

**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 1 )

**REPLY COMMENTS OF GTE**

GTE Service Corporation and its affiliated local exchange telecommunications companies (collectively "GTE")<sup>1</sup> respectfully submit their Reply Comments in the above-captioned proceeding ("NPRM").<sup>2</sup> The record in this proceeding supports granting the proposed regulatory relief in Phase 1 of this review. GTE urges the Commission to adopt these modifications and immediately to launch Phase 2 of the review. GTE strongly supports expanding the scope of Phase 2 to include the relief proposed by the LEC industry in previous meetings and proceedings.

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<sup>1</sup> GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., Contel of the South, Inc., GTE Communications Corporation, and GTE Hawaiian Tel International Incorporated.

<sup>2</sup> *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, Notice of Proposed Rulemaking, FCC 99-174, rel. July 14, 1999.

**I. The Record Supports Adopting the Changes to the Commission's Accounting and ARMIS Rules Proposed in Phase 1 of this Review.**

**A. The Expense Matrix should be eliminated.**

The record clearly demonstrates that neither federal nor state regulators require the detailed data in the Expense Matrix to meet their responsibilities. Because the Expense Matrix continues to impose a costly burden on ILECs,<sup>3</sup> GTE's Comments supported elimination of the Expense Matrix.

As USTA details in its Comments, the elimination of the Expense Matrix would not impact Part 32 functional accounting, pole attachment rates, Part 36 Separations, the development of productivity factors for price cap companies, USF calculations or ARMIS service quality reports.<sup>4</sup> The Public Service Commission of Wisconsin agrees that the expense matrix is not needed: "In Wisconsin, the expense matrix detail was optional for the 1998 ILEC Annual Report and is being eliminated for future ILEC Annual Reports."<sup>5</sup> Notably, not one state commission filed comments in this proceeding urging that the Expense Matrix be retained. Thus, the Commission should quickly eliminate the Expense Matrix and move on to Phase 2 of the review. Should

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<sup>3</sup> While GSA argues, at 4, that ILECs can afford to continue to maintain the Expense Matrix, GTE believes that in a competitive marketplace, no company can afford to be inefficient. This is especially true when your direct competitors are not required to incur similar costs.

<sup>4</sup> See USTA Comments at 3-4.

<sup>5</sup> See Wisconsin PSC Comments at 3.

the Commission at some later time find it needs specific data, it should request the data on a “as-needed” basis as proposed in the NPRM.

**B. CAM Audit relief is appropriate.**

The Commission correctly concluded in the NPRM that it could “reduce our audit requirements for the large ILECs – BOCs and GTE – by extending the same audit requirements to the large ILECs that we adopted for the mid-sized ILECs ... allowing carriers to obtain an attestation, instead of an annual financial audit requiring a positive opinion.”<sup>6</sup> MCI, relying on statements of the Commission made nine years ago on another matter, opposes any audit relief.<sup>7</sup> Obviously, the telecommunications marketplace has undergone significant change in the last nine years. Both federal and state regulators have gained considerable experience in regulating carriers’ cost allocations. The Commission can properly conclude that a reduced CAM audit requirement is now appropriate.<sup>8</sup> As the Wisconsin PSC states, “an attestation audit rather than a financial-type audit, which is correctly done, should provide the necessary assurances to the FCC regarding cost allocations and should result in significant savings in both time and money.”<sup>9</sup>

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<sup>6</sup> NPRM at ¶13.

<sup>7</sup> See MCI Comments at 4.

<sup>8</sup> Ad Hoc (at 7) would have the Commission believe that attestation audits are new and therefore the Commission must gain experience with them before applying them to the large ILECs. In fact, attestation audits were the first CAM audits required by the Commission. The Commission has considerable experience with attestation audits.

<sup>9</sup> See Wisconsin PSC Comments at 4.

Ad Hoc Telecommunications Users Committee attempts to justify holding the ILECs to the costly and unnecessary current CAM audit requirement on the grounds that price cap ILECs still have an incentive to shift costs and use the Lower Floor Adjustment Mechanism (“LFAM”) to recover costs. This tired argument no longer carries any weight.

First, the LFAM is likely to be eliminated for the majority of price cap ILECs over the next few years. For example, the Commission recently adopted new rules that give price cap LECs expanded pricing flexibility for switched and special access services. However, in order to use these new pricing tools, LECs must agree to forgo any LFAM adjustments, for the holding company as a whole. Further, the Commission is considering allowing LECs the flexibility to set their own depreciation rates if they give up LFAM. Finally, as part of the Commission’s Access Reform and Universal Service Reform proceedings, a coalition of IXCs and price cap LECs have proposed comprehensive structural changes to those rules, including the elimination of LFAM, provided the Commission adopts the proposal in its entirety.<sup>10</sup> Second, any LFAM filing is subject to Commission scrutiny in tariff proceedings. If the Commission suspects that carriers have misallocated costs, the filing could be put under investigation. Finally, Ad Hoc offers no credible evidence that converting to a two-year attestation audit would impair the Commission’s ability to detect cost allocation problems with a particular carrier. Under the attestation audit, independent auditors would still be required to identify material allocation errors and ensure that the carrier makes the appropriate

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<sup>10</sup> Ex Parte of the Coalition for Affordable Local and Long Distance Service, CC Docket (Continued...)

adjustments to its books and ARMIS reports. By adopting the attestation audit procedure, the Commission can enforce its Part 64 rules while substantially reducing compliance costs of the carriers.

The record in this proceeding along with the actual experience of both state and federal regulators clearly supports the adoption of an attestation audit for all ILECs required to file a CAM. The Commission should quickly grant this relief and move on to more significant matters in Phase 2 of this review.

**II. The Commission's Phase 1 actions should not be delayed by the unsupported claims of a few self-interested parties. The Commission must move quickly to Phase 2 by implementing the Phase 1 proposals without delay.**

The Commission split this review proceeding into two phases in order to implement certain reform measures without delay. The record now shows that most of the proposed reform measures in Phase 1 meet the Commission's criteria for swift adoption. GTE urges the Commission to complete this Phase 1 review, implement the changes proposed and press on to Phase 2 of the review. Quick and decisive action by the Commission on Phase 1 will set the tone for meaningful review of accounting and ARMIS requirements in Phase 2.

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(...Continued)  
Nos. 94-1, 96-262, 96-45, 99-249, dated August 20, 1999.

### III. CONCLUSION

GTE urges the Commission to adopt the straightforward modifications to the accounting and ARMIS reporting requirements in Phase 1 of this proceeding. As the comments demonstrate, these modifications will save the carriers time and money without denying the Commission or state commissions any information that is required to make informed decisions on matters involving incumbent local exchange carriers. GTE urges the Commission to proceed expeditiously to Phase 2 of the review.

Respectfully submitted,

GTE Service Corporation and its affiliated local  
exchange telecommunications companies

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