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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

In the Matter of	)	
	)	
2000 Biennial Regulatory Review --	)	CC Docket No. 00-199
Comprehensive Review of the	)	
Accounting Requirements and	)	
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers:	)	
Phase 2 and 3	)	

COMMENTS OF BELLSOUTH CORPORATION

BellSouth Corporation, for itself and its affiliated companies (collectively "BellSouth"), submits the following comments in response to the *Notice of Proposed Rulemaking* released in the above-captioned proceeding.[1]

I. Introduction and Summary

BellSouth is supportive of the conclusions reached by the Commission in this *Notice* reflecting Phase 2 of its comprehensive accounting review. BellSouth believes that most of the proposed changes will result in a legitimate reduction of unnecessary work. Moreover, the changes are consistent with the mandates prescribed to the Commission by Congress as set forth in the Telecommunications Act of 1996 ("1996 Act").

BellSouth, however, expresses this support with cautious optimism. Although the *Notice*

[1] *In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and 3,* CC Docket No. 00-199, *Notice of Proposed Rulemaking*, FCC 00-364, released October 18, 2000 ("*Notice*").

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proposes to reduce or eliminate several outdated rules, it falls far short of the true deregulatory approach that was intended by the passage of the 1996 Act. Indeed, the *Notice* recognizes that significant change has occurred in the telecommunications industry. No longer are companies restricted to lines of business in offering services to consumers. Competitive local exchange carriers ("CLEC") are offering local services to business and residential customers. Incumbent local exchange carriers ("ILEC") have begun providing interLATA services. Additionally, regulatory structures of the past have been completely remodeled. For example, determination of rates has shifted from rate of return to price cap regulation. Moreover, as the *Notice* specifically points out, there has been a significant restructuring of access rates for the next five years pursuant to the *CALLS Report and Order*.[2] These changes warrant critical evaluation of the regulation that was established to regulate and monitor a time that has since past. Unfortunately, the *Notice* does not offer regulatory changes that reflect such an evaluation. The proposed changes in the *Notice* hardly scratch the surface for what could and should be done. Accordingly, BellSouth is hopeful that the Commission will extend beyond the proposals in the *Notice* and provide changes suggested by the United States Telecom Association ("USTA") in its Comments filed in this proceeding.

II. BellSouth Supports the Comments Filed by USTA

BellSouth, like many local exchange carriers, is a member of USTA. In this capacity, BellSouth has worked with USTA and its member companies to continually analyze accounting

[2] See *In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-262, 94-1, 99-249, 96-45, *Sixth Report and Order Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, and Eleventh Report and Order in CC Docket 96-45*, 15 FCC Rcd 12962 (2000) ("*CALLS Report and Order*").

regulation in light of the mandate Congress provided the Commission under Section 11 of the 1996 Act. Through such analysis USTA members have given careful consideration to existing rules and regulations to determine whether they remain necessary to suit the purpose and benefit of their origination. The analysis revealed that many of these rules are simply a relic of the past and should be eliminated while others need to be modified to make the most efficient use of industry and Commission resources. Indeed, analysis conducted by the industry has produced several recommendations to the Commission through USTA and its individual members.[3] The Commission adopted some of the recommendations in the *Phase 1 Order*,[4] while others are proposed in the *Notice*. Yet other meaningful and substantive recommendations have been ignored by the Commission in both the Phase 1 and 2 proceedings.

In its comments, USTA offers a comprehensive set of proposals regarding the changes the Commission should adopt in this Phase 2 review. These proposals encompass the findings from the continuing industry analysis referenced above. It is significant that the proposals in the USTA comments are based on a consensus of USTA's members. This consensus exemplifies a common ground within the industry and not merely the wishes of one individual carrier. BellSouth urges the Commission to give USTA's comments the weight they deserve and to adopt the proposals stated therein. Anything less will only perpetuate outdated and useless regulation.

A. USTA's Accounting Streamlining Proposals

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[3] *See e.g.*, Letter dated June 9, 2000 from Linda Kent, USTA, to JoAnn Luncanik and Tim Peterson, Accounting Safeguards Division, Common Carrier Bureau, FCC; Letter dated June 4, 1999 from Kathleen B. Levitz, BellSouth Corporation, to Magalie Roman Salas, Secretary, FCC; Letter dated March 3, 1999 from Jeannie Fry, SBC Telecommunications, Inc., to Magalie R. Salas, Secretary, FCC.

[4] *Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1*, CC Docket No. 99-253, *Report and Order*, 15 FCC Rcd 8690 (2000) ("*Phase 1 Order*").

BellSouth stresses that the Commission must have an overall goal of allowing all ILECs to convert to Generally Accepted Accounting Principles ("GAAP") for both regulatory and financial purposes. As the telecommunications industry moves toward a competitive landscape and as new regulatory policies undermine the need for accounting regulation, ILECs should be no different from other companies that use GAAP as their basis for all accounting and reporting. Accordingly, while each of the USTA proposals should be adopted in their entirety, BellSouth emphasizes specific issues in the USTA comments that the Commission must do to have any meaningful change.

First, the Commission must move to Class B accounts. The USTA comments very effectively described that Class A accounts are no longer necessary for any worthwhile regulatory purpose. It therefore is of no benefit to any of the ILECs to require the continued use of the burdensome set of Class A accounts under Part 32 of the Commission's rules. Allowing ILECs to use Class B accounts will be a significant first step toward moving to GAAP.[5]

Second, the Commission should immediately adopt all of the USTA proposals regarding affiliate transactions. The added cost of transactions with an affiliate is an unnecessary burden placed upon Tier I Carriers where there is little or no impact upon the ratepayer. As it has explained on numerous occasions to the Commission, BellSouth's rates are no longer subject to rate of return regulation but are governed by price cap regulation. Thus, the cost of a service that is recorded on the regulated company's books pursuant to a transaction with an affiliate does not directly impact the rates that BellSouth charges its customers. Indeed, the Commission has

[5] BellSouth is not suggesting that Class B accounts are GAAP. In fact, GAAP does not prescribe any one set of accounts. Movement to Class B will, however, be less burdensome and allow the ILECs more flexibility in accounting and reporting financial information, thus more closely resembling GAAP.

recognized that once a carrier is under a price cap system with no sharing mechanism, the need for affiliate transaction rules diminishes.[6] Accordingly, the Commission should adopt the proposals in the USTA comments regarding affiliate transaction, especially for ILECs under price cap regulation with no sharing.

Third, the Commission must not add regulation. Although the Commission may have received requests to increase the accounting regulatory requirements, as USTA's comments clearly described, such requests are completely unnecessary. The accounting rules and regulations go far beyond the scope of what is necessary in the current environment and should be streamlined to reduce inefficiencies. No doubt, with fifty different state commissions, there will always be a wish list for added information. Unfortunately, the state commissions do not need nor want the same information. Thus, adding an accounting or reporting requirement at the federal level burdens all carriers to provide information they or their state commissions may never use. Accordingly, the state commissions and carriers should work together to provide the state commissions with the information they may need and avoid burdening the entire industry. Finally, it should indeed be sacrosanct that the Commission not increase regulation in a Section 11 regulatory review process, which was mandated by Congress to repeal or modify regulation that is no longer in the public interest.

B. ARMIS Reports

[6] *See In the Matter of: Amendment of Parts 32 and 64 of the Commission's Rules to Account for Transactions between Carriers and Their Nonregulated Affiliates*, CC Docket No. 93-251, *Notice of Proposed Rulemaking*, 8 FCC Rcd 8071, at 8105, ¶101 (1993)(The Commission stated, "Since the adoption of the affiliate transactions rules, we have adopted a price cap system for AT&T that imposes no sharing obligations. This system greatly reduces the incentives that AT&T may have to shift costs between its nonregulated operations and its carrier operations. Since AT&T's price caps are unrelated to AT&T's current costs, attempts by AT&T to manipulate the costs it records for affiliate transactions will not increase AT&T's rates.").

The *Notice* also proposed several changes to reduce ARMIS reporting requirements. BellSouth supports these proposed changes and believes that each of these changes will result in a benefit for future ARMIS reporting. Just as with the accounting issues, however, the proposals are lacking. Price regulation eliminates any need for ILECs to maintain cost records of the detail required in the financial reports (43-01 through 43-04). Such records play no role in setting rates and therefore are not needed by the Commission for any oversight capacities to protect consumers. BellSouth contends that under the current regulatory paradigm the Commission's efforts would be better utilized in areas other than monitoring accounting costs. Such monitoring could be performed effectively by the information reported in the revised ARMIS reports proposed by USTA.

In addition, the Commission should eliminate ARMIS reports 43-07 and 43-08. Report 43-07 is an infrastructure report providing information regarding an ILEC's switching equipment, transmission facilities, call set-up times, and additions and book costs. Most of this information is antiquated and provides the Commission no useful content. Reporting such information as the availability of touch-tone services or deployment of local switches equipped with SS7 is of no relevance in the current market. Likewise, Report 43-08, which is the Operating Data Report, is equally obsolete and should be eliminated. This report provides information regarding outside plant statistics including the number of poles and trench kilometers of conduit, switched access lines by technology, access lines in service, and call volumes. Monitoring the network infrastructure through these ARMIS reports is no longer needed in today's competitive environment. If the ILECs do not provide the services, or provide inadequate services, demanded by their customers, those customers will "vote with their feet"

and obtain service from a competitor. Even in areas where competition is not yet prevalent, ILECs try to increase their profitability by marketing new services to existing customers. ILECs therefore have every incentive to invest in infrastructure if that investment will provide products and services to market to their customers, or will create more satisfied loyal customers.

Moreover, given the changes in the industry in recent years, reporting such data for just one class of provider is meaningless. The Broadband Competitive Analysis Form[7] is a more appropriate source of technology and service information because it also includes information from other carriers in addition to ILECs. The Commission can no longer simply focus on the ILECs to determine the state of industry infrastructure.

While it is unlikely that any of the information in Reports 43-07 and 43-08 remains relevant, it would be more efficient and cost effective for the Commission to obtain such information on an as needed basis. By the Commission's own conservative estimate, preparation of these reports require the expenditure of more than 700 hours. Time spent on such archaic reports inappropriately burdens a small subset of today's service providers and their customers. Their continued production is a waste of resources. Accordingly, the Commission should therefore adopt the proposals set forth in the USTA comments.

[7] As established in *In the Matter of Local Competition and Broadband Reporting*, CC Docket No. 99-301, *Report and Order*, 15 FCC Rcd 7717 (2000).

III. Conclusion

BellSouth believes that the proposals set forth in the *Notice* will reduce its regulatory administrative burden and complement the reporting process. Therefore, based on the forgoing, BellSouth supports, subject to certain caveats, the proposals recommended by the Commission in the *Notice*.

Respectfully submitted,

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Date: December 21, 2000

CERTIFICATE OF SERVICE

I do hereby certify that I have this 21st day of December 2000 served the following parties to this action with a copy of the foregoing **COMMENTS OF BELLSOUTH CORPORATION** by electronic filing to the parties listed below.

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