DOCKET FILE COPY ORIGINAL

ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 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 Phase 3	)	

RECEIVED

JAN 30 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

WORLDCOM REPLY TO COMMENTS ON PHASE II PROPOSALS

As WorldCom discussed in its initial comments, the Commission's Phase II proposals would, in most cases, strike a reasonable balance. By contrast, the USTA and ITTA proposals would eliminate reporting requirements and accounting safeguards that remain necessary to the Commission and the states' exercise of their regulatory responsibilities.

I. Part 32 Rules

A. Commenters Agree that the Commission Should not Adopt USTA's Class B Proposal

There is widespread agreement among state commissions and other non-ILEC commenters that the Commission should not adopt USTA's proposal to permit ILECs to use Class B accounts. These commenters emphasize that, contrary to USTA's claims, the elimination of such a large number of accounts would "inhibit regulators' ability to understand the nature of the ILECs' costs."[1] As AT&T points out, the Class A-level detail is used in

[1]NARUC Comments at 5.

No. of Copies rec'd 0+4
A B C D E

interstate tariff investigations and in identifying cost-shifting and cost misallocations.[2] Moreover, the FCC's universal service model and other public proxy models, such as the HAI model, rely extensively on Class A account-level detail.[3] And Class A plant accounts are used in evaluating life and salvage and other depreciation parameters.[4]

The public policy benefit of ensuring that ILEC cost and revenue data is reported at the Class A level of detail to state and federal regulators far outweighs the minuscule incremental cost of maintaining Class A accounts. Even if USTA's wildly inflated cost estimates are accepted at face value, the incremental cost of Class A accounts (versus Class B accounts) is only $2 million per year for the entire ILEC industry[5] -- only 0.002 percent of the Class A ILECs' $113 billion in revenues.

There is no merit to BellSouth's suggestion that "[a]llowing ILECs to use Class B accounts will be a significant shift toward moving to GAAP."[6] As the Commission has concluded on many occasions, the Part 32 rules -- including the chart of accounts -- are already consistent with GAAP in almost all respects. The only difference between the Class A chart of accounts and Class B chart of accounts is in the number of accounts; Class B is no more or less consistent with GAAP than Class A.

---

[2]AT&T Comments at 3.

[3]AT&T Comments at 3.

[4]NYDPS Comments at 2.

[5]USTA Comments at 6.

[6]BellSouth comments at 4.

B. With Some Modifications, the Commission's Modified Class A Chart of Accounts is Reasonable

State commissions and other non-ILEC commenters recognize that the Commission's proposal to modify the Class A chart of accounts is a far more reasonable approach than a flash-cut to Class B accounting. Rather than focus solely on alleged regulatory burdens, as USTA has done, the Commission has "attempted to analyze the differences between two account structures and the need for information in today's regulatory environment."[7] The Commission's analysis, based in part on industry input gathered during several workshops, "strike[s] an appropriate balance between the requirements for effective regulatory controls and the need for less burdensome regulatory surveillance."[8]

WorldCom agrees with those commenters that suggest minor modifications to the Commission's proposals. WorldCom agrees, for example, with GSA and the New York commission that "the Commission's proposal to aggregate revenue accounts will eliminate data necessary to monitor the development of competition."[9] Similarly, WorldCom agrees with AT&T and NARUC that "the proposed elimination of operations, corporate, and administrative expense account details may cause problems for states that use such data in tariffing and UNE pricing functions."[10]

---

[7]Wisconsin PSC Comments at 6.

[8]GSA Comments at 4.

[9]New York DPS comments at 1.

[10]NARUC Comments at 4-5.

C. The Commission Should Adopt New Accounts for Interconnection Expenses and Revenues

There is broad agreement among state commissions and other non-ILEC commenters that the Commission should, at a minimum, adopt new accounts for unbundled network element, resale, reciprocal compensation, and universal service expenses and revenues. Given that it has been almost four years since the Commission asked for comment on accounts to reflect the local competition provisions of the 1996 Act, establishment of these accounts is "long overdue."[11] As the Wisconsin commission discusses, these new accounts would "provide insight into issues related to reciprocal compensation, federal and state universal service support, and collocation."[12] WorldCom agrees with the Wisconsin commission that these new accounts should be equally applicable to Class A and B carriers.[13]

There is no merit to USTA's contention that existing accounts are "sufficient" to record interconnection revenues and expenses. While interconnection revenues and expenses can be booked in existing accounts, the lack of dedicated accounts for these expenses and revenues limits the Commission's ability to track the evolution of local competition and the implementation of Section 252 agreements. Currently, the Commission must make a special data request to the ILECs in order to obtain information about interconnection revenues and expenses. In contrast, a requirement that ILECs maintain distinct accounts for these revenues and expenses,

---

[11]GSA Comments at 5.

[12]Wisconsin PSC Comments at 3.

[13]Wisconsin PSC Comments at 7.

and report these revenues and expenses in ARMIS, would "facilitate recurrent regulatory decisionmaking without undue delay or reliance on ad hoc data requests and special studies."[14]

Contrary to Verizon's claim, the proposed interconnection revenue and expense accounts would not "destroy the functionality principle" of the USOA. As WorldCom understands the state staff's proposal, ILECs would not be required to separately record the cost of preparing central office space for collocation -- the example cited by Verizon in its comments. Rather, the collocation expense account would simply record the ILECs' expense of purchasing collocation from other telecommunications carriers pursuant to Section 251 of the Act.

D. SFAS 116

The Commission should not permit the ILECs to adopt SFAS 116 at this time. Neither USTA nor the ILEC commenters have provided any data concerning the impact of SFAS 116 on ILEC revenue requirements. As AT&T points out, the adoption of SFAS 116 could lead to increases in rate of return carriers' interstate access charges and, if the revenue requirement increase were sufficient to trigger a low-end adjustment, to increases in price cap carriers' access charges.[15]

WorldCom agrees with AT&T that there is no basis for according exogenous treatment to any change in ILEC revenue requirements that might result from the adoption of SFAS 116. As

---

[14] 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, ¶ 22 (1999).

[15] AT&T Comments at 5.

AT&T notes, the principles adopted in the 1995 Price Cap Performance Review Order preclude exogenous treatment for accounting changes that have no impact on an ILEC's cash flow.[16]

II. ARMIS Reporting

A. ARMIS 43-01, 43-02, 43-03, and 43-04 Reports

The Commission should not adopt USTA's proposal to consolidate the ARMIS 43-01, 43-02 (Schedules B1 and I1), 43-03, and 43-04 reports into a single report at an operating telephone company level. USTA's proposed "ARMIS 43-00" report, described in the USTA June 9 Letter, is inadequate in several respects. Among other things:

- USTA's proposal to report data only at the operating-company level "would undermine the states' ability to use any data provided in ARMIS."[17] Operating company-level reporting would be inconsistent with the Commission's conclusion in the Broadband Reporting Order that state-level reporting is required in order to "facilitate meaningful comparison within different regions of the country and . . . enable state commissions to compare and evaluate the effectiveness of the policies that they adopt."[18]
- USTA's proposed report format would eliminate much of the essential account-level detail that is provided by the existing ARMIS reports. Not only does USTA

---

[16]AT&T Comments at 6 (citing 1995 Price Cap Performance Review Order, 10 FCC Rcd 8961, ¶¶ 293-318)

[17]NARUC Comments at 9.

[18]Local Competition and Broadband Reporting, Report and Order, CC Docket No. 99-301, released March 30, 2000.

propose to eliminate Class A-level reporting, but it also proposes, in some cases, to combine multiple Class B accounts on a single row.[19]

- USTA's proposed report format would eliminate Part 69 access element detail for price cap ILECs -- even though this detail may be required in order to compute exogenous cost changes.
- USTA's proposal would eliminate all of the separations-related detail that is currently shown on the ARMIS 43-04 report. Even if the Commission were to freeze certain separations allocators, USTA's proposed format would not provide sufficient detail to verify ILECs' separations results.

Non-ILEC commenters support the Commission's proposal to require the ILECs' ARMIS reports to distinguish between metallic and non-metallic cable. Contrary to the ILECs' claims, this limited modification to the ARMIS reports would not represent a significant burden. As GSA points out, because Part 32 has long required separate metallic and non-metallic subsidiary records for the cable accounts, this change in reporting will add only minimally to the ILECs' reporting burden.[20]

B. ARMIS 43-07 and 43-08 Reports

Contrary to the ILECs' claim, ad hoc data requests and state-level reporting cannot substitute for regular reporting of infrastructure data on the ARMIS 43-07 and 43-08 reports. Several state commissions point out that they continue to on regular reporting of infrastructure

---

[19]See, e.g., USTA June 9 Letter, Exhibit 1, row 1110.

[20]GSA Comments at 11.

data in ARMIS to assess trends in infrastructure deployment and to benchmark among carriers.[21] Moreover, the ARMIS 43-07 and 43-08 reports provide public data about ILEC network infrastructure that is widely used in the development of cost models and in other cost proceedings at the state and federal levels.

The Form 477 broadband report is not a substitute for the ARMIS 43-07 and 43-08 reports. As the Commission observes in the Notice, the broadband data report serves a very different purpose from the ARMIS infrastructure reports.[22] While the broadband report collects some information concerning the number of customers that served using particular broadband loop technologies, it does not provide a complete picture of the ILECs' infrastructure. In particular, the Form 477 report collects no data concerning interoffice facilities, switch technologies, additions and book costs, and the number of poles.

III. The Commission Should Not Adopt Class B Accounting for Mid-Sized ILECs

State commissions and other non-ILEC commenters agree that it would be inappropriate to provide additional regulatory relief to mid-sized ILECs at this time. These commenters point out that the Commission has only recently reduced the reporting requirements for these ILECs in the ARMIS Reductions Order.[23]

There is certainly no basis for the Commission to adopt ITTA's proposal to reclassify all mid-sized carriers as Class B, thereby exempting all of these carriers entirely from the ARMIS

---

[21] Wisconsin PSC Comments at 19.

[22] Notice at ¶ 65.

[23] AT&T Comments at 9 (citing 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, Report and Order, released June 30, 1999 (ARMIS Reductions Order)).

and CAM filing requirements. Only eighteen months ago, the Commission determined that these requirements remained necessary to ensure that the rates charged by mid-sized carriers were just and reasonable.[24] There has been no significant change in the competitive or regulatory landscape since that time that would warrant a change in course. Indeed, the mid-sized ILECs' comments in this proceeding simply repeat the arguments that the Commission considered, and rejected, in the ARMIS Reductions Order.

At most, the Commission should modify its rules to exempt smaller holding companies from the ARMIS and CAM filing requirements. For example, the Commission could provide that an ILEC will be subject to the ARMIS and CAM filing requirements only if holding company revenues are above a specified threshold. This mechanism would allow the Commission to exempt Roseville and other smaller companies from the ARMIS and CAM requirements. These smaller companies have claimed that they are disproportionately affected by reporting costs, in some cases because they have not reported in the past.

The creation of a holding company-level threshold for ARMIS and CAM filing would be a better approach than the Notice's proposal to increase the operating company-level indexed threshold. The Commission's proposal to increase the operating company-level indexed threshold would leave the Commission with a less-complete picture of larger holding companies such as Sprint, Citizens, and ALLTEL than is the case today.[25] Given that Sprint, CBT,

---

[24] ARMIS Reductions Order at ¶¶ 32-34.

[25] See, e.g., ALLTEL Comments at 4 (if the indexed threshold were increased to $200 million, the CAM and ARMIS requirements would no longer apply to two of the five ALLTEL companies that currently file). In addition, several Sprint companies would no longer be required to file if the threshold were increased to $200 million. See SOCC Table 1.2.

ALLTEL, and Citizens have billions of dollars in revenues, control millions of access lines,[26] and, in the case of Citizens and ALLTEL, have been acquiring exchanges at a rapid pace, the Commission should continue to obtain as complete a picture of these companies' operations as possible. Moreover, the reporting costs are clearly far less significant for these large holding companies than for smaller companies such as Roseville.

III. Conclusion

For the reasons stated herein, the Commission should not adopt USTA's proposals to consolidate the ARMIS reports or to permit all ILECs to use Class B accounting. Nor should the Commission adopt ITTA's proposal to reclassify mid-sized ILECs as Class B carriers.

Respectfully submitted,
WORLDCOM, INC.

Alan Buzacott
1801 Pennsylvania Ave., NW
Washington, DC 20006
(202) 887-3204

January 30, 2001

[26]See 1999 SOCC Table 1.1 (Sprint: 8 million lines; ALLTEL: 2.433 million lines; CBT: 1.055 million lines, Citizens: 997 thousand lines).

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on January 30, 2001.

Alan Buzacott
Senior Manager, Regulatory Affairs
1801 Pennsylvania Ave. NW
Washington, D.C. 20006
(202) 887-3204

CERTIFICATE OF SERVICE

I, Vivian I. Lee, do hereby certify that copies of the foregoing Reply Comments were sent via first class mail, postage paid, to the following on this 30th Day of January, 2001.

International Transcription Services**
1231 20th Street, N.W.,
Washington, DC 20036

Susan Stevens Miller
General Counsel
Maryland Public Service Commission
6 Saint Paul Street
Baltimore, MD 21202

David W. Zesiger
Executive Director
ITTA
1300 Connecticut Avenue
Suite 600
Washington, DC 20036

Karen Brinkman
Richard R. Cameron
Benoit Jacqmotte
Latham & Watkins
1001 Pennsylvania Avenue, NW
Suite 1300
Washington, DC 20004

Christopher J. Wilson
Delia Reid Saba
Cincinnati Bell
201 East Fourth Street
Cincinnati, OH 45202

Margot Smiley Humphrey
Holland & Knight
2100 Pennsylvania Avenue, NW
Suite 400
Washington, DC 200037

Paul J. Feldman
Fletcher Heald & Hildreth
1300 North 17th Street
11th Floor
Arlington, VA 22209

Jay C. Keithley
Sprint
401 9th Streeet, #400
Washington, DC 20004

James U. Troup
Brian D. Robinson
Arter & Hadden
1801 K Street, NW, Suite 400K
Washington, DC 20006-1301

Marilyn Showalter
Richard Hemstad
William R. Gillis
WUTC
1300 S. Evergreen Park Dr., SW
P.O. Box 47250
Olympia, WA 98504-7250

James T. Hannon
Qwest
Suite 700
1020 19th Street, NW
Washington, DC 200036

Stephen L. Earnest
Richard M. Sbaratta
BellSouth
675 West Peachtree Street
Atlanta, GA 30375

Mark C. Rosenblum
Judy Sello
AT&T
Room 1135L2
295 North Maple Avenue
Basking Ridge, NJ 07920

Carolyn C. Hill
ALLTEL
601 Pennsylvania Avenue, NW
Suite 720
Washington, DC 20004

Frank E. Landis, Chairman
Nebraska PSC
300 The Atrium
1200 N Street
Lincoln, NE 68506

Scott Fabel
Rate Analyst
Montana Public Service Commission
1701 Prospect Avenue
P.O. Box 202601
Helena, MT 59620-2601

Vickie L. Moir
Staff Attorney, NCUC
4326 Mail Service Center
430 North Salisbury Street
Raleigh, NC 27699-4326

Robert S. Tongren
Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, OH 43215-3485

Michael J. Travieso
NASUCA
8300 Colesville Road, Suite 101
Silver Spring, MD 20910

Lawrence G. Malone
General Counsel
New York PSC
Three Empire State Plaza
Albany, NY 12223-1350

James Bradford Ramsay
Sharla M. Barkland
NARUC
1101 Vermont Ave, Suite 200
Washington, DC 20005

Cynthia B. Miller
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
John W. Hunter
Julie E. Rones
USTA
1401 H Street, NW, Suite 600
Washington, DC 20005

Lisa D. Nordstrom
Idaho PUC
PO Box 38720
Boise, ID 83720-0074

George N. Barclay
Michael J. Ettner
GSA
1800 F Street NW, Room 40002
Washington, DC 20405

Joe DiBella
Verizon
1320 North Courthouse Road
Eighth Floor
Arlington, VA 22201

**HAND DELIVERED

Vivian I. Lee

Vivian I. Lee