

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

2000 Biennial Regulatory Review –
Comprehensive Review of the
Accounting Requirements for
Incumbent Local Exchange Carriers:
Phase 2 and Phase 3

CC Docket No. 00-199

PHASE 3 REPLY COMMENTS OF VERIZON¹

The Commission has stretched this proceeding out into three phases without facing the basic fact that its Part 32 accounting and ARMIS reporting rules are obsolete. The purpose for which they were designed – to establish rates under a rate-of-return regime – no longer exists. Even the last theoretical link between price and cost will be severed when a price cap carrier waives its right to the lower adjustment by obtaining pricing flexibility. The Commission should treat this as the “trigger” for exempting the carrier from these rules and allowing it to join the rest of the industry in following generally accepted accounting procedures (“GAAP”).

The commenters who seek to perpetuate burden of Part 32 accounting on the incumbent local exchange carriers trot out the tired – and completely irrelevant – argument that these rules should be retained until a local exchange carrier is no longer regulated as “dominant” in any line of business. *See, e.g.*, Sprint, 2-3; WorldCom, 2; GSA, 4; NASUCA, 4-6. They miss the point that the Act *requires* the Commission to eliminate a rule when it is no longer “necessary” to

¹ The Verizon telephone companies (“Verizon”) are the affiliated local telephone companies of Verizon Communications Corp. These companies are listed in Attachment A.

accomplish its stated goals. *See* 47 U.S.C. §161(b). The Commission adopted the Part 32 rules and the ARMIS reporting requirements to regulate rates. Since the Commission's price cap system of rate regulation does not rely upon costs, these rules are not necessary regardless of whether a carrier is considered "dominant."

Even AT&T agrees that "neither the FCC nor the states uses these requirements as an instrument of direct regulatory control over the LECs (unlike, for example, price or rate averaging regulations)." AT&T, 4. As Qwest points out (at 2), the relevant inquiry is what minimum set of regulations is necessary for the Commission to perform its statutory duties. Verizon and several other commenters demonstrated that the only possible link between costs and rates under price caps is the possibility that a carrier may seek to exercise the lower formula adjustment if its rate of return falls below the lower adjustment mark. *See, e.g.*, BellSouth, 4-5; USTA, 5. To exercise the lower formula adjustment, a carrier's rate of return must be calculated. When a carrier exercises Phase 1 or Phase 2 pricing flexibility, it waives the right to the lower formula adjustment for itself and all of its affiliates. At that point, costs are not used for any purpose under the Commission's system of rate regulation, and the carrier should be exempted from following Part 32 accounting, Part 64 cost allocation, and Part 36 separations rules. *See* USTA, 10; BellSouth, 5.

The Commission cannot ignore the increasing lop-sidedness of its regulatory requirements. The incumbent local exchange carriers alone have to maintain a completely separate set of books under Part 32 accounting rules which is completely irrelevant to the GAAP bookkeeping that they and the rest of the industry actually use to run their businesses. The large incumbent local exchange carriers alone are subject to ARMIS reporting requirements that even

small carriers under rate-of-return regulation do not have to file. Placing these burdens on only one limited segment of the industry impedes competition and distorts the information about network deployment. As USTA points out, rules that were reasonable when the incumbent local exchange carriers were “the only game in town” become increasingly counter-productive as competition permeates all sectors of the telecommunications industry. *See* USTA, 6-7.

The Commission should use this biennial review proceeding to help it become more efficient and to re-direct its resources to higher priorities. Retaining these obsolete rules burdens both the carriers and the Commission, which has to process the information and monitor compliance with the rules. Recently, Chairman Powell asked the staff in a public meeting to identify opportunities to free up resources. A good way to free up resources is to eliminate the elaborate accounting and cost allocation rules and to cease collecting and analyzing data from a limited group of carriers.

Some commenters urge the Commission to retain these rules to provide uniform accounting and reporting information for use in state proceedings. *See* GSA, 7; Wisconsin PSC, 3. However, even commenters that advocate this position admit that the information becomes increasingly irrelevant unless the reporting requirements are extended to new entrants. *See* NASUCA, 8. This points out the absurdity of clinging to highly restrictive regulatory requirements that were designed for a monopoly environment as the industry becomes competitive. Rather than extend Commission-prescribed accounting and reporting requirements to unregulated carriers, the Commission should aim for uniformity by providing a transition to an accounting system that is already universally available – GAAP accounting and Securities and Exchange Commission reporting. As the Wisconsin PSC notes (at 6), the state commissions already collect information from non-incumbent carriers without requiring these carriers to adhere

to Part 32 accounting. They can require the same types of reports from incumbent local exchange carriers under GAAP accounting.

Finally, the Commission should reject the argument that the Part 32 accounting system should be retained for secondary purposes, such as for developing rates for unbundled network elements. *See, e.g.*, WorldCom, 3. As USTA points out (at 8), rates for unbundled network elements are based on forward-looking costs, not embedded accounting costs. Furthermore, data can be drawn from GAAP accounts and special studies to develop cost inputs for this purpose. Similarly, the carriers can use GAAP accounts to develop data for setting pole attachment rates and for developing cost inputs to the universal service model. *See* USTA, 8. If the Commission eliminated the Part 32 accounting requirements, carriers would still retain cost information to respond to regulatory requests. However, they would have the same flexibility as other carriers to respond to these requests using information from their GAAP books.

Conclusion

For the foregoing reasons, the Commission should sunset the Part 32 accounting and ARMIS reporting rules when a carrier achieves pricing flexibility.

Respectfully submitted,

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THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States
GTE Midwest Incorporated d/b/a Verizon Midwest
GTE Southwest Incorporated d/b/a Verizon Southwest
The Micronesian Telecommunications Corporation
Verizon California Inc.
Verizon Delaware Inc.
Verizon Florida Inc.
Verizon Hawaii Inc.
Verizon Maryland Inc.
Verizon New England Inc.
Verizon New Jersey Inc.
Verizon New York Inc.
Verizon North Inc.
Verizon Northwest Inc.
Verizon Pennsylvania Inc.
Verizon South Inc.
Verizon Virginia Inc.
Verizon Washington, DC Inc.
Verizon West Coast Inc.
Verizon West Virginia Inc.