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

DISPATCHED

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)	

REPORT AND ORDER

Adopted: March 2, 2000

Released: March 8, 2000

By the Commission:

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I. INTRODUCTION and BACKGROUND

1. The Commission has initiated a comprehensive review of the Part 32 accounting requirements and the Automated Reporting Management Information System (ARMIS) reporting requirements in order to keep pace with changing conditions as the telecommunications industry becomes increasingly competitive.¹ This comprehensive review will allow the states, industry, and interested members of the public to participate fully in our consideration of changes in our accounting and reporting requirements. During this comprehensive review process, and because many of the states rely heavily on our accounting requirements for their own purposes, the Common Carrier Bureau (the Bureau) has worked and will continue to work closely with the National Association of Regulatory Utility Commissioners (NARUC) and state commissioners.² In addition to eliminating unnecessary reporting requirements, the Commission and states will focus on further steps necessary to eliminate unnecessary overlap of federal and state reporting requirements. This comprehensive review has two phases. Phase 1, which commenced with our Notice of Proposed Rulemaking (*NPRM*),³ addresses accounting and reporting reform measures that can be implemented without delay and still retain sufficient information for the Commission and state commissions to meet their responsibilities. Phase 2 will examine the current accounting and reporting structure and address long-term changes needed as local exchange markets become competitive. We anticipate that Phase 2 will be conducted expeditiously

¹ See "Common Carrier Bureau Announces Initiative to Undertake Comprehensive Review of Part 32 and ARMIS Requirements," *Public Notice*, 14 FCC Rcd 6345 (1999). The initial workshop to solicit ideas on streamlining accounting and reporting rules took place on April 21, 1999. See "Common Carrier Bureau Announces Agenda for Initial Workshop for Phase 1 of the Comprehensive Review of Accounting and Reporting Requirements and Treatment of Ex Parte Presentations in Related Proceedings," *Public Notice*, 14 FCC Rcd 6746 (1999).

² In this Phase 1 proceeding, the staff of the Common Carrier Bureau held a series of teleconferences with representatives of state commissions participating in the comprehensive accounting and reporting review, which included Florida, Indiana, Maine, New York, Ohio, Oregon, Tennessee, Texas, Vermont, West Virginia, and Wisconsin. The participants in the teleconferences, held prior to the issuance of the *NPRM*, discussed the eventual proposals of the *NPRM* and other accounting and reporting issues of relevance to federal and state policymakers.

³ Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99-253, *Notice of Proposed Rulemaking*, FCC 99-174 (rel. July 14, 1999) (*NPRM*).

and we note that the Bureau already has conducted teleconferences with representatives of state commissions.⁴

2. The *Accounting Reductions Report and Order*⁵ and *ARMIS Reductions Report and Order*,⁶ adopted as part of our biennial regulatory review under section 11 of the Communications Act of 1934, as amended (Communications Act),⁷ streamlined our accounting and ARMIS requirements. Those proceedings primarily granted relief to mid-sized carriers. For example, we allowed mid-sized incumbent local exchange carriers (ILECs) to use the Class B set of accounts⁸ and we eliminated filing requirements for 21 tables in the ARMIS 43-02 Uniform System of Accounts (USOA) report for those carriers.⁹ We recognized, however, that our accounting and ARMIS reporting requirements needed further streamlining for all carriers and thus, on July 14, 1999, we released the Notice of Proposed Rulemaking in this docket.¹⁰

3. This Report and Order completes the first phase of our comprehensive accounting and ARMIS review by adopting most of the proposals in our *NPRM*.¹¹ Specifically, we do the following:

⁴ Numerous teleconferences have been held on the Phase 2 issues. Among the states participating are Florida, Indiana, Maine, New York, Ohio, Oregon, Tennessee, Texas, Vermont, West Virginia, and Wisconsin.

⁵ 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, 14 FCC Rcd 11396 (1999) (*Accounting Reductions Report and Order*).

⁶ 1998 Biennial Regulatory Review -- Review of ARMIS Reporting Requirements, Petition for Forbearance of the Independent Telephone and Telecommunications Alliance, *Report and Order* in CC Docket No. 98-117, *Fifth Memorandum Opinion and Order* in AAD File No. 98-43, 14 FCC Rcd 11443 (1999) (*ARMIS Reductions Report and Order*).

⁷ 47 U.S.C. § 161.

⁸ Specifically, we permitted ILECs with aggregate revenues of less than \$7 billion to use Class B accounting, even if the operating revenues of any individual ILEC equals or exceeds the indexed revenue threshold (currently \$112 million). See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11403-10, ¶ 14.

⁹ See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12. We also eliminated certain filing requirements for all carriers. See *id.* at 11450-53, ¶¶ 14-17.

¹⁰ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11399-400, ¶ 6; *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11445-46, ¶ 5.

¹¹ Twelve parties filed comments and 7 parties filed reply comments in this proceeding. Appendix A contains a list of parties filing comments and reply comments and their abbreviated names.

- eliminate the expense matrix filing requirement;
- allow carriers to reduce the cost allocation manual (CAM) audit requirement from an annual financial statement audit to a biennial attestation engagement;¹²
- relax our affiliate transactions requirements for services;
- eliminate the 15-day pre-filing requirement for certain CAM changes;
- eliminate the 30-day notification requirement for establishment of temporary or experimental accounts;
- allow carriers to record contingent liabilities without our review;
- eliminate the reclassification requirement for certain property held for future use; and
- eliminate the reclassification requirement for certain plant under construction.

4. Additionally, we streamline our ARMIS filing requirements by reducing the requirements for the ARMIS 43-02 USOA Report. Specifically, we

- revise Table C-3 to include carrier's operating states;
- eliminate Tables C-1, C-2, and C-4;
- eliminate nine of twelve reporting items from Table C-5 and establish new threshold levels for two reporting items;
- eliminate seven of fifteen reporting items from the Table B Series; and
- eliminate three of seven reporting items from the Table I Series, establish new threshold reporting levels for items reported in Tables I-6 and I-7, and eliminate reporting requirements for Academia.

II. DISCUSSION

A. Accounting Rules

¹² Carriers may, at their option, have a biennial financial statement audit.

1. Expense Matrix

5. *Background.* Section 32.5999(f) of the Commission's rules requires carriers to maintain disaggregated financial data in subsidiary record categories and report that data in an expense matrix.¹³ The Commission adopted the matrix concept requiring that expenses associated with each account be classified into five basic categories: (1) Salaries and Wages, (2) Benefits, (3) Rents, (4) Other Expenses, and (5) Clearances.¹⁴ Expense matrix data have permitted the Commission to perform detailed cost studies and trend analyses, and have contributed to the Commission's overall policy and tariff reviews. Expense matrix data have also been used in tracking the labor and rents portion of maintenance expense in the analysis of service quality and in determining pole attachment rates.

6. In the *NPRM*, we proposed to eliminate the expense matrix or reduce it to the minimum amount necessary to meet our regulatory purposes.¹⁵ We stated that carriers would be able to provide the matrix data on an as-needed basis even if the Commission did not prescribe the matrix to be maintained. We sought comment on whether, alternatively, we should reduce the matrix to two classifications: (1) salary and wages and (2) other. Finally, we asked whether, if we eliminate the matrix, carriers should continue to report the portion of this data necessary to evaluate pole attachment rates.

7. *Discussion.* We adopt our proposal to eliminate the expense matrix. We find that, although the expense matrix data have been an important part of our policy and tariff review processes, the changing telecommunications marketplace and regulatory framework have led us to rely on this data less frequently in our deliberations. We recognize that there remains a need for certain information provided by the expense matrix; we find, however, that the information can be provided to the Commission on an as-needed basis.¹⁶ We expect companies to keep such data available and be prepared to provide it to the Commission should the Commission make such a request.

8. We are not persuaded by the arguments raised by the General Services Administration (GSA) and MCI WorldCom, who oppose elimination of the expense matrix.¹⁷ We do not agree with GSA's contention that the Commission must retain the expense matrix because the information in the

¹³ 47 C.F.R. § 32.5999(f).

¹⁴ See Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42, and 43 of the FCC's Rules), CC Docket No. 78-196, *Report and Order*, 60 Rad. Reg. 2d (P&F) 1111 (1986).

¹⁵ *NPRM* at ¶ 8.

¹⁶ Most commenters support elimination of the expense matrix rules. See, e.g., Ameritech Comments at 5; BellSouth Comments at 3; ITTA Comments at 3; SBC Comments at 2; Wisconsin Comments at 3; USTA Comments at 3; GTE Comments at 2-3; Ad Hoc Comments at 4; US West Comments at 1.

¹⁷ See GSA Comments at 4-8; MCI WorldCom Comments at 2-4.

matrix is needed by the states.¹⁸ We note that the expense matrix options were discussed thoroughly with state staff prior to release of the *NPRM*,¹⁹ and no state objected to our proposal to eliminate the expense matrix.²⁰ We also do not agree with GSA's argument that we should retain the matrix because reporting the information is not a large burden on the ILECs.²¹ As the commenters observe, even a relatively light reporting burden is not a basis to retain the expense matrix reporting requirement.²²

9. We are also unpersuaded by MCI WorldCom's argument that if we eliminate the matrix data, the Commission and interested parties would have no way to monitor changes in ILEC productivity growth or to contribute to productivity studies.²³ As several commenters observe, the total factor productivity approach used to calculate the productivity offset, *i.e.*, the X factor, in the price cap annual adjustment formula, treats salaries, wages, and benefits identically and relies solely on total compensation.²⁴ Therefore, the expense matrix is not needed for calculating the productivity offset.

10. We require ILECs to maintain subsidiary record categories to provide the data necessary for the Commission, carriers, and competitors to calculate pole attachment rates.²⁵ The Commission reviews complaints about pole attachment rates under sections 224 and 251 of the Communications Act.²⁶ In the *Accounting Reductions Report and Order*, we required mid-sized ILECs to maintain subsidiary records to provide the pole attachment data,²⁷ and we will continue to require the larger carriers to maintain such records as well. Several commenters in this proceeding oppose the subsidiary record requirement.²⁸ We find that elimination of the expense matrix and future ARMIS changes make it

¹⁸ See GSA Comments at 5.

¹⁹ See *supra* note 2.

²⁰ See Wisconsin Comments at 3. See also GTE Reply Comments at 2; USTA Reply Comments at 4. We note that the states can require carriers to provide this information, if needed.

²¹ See GSA Comments at 4.

²² See, *e.g.*, BellSouth Reply Comments at 2-3; SBC Reply Comments at 4; USTA Reply Comments at 4.

²³ MCI WorldCom Comments at 1-3.

²⁴ See, *e.g.*, BellSouth Reply Comments at 3; SBC Reply Comments at 3-4; USTA Comments at n.3 & Reply Comments at 4.

²⁵ Pole conduit and maintenance and certain other operating expenses would be identified.

²⁶ 47 U.S.C. § 224.

²⁷ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11404-05, ¶ 15.

²⁸ See, *e.g.*, USTA Comments at 3; GTE Comments at 3.

uncertain that ARMIS alone will be sufficient to allow parties to evaluate the pole attachment rates. We conclude that it is necessary to maintain subsidiary records for data needed in pole attachment formulas. This will assure that the data are publicly available, uniformly maintained among the carriers, and maintained in a manner that can be audited. We therefore require ILECs to maintain subsidiary record categories to provide the pole attachment data currently in the expense matrix and ARMIS reports. We note that the Commission is considering issues regarding pole attachment formulas.²⁹ When we release a Report and Order in that docket, we will specify the subsidiary record categories needed for the finalized pole attachment formulas.

2. Audits

11. *Background.* The Commission has established accounting safeguards governing the allocation of carrier costs between regulated and nonregulated activities.³⁰ These accounting safeguards are designed to promote fair cost allocations and to protect regulated ratepayers from absorbing the costs of nonregulated activities. One of the accounting safeguards requires carriers to obtain an independent audit of reported cost allocation data.³¹ We have considered three types of audits, which vary in purpose, level of assurance, and cost. A financial statement audit (financial audit) provides a positive opinion on whether financial statements are presented fairly, in all material respects. This type of audit requires the most extensive testing and, therefore, is generally the most expensive type of audit.³² An attest examination (or attest audit) requires that the auditor provide assurance that specific management assertions are fairly stated.³³ This type of audit is governed by less stringent standards of testing and reporting, and is generally less expensive than a financial audit. Finally, an agreed-upon procedures audit (AUP) emphasizes user involvement in planning the audit. In an AUP, the specified user, *e.g.*, the Commission, works with the auditor to decide which steps the auditor will take to test compliance.³⁴ The cost of such an audit varies depending on the requirements of the user.

²⁹ See Amendment of Rules and Policies Governing Pole Attachments, CS Docket No. 97-98, *Notice of Proposed Rulemaking*, 12 FCC Rcd 7449 (1997).

³⁰ See 47 C.F.R. §§ 64.901 - 64.904.

³¹ 47 C.F.R. § 64.904.

³² Based on analysis prepared by the Common Carrier Bureau, when the large ILECs were first required to obtain a financial audit requiring a positive opinion, rather than an attestation, audit fees increased on average almost 80 percent and the hours it took to conduct the engagement increased almost 75 percent.

³³ See COMPLIANCE ATTESTATION, Statement on Standards for Attestation Engagements No. 3, §§ 53-54 (American Inst. of Certified Pub. Accountants 1993) (*SSAE 3*).

³⁴ See, *e.g.*, *SSAE 3* §§ 13-14.

12. In the *Joint Cost Order*, we required all ILECs subject to CAM filing requirements to obtain an annual attest audit.³⁵ Specifically, these ILECs were required to hire independent auditors to attest whether the cost allocation systems in place properly implemented the approved manuals, and whether the cost allocations performed were accurate.³⁶ After several years of review, we found that the independent auditors did not conduct enough testing and therefore did not provide enough assurance that ILECs were, in fact, in compliance with our cost allocation rules.³⁷ Therefore, in the *Computer III Remand* proceeding we increased the audit requirement to an annual financial audit.³⁸ We proposed in the *NPRM* to relax the audit requirement for large ILECs due to the substantial changes in the industry and our regulatory program and the improved attest audit standards.³⁹

13. *Discussion.* We adopt our proposal in the *NPRM*, in part, and eliminate the requirement that large ILECs obtain an annual financial audit. We will permit the large ILECs to obtain an attest examination every two years, covering the prior two-year period,⁴⁰ in lieu of an annual financial audit. This biennial attest audit procedure is identical to what we adopted for mid-sized carriers in June 30,

³⁵ See Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, *Report and Order*, CC Docket No. 86-111, 2 FCC Rcd 1298, 1330-31, ¶¶ 254-56 (1987) (*Joint Cost Order*), *recon.*, 2 FCC Rcd 6283 (1987), *further recon.*, 3 FCC Rcd 6701 (1988), *aff'd sub nom.* Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C.Cir. 1990). The CAM details ILECs' cost allocation and affiliate transactions methodologies. See 47 C.F.R. § 64.903.

³⁶ See *Joint Cost Order*, 2 FCC Rcd at 1330-31.

³⁷ The greater level of assurance provided by financial audits was particularly important to us when our structural safeguard requirements were first relaxed. See *Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier 1 Local Exchange Company Safeguards*, CC Docket No. 90-623, *Notice of Proposed Rulemaking and Order*, 6 FCC Rcd 174, 178-79, ¶¶ 26-28 (1990).

³⁸ *Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier 1 Local Exchange Company Safeguards*, CC Docket No. 90-623, *Report and Order*, 6 FCC Rcd 7571, 7581-83, ¶¶ 21-24 (1991), *vacated in part and remanded*, *California v. FCC*, 39 F.3d 919 (9th Cir. 1994).

³⁹ See *NPRM* at ¶ 13. In the *Accounting Reductions Report and Order*, we revised the audit requirement for mid-sized ILECs. Specifically, mid-sized ILECs will obtain an attest audit every other year, covering the prior two years. See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11407, ¶ 21. The standards for audits are reviewed and updated regularly by the American Institute of Certified Public Accountants (AICPA).

⁴⁰ If the carrier chooses an attest engagement instead of a financial audit, we require that the attest engagement be an examination engagement and that it provide a written communication that expresses an opinion that the systems, processes, and procedures applied by the carrier to generate the results reported pursuant to 43.21(e)(2) comply with the *Joint Cost Orders* in CC Docket No. 86-111 and the *Accounting Safeguards Order* in CC Docket No. 96-150 and the Commission's rules, including sections 32.23, 32.27, 64.901, and 64.903.

1999.⁴¹ We fully anticipate that this attestation procedure will be a reduction in burden from the present annual financial audit requirement.⁴² As part of this attest examination, we will require the independent auditor to provide the Commission with the CAM audit program at least 30 days prior to the commencement of the audit.⁴³ In the event we conclude that additional steps are necessary, we will communicate these additional steps to the independent auditor within 30 days and attempt to minimize the burden of any necessary changes. This review will permit the Commission's auditors to review the audit program and, if necessary, work with the independent auditors to eliminate potential problems in advance. It is not the intention of the Commission that this pre-audit program will result in an increased burden on the carriers. On the contrary, we anticipate that this requirement will be more efficient for all parties because it should eliminate the need for costly post-audit fieldwork.

14. We are adopting the less burdensome attest audit requirement, as an option, because we are convinced that attest audits, with the Commission's input on audit procedures, will adequately protect ratepayers. We are also persuaded to conclude as we do because the accounting profession has improved the standards governing attest audits since we first required them more than ten years ago. For example, in 1993, the AICPA promulgated detailed standards for attestation engagements concerning compliance with specific laws and regulations.⁴⁴ We also note that our attest examination will involve much of the same audit testing as previously required,⁴⁵ and that attest audit findings can lead to the same type of adjustment to carrier reports as did the previous audit requirement.

15. We are giving carriers the option of choosing an attest examination every two years, covering the prior two-year period, or a financial audit. Instead of an annual financial audit, the financial audit option will also be biennial, covering the prior two years. We are changing the annual financial audit requirement to a biennial requirement to allow carriers to move from one option to the other. The biennial requirement serves the policy underlying this proceeding appropriately. The requirement provides accounting reform without compromising the Commission's ability to meet its statutory and policymaking responsibilities. We disagree with the large ILECs who claim that the audit should be

⁴¹ The biennial attest audit procedure is, however, mandatory for the mid-size carriers.

⁴² We are giving carriers the option of either the attestation or the financial audit, a proposal raised by BellSouth in an *ex parte* meeting. See BellSouth February 3, 2000 *ex parte* filing.

⁴³ We are also requiring this review process for the mid-sized ILECs. See RAO Letter 29, DA 00-265, released Feb. 14, 2000.

⁴⁴ See *SSAE 3*.

⁴⁵ For example, the standards for fieldwork for an attestation include sufficient planning and gathering sufficient evidence, just as they do for a financial statement-type audit. See *ATTESTATION STANDARDS, Statement on Standards for Attestation Engagements No. 1*, §§ 31, 40 (American Inst. of Certified Pub. Accountants 1986).

biennial yet cover only one year.⁴⁶ Our experience reviewing CAM audits and performing our own audits leads us to conclude that each year requires audit work. Carrier accounting systems can and do change from year to year. Likewise, one-time material errors do occur. These problems would go undetected if we allowed carriers to skip an audit year. On the other hand, we do not believe we must require an attest audit each year. The auditor's work in the "off year" should provide assurance against cross-subsidization, while allowing large ILECs to realize reduced costs that come with obtaining one attestation instead of two.

3. Affiliate Transactions Rules

16. *Background.* In the *Accounting Safeguards Order*,⁴⁷ the Commission amended the affiliate transactions rules for services provided by a carrier to its affiliate and services received by a carrier from its affiliate. Under these rules, such transactions are to be valued at publicly available rates, if possible.⁴⁸ Otherwise, they must be valued based on a comparison of fully distributed cost and fair market value.⁴⁹ If a comparison is used, the carrier must make a good faith determination of fair market value.⁵⁰

17. In the *NPRM*, we proposed to provide a *de minimis* exception for this fair market value determination. We proposed to eliminate the requirement that carriers make a good faith determination of fair market value for each service in which the total annual value of transactions for that service is less than \$250,000. For such services within the exception, carriers would use fully distributed cost instead of fair market value. We sought comment on the appropriate threshold level for the exception and whether the exception should also apply to affiliate transaction services pursuant to sections 260 and 271-276 of the Communications Act.⁵¹

⁴⁶ See, e.g., SBC Comments at 4; USTA Comments at 5.

⁴⁷ See Accounting Safeguards under the Telecommunications Act of 1996, CC Docket No. 96-150, *Report and Order*, 11 FCC Rcd 17539 (1996) (*Accounting Safeguards Order*).

⁴⁸ The publicly available rates, in order of precedence, are (1) an existing tariff rate, (2) a publicly-filed agreement or statements of generally available agreements, or (3) a qualified prevailing price valuation. 47 C.F.R. § 32.27(c). Services received by a carrier from its affiliate that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. *Id.*

⁴⁹ Services provided by a carrier to its affiliate must be recorded at the higher of fair market value or fully distributed cost. Services received by a carrier from its affiliate must be recorded at the lower of fair market value or fully distributed cost. 47 C.F.R. § 32.27(c).

⁵⁰ See *id.*

⁵¹ *NPRM* at ¶ 16.

18. *Discussion.* We adopt the proposal in our *NPRM* and establish a *de minimis* exception to our affiliate transactions rules for services. This *de minimis* exception is limited to affiliate transactions rules for services. All commenters addressing this issue are in support of the *de minimis* exception.⁵² We find that when the total annual value of transactions for a service is *de minimis*, the regulatory benefits of requiring carriers to make a good faith determination of the fair market value of a service may be outweighed by the administrative cost and effort of making such a determination. For non-*de minimis* services, the fully distributed cost/fair market value comparison remains an important safeguard against cross-subsidization. Thus, we do not eliminate the requirement for all services, nor do we extend it to asset transfers between carriers and their affiliates, as requested by several commenters.⁵³ We note that the fully distributed cost/fair market value comparisons for assets is not as burdensome as those for services because the types of assets transferred are not typically so unique;⁵⁴ further, we did not propose an asset exception in the *NPRM*.

19. In the *NPRM*, we proposed a threshold of \$250,000.⁵⁵ Several commenters suggest a higher threshold of \$500,000.⁵⁶ Commenters observe that only a limited number of services would fall under the \$250,000 threshold for some large LECs and to provide meaningful relief the threshold should be \$500,000.⁵⁷ One commenter, on the other hand, suggests the threshold should be \$1,000,000.⁵⁸ We do not believe that the cost of fair market value/fully distributed cost comparisons is so high that a

⁵² See, e.g., Ameritech Comments at 7; BellSouth Comments at 6-9; GSA Comments at 13; ITTA Comments at 5-6; SBC Comments at 5; Ad Hoc Comments at 8-9 (proposing a *de minimis* threshold and an overall 25 percent cap); Wisconsin Comments at 5; USTA Comments at 5; GTE Comments at 6.

⁵³ See, e.g., Ameritech Comments at 7; BellSouth Comments at 7; USTA Comments at 5-6.

⁵⁴ See, e.g., BellSouth Comments at 6-7 & n.8 (citing a study by Theodore Barry & Associates which projected an average cost of \$45,000 per estimated fair market value study for knowledge based transactions that are not readily available on the commercial market); Ameritech Comments at 7.

⁵⁵ The initial workshop to solicit ideas on streamlining accounting and reporting rules took place on April 21, 1999. See "Common Carrier Bureau Announces Agenda for Initial Workshop for Phase 1 of the Comprehensive Review of Accounting and Reporting Requirements and Treatment of Ex Parte Presentations in Related Proceedings," *Public Notice*, 14 FCC Rcd 6746 (1999). In that meeting, several ILECs suggested a *de minimis* exception of \$250,000. For that reason, we proposed the \$250,000 threshold in the *NPRM*.

⁵⁶ See, e.g., Ameritech Comments at 7 & Reply Comments at 5; SBC Comments at 5 & Reply Comments at 7; USTA Comments at 6; GTE Comments at 7.

⁵⁷ See, e.g., SBC Comments at 5; USTA Comments at 6; Ameritech Reply Comments at 5.

⁵⁸ See ITTA Comments at 6.

\$1,000,000 exception is necessary. On the other hand, we believe that a \$100,000 threshold,⁵⁹ or a cap of 25 percent of the amount of services subject to the exception,⁶⁰ may deprive carriers of many of the benefits of the exception. A cap is unnecessary because the independent auditors and the Commission will continue to monitor how carriers define services, thereby reducing the risk that the exception will be abused. We therefore adopt the \$500,000 per service, per year *de minimis* exception to our section 32.27(c) good faith estimate requirement. Based on our experience enforcing the affiliate transactions rules, we conclude that the \$500,000 threshold is reasonable. We find that below this threshold, the administrative cost and effort of making such a determination will outweigh the regulatory benefits of the good faith determination of fair market value of a service. Adopting this \$500,000 *de minimis* exception will reduce the burden to carriers without lessening the effectiveness of our affiliate transactions rules.

20. Therefore, we eliminate the requirement that carriers make a good faith determination of fair market value for each service in cases where the total annual value of transactions for that service is less than \$500,000. In such cases, the service should be recorded at fully distributed cost, and carriers should continue to report such transactions in their CAMs and ARMIS reports.

21. In the *NPRM*, we sought comment on whether affiliate transactions services conducted pursuant to sections 260, and 271-276 of the Communications Act should be included in the services eligible for the *de minimis* exception.⁶¹ We agree with the commenters that the *de minimis* exception should apply to all affiliate transactions when a carrier must compare fully distributed cost and fair market value of services.⁶² We note that in our first action on affiliate transactions after the Telecommunications Act of 1996⁶³ we applied our valuation rules equally to transactions under these sections.⁶⁴ This *de minimis* exception applies only to affiliate transactions in which a carrier must compare fully distributed cost and fair market value pursuant to section 32.27(c) of our rules, and thus it does not apply to transactions under sections 271 and 272, which do not require such a comparison.

4. Elimination of 15-day Pre-filing for Cost Pool Changes

⁵⁹ See Wisconsin Comments at 5.

⁶⁰ See Ad Hoc Comments at 9.

⁶¹ *NPRM* at ¶ 16.

⁶² See, e.g., BellSouth Comments at 8-9; USTA Comments at 7; Wisconsin Comments at 5.

⁶³ Telecommunications Act of 1996, Pub. L. No. 104-104, Stat 56 (1996) (1996 Act). The 1996 Act amended the Communications Act.

⁶⁴ See *Accounting Safeguards Order*, 11 FCC Rcd at 17586-87, ¶¶ 107-09.

22. Section 64.903 of the Commission's rules requires carriers to update their CAMs at least annually except that changes to the cost apportionment table and time-reporting procedures must be filed at least 15 days before the carrier plans to implement such changes.⁶⁵ Once a CAM change has been filed, the Chief of the Common Carrier Bureau may suspend any such changes for a period not to exceed 180 days, and may thereafter allow the change to become effective. BellSouth claims that the 15-day filing period requires it to disclose sensitive competitive service information.⁶⁶ In the *NPRM*, we proposed eliminating the 15-day pre-filing requirement.⁶⁷

23. We adopt our proposal, which is supported by most of the commenters,⁶⁸ and eliminate the 15-day pre-filing requirement for cost apportionment table and time reporting procedure changes. Carriers will no longer have to disclose competitively sensitive information before the CAM changes are implemented. We disagree with the suggestion that we eliminate the contemporaneous filing requirement and allow changes to be filed annually.⁶⁹ It is important to review CAM changes upon receipt and stay them if necessary. That authority and oversight over CAM changes remains a safeguard against modifications such as cost pool changes that may hurt ratepayers. The potential harm to ratepayers is that a LEC could shift costs from nonregulated services to regulated services, resulting in subsidization of nonregulated services with revenues earned from the provision of regulated services. We are not persuaded that the 15-day pre-filing rule must be retained in order to prevent such improper cost shifting.⁷⁰ We review proposed CAM changes immediately and that authority and oversight remains an important safeguard against any improper cost shifting.

5. Revision to Section 32.13, Accounts – General

⁶⁵ 47 C.F.R. § 64.903(b).

⁶⁶ See June 4, 1999 letter from Mary L. Henze, BellSouth, to Magalie Roman Salas, Secretary, FCC.

⁶⁷ *NPRM* at ¶ 17.

⁶⁸ See, e.g., Ameritech Comments at 7; BellSouth Comments 9-10; GSA Comments at 13; SBC Comments at 6; Ad Hoc Comments at 10 (as long as the Common Carrier Bureau "retains authority to suspend and investigate any CAM cost pool changes within 180 days after the change has become effective"); USTA Comments at 7; GTE Comments at 7.

⁶⁹ See, e.g., Ameritech Comments at 7; BellSouth Comments 9-10; SBC Comments at 6; USTA Comments at 7.

⁷⁰ See MCI WorldCom Comments at 5. MCI WorldCom points to two recent stays of Southwestern Bell and US West CAM changes: Revision to US West, Inc.'s Cost Allocation Manual, ASD File No. 98-95, *Order*, 13 FCC Rcd 21871 (1998); Southwestern Bell Telephone Company's Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, ASD File No. 99-25, *Order*, 14 FCC Rcd 6338 (1999).

24. Section 32.13(a)(3) of the Commission's rules allows carriers to establish temporary or experimental accounts, provided they notify the Commission of the nature and purpose of the accounts within 30 days of their establishment.⁷¹ Carriers use these accounts as clearing accounts that are closed each financial period, and do not alter the Part 32 accounting structure. In the *NPRM*, we proposed eliminating the 30-day notice requirement of section 32.13(a)(3) because other accounting safeguards, such as ARMIS reporting, audit reviews, and our ability to obtain additional information as necessary are sufficient for our regulatory oversight.⁷²

25. We adopt our proposal, supported by most of the commenters,⁷³ and eliminate the 30-day notification requirement in section 32.13(a)(3). As we noted in the *NPRM*, sufficient accounting safeguards exist to detect any improper activity resulting from experimental or temporary accounts. Our audits and the CAM engagements of the carriers' independent auditors will protect regulated ratepayers from absorbing costs of the carrier's nonregulated activities. At the same time, this action relieves carriers of a notification requirement.

6. Revision to Section 32.25, Unusual Items and Contingent Liabilities

26. Section 32.25 of the Commission's rules requires carriers to submit journal entries detailing extraordinary items, contingent liabilities, and material prior period adjustments to the Commission for approval before recording them in their books of account.⁷⁴ In the *NPRM*, we proposed eliminating this requirement due to other safeguards, such as review of ARMIS filings, reviews by independent auditors, our audits, and our ability to obtain additional information on these accounting entries as we need it.⁷⁵

27. We adopt our proposal, which most of the commenters unconditionally support as well.⁷⁶ Therefore, we eliminate the requirement that carriers submit extraordinary items, material prior period adjustments, and contingent liabilities for our review prior to recording them pursuant to section 32.25. Sufficient accounting safeguards exist to detect ratepayer harm resulting from these accounting entries.

⁷¹ 47 C.F.R. § 32.13(a)(3).

⁷² *NPRM* at ¶ 18.

⁷³ See, e.g., Ameritech Comments at 8; BellSouth Comments at 11; SBC Comments at 7; Ad Hoc Comments at 11; Wisconsin Comments at 6; USTA Comments at 8; GTE Comments at 8.

⁷⁴ 47 C.F.R. § 32.25.

⁷⁵ *NPRM* at ¶ 19.

⁷⁶ See, e.g., Ameritech Comments at 8; BellSouth Comments at 11; SBC Comments at 7; Ad Hoc Comments at 11; Wisconsin Comments at 6; USTA Comments at 8; GTE Comments at 8.

Our audits, ARMIS filings, and the CAM engagements of the carriers' independent auditors will assure us that carriers will not use these accounts to harm ratepayers. At the same time, this action relieves carriers of a notification requirement.

7. Revision to Section 32.2002, Property Held for Future Telecommunications Use

28. Section 32.2002 of the Commission's rules requires that carriers record to Account 2002, Property held for future telecommunications use, the original cost of property held for no longer than two years under a definite plan for use in telecommunications service.⁷⁷ If the property is not put into service within two years, its cost must be transferred to Account 2006, Nonoperating plant.⁷⁸ Carriers may keep the cost in Account 2002 only if they request and receive approval from the Commission based on a public interest showing.⁷⁹ BellSouth states that this reclassification is burdensome and that the cost of the property could remain recorded in Account 2002, but be removed from the ratebase in a less burdensome manner.⁸⁰ In the *NPRM*, we proposed that carriers may keep the costs in Account 2002 but they must exclude the costs, and the associated depreciation reserve, from the ratebase.⁸¹ The depreciation reserve associated with these costs should also be excluded from ratemaking considerations. The amounts removed from the ratebase would be reported in the ARMIS 43-01, column (e) All Other Adjustments and ARMIS 43-03, column (1) Other Adjustments.

29. We adopt the proposal in the *NPRM* and eliminate the requirement that carriers reclassify property from Account 2002 to Account 2006 if it is not put into service within two years.⁸² Under this new method, carriers must exclude the costs and associated accumulated depreciation from the ratebase and ratemaking considerations and report these amounts in ARMIS 43-01, column (e) All Other Adjustments and ARMIS 43-03, column (1) Other Adjustments. Reporting the amounts remaining in Account 2002 in ARMIS 43-03 is essential for accounting safeguards. Carriers' methodologies in producing the ARMIS 43-03 report form the basis of their independent auditors' review and will also be the basis for any dollar adjustments. Additionally, reporting the amounts in ARMIS allows us to review

⁷⁷ 47 C.F.R. § 32.2002(a).

⁷⁸ *Id.* A carrier's ratebase includes Account 2002 investment, but not Account 2006 investment. See 47 C.F.R. § 65.820.

⁷⁹ 47 C.F.R. § 32.2002(b).

⁸⁰ See June 4, 1999 letter from Kathleen B. Levitz, BellSouth, to Magalie Roman Salas, Secretary, FCC.

⁸¹ *NPRM* at ¶ 20.

⁸² Most commenters support our proposal. See, e.g., BellSouth Comments at 11; GSA Comments at 14-15; SBC Comments at 8; Ad Hoc Comments at 12.

the data. We conclude that reporting the amounts remaining in Account 2002 in ARMIS 43-03 is less burdensome than reclassifying the costs from Account 2002 to Account 2006.

8. Revision to Section 32.2003, Telecommunications Plant Under Construction

30. Section 32.2003 of the Commission's rules requires that carriers record in Account 2003, Telecommunications plant under construction, the original cost of construction projects including all related direct and indirect costs as provided under section 32.2000(c).⁸³ If the construction project is suspended for six months or more, the cost must be reclassified to Account 2006, Nonoperating plant.⁸⁴ If the project is abandoned, the cost must be charged to Account 7370, Special charges.⁸⁵ BellSouth states that this reclassification is burdensome and that the property could remain recorded in Account 2003 and be excluded from the ratebase in a less burdensome manner.⁸⁶ In the *NPRM*, we proposed that carriers be permitted to keep the costs in Account 2003, but remove the cost of suspended projects from the ratebase after six months.⁸⁷ Carriers would be required to discontinue capitalization of allowance for funds used during construction under section 32.2000(c)(2)(x) until construction is resumed. Carriers would report these amounts in ARMIS 43-01, column (e) All Other Adjustments and ARMIS 43-03, column (1) Other Adjustments. Carriers would, however, continue to charge Account 7370 if the project were abandoned.

31. We adopt our proposal and eliminate the requirement that carriers reclassify property from Account 2003 to Account 2006 if the construction project is suspended for six months or more. Most of the commenters support this proposal.⁸⁸ Under this new method, carriers must exclude the costs from the ratebase and ratemaking considerations. Carriers must also report these amounts in ARMIS 43-01, column (e) All Other Adjustments and ARMIS 43-03, column (1) Other Adjustments. We believe that reporting the construction costs in ARMIS are essential for several reasons related to accounting safeguards. Carriers' methodologies in producing the ARMIS 43-03 report form the basis of their

⁸³ 47 C.F.R. § 32.2003(a). Carriers may charge construction costs directly to the appropriate plant accounts for two types of construction projects: (1) construction projects estimated to be completed and ready for service within two months from its beginning and (2) construction projects for which the gross additions to plant are estimated to amount to less than \$100,000. 47 C.F.R. § 32.2003(b).

⁸⁴ 47 C.F.R. § 32.2003(c).

⁸⁵ *Id.*

⁸⁶ See June 4, 1999 letter from Kathleen B. Levitz, BellSouth, to Magalie Roman Salas, Secretary, FCC.

⁸⁷ *NPRM* at ¶ 21.

⁸⁸ See, e.g., BellSouth Comments at 11; GSA Comments at 14-15; SBC Comments at 8; Ad Hoc Comments at 12.

independent auditors' attestation and will be the basis for any related dollar adjustments. Additionally, reporting the amounts in ARMIS allows us to review them as necessary.

B. ARMIS Reporting Requirements

1. Reductions to ARMIS 43-02 USOA Report

32. ARMIS is an automated reporting system developed by the Commission in 1987 for collecting financial, operating, service quality, and network infrastructure information from ILECs.⁸⁹ This reporting system provides the Commission with information to monitor industry developments and quantify the effects of proposed changes in policy and rules.⁹⁰ Recently, the Commission revised the rules governing the filing of ARMIS reports. Consistent with the 1996 Act, the Commission has improved definitions, descriptions, and instructions for many of the ARMIS reports, and has taken steps to reduce the reporting requirements for mid-sized carriers.⁹¹

33. The *NPRM* sought comment on further streamlining measures that would reduce ARMIS reporting requirements for all carriers while continuing to collect data that regulators need to meet their responsibilities. Specifically, the *NPRM* proposed significant reductions in reporting requirements for the ARMIS 43-02 USOA report,⁹² proposing to eliminate or modify the reporting requirements for the following Tables: C-1 (Identity of Respondent); C-2 (Control Over Respondent); C-3 (Board of Directors and General Officers); C-4 (Stockholders); C-5 (Important Changes During the Year); 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); B-15 (Capital Stock and Funded Debt Reacquired or

⁸⁹ See Automated Reporting Requirements for Certain Class A and Tier 1 Telephone Companies (Parts 31, 43, 67, and 69 of the FCC's Rules), CC Docket No. 86-182, *Order*, 2 FCC Rcd 5770 (1987), *modified on recon., Order on Reconsideration*, 3 FCC Rcd 6375 (1988).

⁹⁰ ARMIS was developed to allow the Commission to administer accounting, cost allocation, jurisdictional separations, and access charge rules. The ARMIS data are used for various regulatory functions and also permit the Commission to determine whether joint costs incurred in providing regulated and nonregulated services are properly allocated, which is useful and necessary for monitoring the application of our joint cost rules. ARMIS data are relied upon by many state commissions and used by the public.

⁹¹ See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12.

⁹² *NPRM* at ¶ 23. The ARMIS 43-02 USOA Report is one of the most voluminous reporting requirements in ARMIS and collects information about the carrier's ownership, balance sheet, and income statement accounts. This Report encompasses three separate parts. Information pertaining to the carrier's identity, operating states, board of directors, officers, shareholders, and important changes during the year (Table C Series) provides a profile of the carrier's ownership and corporate structure. Information collected on the carrier's balance sheet (Table B Series) and income statement (Table I Series) provides data about the carrier's financial accounts, including overall investment and expense levels, affiliate transactions, property valuations, and depreciation rates.

Retired During the Year); I-3 (Pension Costs); I-4 (Operating Other Taxes); I-5 (Prepaid Taxes and Accruals); I-6 (Special Charges); and I-7 (Donations or Payments for Services Rendered by Persons Other Than Employees).

34. *Discussion.* Most commenters generally agree with the changes we proposed to the ARMIS 43-02 Report.⁹³ Some commenters, however, advocate changes to ARMIS reporting requirements beyond those set forth in the *NPRM*.⁹⁴ We agree that further review of the ARMIS reporting requirements is warranted and further streamlining measures must be considered. In this Phase, however, we believe the more expeditious action is to eliminate and simplify requirements that can be implemented without delay, thereby minimizing the burdens on the industry immediately. As we stated in the *NPRM*, in Phase 2 we will examine more structural and long-term changes to our reporting requirements that will be appropriate as local exchange markets become competitive, and will assess what interim measures should be made as various transitional competitive milestones are reached.⁹⁵ We note that ARMIS changes proposed by commenters that are not considered in this Phase will be fully considered in Phase 2.

2. ARMIS 43-02 USOA Report: Table C Reductions

35. *Background.* The C Series of Tables in the ARMIS 43-02 Report includes five tables. Four of these tables contain carrier and stockholder information, *i.e.*, C-1 (Identity of Respondent), C-2 (Control Over Respondent), C-3 (Board of Directors and General Officers) and C-4 (Stockholders). These four tables provide information on the carrier's name, address, operating states, directors and executive officers. Table C-5 (Important Changes During the Year) provides information on significant events, such as extensions of systems, substantial portions or all property sold, changes in direct and indirect control of the carrier, important contracts or agreements entered into, changes in accounting standards, and important changes in service and rate schedules.

36. In the *NPRM*, we proposed to consolidate all basic information from Tables C-1, C-2, C-3, and C-4 into one table, which would provide information on the carrier's name, operating states, directors, and executive officers.⁹⁶ With respect to Table C-5, we proposed to eliminate the reporting

⁹³ See, *e.g.*, Ad Hoc Comments at 12; Wisconsin PSC at 8-10; Ameritech Comments at 9; GTE Comments at 8; BellSouth Comments at 12. Except for our proposal concerning Table C, GSA generally recommends continuing present reporting requirements for Tables B and I. See GSA Comments at 18.

⁹⁴ See, *e.g.*, GTE Comments 11-12; SBC Comments at 14-15.

⁹⁵ *NPRM* at ¶ 2; see also "Common Carrier Bureau Announces Initiative to Undertake Comprehensive Review of Part 32 and ARMIS Requirements," *Public Notice*, 14 FCC Rcd 6345 (1999).

⁹⁶ *NPRM* at ¶ 25.

requirements concerning changes in direct and indirect control.⁹⁷ We also proposed adopting a threshold amount for items reported in this table.⁹⁸

37. *Discussion.* We adopt our proposal in the *NPRM* to consolidate all of the basic ownership information from Tables C-1, C-2, C-3 and C-4 into one table.⁹⁹ In reviewing our experience with the current reporting system, we find that the information collected in these four tables can more efficiently be provided in one table. As designed, the current system requires carriers to maintain four separate tables with a combined total of 8 columns and 27 row sections of information about its ownership and corporate structure, including information about state laws, partnerships, and various degrees of control over the organization. We can substantially simplify the current requirements and eliminate all but the basic kinds of ownership information. We find that an ownership profile consisting of the carrier's name, operating states, directors, and executive officers will be sufficient to meet our oversight responsibilities and permit us to make informed regulatory decisions.¹⁰⁰ To accomplish this, we revise Table C-3 to include the carrier's name and states of operation¹⁰¹ and eliminate reporting of Tables C-1, C-2, and C-4.

38. We do not agree with the argument advanced by several commenters that these tables should be eliminated in their entirety because the information is available in SEC Form 10-K filings.¹⁰² Our review shows that in many cases, certain information collected in these tables is not reported in the carrier's SEC Form 10-K. For instance, the SEC Form 10-K provides that information about a carrier's directors and executive officers is optional.¹⁰³ Our review found that in virtually every case, carriers choose the option not to report this information in their SEC Form 10-K. Our oversight responsibility

⁹⁷ *NPRM* at ¶ 26.

⁹⁸ *Id.*

⁹⁹ Several commenters support this proposal. *See, e.g.*, GSA Comments at 17; Ad Hoc Comments at 14; BellSouth Comments at 11. *See also* Wisconsin Comments at 8.

¹⁰⁰ The final format and instructions for completing this form will be provided in our annual order setting out ARMIS requirements.

¹⁰¹ To provide consistency in ARMIS reporting, mid-sized ILECs should use the revised Table C-3 for reporting. *See ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12 (retaining Table C-3 reporting for mid-sized ILECs).

¹⁰² *See, e.g.*, SBC Comments at 10; USTA Comments at 10.

¹⁰³ The SEC has a limited version of the Form 10-K for wholly owned subsidiaries, which represents the majority of the large ILECs' operating companies. The limited version omits items that generally address issues related to investor information. For instance, information reported about the companies' directors and executive officers is optional in the limited version of the SEC Form 10-K for wholly owned subsidiaries.

requires that, at a minimum, we have access to the most basic information about the carrier. We conclude that our decision to require the carrier's name, operating states, directors, and executive officers is warranted. Collection of this data in the consolidated table will reduce the reporting burden on carriers.

39. Generally, Table C-5 requires the carrier to report on important changes to 12 activities: (1) Extensions of Systems; (2) Substantial Portions or All Property Sold; (3) Map Defining Territory; (4) Companies Coming Under the Direct Control of the Carrier; (5) Changes in the Direct Control of a Company; (6) Changes Affecting the Direct Control of a Company; (7) Companies Coming Under the Indirect Control of the Carrier; (8) Changes in the Indirect Control of a Company; (9) Changes Affecting the Indirect Control of a Company; (10) Important Contracts or Agreements; (11) Changes in Accounting Standards; and (12) Important Changes in Service and Rate Schedules. Some commenters argue that we should eliminate Table C-5 for the large ILECs, similar to our action in the *ARMIS Reductions Report and Order* for mid-sized ILECs.¹⁰⁴ These commenters claim that the information required in this table can be obtained directly from the carrier or from the carrier's SEC Form 10-K, or would otherwise be reflected in the cost allocation manuals that carriers file with the Commission.¹⁰⁵

40. In reviewing our experience with Table C-5, we conclude that the burdens imposed on the carriers are disproportionate to the benefits provided, and that elimination of a substantial portion of information collected in Table C-5 is warranted. We agree with commenters that certain information otherwise available in the carrier's SEC Form 10-K can be eliminated from Table C-5. We find that the reporting requirements concerning direct and indirect control of the carrier (items 4, 5, 6, 7, 8, and 9 in par. 39 above) can be eliminated without adverse consequences because this information is routinely reported in the carriers' SEC Form 10-K. In addition, information concerning changes in accounting standards (item 11 in par. 39 above) can be obtained from the carriers' SEC Form 10-K. Therefore, we will also eliminate this reporting requirement from Table C-5. Eliminating the reporting of these requirements will afford carrier's considerable relief from reiteration of information contained in their SEC filings. We will, however, require that carriers submit a copy of their SEC Form 10-K annual report to the Commission.¹⁰⁶

41. We also note that extension of system and map defining territory (items 1 and 3 in par. 39 above) are not regularly reported by the ILECs due to the infrequent nature of these activities. We find that information related to these two items as reported in Table C-5 has not contributed to the Commission's overall formulation of policy and that further reporting on these matters is unwarranted. We conclude that lack of information on these items in Table C-5 will not have a detrimental effect on

¹⁰⁴ See, e.g., SBC Comments at 10; USTA Comments at 10.

¹⁰⁵ See USTA Comments at 10; SBC Comments at 10-11.

¹⁰⁶ This submission should be made separate from the electronic ARMIS filing. Further instructions will be provided in our annual order setting our ARMIS requirements.

our regulatory oversight responsibilities. Thus, we further simplify the reporting requirements of Table C-5 by eliminating these reporting requirements.

42. We agree with Ad Hoc that certain activities reported in Table C-5 should not be eliminated at this time.¹⁰⁷ Information concerning substantial portions or all property sold, important contracts or agreements entered into, and important changes in service and rate schedules (items 2, 10, and 12 in par. 39 above), is not reported in carrier's SEC Form 10-K or its cost allocation manuals¹⁰⁸ and is not available in other publicly available data. Information concerning these activities provides us with important information about the carriers' operations that is relevant to our deliberations on numerous policy matters.¹⁰⁹ Thus, we will retain the requirement to report these activities in Table C-5.

43. The *NPRM* sought comment on whether we should adopt a threshold for reporting items in Table C-5, and if so, what would be an appropriate level.¹¹⁰ Commenters proposed establishing a threshold level of reporting that included specific dollar amounts ranging from \$250,000 to \$1 million¹¹¹ or using a percentage of total operating revenues ranging from 1 percent to 5 percent.¹¹² We agree with the parties that a threshold level is appropriate for reporting amounts for substantial portions or all property sold and for reporting important changes in service and rate schedules.¹¹³ Based on our

¹⁰⁷ Ad Hoc Comments at 14-15.

¹⁰⁸ SBC argues that "substantial portions of property sold" would probably consist of nothing to report year after year, and if reported, would probably involve purchase or sale of another carrier which would be reflected in the chart of affiliates in Section IV of the carrier's cost allocation manual. *See* SBC Comments at 11. We do not find SBC's argument convincing. Section IV of the cost allocation manual is designed to allocate costs related to affiliate transactions. It is not a substitute for information collected on "substantial portions of property sold" by the carrier, which is intended to provide information about changes in the carriers' operations that include more than transactions involving affiliates.

¹⁰⁹ For instance, we can monitor the impact of our decisions on access charges by reviewing information carriers provide on "important changes in service and rate schedules," and take corrective action if the data indicates a change is necessary. In addition, we find that state regulators may also rely on this information. *See, e.g.,* Wisconsin Comments at 9. Information carriers provide on "substantial portions or all property sold," particularly where the sale and/or purchase involves rural telephone properties, may provide critical information on issues regarding universal service support. Information on "important contracts and agreements entered into," which includes interconnection and resale agreements, provides us with relevant data on competitive issues.

¹¹⁰ *NPRM* at ¶ 26.

¹¹¹ *See, e.g.,* GSA Comments at 17; SBC Comments at 11; GTE Comments at 9.

¹¹² *See* SBC Comments at 11; USTA Comments at 11.

¹¹³ We are not convinced that a percentage of operating revenue threshold is appropriate given the wide range of operating revenues among carriers. If we were to institute a percentage operating revenue threshold, reporting

experience, we find that a threshold level of \$500,000 is appropriate for both these items.¹¹⁴ This level will provide relief to carriers in reporting and will continue to provide us with material and sufficient data.¹¹⁵ We do not agree, however, that a threshold level is appropriate for reporting important contracts or agreements entered into. This item generally encompasses contracts for interconnection and resale agreements that are not typically associated with specific total dollar amounts, but rather have price terms on a per unit or usage basis. We find that our current requirements, which do not require reporting of specific dollar amounts, are not overly burdensome and, in fact, establishing a threshold level may have the result of imposing additional burdens on carriers.¹¹⁶ Thus, we will not establish a threshold level for important contracts or agreements entered into.

3. ARMIS 43-02 USOA Report: Table B Reductions

44. *Background.* The B Series of Tables includes 15 tables that provide information concerning carriers' balance sheet accounts. Table B-1 (Balance Sheet Accounts) provides ending period balances for the carrier's assets, liabilities, and owner's equity. Table B-2 (Statement of Cash Flows) provides information about the carrier's cash flow from operating, investing, and financing activities. The remaining 13 tables (Tables B-3 through B-15) are supporting tables for Table B-1 and provide a more detailed analysis about certain activities that could have a significant impact on the carrier's financial condition. These tables include Table B-3, Investment in Affiliates and Other Companies; Table B-4, Analysis of Assets Purchased From or Sold to Affiliates; Table B-5, Analysis of Entries in Accumulated Depreciation; Table B-6, Summary of Investment and Accumulated Depreciation by Jurisdiction; Table B-7, Bases of Charges for Depreciation; Table B-8, Capital Leases; Table B-9, Deferred Charges; Table B-10, Accounts Payable to Affiliates; Table B-11, Long-Term Debt; Table B-12, Net Deferred Income Taxes; Table B-13, Other Deferred Credits; Table B-14, Capital Stock; and Table B-15, Capital Stock and Funded Debt Reacquired or Retired During the Year.

levels would vary from carrier to carrier, resulting in inconsistencies in reporting burdens among the carriers and in the information provided in the reports.

¹¹⁴ With respect to reporting important changes in service and rate schedules, we note that the threshold level applies to both increases and decreases in annual revenues (*i.e.*, changes that have an estimated increase or decrease in annual revenues of \$500,000 should be reported).

¹¹⁵ Based on current reporting information, we estimate this new threshold level will reduce the burden on carriers for reporting important changes in service and rate schedules by approximately one-third. Further, this threshold will provide substantial relief to carriers by eliminating the reporting of *de minimus* and insignificant amounts associated with sales and purchases of property.

¹¹⁶ Instead of reducing the burden, a threshold level would require carriers to analyze payments received under each contract and categorize contracts for reporting purposes. Further, we are concerned that requiring the reporting of specific dollar amounts associated with specific customers may result in the unnecessary disclosure of competitive information.

45. In the *NPRM*, we proposed to eliminate reporting requirements for seven of the B tables, which included Tables B-8, B-9, B-11, B-12, B-13, B-14, and B-15.¹¹⁷ We stated that these tables might not be needed on a routine basis as long as we had access to the underlying data and source documents supporting these tables. We sought comment on whether eliminating any of these seven tables would deprive the Commission of information it needs to carry out its regulatory responsibilities and whether these accounts are readily available from other sources, such as the carrier's annual SEC Form 10-K or through other internal records.¹¹⁸

46. *Discussion.* We adopt our proposal, which is supported by most commenters,¹¹⁹ to eliminate seven tables from the Table B Series. Specifically, we eliminate the requirement to report on a routine basis: 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. These seven tables were intended to provide a more detailed explanation of specific accounts reported in Table B-1. A review of our experience reveals that, while the data derived from these seven tables have contributed to our policy analysis and rulemaking function, the level of detail required by these tables is no longer as critical to our deliberations. To the extent we may require such detail in the future, we can obtain such information through specific data requests to the carrier on an as needed basis.¹²⁰ Thus, we conclude we can substantially reduce the Table B reporting requirements by eliminating the separate reporting requirements of these seven items.

47. GSA argues that we should retain our current reporting requirements for these seven items because the information they contain may not readily be available through other sources, such as routine SEC Reports.¹²¹ We recognize that that information and data reported in the carriers' SEC Form 10-K are highly aggregated and include both regulated telephone and nonregulated business information.¹²² As SBC points out, however, the footnotes in the SEC Form 10-K will generally provide

¹¹⁷ *NPRM* at ¶ 27.

¹¹⁸ *Id.*

¹¹⁹ See, e.g., BellSouth Comments at 12; SBC Comments at 11-12; GTE Comments at 9; USTA Comments at 11; Ad Hoc Comments at 15; Wisconsin Comments at 9.

¹²⁰ The Public Service Commission of Wisconsin states it has eliminated schedules in its ILEC annual report that are similar to the tables at issue here. See Wisconsin Comments at 9.

¹²¹ GSA Comments at 18.

¹²² GSA observes that information and data reported in SEC 10-K Reports are highly aggregated, and include all data from a company, regulated and nonregulated. Thus, GSA maintains that SEC 10-K data are not meaningful in evaluating the regulated portion of a telephone company's business. *Id.*; GSA Reply Comments at 12.

information on details such as long-term debt and deferred taxes, which correspond to items reported in Tables B-11 and B-12.¹²³ Further, to the extent that we require information that is not available in the carrier's SEC Form 10-K, or through other reliable public sources, we believe we can maintain our oversight of these activities through specific data requests on an as needed basis.¹²⁴ Thus, although we relieve companies from routinely reporting this information in Table B, companies must keep such data available and be prepared to provide it promptly to the Commission should the Commission make such a request. In such cases, we expect carriers to provide requested information to the Commission in a timely manner and on a non-proprietary basis.¹²⁵ We do not agree with the argument that data formerly reported in these ARMIS tables and now requested by the Commission on an as-needed basis should be treated as non-public.¹²⁶ The purpose of this proceeding is to reduce the ARMIS reporting requirements while retaining sufficient information needed for the Commission and state commissions to meet their responsibilities. Therefore, all information requested by the Commission that would otherwise be reported in the ARMIS tables shall be publicly available unless the carrier makes a sufficient showing as to why the information should be treated as proprietary.

48. In addition to the seven tables at issue here, some parties further recommend that we eliminate all Table B reporting requirements, arguing that essentially all of the information is publicly available in carriers' SEC Form 10-K or other SEC filings, and is duplicative of other ARMIS Reports.¹²⁷ Commenters also contend that information contained in these reports is irrelevant to regulation of price cap carriers.¹²⁸ At this time we do not agree that it is appropriate to eliminate all Table B reporting requirements. The Commission continues to require accounting and financial data about these carriers to

¹²³ SBC Reply Comments at 8-9.

¹²⁴ GSA maintains that carriers will be in a position of responding on a voluntary basis to data requests which may compromise the timeliness of data provided to the Commission. *See* GSA Comments at 18. We note that as with all data requests to carriers subject to the Commission's jurisdiction, carriers will be required to provide responsive and timely information upon request by the Commission.

¹²⁵ Ad Hoc recommends that the Commission institute procedures to inform the public when it requests such data from companies, and inform the public on the content of the data when it is submitted by the companies. *See* Ad Hoc Comments at 15-16. We do not believe such action is appropriate at this time. In the event we perceive this issue detrimentally affects public awareness and our deliberations, we have the option of establishing rules and procedures to govern the collection and availability of this data.

¹²⁶ *See, e.g.*, SBC Reply Comments at 9-10.

¹²⁷ *See, e.g.*, SBC Comments at 11-12.

¹²⁸ *See, e.g.*, USTA Comments at 10-11; SBC Comments at 9.

make informed regulatory judgments on numerous policy and ratemaking issues.¹²⁹ Furthermore, under the current regulatory price cap scheme, carriers have the ability to seek full recovery of regulated costs through low-end adjustments, as well as taking claims. Thus, our continued monitoring of the reasonableness of these costs is necessary. The steps we take in this Order substantially streamline the current requirements and will afford carriers immediate regulatory relief of ARMIS reporting requirements. As we stated in the *NPRM*, we will undertake an exhaustive and thorough review of our ARMIS reporting requirements in Phase 2.

4. ARMIS 43-02 USOA Report: Table I Reductions

49. *Background.* The I Series of Tables in the ARMIS 43-02 Report consist of seven tables that provide information about the carrier's income statements. Table I-1 (Income Statement Accounts) provides data on the carrier's revenues, expenses, and net income for the reporting period. The remaining six tables (Tables I-2 through I-7) are supporting tables for Table I-1 and provide more detailed information on activities that impact the carrier's net income. These tables include: Table I-2, Analysis of Services Purchased From or Sold to Affiliates; Table I-3, Pension Costs; Table I-4, Operating Other Taxes; Table I-5, Pre-paid Taxes and Tax Accruals; Table I-6, Special Charges; and Table I-7, Donations or Payments for Services Rendered by Persons Other Than Employees.

50. In the *NPRM*, we proposed to eliminate three tables in the I Table Series. Specifically, we proposed to eliminate the reporting of Tables I-3, I-4, and I-5. We stated that as long as we had continued access to the underlying data such as the carrier's SEC 10-K Report and other source documents supporting these tables, this information could be obtained from the ILECs on an as-needed basis.¹³⁰ We determined to retain Tables I-6 and I-7, but sought comment on whether the current thresholds for reporting may be too low, and if so, what amounts may be appropriate to establish as the reporting threshold.¹³¹

51. *Discussion.* We adopt the proposal in the *NPRM*, which is supported by most commenters,¹³² to eliminate Tables I-3, I-4, and I-5. Our experience in collecting detailed data pertaining to the carrier's pension costs and taxes reveals that routine collection of such a level of detail is no longer necessary for us to make informed regulatory judgments in this area. We can obtain necessary

¹²⁹ For instance, under the current regulatory price cap scheme, carriers have the ability to seek full recovery of regulated costs through low-end adjustments, as well as taking claims. Thus, our continued monitoring of the reasonableness of these costs is necessary.

¹³⁰ *NPRM* at ¶ 28.

¹³¹ *Id.* at ¶¶ 29-30.

¹³² See, e.g., Ad Hoc Comments at 16; BellSouth Comments at 12; Wisconsin Comments at 9; SBC Comments at 13; USTA Comments at 11.

information for our regulatory purposes through specific data requests to the carriers on an as-needed basis.¹³³ Similar to our determination concerning elimination of the seven B tables above, we expect carriers to keep such data available and be prepared to provide such data to the Commission should the Commission make such a request. In such cases, we expect carriers to provide requested information to the Commission in a timely manner and on a non-proprietary basis.¹³⁴

52. We affirm our conclusion in the *NPRM* that information collected in Table I-6 continues to be essential to our oversight responsibilities. This table reports on items that are below-the-line amounts, *i.e.*, are not allowable expenses to be charged against regulated revenues. Special Charges reported in Table I-6 include lobbying expenses, membership fees and dues, abandoned construction projects amounting to \$100,000 or more, telecommunications plant acquisition adjustments, penalties and fines amounting to \$100,000 or more, and charitable, social, or other community welfare expenses. Some commenters argue that all reporting of Table I-6 should be eliminated.¹³⁵ We disagree. Price cap carriers may fully recover reasonable costs associated with regulated activities through the low-end adjustment mechanism or through a takings claim, therefore it is important that below-the-line expenditures are not included in regulated activities. The items reported in Table I-6, especially if material, could have significant impact on the carrier's regulated activities if not properly recorded. Routine monitoring of these expenses provides assurance that these amounts are properly recorded on the carrier's books.¹³⁶

53. We can significantly reduce the burdens associated with Table I-6 without seriously hampering our ability to monitor these expenses by raising the current reporting threshold level for abandoned construction projects and penalties and fines. In the *NPRM*, we sought comment on whether the reporting threshold for these items should be raised to a higher amount and, if so, what amount to establish as the reporting threshold.¹³⁷ Commenters provided a range of options for raising the threshold

¹³³ As GSA points out, the SEC 10-K Reports are highly aggregated and may not contain the detailed information we require for regulatory purposes. See GSA Comments at 18. Thus, we will not rely on carrier's SEC 10-K Reports, but will seek require specific information on an as-needed basis.

¹³⁴ See *supra* paragraph 47.

¹³⁵ See, *e.g.*, Ameritech Comments at 9; SBC Comments at 12-13; USTA Comments at 11.

¹³⁶ We note that information concerning items reported in Table I-6 is not available through other publicly available sources. Full disclosure of these amounts in ARMIS provides the Commission with assurance that these amounts are not improperly included in the carriers' costs of operations and also provides a deterrent to carriers from inappropriately recording these amounts.

¹³⁷ *NPRM* at ¶ 29.

level for these items, from \$250,000 to \$1,000,000.¹³⁸ Based on our review of the data, we find it would be appropriate to increase the current threshold levels from \$100,000 to \$500,000 for both abandoned construction projects and penalties and fines. Specifically, we reviewed 1998 data reported in Table I-6 for abandoned construction projects and penalties and fines and found that the Bell Operating Companies and GTE reported 22 individual items with a total amount of approximately \$16 million. We found that expenditures of \$500,000 or more constituted 85 percent of the total amount reported for the two activities. Thus, we conclude that \$500,000 or more is a reasonable level of reporting for both these activities. Any threshold lower than \$500,000 would not significantly reduce the reporting burden for the largest carriers and any threshold higher than \$500,000 may not provide us sufficient information to perform our monitoring function.¹³⁹

54. We also affirm our determination to retain reporting for Table I-7. We disagree with commenters that reporting of these amounts should be eliminated.¹⁴⁰ The items reported in Table I-7 concern expenditures that may not be appropriate or reasonable to charge against regulated operations. Thus, our oversight responsibilities require that we maintain some degree of reporting to ensure that these expenditures are reasonable and recorded properly.

55. The *NPRM* requested comment on whether the current threshold levels for Table I-7 reporting should be revised. Under the current requirements, there are three reporting threshold levels depending on the type of payment. Carriers must report: (1) amounts exceeding \$250,000 for Advertising & Information Services, Clerical & Office Services, Computer & Data Processing Services, Personnel Services, Printing & Design Services, and Security Services; (2) amounts exceeding \$25,000 for Audit & Accounting, Consulting & Research Services, Financial, and Legal; and (3) amounts exceeding \$10,000 for Membership Fees & Dues. Table I-7 also requires carriers to report all amounts for Academia.

56. We find that an increase in the current threshold levels for reporting items on Table I-7 is justified.¹⁴¹ By raising the current threshold levels, we can significantly reduce the reporting burden for

¹³⁸ See, e.g., GTE Comments at 10; SBC Comments at 13; USTA Comments at 11; Ad Hoc Comments at 17; GSA Comments at 18-19.

¹³⁹ Applying a threshold level of \$500,000 to the 1998 data reveals that individual items reported for 1998 would have been reduced from 22 to 7, a reduction in reporting of approximately 70 percent. The reduction in total amount of expenses reported would have been relatively small, from approximately \$16 million to \$13.6 million.

¹⁴⁰ See, e.g., Ameritech Comments at 9; SBC Comments at 12-13; USTA Comments at 11.

¹⁴¹ We reviewed 1998 data reported in Table I-7 and found that the Bell Operating Companies and GTE reported about 3,000 individual items totaling approximately \$4 billion. Our review found that approximately 2,300 of the 3,000 individual items accounted for \$400 million or 13 percent of the \$4 billion total. Thus, under current requirements, 700 individual items accounted for 87 percent of the total amount reported in this Table.

level for these items, from \$250,000 to \$1,000,000.¹³⁸ Based on our review of the data, we find it would be appropriate to increase the current threshold levels from \$100,000 to \$500,000 for both abandoned construction projects and penalties and fines. Specifically, we reviewed 1998 data reported in Table I-6 for abandoned construction projects and penalties and fines and found that the Bell Operating Companies and GTE reported 22 individual items with a total amount of approximately \$16 million. We found that expenditures of \$500,000 or more constituted 85 percent of the total amount reported for the two activities. Thus, we conclude that \$500,000 or more is a reasonable level of reporting for both these activities. Any threshold lower than \$500,000 would not significantly reduce the reporting burden for the largest carriers and any threshold higher than \$500,000 may not provide us sufficient information to perform our monitoring function.¹³⁹

54. We also affirm our determination to retain reporting for Table I-7. We disagree with commenters that reporting of these amounts should be eliminated.¹⁴⁰ The items reported in Table I-7 concern expenditures that may not be appropriate or reasonable to charge against regulated operations. Thus, our oversight responsibilities require that we maintain some degree of reporting to ensure that these expenditures are reasonable and recorded properly.

55. The *NPRM* requested comment on whether the current threshold levels for Table I-7 reporting should be revised. Under the current requirements, there are three reporting threshold levels depending on the type of payment. Carriers must report: (1) amounts exceeding \$250,000 for Advertising & Information Services, Clerical & Office Services, Computer & Data Processing Services, Personnel Services, Printing & Design Services, and Security Services; (2) amounts exceeding \$25,000 for Audit & Accounting, Consulting & Research Services, Financial, and Legal; and (3) amounts exceeding \$10,000 for Membership Fees & Dues. Table I-7 also requires carriers to report all amounts for Academia.

56. We find that an increase in the current threshold levels for reporting items on Table I-7 is justified.¹⁴¹ By raising the current threshold levels, we can significantly reduce the reporting burden for

¹³⁸ See, e.g., GTE Comments at 10; SBC Comments at 13; USTA Comments at 11; Ad Hoc Comments at 17; GSA Comments at 18-19.

¹³⁹ Applying a threshold level of \$500,000 to the 1998 data reveals that individual items reported for 1998 would have been reduced from 22 to 7, a reduction in reporting of approximately 70 percent. The reduction in total amount of expenses reported would have been relatively small, from approximately \$16 million to \$13.6 million.

¹⁴⁰ See, e.g., Ameritech Comments at 9; SBC Comments at 12-13; USTA Comments at 11.

¹⁴¹ We reviewed 1998 data reported in Table I-7 and found that the Bell Operating Companies and GTE reported about 3,000 individual items totaling approximately \$4 billion. Our review found that approximately 2,300 of the 3,000 individual items accounted for \$400 million or 13 percent of the \$4 billion total. Thus, under current requirements, 700 individual items accounted for 87 percent of the total amount reported in this Table.

Table I-7 while retaining sufficient information to meet our oversight responsibilities. Our review of proposals submitted by the commenters¹⁴² finds that the threshold levels advanced by GSA and Ad Hoc would have a very small impact on the amounts provided under current reporting requirements and would provide little relief to carriers.¹⁴³ We also find that by changing the payment types corresponding to the current threshold levels, and thus, proposing a fourth threshold level for some items, the proposals advanced by USTA and GTE result in a more complex reporting scheme than currently exists.¹⁴⁴ Based on our analysis, we find that it is appropriate to raise the threshold levels for reporting items in Table I-7 as follows: (1) amounts exceeding \$1,000,000 for Advertising & Information Services, Clerical & Office Services, Computer & Data Processing Services, Personnel Services, Printing & Design Services, and Security Services; (2) amounts exceeding \$500,000 for Audit & Accounting, Consulting & Research Services, Financial, and Legal; and (3) amounts exceeding \$50,000 for Membership Fees & Dues. We find that these new thresholds will capture material information for our oversight needs while at the same time substantially reduce the reporting burden for carriers.¹⁴⁵

57. We also find that we can eliminate the reporting of amounts reported for Academia. Based on our analysis, we find that the existing requirement to report all amounts for Academia is no longer justified. As designed, this reporting requirement was established to provide the Commission with information relevant to expertise obtained by carriers for regulatory purposes. Reviewing our experience with the present reporting requirement for Academia, we find that it imposes substantial burdens on the carriers while providing little value to our oversight of carrier's activities.¹⁴⁶ Given the

¹⁴² See, e.g., GSA Comments at 18-19; Ad Hoc Comments at 16-17; USTA Comments at Attachment 3; GTE Comments at 11.

¹⁴³ GSA supports a threshold of \$250,000 for all categories of payments and Ad Hoc proposes raising the thresholds by 30 percent based on the BOCs' revenue growth from 1989 to 1998.

¹⁴⁴ USTA proposes \$50,000 for Academia, and Membership Fees & Dues; \$250,000 for Audit & Accounting; \$750,000 for Financial, Legal, Personnel Services, Printing & Design Services; \$1,000,000 for Advertising & Information Services, Clerical & Office Services, Computer & Data Processing Services, Consulting & Research Services, and Security Services. GTE's proposal is similar except it recommends reporting Academia amounts in the aggregate rather than by individual recipient. See USTA Comments at Attachment 3; GTE Comments at 10-11.

¹⁴⁵ Applying these new thresholds to the 1998 data, individual reported items would have reduced from about 3,000 to about 700 items, a reduction close to 80 percent. The total dollar amount reported, however, would have been only reduced from \$4 billion to \$3.6 billion which still provides the Commission significant information to perform its monitoring function.

¹⁴⁶ A review of 1998 ARMIS data found that carriers reported over 461 individual entries, the vast majority of which were amounts under \$50,000. Eliminating this reporting requirement, along with increasing the current threshold levels for certain types of payments, will reduce the overall burden for Table I-7 by approximately 80 percent.

minimum level of benefit this data provides we find that we can eliminate the collection of this information without compromising our oversight responsibilities.

III. CONCLUSION

58. In this *Report and Order*, we eliminate the expense matrix filing requirement; provide large ILECs the option to obtain a biennial attestation engagement to satisfy their CAM audit obligation; establish a \$500,000 *de minimis* exception to our affiliate transactions fair market value estimate requirement; eliminate the 15-day pre-filing requirement for cost pool and time reporting procedures changes; eliminate the notification requirement for temporary or experimental accounts; eliminate the notification requirement for extraordinary items, contingent liabilities, and material prior period adjustments; eliminate the reclassification requirements for property in Account 2002; and eliminate the reclassification requirements for property in Account 2003. We substantially streamline the ARMIS 43-02 USOA Report and significantly reduce the reporting requirements for carriers. Specifically, we revise Table C-3 to include carrier's name, address, and operating states and eliminate Tables C-1, C-2, and C-4; eliminate nine of twelve reporting items in Table C-5 and establish reporting threshold levels for two items; eliminate seven of fifteen reporting items in Table B; eliminate three of seven reporting items in Table I; establish higher threshold levels for items reported in Tables I-6 and I-7 and eliminate the reporting requirements for Academia.

IV. PROCEDURAL ISSUES

A. Regulatory Flexibility Analysis

59. *Regulatory Flexibility Certification.* The Regulatory Flexibility Act of 1980 (RFA)¹⁴⁷ requires that an agency prepare a regulatory flexibility analysis for notice-and-comment rulemaking proceedings, unless the agency certifies that "the rule will not, if promulgated, have a significant economic impact on a substantial number of small entities."¹⁴⁸ In the *NPRM*, the Commission certified

¹⁴⁷ The RFA, 5 U.S.C. § 601 *et seq.*, has been amended by the Contract With America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Act of 1996 (SBREFA).

¹⁴⁸ 5 U.S.C. § 605(b). Under the RFA, small entities may include small organizations, small businesses, and small governmental jurisdictions. 5 U.S.C. § 601(6). The RFA, 5 U.S.C. § 601(3), generally defines the term "small business" as having the same meaning as "small business concern" under the Small Business Act, 15 U.S.C. § 632. A small business concern is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA). Pursuant to 5 U.S.C. § 601(3), the statutory definition of a small business applies "unless an agency after consultation with the Office of Advocacy of the SBA and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition(s) in the Federal Register."

that the proposed rules would not have a significant economic impact on a substantial number of small entities.¹⁴⁹ The Commission stated that the proposed rules would reduce certain recordkeeping and CAM audit requirements; that the changes should be easy and inexpensive for the ILECs to implement; and that the rule changes would not require costly or burdensome procedures.¹⁵⁰ No comments were received concerning this certification. The Commission now reaffirms this certification with respect to the rules adopted in this Report and Order. The Commission anticipates that the rule changes adopted here will reduce regulatory and procedural burdens on ILECs. The rule modifications do not impose any additional compliance burden on persons dealing with the Commission. Accordingly, the Commission certifies, pursuant to 5 U.S.C. § 605(b) of the RFA, that the rules adopted herein will not have a significant economic impact on a substantial number of small business entities, as defined by the RFA.

60. *Report to Congress.* The Consumer Information Bureau, Reference Information Center, shall provide a copy of this certification to the Chief Counsel for Advocacy of the SBA,¹⁵¹ and include it in the report to Congress pursuant to the SBREFA.¹⁵² The certification will also be published in the Federal Register.¹⁵³

B. Paperwork Reduction Act Analysis

61. *Final Paperwork Reduction Act Analysis.* The decision herein has been analyzed with respect to the Paperwork Reduction Act of 1995, Pub. L. 104-13, and found to impose new or modified recordkeeping requirements or burdens on the public. Implementation of these new or modified reporting or recordkeeping requirements will be subject to approval by the Office of Management and Budget (OMB) as prescribed by the Act and will go into effect upon announcement in the Federal Register of OMB approval.

V. ORDERING CLAUSES

62. Accordingly, IT IS ORDERED that, pursuant to Sections 1, 4, 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154, 201-205, 215, and 218-220, Parts 32 and 64 of the Commission's rules, 47 C.F.R. Parts 32 and 64, are amended, as described above and in Appendix B.

¹⁴⁹ *NPRM* at ¶ 35.

¹⁵⁰ *Id.*

¹⁵¹ *See* 5 U.S.C. § 605(b).

¹⁵² *See* 5 U.S.C. § 801(a)(1)(A).

¹⁵³ *See* 5 U.S.C. § 605(b).

63. IT IS FURTHER ORDERED, that the rule amendments set forth in Appendix B WILL BECOME EFFECTIVE 6 months after their publication in the Federal Register, and the information collections contained in these rules will become effective 6 months after publication in the Federal Register, following OMB approval, unless a notice is published in the Federal Register stating otherwise.

64. IT IS FURTHER ORDERED that the Commission's Consumer Information Bureau, Reference Information Center, SHALL SEND a copy of this Report and Order, including this certification and statement, to the Chief Counsel for Advocacy of the Small Business Administration.¹⁵⁴

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas
Secretary

¹⁵⁴ See *id.*

APPENDIX A

Parties Filing Comments and Reply Comments

Parties Filing Comments

Ad Hoc Telecommunications Users Committee (Ad Hoc)
Ameritech
Bell Atlantic
BellSouth Corporation (BellSouth)
General Services Administration (GSA)
GTE Service Corporation (GTE)
Independent Telephone and Telecommunications Alliance (ITTA)
MCI WorldCom, Inc.
Public Service Commission of Wisconsin (Wisconsin)
SBC Communications Inc., Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell,
The Southern New England Telephone Company (collectively, SBC)
United States Telephone Association (USTA)
US West Communications Inc. (US West)

Parties Filing Reply Comments

Ameritech
Bell Atlantic
BellSouth Corporation (BellSouth)
General Services Administration (GSA)
GTE Service Corporation (GTE)
SBC Communications Inc., Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell, and the
Southern New England Telephone Company (collectively, SBC)
United States Telephone Association (USTA)

APPENDIX B

Final Rules

Part 32 of Title 47 of the C.F.R. is amended as follows:

PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

- 1. The authority citation for Part 32 continues to read as follows:

Authority: 47 U.S.C. 154(i), 154(j) and 220 as amended, unless otherwise noted.

- 2. Paragraph 32.13(a)(3) is revised to read as follows:

§ 32.13 Accounts--general.

* * * * *

(a)(3) A company may establish temporary or experimental accounts without prior notice to the Commission.

- 3. Section 32.25 is revised to read as follows:

§ 32.25 Unusual items and contingent liabilities.

Extraordinary items, prior period adjustments, and contingent liabilities may be recorded in the company's books of account without prior Commission approval.

- 4. Paragraph 32.27(c) is revised to read as follows:

§ 32.27 Transactions with affiliates.

* * * * *

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services provided by a carrier to its

affiliate, the services shall be recorded at the higher of fair market value and fully distributed cost. For all other services received by a carrier from its affiliate, the service shall be recorded at the lower of fair market value and fully distributed cost. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

5. Section 32.2002 Property held for future telecommunications use is amended by revising paragraph (a), deleting paragraph (b), and renumbering paragraph (c) as follows:

§ 32.2002 Property held for future telecommunications use.

(a) This account shall include the original cost of property owned and held for no longer than two years under a definite plan for use in telecommunications service. If at the end of two years the property is not in service, the original cost of the property may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and report those amounts in reports filed with the Commission pursuant to 43.21(e)(1) and 43.21(e)(2) of this chapter.

(b) Subsidiary records shall be maintained to show the character of the amounts carried in this account.

6. Paragraph 32.2003(c) is revised to read as follows:

§ 32.2003 Telecommunications plant under construction.

* * * * *

(c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to 43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7370, Special Charges.

7. Paragraph 32.5999(f) Expense matrix is deleted.

8. Paragraph 32.5999(g) is renumbered as 32.5999(f).

9. Paragraph 32.5999(h) is renumbered as 32.5999(g).

PART 64 – MISCELLANEOUS RULES RELATING TO COMMON CARRIERS

10. The authority citation for Part 64 continues to read as follows:

Authority: 47 U.S.C. 10, 201, 218, 226, 228, 332, unless otherwise noted.

11. Paragraph 64.903(b) is revised to read as follows:

§ 64.903 Cost allocation manuals.

* * * * *

(b) Each carrier shall ensure that the information contained in its cost allocation manual is accurate. Carriers must update their cost allocation manuals at least annually, except that changes to the cost apportionment table and to the description of time reporting procedures must be filed at the time of implementation. Annual cost allocation manual updates shall be filed on or before the last working day of each calendar year. Proposed changes in the description of time reporting procedures, the statement concerning affiliate transactions, and the cost apportionment table must be accompanied by a statement quantifying the impact of each change on regulated operations. Changes in the description of time reporting procedures and the statement concerning affiliate transactions must be quantified in \$100,000 increments at the account level. Changes in cost apportionment tables must be quantified in \$100,000 increments at the cost pool level. The Chief, Common Carrier Bureau may suspend any such changes for a period not to exceed 180 days, and may thereafter allow the change to become effective or prescribe a different procedure.

12. Paragraph 64.904(a) is revised to read as follows:

§ 64.904 Independent Audits.

(a) With the exception of mid-sized local exchange carriers, each local exchange carrier required to file a cost allocation manual, by virtue of having annual operating revenues that equal or exceed the indexed revenue threshold for a given year or by order by the Commission, shall elect to either (1) have an attest engagement performed by an independent auditor every two years, covering the prior two year period, or (2) have a financial audit performed by an independent auditor every two years, covering the prior two year period. In either case, the initial engagement shall be performed in the calendar year after the carrier is first required to file a cost allocation manual. The attest engagement shall be an examination engagement and shall provide a written communication that expresses an opinion that the systems, processes, and procedures applied by the carrier to generate the results reported pursuant to 43.21(e)(2) of this chapter comply with the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86-111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96-150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, 64.901, and 64.903 in force as of the date of the auditor's report. At least 30 days prior to beginning the attestation engagement, the independent auditors shall provide the Commission with the audit program. The attest engagement shall be conducted in accordance with the attestation standards established by the American

Institute of Certified Public Accountants, except as otherwise directed by the Chief, Common Carrier Bureau. The biennial financial audit shall provide a positive opinion on whether the applicable data shown in the carrier's annual report required by § 43.21(e)(2) of this chapter present fairly, in all material respects, the information of the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86-111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96-150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, 64.901, and 64.903 in force as of the date of the auditor's report. The audit shall be conducted in accordance with generally accepted auditing standards, except as otherwise directed by the Chief, Common Carrier Bureau.