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August 24, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie R. Salas
Secretary
Federal Communication Commission
Room TW-A325, The Portals
445 Twelfth Street
Washington, D.C. 20554

Re: Errata to Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell and The Southern New England Telephone Company Comments in Docket No. CC 99-253, Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1

Dear Ms. Salas:

Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell and The Southern New England Telephone Company filed comments in the above referenced proceeding on August 23, 1999. In its filing certain pages of the Summary were accidentally removed. By this errata, Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell and The Southern New England Telephone Company are submitting a complete copy of its Comments. I apologize for any inconvenience this error may have caused.

Acknowledgment and date of receipt of this transmittal are requested. A duplicate transmittal is attached for that purpose. Please contact the undersigned should you have any questions.

Respectfully Submitted.

Liz Geddes

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

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

COMMENTS OF SBC COMMUNICATIONS INC.

SBC COMMUNICATIONS INC.
SOUTHWESTERN BELL TELEPHONE COMPANY
PACIFIC BELL
NEVADA BELL
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

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August 23, 1999

Summary*

SBC applauds the FCC's efforts to continue the process of eliminating unnecessary accounting and reporting requirements initiated as part of the 1998 biennial review process in the *Accounting Reductions Order* and the *ARMIS Reduction Order*. At the same time, SBC urges the FCC to move more quickly to extend to the price cap ILECs the same degree of relief from accounting and reporting requirements as it recently gave mid-sized ILECs.

SBC supports the proposals in the NPRM and, in some cases, urges the FCC to go farther. SBC agrees with the NPRM's proposal to completely eliminate the expense matrix. Its data is generally no longer necessary and, to the extent the FCC needs salary and wage data, it would be available from the underlying accounting systems on an as-needed basis.

SBC also agrees with the NPRM's proposal to extend to the large ILECs the same streamlined attestation-style CAM audits recently adopted for the mid-sized ILECs in the *Accounting Reductions Order*, with one recommended change: the procedure should be performed on only one out of every two years of data. The less stringent attestation procedure, like the one in effect for CAM prior to 1991, would yield appreciable savings compared to the "fairly presents" financial statement type of audit currently required. In contrast, the NPRM's alternative suggestion of an "agreed-upon procedures" engagement of the type planned for purposes of Section 272 would be more burdensome than the current requirements and should not be adopted.

While complete elimination of the fair market valuation requirement for services would be the best approach in view of its limited benefits, SBC agrees that the FCC should establish a *de minimis* exception, although SBC recommends that the threshold should be raised to $500,000 in order to provide meaningful relief for a substantial portion of service transactions.

Consistent with Section 402(b)(2)(B) of the 1996 Act, the FCC should permit ILECs to

* The abbreviations in this Summary are defined in the body of these Comments.

submit all of their CAM changes in a single annual filing. As a practical matter, the FCC staff only reviews CAM filings once a year. If the FCC retains non-annual CAM filings, SBC agrees that the 15-day prefiling should be eliminated in any event.

SBC also agrees generally with the NPRM's proposals to eliminate Section 32.13's notification of temporary or emergency accounts, Section 32.25's approval requirement for extraordinary items and contingent liabilities, and the requirement to reclassify certain items booked in Accounts 2002 and 2003. However, carriers should have the option of reclassifying these Account 2002 and 2003 items if they prefer to do so.

While the NPRM shows that the FCC is beginning to recognize that it does not need much of the data in the ARMIS reports, or, at least, in the ARMIS 43-02 USOA Report, the FCC should expand its comprehensive review of reporting to eliminate unnecessary portions of all of the ARMIS reports. At a minimum, the FCC should eliminate substantially all of the 21 tables for the largest ILECs that it recently eliminated for the mid-sized ILECs. Retaining these tables is not necessary for FCC regulation of any ILEC, and in any event, if the FCC requires this type of financial data, it can find it in SEC filings or request it from the ILEC.

SBC's specific recommendations and supporting observations on the "C", "B" and "I" series tables are described in the Comments and summarized on a table-by-table basis in Exhibit "A". Generally, SBC recommends the following:

(1) Ideally, the FCC should eliminate tables C-1 through C-5 in their entirety. However, at a minimum, these should be reduced to an abbreviated table that includes only the essential or general information suggested in the NPRM, such as the carrier's name, address, operating states and officers. And, if the FCC insists on retaining the inequitable table C-5 requirement for large ILECs, then SBC agrees that the table should only include truly important contracts and rate changes, such as contracts over $1 million and rate changes over 1% of operating revenue.

(2) While the FCC should give large ILECs substantially the same relief from the "B" series tables that it recently gave mid-sized ILECs, the elimination of "B" series tables should not be limited to the seven proposed in the NPRM. At a minimum, the FCC should also

eliminate tables B-1, B-2, B-5, B-6 and B-7, which are just as unnecessary as the seven "B" series tables that the NPRM proposes to eliminate. Much of the data in these tables is of no practical value, duplicates another federal filing, or can be obtained on an as-needed basis.

(3) While the FCC should eliminate for the large ILECs the five "I" series tables that it recently eliminated for the mid-sized ILECs because there is no practical utility in requiring any of these tables to be reported on an ongoing basis, if the FCC decides to retain tables I-6 and I-7 for large ILECs, SBC urges the FCC to reduce the data required and to increase the reporting thresholds to $1 million. In table I-6, the FCC should limit the reported below-the-line categories to abandoned projects and lobbying expenses. In table I-7, the FCC should exempt common categories of routine business expenses normally incurred by corporations (e.g., advertising, clerical, office, computer, data processing, financial, printing, security, design and similar services). The remaining "I" series tables also should be streamlined.

Further, the FCC should undertake a more comprehensive review that includes other ARMIS reports and SBC specifically urges the FCC to consider SBC's previous proposal to combine the ARMIS 43-01, 43-02 and 43-03 Reports in a single, simplified report.

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Incumbent Local Exchange	)	
Carriers: Phase I	)	

COMMENTS OF SBC COMMUNICATIONS INC.

SBC Communications Inc. ("SBC") hereby submits its Comments on behalf of its telephone company subsidiaries (the "SBC LECs")[1] in response to the FCC's Notice of Rulemaking ("NPRM") in the above-captioned proceeding.[2]

SBC applauds the FCC's efforts to continue the process of eliminating unnecessary and redundant accounting and reporting requirements initiated as part of the 1998 biennial review process in the *Accounting Reductions Order*[3] and the *ARMIS Reduction Order*.[4] This initiative represents a positive step toward less burdensome accounting and reporting requirements.

At the same time, SBC urges the FCC to move more quickly to extend to the price cap incumbent local exchange carriers ("ILECs") the same degree of relief from accounting and reporting requirements as it recently gave mid-sized ILECs. At least as much regulatory relief from these requirements is justified for price cap ILECs as for rate-of-return regulated mid-sized ILECs. Simply, it is ironic that the FCC has begun to

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[1] Pacific Bell, Nevada Bell, Southwestern Bell Telephone Company ("SWBT"), and The Southern New England Telephone Company ("SNET").

[2] FCC 99-174, released July 14, 1999.

[3] *1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements*, CC Docket No. 98-81, 1999 FCC LEXIS 3038, released June 30, 1998 ("*Accounting Reductions Order*").

[4] *1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements*, CC Docket No. 98-117, 1999 FCC LEXIS 3036, released June 30, 1999 ("*ARMIS Reduction Order*").

eliminate the accounting detail for the mid-sized ILECs whose form of regulation still relies on book costs while it continues to keep all of the detailed requirements for the largest ILECs whose price cap regulation is largely no longer based on accounting costs. This proceeding presents an opportunity to extend the same meaningful relief from accounting and reporting requirements across-the-board to all ILECs. SBC looks forward to working with the FCC as it expands the scope of its review to a more comprehensive level in the next phase, as the public interest is served consistent with Section 11 when regulations that no longer add any value to the process are streamlined or removed.

A. Accounting Requirements

1. Expense Matrix

SBC agrees with the NPRM's proposal to completely eliminate the expense matrix required by Section 32.5999(f).[5] There is no overall value in the matrix sufficient to justify the complexity in the accounting systems required to generate it. In any event, to the extent that the FCC needs salary and wage expense data, it would be available from underlying accounting systems without the necessity of creating and reporting an expense matrix. That is, companies engaged in construction activities must maintain a wage distribution system in order to properly account for capital projects. Therefore, even if the expense matrix is eliminated, salary and wage data can be produced on an as-needed basis.

Similarly, SBC agrees with the NPRM that elimination of the expense matrix will not have any impact on pole attachment rate calculations because ILECs can maintain any needed expense data in subsidiary records, consistent with the FCC's approach to certain Class A accounting data of the mid-sized ILECs in the *Accounting Reductions Order*.[6]

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[5] NPRM, ¶8.
[6] NPRM, ¶9.

Likewise, elimination of the expense matrix would not affect the Part 36 separations process, universal service calculations or service quality studies.[7] Separations studies do not depend for their results on the expense matrix. The expense matrix also should not be necessary to calculate federal universal service mechanisms or reimbursement based on a hypothetical cost proxy model. Finally, given that the FCC service quality reports do not contain any expense matrix data, SBC does not understand why the NPRM inquires about an expense matrix impact on service quality studies.

Accordingly, there is no reason to retain an expense matrix requirement in Part 32.

2. CAM Audits

SBC agrees with the NPRM's proposal to extend to the large ILECs the same Cost Allocation Manual ("CAM") audit requirements recently adopted in the *Accounting Reductions Order.*[8] In light of the reduced importance of accounting costs in the regulation of price cap ILECs' rates, there is no reason not to extend precisely the same streamlined audit requirements to midsized and price ILECs. To the extent such audits continue to be necessary, the less stringent and less burdensome attestation procedure is more than adequate to maintain the necessary degree of oversight of all ILECs that are subject to CAM requirements and an audit every other year is sufficiently frequent.

The attestation procedure is much simpler than the type of CAM audit adopted in the *Computer III Remand Proceeding*[9] in 1991, which is sometimes referred to as a "fairly presents" audit. In 1991, the FCC adopted this more stringent audit requirement and required a positive opinion regarding CAM compliance similar to those provided in

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[7] NPRM, ¶8.

[8] NPRM, ¶13.

[9] *Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier I Local Exchange Company Safeguards*, 6 FCC Rcd 7571, 7581-7583 ¶¶21-24 (1991).

connection with a financial statement audit engagement. The less stringent attestation procedure, like the one in effect for CAM prior to 1991, would yield appreciable savings compared to the "fairly presents" financial statement type of audit currently required. In contrast, if the "agreed-upon procedures" engagement alternative suggested in the NPRM were of the type planned for purposes of Section 272, the audit would be more burdensome than the current audits and thus, this suggested alternative[10] would not yield any savings at all. In fact, rather than "reducing audit burdens," as the NPRM purports to be its objective, this "agreed-upon procedures" alternative would likely increase the burden of CAM audits significantly.

SBC recommends one change to the attestation proposal. Instead of auditing two years of data every two years, the independent auditor should only look at one of the two years. This enhancement would provide even greater savings without losing any effectiveness in oversight. CAM is simply not so critical to the regulatory process any longer, especially in light of price cap regulation, that continuous audits should be required regardless of the burdens. Furthermore, the size of the nonregulated cost allocation does not vary significantly from year to year.

In summary, the same independent CAM audit requirement should be adopted for large and mid-sized ILECs, that is, an attestation engagement like the one in effect for CAM prior to 1991, and this procedure should be performed on only one out of every two years.

[10] NPRM, ¶¶12-13.

3. Exemption from Fair Market Valuation Under Affiliate Transaction Rules for Service Transactions Below $500,000

SBC agrees with the NPRM's reason for proposing to eliminate the fair market value requirement for transactions below $250,000.[11] While SBC maintains that this valuation procedure produces extremely limited, if any, benefits, these are far outweighed by the burden. Thus, while complete elimination of the requirement would be the best approach, implementation of a *de minimis* exemption is clearly justified. However, SBC submits that to provide meaningful relief for the large ILECs, the threshold for the exemption should be raised to at least $500,000 because only a limited number of services would fall under the $250,000 level for some large ILECs.

To illustrate the imbalance of the cost/benefit, the Arthur Andersen Whitepaper estimated the implementation costs for each large ILEC was $650,000, but the adjustments to valuations resulting from implementation were less than one percent (1%) of the total dollar volume of affiliate transactions on the average.[12] This data is consistent with the NPRM's conclusion regarding the limited regulatory benefits produced by this requirement. Even without the fair market value requirement for services – as the ILECs functioned for almost a decade prior to 1997 – the affiliate transaction rules represent a highly effective safeguard to protect ratepayers from the potential of any cross-subsidy of affiliate activities.

If the FCC believes that this requirement is still necessary in the public interest despite its limited value, the FCC should at least adopt an exemption that will eliminate the requirement for most service transactions.

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[11] NPRM, ¶¶ 15-16.

[12] Arthur Andersen LLP, "Accounting Simplification in the Telecommunications Industry," filed July 15, 1998 (the "Arthur Andersen Whitepaper"), at 43-44 ($14,000 in adjustments on $1,675,000 of transactions)

4. Prefiling CAM Cost Pool Changes

As SBC has explained in the past, Sections 402(b)(2)(B) of the Telecommunications Act of 1996[13] requires the FCC to permit carriers to file their CAMs once a year. To comply with this requirement, the FCC should not require any prefiling of CAM changes. Instead, all changes that an ILEC makes during the year should be submitted in a single annual filing.

SBC's position is explained in more detailed in its Petition for Reconsideration of the Report and Order in CC Docket No. 96-193[14] filed on August 25, 1997, which is incorporated herein by reference.[15] SBC urges the FCC to reconsider its previous ruling and to permit ILECs to make their CAM filings only once a year consistent with Section 402(b)(2)(B).

For all practical purposes, the FCC staff only reviews CAM filings once a year anyway. Typically, SBC receives inquiries from the FCC staff on CAM changes in the year after the filings based, for example, on information in the annual ARMIS filings. In effect, the FCC staff reviews the changes once a year after the year has ended.

If the FCC does not reconsider and instead retains non-annual CAM filings, then SBC agrees, in the alternative, that the FCC should eliminate the 15-day prefiling requirement for cost pool changes, as proposed in the NPRM.[16] Such prefilings can, in fact, provide advance notice of competitively sensitive information.

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[13] Telecommunications Act of 1996, Pub. L. No. 104-104, §402(b)(2)(B), 110 Stat. 56 (1996).

[14] *Implementation of the Telecommunications Act of 1996; Reform of Filing Requirements and Carrier Classifications*, 12 FCC Rcd 8071 (1997).

[15] Petition for Reconsideration of Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell, CC Docket No. 96-193, filed Aug. 25, 1997.

[16] NPRM, ¶17.

5. Section 32.13

SBC agrees with the NPRM's proposal to eliminate the notification required when establishing temporary or emergency accounts in Part 32.[17] As the NPRM explains, this notification requirement is unnecessary. These accounts are merely part of a process by which costs are ultimately booked in the final accounts. That is, these accounts are generally used as clearing accounts. Using these clearing accounts merely provides a convenient way of systematizing and cataloguing costs on the books. In any event, other accounting safeguards will provide sufficient protection, without the necessity of a prefiling requirement.

6. Section 32.25

SBC agrees with the NPRM's proposal to eliminate the advance approval requirement for extraordinary items and contingent liabilities.[18] This requirement has outlived its usefulness. It was intended to prevent unusual impacts on revenue requirements. Under price cap regulation, unusual items of this nature should not have any impact on rates. That is, under price cap regulation, there is no longer the causal relationship between costs recorded in Part 32 and the carrier's rates that existed under rate-of-return regulation. Customers of a price cap carrier are thus protected from unanticipated accounting events such as these without the necessity of any prior review of this type of accounting entries.[19] The public interest is served when regulations that no longer add value to the process are removed.

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[17] NPRM, ¶18.

[18] NPRM, ¶19.

[19] In any event, GAAP provides sufficient guidance on the manner of booking these types of items. *See* Statements of Financial Accounting Standards Nos. 5 & 16.

7. Sections 32.2002 and 32.2003

The burden of maintaining documentation and subsidiary records in support of the reclassifications required by Sections 32.2002 and 32.2003 is excessive considering the limited benefits for price cap carriers. While this burden is relatively limited compared to the overall burden of Class A Part 32 accounting, SBC agrees with the NPRM's proposal to permit the property to remain in the account if the associated costs and reserves are excluded from the ratebase.[20] However, carriers should be allowed the flexibility to choose between reclassifying the items as currently required or leaving the plant in the original account while excluding its costs from the ratebase as proposed in the NPRM. Avoiding the reclassification would save a substantial amount of paperwork while continuing to enable the proper calculation of the ratebase. But carriers should be permitted to decide which of the two alternatives is the most cost-effective method of accounting for these items.

B. ARMIS Reporting Requirements

While the NPRM shows that the FCC is beginning to recognize that it does not need much of the data in the ARMIS reports, or, at least, in the ARMIS 43-02 USOA Report, the FCC should expand its comprehensive review of reporting to include all of the ARMIS reports. All of these reports include redundancies that should be eliminated.

At a minimum, in this first phase of the comprehensive review, the FCC should give price cap carriers virtually the same relief from the ARMIS 43-02 reporting requirements that it gave mid-sized ILECs in the *ARMIS Reductions Order*.[21] While the *ARMIS Reductions Order* eliminated 21 of the 27 tables in the ARMIS 43-02 Report for mid-sized ILECs, this NPRM only proposes to eliminate or streamline 14 tables for the six largest ILECs.

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[20] NPRM, ¶¶ 20-21.

[21] *ARMIS Reductions Order*, ¶¶ 11-12.

The FCC should eliminate substantially all of the 21 tables for the largest ILECs that it recently eliminated for the mid-sized ILECs. It would be ironic for the FCC to retain more accounting report detail for the largest ILECs than for the mid-sized ILECs because that detail is less important under the price cap regulation applicable to the largest ILECs than under the rate-of-return regulation of the mid-sized ILECs. In any event, almost without exception, retaining these 21 tables is not necessary for the FCC to obtain information relative to its regulation of any ILEC. And, to the extent the FCC occasionally may require financial data of this type, it can find it in the reports filed with the Securities and Exchange Commission ("SEC") or request it from the ILEC. The sporadic interest in some of the data that may not be reported to the SEC does not justify the burden of an ongoing reporting requirement.

While SBC urges the FCC to broaden the scope of its comprehensive review of ARMIS reporting requirements to include all of the ARMIS reports, SBC's comments herein are limited primarily to responding to the FCC's proposed changes to the ARMIS 43-02 Report. SBC's recommended changes to the ARMIS 43-02 Report are also summarized on a table-by-table basis in Exhibit "A" attached to these Comments.

1. Table C Reductions

SBC agrees with the NPRM that ILECs should not be required to report any data that is publicly available in the ILECs' SEC filings.[22] Further, elimination of the remainder of the "C" series tables will not impair the FCC's ability to perform its necessary oversight functions. Ideally, in the spirit of regulating only when truly necessary, the FCC should eliminate tables C-1, C-2, C-4 and C-5 in their entirety, as it did for the mid-sized ILECs, as well as table C-3, which contains information about officers and directors that can be furnished upon request to the extent it is not already

[22] NPRM, ¶¶ 24,25.

available in SEC filings. However, the FCC should at least reduce the "C" series tables to an abbreviated table that includes only essential or general information such as the carrier's name, address, operating states and officers.

The NPRM is correct that virtually all of the data in tables C-1, C-2 and C-4 is available in public SEC filings. Thus, these ARMIS reporting requirements are completely redundant and should be eliminated. Likewise, information about officers and directors is also reported in SEC filings. To the extent the FCC needs any information that is not in the SEC filings, it can simply request it from the carriers. ILECs should not be required to file any redundant, unnecessary data which is already publicly available or which either is not essential or is easily obtained from the carriers. Thus, while recognizing that it would not be very burdensome to report general information that the FCC may require of all carriers subject to its jurisdiction, SBC questions the necessity of requiring carriers to file this basic information regarding operating states and officers suggested in the NPRM.[23] Much of this type of information is publicly available, and to the extent it is not, it is of extremely limited value.

The FCC has eliminated table C-5 for mid-sized ILECs. SBC urges the FCC to do likewise for price cap ILECs, given that this data is even less necessary to protect the customers of a price cap company than those of a rate-of-return mid-sized ILEC. In any event, assuming the FCC determines that it needs table C-5 data to regulate ILECs, SBC submits that most of the data can be eliminated without impairing the FCC's ability to regulate, especially in light of price cap regulation.

For example, for the six ILECs that would continue to file table C-5, information on "extensions of systems" and "substantial portions of property sold" will consist of "nothing to report" year after year. And, when there is something to report, it would probably involve purchase or sale of another carrier, which would be reflected in the

[23] NPRM, ¶ 25.

chart of affiliates in Section IV of the CAM. As the NPRM notes, CAM Section IV would also include information on changes in control of affiliates.[24] Another example of data that is completely unnecessary is the description of changes in accounting standards.

While SBC maintains that the FCC has no more need for the data in table C-5 for price cap ILECs than for the mid-sized ILECs, if the FCC insists on retaining this inequitable reporting requirement, then SBC agrees with the NPRM that the contracts and changes that are reported should be limited to those that are truly material. The burden of unnecessary reporting should not be compounded by requiring intricate, immaterial details. For the six large ILECs that would remain subject to this requirement, the materiality threshold should be set at a sufficiently high level to avoid including insignificant details in the reports. For example, for changes in service and rate schedules, the report should only include those exceeding one percent (1%) of the carrier's operating revenue. Likewise, if any contracts are reported, carriers should not be required to report any contract under which the ILEC does not anticipate that annual payments or revenue will exceed one million dollars.

2. Table B Reductions

SBC agrees with the NPRM's proposal to eliminate seven of the "B" series tables.[25] However, SBC urges the FCC to eliminate not only these seven tables, but all or virtually all twelve tables that the mid-sized ILECs are no longer required to file pursuant to the *ARMIS Reductions Order*. The differences between mid-sized and large ILECs do not justify requiring the large ILECs to file all five additional tables. Ongoing reporting of all of these tables is not essential for the FCC's regulation of any ILEC. Thus, their elimination should be extended to all ILECs across-the-board.

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[24] NPRM, ¶ 26.
[25] NPRM, ¶ 27.

The seven tables that the NPRM proposes eliminating for the largest ILECs are clearly unnecessary for the FCC's performance of its essential functions. Further, information on the subject of these tables such as long-term debt, deferred taxes, and capital stock, is reported in SEC filings such as the Form 10-K report.

The FCC should also eliminate or simplify other "B" series tables that are unnecessary or redundant.[26] For example, the cash flow statement in table B-2 is available in SEC filings such as the Form 10-K report. The Form 10-K report also contains a balance sheet, and thus table B-1 largely duplicates another federal filing. Table B-1 also duplicates information in the ARMIS 43-01. Table B-5 contains intricate detail concerning adjustments to accumulated depreciation which is far more than the FCC needs to regulate price cap ILECs in the current environment. Likewise, data on investment and depreciation by state in table B-6 is of no practical use in the day-to-day regulation of ILECs. Similarly, table B-7 does not contain information of any value to the FCC because carriers seldom have any special depreciation data of the type requested to report. Upon reviewing these and the other "B" series tables, the FCC should conclude that most of them are no longer needed or, if they are needed at all, the burden of ongoing reporting is not justified. This is especially true given that the FCC could obtain necessary data on an as-needed basis by requesting it from the ILEC which will continue to maintain the underlying accounting records required by Part 32.

3. Table I Reductions

At a minimum, the FCC should eliminate the five "I" series tables that it eliminated for mid-sized ILECs in the *ARMIS Reductions Order*. The NPRM proposes to eliminate for the six largest ILECs only tables I-3, I-4 and I-5.[27] While SBC agrees with

[26] For a table-by-table summary of SBC's recommendations, see Exhibit "A" to these Comments.

[27] NPRM, ¶ 28.

the NPRM's rationale for eliminating these three tables, the same rationale applies to tables I-6 and I-7. If the FCC needs any information on special charges (I-6) or contracted services (I-7), it can request information on an as-needed basis. SBC questions the practical utility of requiring the information in these five tables to be reported on an ongoing basis.[28]

If the FCC determines to retain table I-6 for the six largest ILECs despite its conclusion that this data was not necessary for rate-of-return regulation of mid-sized ILECs, SBC urges the FCC to reduce the inordinate amount of detail in table I-6 by limiting the categories of special charges reported and raising the reporting threshold to one million dollars. For example, if not eliminated altogether, the table could be limited to those below-the-line categories that may have had some potential regulatory value in the past, such as abandoned projects and lobbying expenses.

The FCC also does not need the data on contracted services in table I-7. Retention of reporting of detailed data on routine business expenses involving payments to vendors, contractors and consultants implies that the FCC engages in a detailed review of the routine costs incurred by price cap carriers; however, that is the type of review the FCC used under cost-based, rate-of-return regulation, not the type now used under price cap regulation. Since the FCC has already decided that it does not even need this data for rate-of-return regulation of mid-sized ILECs, it certainly should not require it of the six largest ILECs for purposes of price cap regulation.

The hundreds of items reported each year are legitimate business expenses that are not relevant to the price cap rate-setting process. At a bare minimum, if the FCC arbitrarily retains this obsolete requirement, the FCC should exempt the most common categories of routine business expenses, including advertising, information services,

[28] For a table-by-table summary of SBC's recommendations, see Exhibit "A" attached to these Comments.

clerical and office services, computer and data processing services, financial services, membership, personnel services, printing, design services, security services and similar support services.

If the six largest ILECs must compile any data on contracted services, they certainly should not be required to expend resources identifying and reporting data on a multitude of run-of-the-mill services contracts. Thus, these routine categories of services contracts should be excluded from table I-7 altogether. In addition, nonroutine service contracts should be subject to a higher reporting threshold of at least one million dollars per year.

SBC does not understand how the FCC can claim that a list of amounts paid to 500 outside vendors (or any list, for that matter) is essential for FCC regulation of price cap carriers, when it has determined such data is not necessary at all to protect the customers of mid-sized ILECs whose rates are regulated based on costs. Requiring such a list and the unnecessary expenditure of resources to prepare it are inconsistent with the price cap method of regulation. In designing price cap regulation the FCC has never even contemplated a detailed expense disallowance procedure for adjusting prices, and thus, it is completely illogical to require price cap ILECs to include detailed listings of vendor payments in their ARMIS reports.

Aside from the elimination of "I" series tables discussed above, the FCC should consider streamlining the remaining tables. Specifically, for example, elimination of the expense matrix would require table I-1 to be reduced to one column of data because table I-1 is currently formatted to include columns of expense matrix data along with the total expenses.

4. Combining ARMIS 43-01, 43-02 and 43-03 Reports

While this NPRM's proposals are limited to portions of the ARMIS 43-02 Report, the FCC should undertake a more comprehensive review, including the related ARMIS

reports. SBC urges the FCC to consider the SBC LECs' proposal to combine the ARMIS 43-01, 43-02 and 43-03 Reports in a single, simplified report. This proposal is described in the SBC LECs' Comments filed on August 20, 1998 in CC Docket No. 98-117.[29] USTA filed a similar proposal in that proceeding.[30] Examining one report at a time, as in this NPRM, does not enable to FCC to reach the most effective result that considers all of the variables, including interaction with other reports. Further, the FCC could eliminate duplicate data contained in multiple ARMIS reports.

C. Conclusion

SBC urges the FCC to grant the largest ILECs the same relief from accounting and ARMIS requirements as it previously granted the mid-sized ILECs and further simplify the accounting and reporting requirements across-the-board for all ILECs as described in these Comments.

Respectfully submitted,

SBC COMMUNICATIONS INC.
SOUTHWESTERN BELL TELEPHONE COMPANY
PACIFIC BELL
NEVADA BELL
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

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[29] Comments of Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell, CC Docket No. 98-117, filed Aug. 20, 1998, at 19-21 & Exhibit "B."

[30] USTA Comments, CC Docket No. 98-117, filed Aug. 20, 1998, at 7-8 & Attachment A.

Exhibit A

Proposed Changes

ARMIS- 43-02

Table "C" Recommendations

Consolidated Table "C"

- It is not absolutely clear how the order would format the consolidated C table which would supercede C-1.C-2, C-3, and C-4 although carrier name, address, operating states, and executive officers are suggested. SBC believes that name, address, and operating states are reasonable items to provide in this table. However, if the executive officers and other data are available via the 10-K then it should not be necessary to provide it in the consolidated table.
    - The currently required item, the stockholder list (C-4), is not necessary due to that information already being publicly available in the 10-K. Laws affecting organizations and partnerships are superfluous detail which are not necessary (C-1). Control (C-2) relationships are already illustrated effectively in carrier CAM manuals and as such are not needed.

Table C-5

- The C-5 table requires reporting of 1) extensions of systems and 2)substantial portions or all property sold as the initial reported information. Only large LECs now must report this information which will generally consist of nothing to report unless a change occurs with the purchase or sale of another company. In that case, this information is reflected in the CAM Section IV chart previously mentioned. Consequently, this requirement is for the most part not applicable and when applicable it is more clearly shown elsewhere. This requirement should be eliminated.

- Direct and indirect control need no longer be reported as the order suggests(paragraph 26). Those sections of the C-5 table generally constitute pages and pages of not applicable or nothing to report references, which constitute a waste of time and paper. The far more illustrative and useful method of summarizing control and the hierarchy of subsidiaries is already reflected in the CAM manual Section IV. The CAM manual is required to show a detailed illustration of all the affiliates of the carrier.

- C-5 additionally requires Important Contracts or Agreements which according to the instructions includes contract agreements initiated or renewed with other carriers and affiliates during the year. Again, the instructions list as examples interconnection, resale, collocation, and UNE agreements. SBC believes this to be a rather odd item to include in an annual financial report but understands that the data may have value to the reader and that to our knowledge it is not filed in another report. However, SBC does believe that the report should be consistent with the title of the information asked for i.e. "important contracts" and that instruction guidelines should ask for the reporting of only "important" contracts of

significant magnitude. SBC recommends that only those contracts anticipated or estimated to exceed $1 million per year should be listed in the report. C-5 instructions also require a description of changes in Accounting Standards. Accounting Standards are described in great depth in the 10-K and this requirement appears to be unnecessary, not useful, and redundant.

- C-5 instructions lastly require important changes during the year in service and rate tables. SBC believes that important should denote here significant and that significant changes would represent at least a 1% change in operating revenues. Even 1% would be considered to be immaterial by professional accounting standards and listing small tariff changes appears to be an exercise in trivia.

Table "B" Recommendations

Tables B-1 and B-2

- Paragraph 27 of the order states that tables B-1(Balance Sheet) and B-2(Cash Flows) are essential to Commission analysis and as such should not be changed. SBC believes these tables to be redundant and that they should be eliminated.
  - The cash flow statement is clearly a reporting requirement for the 10-K and it should not be duplicated in the 43-02 preparation. Carriers already are required to file these 10-Ks annually with the Commission and as the order has recognized this data would be available on the internet.
  - The balance sheet is also available in the 10-K and the 43-01. Again, this should not be duplicated in the 43-02.

Tables B-8,9,11,12,13,14, and 15

- The order in paragraph 27 recommends eliminating B-8(Capital Leases), B-9 (Deferred Charges), B-11(Long Term Debt), B-12 (Net Deferred Taxes), B-13(Other Deferred Credits), B-14(Capital Stock) and B-15 (Capital Stock and Funded Debt Reacquired or Retired During the Year). SBC agrees with these conclusions. All of these tables represent unnecessary detail especially capital leases, deferred charges, deferred taxes, and other deferred credits which taxes the interest of even the most trivia bound accountants when reviewing these tables. SBC asserts that this is unwarranted reporting information of very little value to the reader and these should be eliminated. Additionally, long term debt, deferred taxes, capital stock, and stock and debt reacquired or extinguished are all reflected in the statements and footnotes of the 10-K.

Tables B-3 through 7, and B-10

- The order does not address elimination of tables B-3(Investments in Affiliates), B-4(Analysis of Assets Purchased from or sold to Affiliates), B-5 (Analysis of Entries in Accumulated Depreciation), B-6 (Summary of Investment and Accumulated Depreciation by Jurisdiction), B-7 (Bases for Charges for Depreciation), B-10 (Accounts Payable to Affiliates).One then must assume based on paragraph 27 that the order is proposing to keep these tables as is.

- If any series "B" tables are retained that were eliminated for the mid-sized ILECs, the most likely candidates for retention are the affiliate tables of B-3and B-10. If these are retained in the near term, then they should be reviewed in the future for elimination.
- SBC questions the need for the B-5 table which provides all manner of detail concerning accumulated depreciation by plant account. This seems like excessive detail. Depreciation rates i.e. the represcription of them is not an exogenous item. Changes to the rates and the reserve do not impact customer rates. Further, capital recovery filings have greatly dropped in number with the advent of the Simplified Depreciation filing methods. Additionally, the significant detail on accruals, salvage, retirements with traffic, retirements without traffic, cost of removal, other charges and other credits is excessive. This table is no longer needed. At a minimum, the schedule can be trimmed to reflect beginning balances, accruals, all other adjustments, and ending balances.

- B-6 reflects account adjustments and activity for plant investment and accumulated depreciation by state. Plant balances, reserve balances, and depreciation accruals by state can be garnered from the 43-01. Reserve ratios can be easily calculated from these 43-01 balances. The remaining information on the table just does not justify a separate state based table in the 43-02 when much of this is already available in the 43-01. This table should be eliminated.

- B-7 will only be reported by the large LECs. It consists of very limited information as to the types of depreciation techniques and rates utilized for capital recovery by the carrier. In fact, none of the SBC companies (SWBT, Pacific, SNET, and Nevada Bell) report any information on this table due to the fact that no reporting is required because the depreciation rates are prescribed by the FCC. Given the fact that only large LECs are now required to file this table and those LECs utilize the FCC prescribed depreciation ranges, SBC is at a loss as to when anything will be reported on this table. Furthermore, the FCC receives filings when rates are represcribed and that information is already public. SBC sees absolutely no merit in filing this table for these and other reasons.

Table "I" Recommendations

Tables I-3 through I-5

- The order in paragraph 28 concludes that I-3 (Pension costs), I-4(Operating Other Taxes), and I-5(Prepaid Taxes and Accruals) need no longer be prepared based on the availability of these items upon request. SBC agrees with this conclusion. These three tables are populated by very detailed data. It is questionable as to who actually derives value from this information. Providing it on an as needed basis is a much more effective method of dealing with the need or lack of the need for this

data. Furthermore, the 10-K does provide pension cost information as required by accounting standards.

Table I-6

- Paragraph 29 claims that Table I-6(Special Charges) is essential and that it must continue to be reported albeit perhaps only those items that exceed an established threshold. SBC questions the value in reporting some of these essential items. The reporting of lobbying, and abandoned projects may provide to the Commission Staff information of interest. However, SBC fails to see the value or use in reporting below the line membership fees and dues, charitable, social, and community welfare payments. These items should be eliminated from the table. These are routine business expenses, which do not impact any type of regulated cost showing. Further, abandoned projects only over $1 million should be reported since construction expenditures of large LECs are $2 to $4 billion per year. The $100,000 benchmark is not meaningfully significant for a construction job abandoned and just invites more trivial information to be reported.

Table I-7

- Paragraph 30 of the order concludes that the I-7 table (donations or payments for services by persons other than employees) is also essential to monitor "material" costs claimed against regulated revenues. For SBC, this exercise appears to be akin to Supermarket Sweepstakes where everything is thrown into (reported) in the shopping cart. For both SWBT and Pacific reports, over 500 items are reported in each report. This report is no longer needed. These categories are legitimate business expenses which do not impact the access rate setting process since the large LECs(the only companies now reporting this) are all price cap carriers. SBC does not understand why it is necessary for the Commission Staff to even review such a report, especially a report with an abnormal amount of minutia. At a minimum, the following routine business functional categories should be eliminated from reporting: advertising, information services, clerical and office services, computer and data processing services, financial services, membership, personnel services, printing, design services, and security services should all be eliminated. These are common routine business activities which do not merit review and LECs should not be required to expend resources to identify and report these activities. The remaining categories should have a threshold of at least $1million. This would help make this consistent with the stated goal of reporting "material" costs as opposed to immaterial costs which are reported today. Even a $1 million benchmark is a small amount for a large carrier when considering that Pacific Bell's (one of the smaller BOCs) 1998 operating expenses were $1.1 billion. (A $1 million expenditure represents only .09 % of the operating expenses, a very small materiality benchmark). Perhaps in this way, Pacific Bell can avoid the need to report such items as the $31 thousand paid to Laverne's Coffee Shop during the next reporting period as was done in 1998.

Tables I-1 and 2

- Since the order fails to mention modifications to the I-1 (Income statement accounts) and the I-2 (Analysis of Services purchased from or sold ot affiliates), then one must assume that the order proposes no change to these tables.
- The I-1 table is formatted in the form of the expense matrix and if the matrix is mandated as unnecessary consistent with SBC's comments, then only the total column would continue to be relevant in this table.

Summary

In summary, these comments recommend generally the elimination of the following reports: consolidate the C-1 through C-4 into one simple report, B-1, B-2, B-5 through B-15, I-3 through I-5, and I-7 which constitutes elimination of 20 of the 27 tables with recommended simplification for some of the remaining tables. SBC believes that this recommended simplification is an effective step toward eliminating duplications with other filed reports, elimination of unnecessary trivia which provides little benefit, and a reduction of the 960 hour burden taken for preparation or refiling of these detail-bound 43-02 reports.

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, "COMMENTS OF SBC COMMUNICATIONS INC." in CC Docket No. 99-253 has been filed this 23rd day of August, 1999 to the Parties of Record.

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