STATE OF FLORIDA

DIVISION OF POLICY ANALYSIS &
INTERGOVERNMENTAL LIAISON
CHARLES H. HILL
DIRECTOR
(850) 413-6800

PUBLIC SERVICE COMMISSION

December 18, 2000

VIA ELECTRONIC FILING

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW - TW-A325
Washington, DC 20554

Re: CC Docket No. 00-199, Notice of Proposed Rulemaking (NPRM) on the 2000 Biennial Regulatory Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers

Dear Ms. Salas:

Forwarded herewith are Comments of the Florida Public Service Commission to the Notice of Proposed Rulemaking in the above-stated document.

Sincerely,

/s/

Cynthia B. Miller, Esquire
Bureau of Intergovernmental Liaison

CBM:tf
Attachment
cc: Brad Ramsay, National Association of Regulatory Utility Commissioners
International Transcription Services, Inc.

Before the
Federal Communications Commission
Washington, D.C.

In the Matter of:	)	
	)	
2000 Biennial Regulatory Review	)	
of Accounting Requirements and	)	cc Docket No. 00-199
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers	)	
	)	

FLORIDA PUBLIC SERVICE COMMISSION COMMENTS

The Florida Public Service Commission (FPSC) appreciates the opportunity to submit comments to the Federal Communications Commission (FCC) regarding its Notice of Proposed Rulemaking (NPRM) on the 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3 in CC Docket No. 00-199.

The NPRM seeks comment regarding the FCC's proposals to further streamline accounting and reporting requirements in the near-term (Phase 2) and the long-term (Phase 3) as the telecommunications industry moves towards a more competitive environment. The proposals for Phase 2 would eliminate one-fourth of the Class A accounts in the FCC's Uniform System of Accounts (USOA), 47 C.F.R. Part 32, modify the FCC's affiliate transaction rules, and increase the expense limits rules. The FCC's streamlining proposals for the largest Incumbent Local Exchange

Carriers (ILECs) generally encompass the elimination of 77 of 296 Class A accounts and the elimination of related accounting aspects of the Automated Reporting Management Information System (ARMIS) and data that are suggested in the NPRM as less useful and/or obsolete in a competitive environment. A separate proposal is set forth for mid-sized ILECs.

The FCC seeks comment regarding whether it should adopt the United States Telephone Association's (USTA) proposal to further streamline the accounting and ARMIS requirements by eliminating Class A accounting altogether, eliminating the continuing property records (CPR) requirements, eliminating forecasts for use in allocating joint costs between regulated and nonregulated activities, and eliminating the majority of the ARMIS reports for mid-sized ILECs, including all state-by-state reporting requirements.[1] Additionally, the FCC seeks whether it should add

[1] The FPSC notes that these reduced reporting requirements, in combination with the lower quality of service reporting requirements anticipated in FCC Docket No. 00-229, may result in an unwarranted lessening of requirements on the ILECs. At this time, we are not convinced that the companies have "earned" such a reduced level of reporting nor that the ILECs' conduct regarding competition is evidence of a lessening need for the information.

certain accounts suggested by states to reflect recent changes in technologies and regulatory requirements.

Generally, the FPSC applauds the FCC's efforts to simplify and streamline its accounting and reporting requirements and certainly agrees with the elimination of any overlap of federal and state reporting requirements, as well as elimination of unnecessary reporting requirements. However, we have several concerns.

Part 32 Accounting Rules

Chart of Accounts

The FPSC believes that the proposed elimination of plant specific, plant non-specific, customer, and corporate expense account details may be problematic for use in Unbundled Network Element (UNE) pricing functions. Also, we find the USTA's proposals to eliminate Class A accounting requirements problematic. The loss of the detail provided in Class A accounting requirements would inhibit our ability to understand the nature of the ILECs' costs. This is because ILECs' costs are largely driven by their network plant investments and, under Class B accounting, almost nothing would be known about these costs. For example, under Class B accounting, all outside cable and wire investments are contained in one account. No detail would be available regarding the construction or makeup of the various types of outside plant. All fiber, copper, aerial, underground, and buried cables as well as poles and conduit would be combined together in one account.[2]

The lack of detailed cost data would also inhibit our ability to assess the FCC's life and salvage ranges. This is because the various types of plant inherently have widely diverse life and salvage characteristics. Combining them together would seriously distort the usefulness of the current prescribed FCC ranges and undermine all the programs that rely on the data (i.e., universal service cost proxy models, UNE pricing, etc.). Moreover, no cost

[2] At its Annual Convention held November 11, 2000 in San Diego, California, the National Association of Utility Regulatory Commissioners adopted a resolution establishing an ad hoc committee to investigate the policies, practices and procedures of utilities regarding the provision of prompt, non-discriminatory access to their poles, ducts, conduits, and rights-of-way at reasonable rates. Without the cost detail existing under Class A accounting, the determination or assessment of reasonable rates will be difficult for regulators.

data would be available for developing realistic cost models or even evaluating cost studies prepared by the ILECs.

The FPSC finds the USTA's argument that Class A accounting requirements are too burdensome is unfounded considering these ILECs maintain many more than the Class A accounts in their own accounting systems. Regardless of any FCC accounting changes, we would expect the ILECs to continue maintaining more than the 300 Class A accounts. Also, even the smallest ILECs in Florida use Class A accounting, a requirement for acquiring Rural Utility Service (RUS) loans which is not likely to change.

Additional Accounts Suggested by States

The accounts suggested by states for new technologies are appropriate and necessary to enable the FCC to maintain an up-to-date accounting system. These accounts should enable the FCC and states to continue to understand the nature of the ILEC's investment and ensure that prices are reflective of their actual costs. Moreover, such information should allow the FPSC to monitor issues such as technology deployment, collocation, and interconnection cooperation. The creation of expense and revenue accounts for UNE and interconnection should also aid us in administering the prices of these services.

Additional USTA Proposals

Continuing Property Records

The FPSC believes that the USTA’s proposal to eliminate existing CPR requirements is also problematic. These records are necessary to ensure that the largest and most important accounts, the network plant accounts, accurately reflect those assets actually in service. Also, CPRs provide data for jurisdictional separations and cost allocations studies. Moreover, these records provide material-only costs for accounting for transfers, reallocations, and adjustments of plant. If these records are inaccurate, virtually all of the ILECs’ cost data would be suspect. Furthermore, CPR discrepancies could have an impact on current levels of universal service support since the existing methodology calculates support based on historical financial information. On a forward-looking basis, interstate universal service support for nonrural ILECs may be affected, to the extent that the proxy model employed utilizes historical relationships to determine forward-looking plant specific expense and other expense categories. In establishing a state Universal Service Fund, use of erroneous embedded data similarly may result in misstatements of funding requirements, if estimates of expense levels attributable to universal service are based on faulty historical cost relationships. In either event, the reliance on historical costs that are misstated could mean the calculations used to establish a Florida USF may be inaccurate. For these reasons, CPR requirements should not be eliminated.

Cost Allocations

Additionally, the FPSC believes that eliminating the forecast use rule for allocating joint investments between the ILECs' regulated operations and nonregulated 'startup' (or new) operations would result in the over allocation of nonregulated costs to the ILECs' regulated operations. The markets for ILECs' regulated activities are large, well-established, and mature, while the nonregulated activities, subject to the 'forecast use' rule, are new 'startup' activities in their infancy. The forecast use rule, which is based on the cost causative principle, is critical for allocating costs fairly because forecasted use provides the best measure of the new services' intended use. As ILECs make investments aimed at increasing their revenues in new nonregulated activities, it is important to use forecasts to allocate the appropriate 'use' of the new assets to the ILECs' nonregulated activities. Otherwise, the ILECs could allocate almost all of the new investments to the regulated operations for many years even though the investments are primarily made to develop their newer, nonregulated activities.

Expense Limits

Regarding the USTA's proposal to increase the current expense limit, the FPSC believes that circumstances have not changed significantly since 1997 to warrant a further increase in the current $2,000 expense limit or to extend the expense limit to all plant asset accounts. The exception would be tools and test equipment located in the central office that currently have a $500 expense limit. The FPSC believes there is little difference between the tools and test equipment contained in the general support function and that equipment in the central office function to warrant different expense limits. Regardless of their physical location, these assets are virtually the same and should be subject to similar expense limits. For this reason, we believe the $2,000 expense limit should be extended to only include central office tools and test equipment assets. On the other hand, the majority of the investment contained in the General Support Computer account is associated with personal computers and peripheral equipment costing less than $2,000 and, in many cases, less than $1,000. Increasing the expense limit for these assets to $2,000 would result in very little, if any, capitalization. Therefore, the FPSC does not believe the existing $500 expense limit should be increased to $2,000 for the computer assets.

Affiliate Transactions

Another proposal by the USTA is that the FCC revise section 32.27(d) to decrease the threshold from 50 percent to 25 percent for use of prevailing price in valuing affiliate transactions. Under this proposal an affiliate, such as a supply company, can conduct up to 75 percent of its business with the ILEC and charge prevailing price. Volume discounts or other cost savings which the affiliate experiences primarily due to its association with the ILEC will not have to be passed on to the ILEC. If over 50 percent of the affiliate's sales are to the ILEC, then it seems that the primary purpose of the affiliate is to serve the ILEC. The FCC's current threshold of 50 percent for use of prevailing price in valuing affiliate transactions recognizes that the affiliate exists to serve the ILEC. Therefore, we do not recommend or support any change in the 50 percent threshold.

Streamlined ARMIS Reporting Requirements

The USTA proposal to eliminate practically all current ARMIS reporting requirements for Class A ILECs is troublesome. The ARMIS reports are important to understand the ILECs' local exchange and access operations, both financially and technically. The FCC's statutory mandate is to assure a rapid and efficient nationwide telecommunications system to all Americans. Because the large

Florida ILECs are no longer rate base regulated, they are not required to file financial reports or basic information with the FPSC. As a consequence, the only publicly available source of accounting data and information is that reported in ARMIS. The ARMIS data is collected in a uniform and standard format so that all states and the public have efficient and reliable access to critical data that is needed in establishing UNE prices, interconnection rates, universal service support; and, assessing service quality trends and network functionality, capabilities, and reliability.

Further, the FPSC believes the USTA's proposal to eliminate state-by-state ARMIS information would seriously inhibit our use of any data provided in ARMIS. ARMIS was designed to accommodate both the FCC and state needs. To eliminate the information provided on a state basis would undermine the goals that ARMIS sought to achieve. This is our only source of this type information and we urge the FCC to continue this reporting requirement. UNE prices and intrastate universal service costs are not determined on an operating company level. For the data to be helpful and meaningful to us, it must be reported on a state-by-state level.

On the other hand, we support the FCC's proposal to eliminate the collection of obsolete data and to update its ARMIS reports to obtain information on new technologies (upgrades and investments in switching and transmission capacity) that are critical components of the ILEC’s infrastructure. The information that the FCC proposes to collect is basic to federal and state responsibilities to assure the integrity of the telecommunications network and should impose minimal burden on the ILECs.

Relief for Mid-Sized ILECs

In an effort to lighten accounting and reporting requirements for the mid-sized ILECs, the FCC has already allowed them to report on a Class B level. Additionally, in its Accounting Reductions Report and Order in CC Docket No. 98-11 and its ARMIS Reductions Report and Order in CC Docket No. 98-117, both adopted May 18, 1999, and released June 30, 1999, the FCC reduced accounting and reporting requirements for mid-sized ILECs by allowing them to report on a Class B level. These streamlining measures along with the additional Class A reporting reform measures and the proposed increase in the revenue threshold to $200 million proposed in the instant NPRM appear to be more than adequate relief measures for mid-sized ILECs at this time and we don’t believe any further reporting relief is needed.

Conclusion

In conclusion, while the FPSC applauds the FCC’s continued efforts to streamline accounting and reporting requirements in line with the telecommunications changing environment, we take issue with several of the USTA proposals. First, the proposal to eliminate Class A accounting requirements will result in a lack of detailed data for accounts that comprise the major portion of an ILEC’s investment (outside plant cable accounts, switching, and circuit). This will, in turn, make it more onerous for us to analyze and evaluate ILEC cost studies in determining universal service support, UNE prices, and interconnection prices.

Second, we do not support the proposals regarding cost allocations, affiliate transactions, expense limits, and continuing property records requirements. The forecast use rule is critical for allocating costs fairly between the ILECs’ regulated operations and the nonregulated ‘startup’ operations because it is based on the cost causative principle. Elimination of this rule could result in the ILEC allocating virtually all of the new investments to the regulated operations even though the investments are being made primarily to develop new, nonregulated activities. Additionally, we believe the FCC’s current 50 percent threshold for use of prevailing price in valuing affiliate transactions recognizes that the affiliate exists to serve the ILEC. Accordingly, a decrease in the threshold makes little sense.

As for the existing $2,000 expense limit for certain general support assets, we believe circumstances have not significantly changed since 1997 to warrant an increase. On the other hand, there is little difference between the tools and test equipment contained in the general support function and that equipment in the central office function to warrant different expense limits. In contrast, the assets comprising the General Support Computer account, in many cases, cost less than $1,000 indicating that an increase in the $500 threshold would essentially eliminate the account.

Regarding the elimination of CPR requirements, inaccurate CPRs could have an impact on current levels of universal service support since the existing methodology calculates support based on historical financial information. On a forward-looking basis, interstate universal service support for nonrural ILECs may be affected, if the proxy model utilizes historical relationships to determine forward-looking expenses.

Finally, the USTA’s proposals to eliminate practically all current reporting requirements would seriously inhibit our use of any data provided in ARMIS. This information represents our only publicly available source of accounting data and information utilized in establishing UNE prices, interconnection rates, universal service support; and, assessing service quality trends and network functionality, capabilities, and reliability. For the mid-sized ILECs, the reduced accounting and reporting requirements made in the Accounting Reductions Report and Order and the ARMIS Reductions Report and Order, along with the additional Class A reporting reform measures and the proposed increase in the revenue threshold to $200 million, appear to be more than adequate relief measures at this time.

Respectfully submitted,

/ s /

Cynthia B. Miller, Esquire
Bureau of Intergovernmental Liaison

DATED: December 18, 2000

Certificate of Service

I HEREBY CERTIFY that a true and correct copy of the foregoing Comments of the Florida Public Service Commission will be furnished to the parties on the attached service list.

/s/

Cynthia B. Miller, Esq.
Bureau of Intergovernmental Liaison

DATED: December 18, 2000

Ernestine Creech
Accounting Safeguards Division
445 12th Street, S.W.
Washington, D.C. 20554

George N. Barclay
Associates Michael J. Ettner
General Services Administration
1800 “F” St., N.W., Room 4002
Washington, D.C. 20405

Joseph Dibella
1320 North Court House Rd.
Eighth Floor
Arlington, VA 22201

Gail L. Polivy
GTE Service Corporation
1850 “M” Street, N.W., Suite 1200
Washington, D.C. 20036

David W. Zesiger, Ex. Dir.
Independent Telephone & Telecommunications Alliance
1300 Connecticut Avenue, N.W., Suite 600
Washington, D.C. 20005

The Honorable William E. Kennard
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Levine Blaszak Block & Boothsby, Llp
2001 “L” Street, N.W., Suite 900
Washington, DC. 20036

Alan Buzacott
1801 Pennsylvania Ave, N.W.
Washington, D.C. 20006

Leander R. Valent
Counsel for Ameritech
9525 W. Bryn Mawr, Suite 600
Rosemont, IL 60018

Lenora Biera-lewis
Bellsouth Corporation
1155 Peachtree St., N.E., Suite 1700
Atlanta, GA 30306-3610

John F. Raposa
GTE Service Corporation
600 Hidden Ridge MS HQE035J27
Irving, TX 75038

James T. Hannon
U.S.West Communications, Inc.
1020 19th ST., N.W.
Washington, D.C. 20036

The Honorable Harold Furchtgott-Roth
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C.

The Honorable Susan Ness
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Washington, D.C. 20554The Honorable Michael K. Powell
Commissioner
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Editorial Offices
Telecommunications Reports
1333 "H" St., N.W., Room 100-E
Washington, D.C. 20005

Richard B. Lee, V.P.
Shavely King Majoros
O'Connor & Lee, Inc.
1220 "L" St., N.W., Suite 410
Washington, D.C. 20005

The Honorable Gloria Tristani
Commissioner
Federal Communications Commission
445 12th Street, S.W.

Judy Boley
Federal Communications Commission
Room I-C804
445 12th Street, S.W.
Washington, D.C. 20554

Timothy Fain
OMB Desk Officer
10236 NEOB, 725 17th Street
Washington, D.C. 20503