

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

**REPLY COMMENTS OF VERIZON<sup>1</sup> ON  
PUBLIC NOTICE**

The comments of the United States Telecom Association (“USTA”) and the large incumbent local exchange carriers demonstrate that the new interconnection and universal service accounts proposed in the Public Notice would not only be highly burdensome, but totally impractical. *See, e.g.*, USTA, 5-10; SBC, 2-4; BellSouth, 2-4. The new expense and revenue accounts for unbundled network elements, resale, reciprocal compensation, and other interconnection would destroy the functional structure of Part 32 accounting and require costly special studies to remove and reassign revenues and expenses from virtually every other account. The removal of these costs from the existing accounts would destroy their existing jurisdictional identification, requiring a new and as yet unexplored separations treatment. Similarly, the new accounts for universal service would disrupt the reporting of state revenues and further complicate the process. BellSouth estimates (at 2-3) that it would cost \$3.7 million to implement

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

the new accounts and account breakdowns. The worst part is that this disruption and expense would serve no purpose. Any comparison between revenues and costs for interconnection would be meaningless, since the rates for unbundled network elements, resale, and reciprocal compensation are based more on negotiation and arbitration decisions rather than the incumbent's cost, and a comparison between revenues received and payments made to the universal service fund for each carrier can be reported more easily by the Universal Service Administrative Company.

Nonetheless, some commenters not only support the Commission's proposals, but ask for even more account detail and breakdown that would only make matters worse. Not surprisingly, these commenters do not represent the carriers that would bear the brunt of the increased reporting burden. For example, WorldCom (at 2-3) wants the Commission to create separate revenue accounts for UNEs, interconnection, and resale in both Part 32 and in the Automated Reporting and Management Information System ("ARMIS") reports, and to require further accounting detail in the local revenue, customer operations expense, and corporate operations expense accounts. Sprint (at 1-4) opposes the Commission's streamlining plans for several investment, revenue, and expense accounts. And several state commissions want the Commission to retain account breakdowns and provide further detail to assist them in pursuing state regulatory objectives. *See, e.g.*, Oregon PUC, 1-3; Wisconsin PSC, 2-4. These proposals do not meet the biennial review test, which is whether the regulations are "necessary" to meet the Commission's regulatory responsibilities under the Act. The state commissions can require the carriers to report the data as required to meet each state's unique regulatory needs regardless of whether the Commission streamlines the Part 32 accounts.

Imposing new, extremely burdensome accounting and reporting requirements on the incumbent local exchange carriers is contrary both to the purpose of biennial review and to the Commission's efforts to develop a more level playing field between the incumbents and the competitive local exchange carriers. The Commission's goal in this biennial review proceeding should be the same as the goal of the Part 36 separations reform proceeding – competitive neutrality. *See Jurisdictional Separations Reform and Referral to the Federal-State joint Board, Report and Order*, CC Docket No. 80-286, FCC 01-162, ¶ 13 (rel. May 22, 2001). (“At the present time ILECs are required under the Part 36 rules to perform separations studies, while CLECs have no similar requirements. We believe that a freeze will further the Commission's stated goal in the NRPM of achieving greater competitive neutrality during the transition to a competitive marketplace by simplifying the separations process for those carriers subject to Part 36”). Requiring greater accounting detail from the incumbents alone widens the regulatory gap and is a step backwards on the deregulatory path.

Sprint is incorrect in arguing (at 2) that Class A level of reporting detail is needed in determining costs for unbundled network elements and universal service funding for the regional Bell operating companies. Pricing for unbundled network elements is based on forward-looking costs, and the universal service funding for the non-rural carriers is based on the proxy cost model. The embedded costs in the carriers' Part 32 accounts are not needed for either purpose.

WorldCom argues (at 2) that additional accounting detail for interconnection revenue and expense would provide useful information to monitor and assess competition, citing the Commission's notice of proposed rulemaking in Docket 97-212, where the accounts were first proposed. *See Amendment to the Uniform System of Accounts for Interconnection, Notice of Proposed Rulemaking*, ¶ 6, 12 FCC Rcd 16577 (1998). However, since then, the Commission

has adopted Form 477, which collects data about the deployment of facilities from both incumbent local exchange carriers and competitive local exchange carriers. *See Local Competition and Broadband Reporting, Report and Order*, 15 FCC Rcd 7717 (2000). This provides more comprehensive information about competition than the one-sided data in the incumbents' Part 32 accounts.

Sprint (at 2-3) and New York PSC (at 2) object to the Commission's proposal to incorporate the Submarine and Deep Sea Cable accounts into other accounts, such as Underground and Buried Cable accounts. However, there is no reason to continue requiring a breakout of these accounts. In Verizon, Submarine and Deep Sea Cable shares the same depreciation schedule as other buried cable investment, and it represents only about one fifth of one percent of the total of Submarine and Buried Cable. Clearly, eliminating this detail will have no practical impact, especially in light of the separations freeze under which the Class B accounts that combine all cable and wire will be assigned to categories and, where appropriate, subcategories based on frozen category relationships.

The Commission should reject the requests of GSA (at 5) and the Ohio Consumer Counsel (at 6) to add wholesale and retail subaccounts to Customer Services expense account 6620. Contrary to their arguments, it would not be easy for the carriers to identify expenses as incurred for wholesale vs. retail customers. As in the interconnection accounts, special cost studies would be needed to allocate expenses between these services, and it is not clear what methodology should be used for such studies.

### **Conclusion**

For the foregoing reasons, the Commission should not adopt the new revenue and expense accounts proposed in the Public Notice or in the comments.

Respectfully submitted,

By: \_\_\_\_\_/S/\_\_\_\_\_

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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.