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August 23, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BY HAND

Magalie Roman Salas, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, S.W.
Washington, D.C. 20554

Re: Comments of the Independent Telephone and Telecommunications Alliance (ITTA):
In the Matter of 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:

Please find enclosed an original and 4 copies of the Comments of the Independent Telephone and Telecommunications Alliance (ITTA) in the above-referenced proceeding.

If you have any questions regarding this matter, please call me at (202) 637-2225.

Sincerely,



Richard R. Cameron

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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

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

**COMMENTS OF THE INDEPENDENT TELEPHONE AND
TELECOMMUNICATIONS ALLIANCE**

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OFFICE OF THE SECRETARY

CC Docket No. 99-253

In the Matter of)
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Comprehensive Review of the Accounting)
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Requirements for Incumbent Local)
Exchange Carriers: Phase I)

COMMENTS OF THE INDEPENDENT TELEPHONE AND
TELECOMMUNICATIONS ALLIANCE

THE INDEPENDENT TELEPHONE AND TELECOMMUNICATIONS ALLIANCE (ITTA), through its attorneys, hereby submits the following comments in response to the Commission's recent Notice of Proposed Rulemaking (Notice) in this proceeding.¹

I. INTRODUCTION

ITTA is a an organization of midsize incumbent local exchange companies (ILECs) each serving fewer than two percent of the nation's access lines. ITTA members collectively serve over six million access lines in 40 states and offer a diversified range of services to their customers. ITTA's smallest member company serves under 100,000 access lines, while its largest serves just over two million.

ITTA welcomes and supports the Commission's recognition that "further streamlining to [its] accounting rules and reporting requirements may be warranted."² Extraordinary and

¹ *Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 99-253, Notice of Proposed Rulemaking, FCC 99-174 (rel. July 14, 1999) (Notice).

² Notice at para. 6.

irrevocable changes in the telecommunications industry have necessitated a reexamination of the Commission's fundamental role, and a broad streamlining and elimination of many of its rules. The proposals in this Notice are consistent with the Commission's overall efforts to adapt its rules to the rapid evolution of the industries it historically has regulated.³ ITTA specifically supports the Commission's tentative conclusions that it should eliminate the expense matrix contained in section 32.5999(f) and streamline its affiliate transactions rules.

The Commission, however, sets an unnecessarily narrow scope for this Notice. By its own account, the Notice's proposals are designed almost solely to affect the largest six local exchange companies.⁴ The Notice makes no effort to address accounting burdens and requirements imposed on the 1,400+ companies that constitute the remainder of the ILEC industry. While this narrowly targeted approach is further evidence of the viability of designing rulemaking proceedings for defined subsets of the ILEC industry, its narrow scope is unwarranted in this case. Although larger companies' costs of complying with accounting and reporting requirements are undeniably very high, midsize and smaller companies' compliance burdens are nonetheless significant, especially in relation to the limited resources available to these companies. The Commission should address these burdens, as well as those of the larger companies, in this rulemaking. The Notice, however, contains no analysis of midsize and smaller companies' burdens nor is there any stated reasoning for declining to consider specific relief for these companies at this time.

³ The lead sentence of the Notice recognizes that the Commission must "keep pace with changing conditions as the telecommunications industry becomes increasingly competitive." Notice at para. 1.

⁴ The Commission indicates in the Notice that its proposals are directed toward providing "immediate regulatory relief by reducing the accounting and reporting burden on the largest ILECs." Notice at para. 6.

The Notice does cite relief granted to midsize companies in response to the ITTA forbearance petition earlier this summer.⁵ Yet, relief granted in narrowly focused Section 10 proceedings cannot take the place of a broader review of accounting burdens in a Commission-initiated rulemaking. To do so would effectively forfeit the Commission's agenda-setting function in a crucial way. Rather, the Commission should expand the focus of this and future accounting reform proceedings to include an appropriate review of the accounting and reporting burdens as they affect all ILECs. Appropriate relief from unnecessary compliance burdens will allow midsize and smaller companies to redirect their internal resources to upgrading their networks and serving their customers.

II. DISCUSSION

A. The Commission Should Eliminate the Expense Matrix.

ITTA agrees with the Commission's proposal to eliminate the section 32.5999(f) expense matrix. The Commission further should not require the information otherwise to be maintained by carriers in disaggregated form. In the Notice, the Commission correctly recognizes that the expense matrix contained in section 32.5999(f) is a burdensome and unnecessary regulatory requirement.⁶ The Commission's Notice in this proceeding identifies only one occasion since the Uniform System of Accounts took effect in 1988 when the Commission relied directly and

⁵ Notice at para. 5.

⁶ See Notice at para. 8.

specifically on expense matrix data.⁷ The Commission correctly concludes that, if such data is ever again needed by the Commission, it will be able to request it on an as-needed basis.

Although the information is seldom used, reviewed, or analyzed by the Commission, customers, analysts, or other carriers, ITTA members currently devote significant resources to compliance with the expense matrix rules. Given the substantial burdens associated with complying with other Commission requirements in areas such as Local Number Portability, CALEA, Advanced Services, and Dialing Parity, the Commission should eliminate those burdens on carriers that are no longer necessary to fulfilling its mandate and should allow companies to redirect their resources to the primary mission of serving their customers.

Elimination of this burden would be consistent with the Commission's plan to make the transition from regulator to market facilitator and rely more heavily on enforcement than on prescriptive regulation.⁸ Should the Commission require this data in the context of its future enforcement or oversight roles, carriers will remain capable of disaggregating their expenses into the matrix categories and furnishing it on request from the Commission.

While the elimination of the expense matrix will provide ILECs with some relief, much of the expense matrix data largely duplicates the cost data ILECs must currently file with the

⁷ Notice at para. 7 (apparently referencing carriers' implementation of the Commission's directives in the *RAO Letter 20* proceedings. *RAO Letter 20*, 7 FCC Rcd 2872 (Com. Car. Bur., Acct. and Aud. Div. 1992) *vacated sub nom. Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32*, Memorandum Opinion and Order and Notice of Proposed Rulemaking, 11 FCC Rcd 2957 (1996). *See also Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32*, Report and Order, 12 FCC Rcd 2321 (1997).

⁸ *A New FCC for the 21st Century, Draft Strategic Plan*, Federal Communications Commission (rel. Aug. 12, 1999), at 3; *The New FCC*, Remarks of William E. Kennard, Chairman, Federal Communications Commission, Georgetown University Law Center Continuing Legal Education Seminar, Washington, D.C., October 1, 1998 (announcing creation of a new Enforcement Bureau).

National Exchange Carrier Association (NECA) under the current universal service support rules. Specifically, section 36.611(c) requires carriers to file the benefits and expenses portions of the expense matrix with NECA, in order to allow NECA to determine the study areas that are entitled to support under the Part 36 expense adjustment rules.⁹ Therefore, while ITTA welcomes the elimination of the expense matrix, ITTA also urges the Commission to consider reducing or streamlining these parallel requirements to the extent possible without disrupting current universal service support.

B. Affiliate Transactions Rules

ITTA supports the Commission's proposal to create a *de minimis* exception to its affiliate transactions rules. Under these rules, services provided by a carrier to its affiliate must be recorded at the higher of fair market value or fully distributed cost. Similarly, services received by a carrier from its affiliate must be recorded at the lower of fair market value or fully distributed cost. These rules were originally adopted to prevent harm to ratepayers and competitors from cross-subsidization of LEC competitive services by non-competitive ones.

Creation of a *de minimis* exception would likely cause little harm to ratepayers or competitors. As ILECs face increased competition and the potential for competitive entry across their markets, opportunities for cross-subsidization are rapidly evaporating. In the Notice, the Commission correctly recognizes that any regulatory benefits of requiring carriers to make a good faith determination of the fair market value of services which fall below a certain *de minimis* threshold are far outweighed by the administrative cost and burdens of making this determination.¹⁰ Like the resources currently used to comply with the Commission's expense

⁹ 47 C.F.R. § 36.611(c).

¹⁰ Notice at para. 15.

matrix rules, those used to comply with the affiliate transactions rules could be better directed to the ILEC's primary mission – that of serving their customers.

Rather than the \$250,000 annual value threshold proposed in the Notice, however, ITTA urges the Commission to adopt a *de minimis* threshold of \$1,000,000 annually. The Commission's definition of a midsize LEC includes carriers with annual revenues of up to \$7 billion. Even for these carriers, and much more so for larger carriers, affiliate transactions with an annual value below \$1,000,000 may be considered *de minimis* without raising any of the concerns that led the Commission originally to adopt the affiliate transactions rules. Even for transactions with an annual value above this level, the difference between the estimate of fair market value and fully distributed cost are likely to be minimal as a percentage of the value of the transaction. Especially in the context of transactions with values of less than \$1,000,000, the difference is truly negligible and will cause no noticeable effect on rates charged to customers.

Therefore, given the benefits of reduced regulatory burdens on carriers, and the negligible danger to customers or competitors, ITTA urges the Commission to create an under-\$1,000,000 *de minimis* exception to its affiliate transactions rules.

III. Conclusion

As the Commission moves forward with this proceeding and its year 2000 biennial review of all of its rules, ITTA welcomes and supports the Commission's proposals to further streamline and eliminate unnecessary rules, and reduce regulatory burdens generally. ITTA urges the Commission, however, specifically to consider the effects of its accounting and reporting requirements on midsize and smaller companies with limited resources, and not solely to focus its relief efforts on the largest ILECs. Specifically with regard to the proposals in this Notice, ITTA urges the Commission to eliminate the expense matrix requirements of section 32.5999(f) and to create a *de minimis* exception to its affiliate transactions rules for transactions with an annual value of less than \$1,000,000.

Respectfully submitted:


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