

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of
Comprehensive Review of the
Accounting Requirements
And ARMIS Reporting Requirements for
Incumbent Local Exchange Carriers: Phase 1

CC Docket No. 99-253

REPLY COMMENTS OF BELL ATLANTIC¹

Most commenters support the Commission's proposals, but agree with Bell Atlantic that the Commission should go farther in streamlining its accounting and reporting rules. At the very least, the Commission should extend to the large local exchange carriers the same relief from the accounting and reporting requirements that it previously granted to the mid-sized local exchange carriers. There is no reason to require a greater level of oversight for the large local exchange carriers, whose rates are no longer tied to their revenue requirements, than for the mid-sized carriers, many of whom are still under rate-of-return regulation. *See* SBC, 1-2.

Despite the overwhelming support for further streamlining, a few commenters urge the Commission to maintain the status quo, arguing that stringent reporting requirements are necessary to carry out the pro-competitive goals of the Telecommunications Act of

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

1996. *See, e.g.*, GSA, 2-3. They miss the point that elimination of unnecessary regulation is a key component of the 1996 Act, as Congress correctly concluded that deregulation *promotes* increased competition. The Commission should be more aggressive in carrying out the congressional directive to “repeal or modify any regulation it determines to be no longer necessary in the public interest.” 47 U.S.C. § 161(b).

I. The Commission Should Eliminate The Expense Matrix.

While most commenters agreed with the Commission's proposal to eliminate the expense matrix (*see, e.g.*, BellSouth, 3-4; USTA, 3-4), GSA and MCI argue that the matrix is necessary for such purposes as calculating the price cap productivity factor, supporting regulation at the state level, and monitoring service quality. *See* GSA, 3-8; MCI, 1-3. These arguments have no merit. The Commission does not need the expense matrix to update its price cap productivity studies – the Commission’s productivity model uses “total compensation” as an input, and it does not rely on the expense matrix breakdown of salaries, wages and benefits. *See* USTA, 3 & n.3. The carriers can report “total compensation” data to the Commission upon request if a new study is necessary. The Commission should not require the carriers to maintain the expense matrix simply because *other* regulatory bodies may find it useful for their own purposes. Indeed, only one state regulatory commission commented on the Commission's proposals, and it supported elimination of the expense matrix and the Commission's other streamlining proposals. *See* Wisconsin PSC, 3-10. And the expense matrix is simply irrelevant to the

issue of service quality, which is monitored directly in reports such as ARMIS Form 43-05 (Service Quality) and ARMIS Form 43-06 (Customer Satisfaction Report).

GSA and MCI also argue that the expense matrix should be maintained because it imposes a relatively small financial burden on the large local exchange carriers. *See* GSA, 4; MCI, 3-4. However, this is not the test for elimination of unnecessary regulations under Section 11 of the Act. *See* 47 U.S.C. § 161. If a regulation is “unnecessary in the public interest,” it *must* be eliminated, regardless of whether it is a major burden or a minor nuisance, and regardless of the size of the carrier that bears the burden. Clearly, the expense matrix is no longer “necessary” and should be eliminated for all carriers.

II. The Commission Should Adopt The Same Audit Requirements for Large Local Exchange Carriers That It Adopted For The Mid-Sized Carriers.

The comments demonstrate that an “attest” audit, which the Commission previously adopted for the mid-sized local exchange carriers, would provide assurance that the large local exchange carriers have complied with the Commission’s cost allocation rules, but at far less cost than the current requirement for a “financial” audit. *See, e.g.*, BellSouth, 4-6; SBC, 3-4. Nonetheless, some commenters argue that the Commission should retain the current audit requirements for the large carriers, citing concerns about detecting cross-subsidies and misallocations of unregulated costs to regulated accounts. *See, e.g.*, GSA, 8-12; MCI, 4-5. However, they make the mistaken assumption that a financial audit provides more assurance simply because it may be more expensive than an attestation audit. Actually, just the opposite is true. A financial audit merely determines whether the numbers in a financial statement are fairly presented. In an attest audit, the

auditor provides a positive opinion as to compliance with pre-established requirements, such as the Cost Allocation Manual. *See, e.g.*, USTA, 4-5; BellSouth, 4-6. Such an audit provides the best assurance against improper cost allocations and cross-subsidies, and at lower cost than a financial audit.²

GSA argues for continuation of financial audits, arguing (at 11) that the audited financial reports to other agencies, such as the Securities Exchange Commission 10-K reports, do not segregate data for regulated telecommunications services from unregulated services. What GSA fails to recognize is that the local exchange carriers' reports to the FCC also combine regulated and unregulated activities. For example, the ARMIS 43-02 includes both LEC regulated and unregulated assets, liabilities, income and expenses. The issue here is what kind of audit should be performed to provide assurance that the carrier's books properly allocate costs between these regulated and unregulated activities. Clearly, an attest audit is the most cost-effective approach.

The Commission also should reject MCI's argument (at 5) that it should retain the current 15-day notice requirement for changes to a carrier's Cost Allocation Manual. The Commission correctly observed that it can review the changes contemporaneously with implementation of the changes, and all other commenters concurred. *See, e.g.*, GSA, 13; Ad Hoc, 10; USTA, 7-8. Indeed, the comments demonstrate that it would be less

² To achieve the expected cost savings with an attest audit, the Commission should adopt the format attached to the USTA comments for the Attest Engagement Opinion and Management Assertion Statement. And, as noted by USTA, the Commission should modify the delegation of authority to the Common Carrier Bureau to prevent the bureau from requiring actions in excess of Generally Accepted Auditing Standards and the American Institute of Certified Professional Accountants standards. *See* USTA, 4-5.

burdensome, and yet sufficient for Commission review, for the carriers to file all updates to their cost allocation manuals once each year. *See, e.g.*, SBC, 6; Ameritech, 7-8; BellSouth, 9-10.

III. The Commission Should Adopt At Least A \$500,000 *De Minimis* Exception From Fair Market Valuations Of Affiliate Transactions.

The comments overwhelmingly support the Commission's proposal to establish a \$250,000 *de minimis* exception to the requirement that carriers estimate the fair market value of affiliate transactions, but most agreed with Bell Atlantic that the exception should be raised to \$500,000 or higher. *See, e.g.*, Ameritech, 7; GTE, 6-7; ITTA, 5-6; SBC, 5; USTA, 5-7. The Commission should reject Ad Hoc's proposal (at 9) for a 25 percent cap on the total amount of services that would be exempt. This would complicate the accounting process by establishing two benchmarks, a per-service *de minimis* exception and an overall cap on the total of all the amounts exempted. A far better approach would be to eliminate the fair market value estimates entirely and rely upon fully distributed cost and prevailing market prices to value affiliate transactions. *See* BellSouth, n.9; SBC, 5; USTA, 5-6.

IV. The Commission Should Not Condition Relief From ARMIS Reporting Requirements On Disclosure Of Data Requests To Third Parties.

There is a general consensus that the Commission should adopt its proposals to streamline the automated reporting management information system ("ARMIS") 43-02 reports by eliminating many unnecessary tables. *See, e.g.*, BellSouth, 11-12; USTA, 9-11. The commenters demonstrate that the Commission should go even farther in reducing and

consolidating these reports, as much of the information is available from other sources or can be obtained from the carriers upon request. *See, e.g.,* SBC, 8-15.

While Ad Hoc agrees that the Commission should streamline the ARMIS reports, it argues (at 13) that the Commission should adopt procedures that would provide “interested parties” with (1) notice that a carrier has produced data in response to a Commission request and (2) access to that data, subject to a confidentiality agreement. The Commission should reject this proposal. To carry out its responsibilities under the Act, the Commission staff issues numerous data requests to the carriers, both formal and informal. There is no need to make such data public, or to turn those data requests into *de facto* notice and comment proceedings. Indeed, such disclosure would discourage timely responses to the Commission's requests and impede the efficient conduct of the Commission's business. The Administrative Procedure Act provides public notice and an opportunity for comment if, and when, the Commission proposes to take action based on its internal investigations.

V. The Commission Should Eliminate ARMIS 43-02 Tables I-6 And I-7.

The commenters unanimously support raising the thresholds for reporting items in ARMIS 43-02 Tables I-6 and I-7. *See, e.g.,* GTE, 10; SBC, 13; Ad Hoc, 17-18; GSA, 19. However, the better approach would be to eliminate these tables entirely. *See, e.g.,* Ameritech, 9; USTA, 11. The Commission offers no justification for continuing these reporting requirements, which are becoming increasingly burdensome. As USTA points out, the incumbent local exchange carriers reported over 4,000 individual items on Table

I-7 in 1998, and the number is likely to increase in 1999. Both reports are relics of the close scrutiny of individual cost items that the Commission performed under rate-of-return regulation, and they cannot be cost-justified under price cap regulation. The Wisconsin Public Service Commission sees no regulatory purpose for these reports, and it has already eliminated its own counterparts to Tables I-6 and I-7. *See* Wisconsin, 10. The Commission should eliminate these reports for the large local exchange carriers, as it already has done for the mid-sized carriers. *See* 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, CC Docket No. 98-117, Report and Order, FCC 99-107, (rel. June 30, 1999), ¶ 12.

VI. Conclusion

While the Commission's proposals to streamline its accounting and reporting rules for the large local exchange carriers received widespread support, the Commission clearly must go farther in eliminating unnecessary regulatory burdens.

Respectfully submitted,

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Dated: September 9, 1999