); and I-5 (Prepaid Taxes and Accruals).²² In lieu of routine reporting, the *Notice* proposes that the Commission request this data as needed from the ILECs.

Additionally, the *Notice* suggests changes in the reporting requirements form tables I-6 (Special Charges) and I-7 (Donations or Payments for Services by Persons Other than Employees). Each of these tables is governed by reporting thresholds that determine when and what information needs to be provided. The *Notice* recognizes that each of these tables obtains information that is essential to the Commission, and therefore should continue to be reported. But the *Notice* cites the “tremendous growth in ILECs revenues” since the establishment of

²² *NPRM*, at para. 28.

ARMIS in 1989,²³ and accordingly seeks comment on the size of these threshold amounts and whether the current levels are too low.

The threshold in question for Table I-6 (Special Charges) is \$100,000. Table I-7 (Donations or Payments for Services by Persons Other than Employees) currently has three separate threshold levels, namely: (1) \$250,000 for advertising and information services, clerical and office services, computer and data processing services, personnel services, printing and design services, and security services; (2) \$25,000 for audit and accounting services, consulting and research services, financial services, and legal services; and (3) \$10,000 for membership fees and dues.²⁴

For reasons similar to those discussed in connection with the “B” series, above, Ad Hoc supports elimination of the routine reporting of Tables I-3 (Pension Costs), I-4 (Operating Other Taxes), and I-5 (Prepaid Taxes and Accruals), provided that the Commission establish rules and procedures to give interested parties notice and an opportunity to review such data whenever it is supplied to the Commission in response to a specific Commission request.

With respect to the thresholds applicable to Tables I-6 and I-7, Ad Hoc notes that the ILECs’ overall revenue growth between 1989 and 1998 has been approximately 30%.²⁵ Accordingly, Ad Hoc recommends that the reporting

²³ *NPRM*, at paras. 29-30.

²⁴ *NPRM*, at para. 29-30.

²⁵ For the Regional Bell operating companies, total operating revenues increased from \$66.18-billion in 1989 to \$86.03-billion in 1998, a 30.0% increase; for All Reporting Local Exchange Companies, revenues increased from \$82.69-billion to \$108.3-billion during the same period, a 31.0% increase. FCC Statistics of Common Carriers (for years 1989 and 1998), Table 2.9. See, http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/socc.html

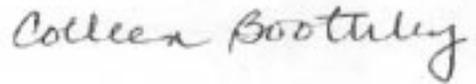
thresholds for these tables be updated by increasing them commensurately by 30%, as follows: (1) \$325,000 for advertising and information services, clerical and office services, computer and data processing services, personnel services, printing and design services, and security services; (2) \$32,500 for audit and accounting services, consulting and research services, financial services, and legal services; and (3) \$13,000 for membership fees and dues.

Conclusion

Ad Hoc respectfully requests that the Commission give careful consideration to the recommendations contained in the Comments above, and implement stream-lined accounting and reporting requirements for ILECs to a degree that is consistent with the Commission's obligation to protect ratepayers through regulatory oversight.

Respectfully submitted,

AD HOC TELECOMMUNICATIONS
USERS COMMITTEE



By:

Economic Consultants:

Lee L. Selwyn
Scott C. Lundquist
Economics and Technology, Inc.
One Washington Mall
Boston, MA 02108-2617
617-227-0900

Colleen Boothby
Levine, Blaszak, Block & Boothby, LLP
2001 L Street, N.W.
Suite 900
Washington, D.C. 20036
202-857-2550
Its Attorneys

August 23, 1999

Certificate of Service

I, Betsy M. Eisen, hereby certify that a true and correct copy of the preceding Comments of the Ad Hoc Telecommunication Users Committee was served this August 23, 1999 via hand delivery upon the following party:

International Transcription Services. Inc.
1231 20th Street, NW
Washington, DC 20037



Betsy M. Eisen