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August 28, 2001

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

Re: Notice of Ex Parte Presentation: Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket 00-199.

Dear Ms. Salas;

Yesterday, Robert Quinn and I representing AT&T and Mary Brown, representing WorldCom met with Matthew Brill, Legal Advisor to Commissioner Kathleen Q. Abernathy, to discuss issues related to the above referenced proceeding. Both AT&T and WorldCom urged the Commission to keep at a minimum the accounts proposed in the June 8, 2001 Public Notice and warned that any further reduction to the accounting requirements or ARMIS reporting requirements would hinder the ability of both the State and the FCC in performing their regulatory oversight role. Difficulties in setting UNE prices as well as administering universal service programs were sited as definite outcomes should the FCC further reduce the these ILEC requirements. The attachment was used as an outline for our discussions.

I have submitted an original and two copies of this Notice in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

Attachment

cc: Matthew Brill
Mary Brown

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Comprehensive Review of Accounting Requirements & ARMIS Reporting Requirements for ILECs

NPRM - Released October 18, 2000

Public Notice – Released June 8, 2001

Issues:

1. Class A Accounting – The NPRM proposes to reduce the number of Class A accounts (mostly revenue, expense and liability accounts) from 296 down to 171. The Public Notice proposes adding 20 new accounts to update the accounting system for current technology. Adding the twenty new accounts results in a net decrease of approximately a 36% decrease in the number of accounts reported.

USTA – Proposes to eliminate **all** class A accounting.

The proposed 171 accounts and the additional 20 accounts are critical. – These 191 accounts represent the minimum requirements needed by both federal and state regulators to make informed decisions. For example, included in the 171 accounts are network plant investment accounts, which drive both maintenance and depreciation expenses. Without this investment information, regulators will not be able to monitor the relationship between such investments and their associated expenses. The 20 new accounts only update the accounting to reflect technology used today.

New Technology Accounts – Accounts for packet switching, optical switching and optical circuit equipment that are necessary as networks move toward an IP basis. These new technologies will have different functions, designs and costs that should not be dumped in with existing and older technologies.

New Interconnection Accounts – Accounts for interconnection expenses such UNE expense, resale expense and reciprocal compensation expense and will allow the commission to assess the level of local competition as well as the proper prices for interconnection arrangements.

Universal Service Accounts – These revenue and expense accounts are needed to evaluate the carriers' USF billing rates and to ensure that these rates reflect the needs of the USF programs.

Class B accounting would reveal almost no information regarding the carriers' network plant investments. For example, Class B accounting places all outside plant investment in one account. No detail would be provided regarding the makeup of cable investment. All fiber, copper, aerial, underground and buried cables as well as poles and conduit would be lumped together. The result would impair cost modeling, depreciation rates and salvage factors and undermine the universal service modeling and UNE pricing modeling that relies on this information.

2. ARMIS Reporting – USTA proposes to eliminate ARMIS reports and state related data. USTA proposes to eliminate 95% of the interstate reporting data and 100% of the state reporting data.

ARMIS reporting is necessary to monitor carriers' costs and revenues – ARMIS data contains both interstate and state accounting data. Eliminating such a significant amount of reporting would drastically reduce the effectiveness and usefulness of the accounting system and undermine the regulator's ability to understand carriers' costs, especially state-specific costs.

Other issues

1. Deep sea cable account must be separate from buried the buried cable account.
2. Customer deposits must be separate from current liabilities.
2. Directory revenue must not be combined into the misc. revenue account.
3. Customer service expense should be separate from wholesale and retail.
4. The new interconnection revenue and expense accounts must have UNE, resale, reciprocal compensation and other subaccounts.