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September 5, 2001

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room TW-A325
Washington, D.C. 20554

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SEP - 5 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: *Ex Parte* Presentation
CC Docket No. 00-199

Dear Ms. Salas:

On September 4, 2001, the undersigned, Joanne Barron and Gerry Asch (Verizon) and Al Seyles (SBC) on behalf of the United States Telecom Association (USTA) met with Matthew Brill of Commissioner Abernathy's office, Samuel Feder of Commissioner Martin's office and Dorothy Attwood and Carol Matthey of the Common Carrier Bureau regarding the above-referenced proceeding. Consistent with its written filings in this docket and with previous ex parte presentations, USTA urged the FCC to streamline the existing accounting and reporting requirements and to reject the addition of new accounts in this proceeding. USTA discussed the attached materials. USTA emphasized that Class A accounts are not required for purposes of UNE pricing or for purposes of the universal service cost model.

In accordance with Section 1.1206(a)(1) of the Commission's rules, an original and a copy of this notice are being filed in the Office of the Secretary. Please include a copy of the letter in the above-referenced proceeding. If there are any questions regarding this submission, please contact the undersigned.

Respectfully submitted,

Linda L. Kent
Associate General Counsel

Attachment

cc: Matthew Brill
Samuel Feder
Dorothy Attwood
Carol Matthey

No. of Copies rec'd 0+1
List A B C D E

Accounting/Reporting Requirements
CC Docket 00-199
USTA
September 4 - 6, 2001

Accounting/Reporting Background

- CC Docket 99-253 Created 2 Phases

Phase 1 - Short Term

Completed in March 2000

No Accounts or Reports Eliminated

Phase 2 - Long Term

Future NPRM

- CC Docket 00-199 Added a Phase

– Each added Phase Delays Long Term Plan

Phase 2 - Short Term

Order Pending

Phase 3 - Long Term

No NPRM Proposals

USTA Proposal Deregulate Acct/Rept by 2005

– Attached chart shows NPRM and related USTA proposals under the new definition of Phase 2

Accounting/Reporting Streamlining

- Commission can take a leadership role
 - reduce the micro-management of Incumbent Local Exchange Carrier (ILEC) accounting
 - allow ILEC's to consider new, efficient systems
- Relief should reflect the significant changes in regulation and in the industry

Accounting/Reporting Streamlining

- Industry Proposals are in the public interest
 - will not raise rates
 - increased competition and other regulations, such as pricing regulations, continue to safeguard consumers
 - external agencies provide accounting guidance
 - Generally Accepted Accounting Principles (GAAP)
 - Foreign Corrupt Practices Act (FCPA)
 - Tax Codes
 - regulators can still request information from carriers when necessary

Accounting/Reporting Streamlining

- Industry Proposals are in the public interest (cont'd)
 - carriers can continue to meet regulatory requirements
 - Unbundled Network Elements (UNE) require costs other than Class A or Class B
 - Universal Service model uses forward-looking costs. The few required accounting ratios can still be provided
 - Jurisdictional Separations already frozen at Class B for ALL ILECs
 - Regulated/Nonregulated Cost Allocation direct costs will not change - midsize have already moved from Class A to B
 - Separate Affiliates use GAAP today

Industry Phase 2 Proposals

- Class A Chart of Accounts (almost 300 accounts) can be eliminated.
 - Use Class B Chart of Accounts (over 100 accounts) for all carriers.
 - Class B accounts already exist in the rules and in all carriers' systems.
 - Class B is a summary of the more detailed Class A accounts.

Industry Phase 2 Proposals

- Public Notice (6/8/01) proposed **24 additional** accounts that are **not necessary** (state proposals totaled 32 new accounts).
 - Chart of Accounts is not intended to be service specific.
 - New technologies are converging for example, circuit and packet in same switch.
 - More than just ILECs recover USF payments from end user customers.
 - ILECs do not generally purchase Interconnection.
 - Individual state needs can be met without mandating new accounts.

Industry Phase 2 Proposals

- Give carriers the option to move closer to Generally Accepted Accounting Principles (GAAP) by making rules more flexible.
- ILECs should record affiliate transactions at either Prevailing Price or Cost rather than at the higher of Estimated Market Value or Cost when selling and the lower of Estimated Market Value or Cost when purchasing.
- Forecasting nonregulated usage of shared central office and outside plant is obsolete with the introduction of interconnection agreements.

Industry Phase 2 Proposals

- USTA ARMIS Proposal
 - Consolidate Financial Reports into one Class B Report
 - Keep columns for Interstate and Non-Interstate (State)
 - No new data added to ILEC only reports
 - Broadband Competitive Analysis Report, completed by more than just incumbent carriers, would substitute for ILEC only Infrastructure and Operating Data Reports
 - Impact of USTA Proposal

Today's 10 Reports	42 Tables	347 Columns	1,800 to 5,500 Lines
USTA Reduction	-17 Tables	-150 Columns	-1,485 to 1,755 Lines

Industry Phase 2 Proposals

- Midsize Carriers should not be required to file a Cost Allocation Manual (CAM), conduct CAM Audits or file ARMIS reports.

Accounting/Reporting Streamlining

- Phase 2 Chart of Accounts
 - Same Accounts (today's Class B) for use by all incumbent local exchange carriers - For Example

Today (Large Carriers Only)

Product Management	\$50,000
Sales	\$30,000
Product Advertising	\$20,000

Total Marketing	\$100,000
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Today (Midsize and Small Carriers)

Marketing	\$100,000
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Proposed (All Carriers)

Marketing	\$100,000
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- See next page for a list of the 108 Class B accounts all incumbent local exchange carriers should use

PART 32 CLASS B CHART OF ACCOUNTS

Same Accounts proposed for use by Large, Midsize and Small Incumbent Local Exchange Carriers

ASSETS

1120 Cash and equivalents
 1180 Telecommunications accounts receivable
 1181 Accounts receivable allowance--telecommunications
 1190 Other accounts receivable
 1191 Accounts receivable allowance--other
 1200 Notes receivable
 1201 Notes receivable allowance
 1210 Interest and dividends receivable
 1220 Inventories
 Materials and supplies
 Property held for sale or lease
 1280 Prepayments
 1350 Other current assets
 1401 Investment in affiliated companies
 1402 Investments in nonaffiliated companies
 1406 Nonregulated investments
 Permanent investment
 Receivable/payable
 Current net income or loss
 1407 Unamortized debt issuance expense
 1408 Sinking funds
 1410 Other noncurrent assets
 1437 Deferred tax regulatory asset
 1438 Deferred maintenance and retirements
 1439 Deferred charges
 2001 Telecommunications plant in service
 2002 Property held for future telecommunications use
 2003 Telecommunications plant under construction
 2005 Telecommunications plant adjustment
 2006 Nonoperating plant
 2007 Goodwill
 2110 Land and support assets
 2210 Central Office--Switching
 2220 Operator systems
 2230 Central office--Transmission
 2310 Information origination/termination
 2410 Cable and wire facilities
 2680 Amortizable tangible assets
 2690 Intangibles

LIABILITIES

3100 Accumulated depreciation
 3200 Accumulated depreciation--Held for future telecommunications use
 3300 Accumulated depreciation--nonoperating
 3400 Accumulated amortization--tangible
 3500 Accumulated amortization--intangible
 3600 Accumulated amortization--other
 4010 Accounts payable
 4020 Notes payable
 4030 Advance billing and payments
 4040 Customer's deposits
 4050 Current maturities--long-term debt
 4060 Current maturities--capital leases
 4070 Income taxes--accrued
 4080 Other taxes--accrued
 4100 Net Current Deferred Operating Income Taxes
 4110 Net Current Deferred Nonoperating Income Taxes
 4120 Other accrued liabilities
 4130 Other current liabilities
 4210 Funded debt
 4220 Premium on long-term debt
 4230 Discount on long-term debt
 4240 Recquired debt
 4250 Obligations under capital leases
 4260 Advances from affiliated companies
 4270 Other long-term debt
 4310 Other long-term liabilities
 4320 Unamortized operating investment tax credits--net
 4330 Unamortized nonoperating investment tax credits--net
 4340 Net noncurrent deferred operating income taxes
 4341 Net deferred tax liability adjustments
 4350 Net noncurrent deferred nonoperating income taxes
 4360 Other deferred credits
 4361 Deferred tax regulatory liability

 EQUITY
 4510 Capital stock
 4520 Additional paid-in-capital
 4530 Treasury stock
 4540 Other capital
 4550 Retained earnings

OPERATING REVENUE

5000 Basic local service revenue
 5080 Network access revenue
 5081 End user revenue
 5082 Switched access revenue
 5083 Special access revenue
 5084 State access revenue
 5100 Long distance message revenue
 5200 Miscellaneous revenue
 5280 Nonregulated operating revenue
 5300 Uncollectible revenue

OPERATING EXPENSE

6110 Network support expense
 6120 General support expenses
 6210 Central office switching expense
 6220 Operator system expense
 6230 Central office transmission expenses
 6310 Information origination/termination Expense
 6410 Cable and wire facilities expenses
 6510 Other property, plant and equipment Expenses
 6530 Network operations expenses
 6540 Access expense
 6560 Depreciation and amortization expenses
 6610 Marketing
 6620 Services
 6710 Executive and planning
 6720 General and administrative
 6790 Provision for uncollectible notes receivable

OTHER OPERATING INCOME AND EXPENSE

7100 Other operating income and expense
 7200 Operating taxes
 7300 Nonoperating income and expense
 7400 Nonoperating taxes
 7500 Interest and related items
 7600 Extraordinary items
 7990 Nonregulated net income

ACCOUNTING/REPORTING PHASE 2 STREAMLINING PROPOSALS - September 2001

Item	Industry	NPRM and Public Notice																																
<p>1. Chart of Accounts</p>	<p>Class B for all incumbent LECs</p>	<p>Sought Comment on USTA proposal, but later issued Public Notice</p> <p style="text-align: center;">Public Notice</p> <p>Proposed to retain both Class A and B</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">For Class A 296</td> <td style="width: 50%;">For Class B 116</td> </tr> <tr> <td>Deleted 122</td> <td>Deleted 30</td> </tr> <tr> <td>Added 24</td> <td>Added 4</td> </tr> <tr> <td>Remaining 198</td> <td>Remaining 90</td> </tr> </table> <p>Accounts Proposed to be Added</p> <table border="0" style="width: 100%;"> <tr> <td>Digital Electronic Switching - Circuit</td> <td>Intangibles - Network Software</td> </tr> <tr> <td>Digital Electronic Switching - Packet</td> <td>Intangibles - Other</td> </tr> <tr> <td>Optical Switching - Circuit</td> <td>Interconnection Revenue - UNE</td> </tr> <tr> <td>Optical Switching - Packet</td> <td>Interconnection Revenue - Resale</td> </tr> <tr> <td>Circuit Equipment - Electronic</td> <td>Interconnection Revenue - Recip Comp</td> </tr> <tr> <td>Circuit Equipment - Optical</td> <td>Interconnection Revenue - Other</td> </tr> <tr> <td>Digital Electronic Expense - Circuit</td> <td>Interconnection Expense - UNE</td> </tr> <tr> <td>Digital Electronic Expense - Packet</td> <td>Interconnection Expense - Resale</td> </tr> <tr> <td>Optical Expense - Circuit</td> <td>Interconnection Expense - Recip Comp</td> </tr> <tr> <td>Optical Expense - Packet</td> <td>Interconnection Expense - Other</td> </tr> <tr> <td>Circuit Equipment Expense - Electronic</td> <td>USF Support Expense</td> </tr> <tr> <td>Circuit Equipment Expense - Optical</td> <td>USF Support Revenue</td> </tr> </table>	For Class A 296	For Class B 116	Deleted 122	Deleted 30	Added 24	Added 4	Remaining 198	Remaining 90	Digital Electronic Switching - Circuit	Intangibles - Network Software	Digital Electronic Switching - Packet	Intangibles - Other	Optical Switching - Circuit	Interconnection Revenue - UNE	Optical Switching - Packet	Interconnection Revenue - Resale	Circuit Equipment - Electronic	Interconnection Revenue - Recip Comp	Circuit Equipment - Optical	Interconnection Revenue - Other	Digital Electronic Expense - Circuit	Interconnection Expense - UNE	Digital Electronic Expense - Packet	Interconnection Expense - Resale	Optical Expense - Circuit	Interconnection Expense - Recip Comp	Optical Expense - Packet	Interconnection Expense - Other	Circuit Equipment Expense - Electronic	USF Support Expense	Circuit Equipment Expense - Optical	USF Support Revenue
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Circuit Equipment - Optical	Interconnection Revenue - Other																																	
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Optical Expense - Packet	Interconnection Expense - Other																																	
Circuit Equipment Expense - Electronic	USF Support Expense																																	
Circuit Equipment Expense - Optical	USF Support Revenue																																	
<p>2. Generally Accepted Accounting Principles</p>	<p>Use GAAP to perform inventories for materials and supplies [32.1220(h)] and station apparatus [32.2311(f)]</p> <p>Eliminate thresholds for recording construction projects directly to plant accounts</p> <p>Allow ILECs to expense <u>up to</u> \$2,000 for all investments including computers</p> <p>Adopt GAAP recognition of contribution costs (SFAS 116)</p> <p>Eliminate subsidiary record requirement for nonregulated revenues</p>	<p>Sought Comment on USTA proposal</p> <p>Sought Comment on USTA proposal</p> <p>Sought Comment on USTA proposal; proposed alternative to only increase central office tools and test equipment</p> <p>Concluded item should be revisited, makes sense for financial purposes, but concerned carriers would recover the change. Sought comment.</p> <p>Sought Comment on USTA proposal</p>																																

ACCOUNTING/REPORTING PHASE 2 STREAMLINING PROPOSALS - September 2001

Item	Industry	NPRM and Public Notice
	<p>Simplify deferred tax accounting entries</p> <p>Replace detailed property record rules with general rules. (Verizon comments provided rules that did not require ongoing approvals)</p> <p>Eliminate notification, revenue requirement study, and prior approval to adopt new Financial Accounting Standards Board (FASB) standards</p> <p>Uncollectibles as expense vs. contra revenue (USTA public notice comments)</p>	<p>Sought Comment on USTA proposal</p> <p>Sought Comment to eliminate detailed property record requirements. Per exparte contact, a separate approval proceeding will be initiated.</p> <p>Sought Comment on USTA proposal</p> <p>Sought Comment on Public Notice of Proposed List of Accounts</p>
<p>3. Eliminate Estimated Fair Market Value Test</p>	<p>Eliminate estimated fair market value calculation (USTA initial comments). Asymmetrical rules no longer needed.</p> <p>If estimated fair market value is not eliminated, reduce instances requiring a comparison to cost: \$1 million threshold for assets; extend centralized service exemption to all centralized services</p> <p>Decrease prevailing price mandated threshold from 50% to 25%. (When threshold is not met, estimated fair market value and cost comparison is needed.)</p> <p>Allow affiliate sales to ILECs to be valued at less than full cost or market and affiliate purchases from ILECs to be valued at more than full cost or market</p> <p>Exempt from affiliate transaction rules ILEC nonregulated activity purchases from and sales to a nonregulated affiliate</p>	<p>Sought Comment on Additional Proposals</p> <p>Proposed to extend exemption from calculating estimated fair market value to asset transfers totaling less than \$500,000 per year. Sought comment on USTA proposal to extend centralized service exemption</p> <p>Sought comment on USTA proposal</p> <p>Proposed allowing the higher or lower of cost or market to operate as either a floor or ceiling</p> <p>Proposed that affiliate transaction rules should not apply to nonregulated activities transferred from a carrier's operations to its nonregulated affiliates.</p>
<p>4. Nonregulated Forecasting and Other Allocation Items</p>	<p>Clarify that interconnection agreements under Section 252(e) are treated the same as tariffed services under the cost allocation rule 64.901(b)(1)</p> <p>Eliminate the requirement to forecast nonregulated usage of shared network investment in central office and outside plant accounts in 64.901(b)(4) as the 1996 Act has rendered this requirement obsolete</p>	<p>Sought comment on USTA proposal</p> <p>Sought comment on USTA proposal</p>

ACCOUNTING/REPORTING PHASE 2 STREAMLINING PROPOSALS - September 2001

Item	Industry	NPRM and Public Notice
	<p>Allow ILECs to update the list of activities under Section 32.4999(l) to treat minor nontariffed services as regulated by eliminating the criteria that activities have been treated traditionally as regulated</p> <p>Eliminate requirement to file a nonregulated activity product/service account matrix in Sect. II Cost Allocation Manual. (USTA comments)</p> <p>Allocate at Class B level for all carriers.</p>	<p>Proposed that the three remaining criteria provide safeguards that the incidental activity exemption will not be abused.</p> <p>Sought comment on additional alternative modifications.</p> <p>Sought comment on USTA proposal.</p>
<p>5. ARMIS Reporting</p> <p>(Today's ARMIS 10 Reports 42 Tables 347 Columns 1819+ to 5521+ Lines Information by study area or company-depends on report.)</p>	<p>One financial report</p> <p>Combine redundant items and eliminating unnecessary details for 43-01, 02 (Income Statement I-1 and Balance Sheet B1-a, B-1b) 03, 04. Report sample provided in June 9, 2000 letter. USTA also suggested Elimination of 43-07 and 43-08; and elimination of 495A, 495B (related to Shared Network Forecasting)</p> <p>Of the 347 columns and 1819+ to 5521+ lines, the USTA proposal would eliminate 150 columns and 1,485+ to 1,755+ lines (126 columns and 1481+ to 1643+ lines with USTA alternative 43-08).</p>	<p>Sought comment on USTA proposal; however proposed that all reports be retained and the following changes made:</p> <p><u>43-01 Summary</u></p> <ul style="list-style-type: none"> • Move Table II to the 43-04 • Eliminate 1 of 21 columns by combining the data with another column • FCC Staff to generate the report from details reported by carriers. <p><u>43-02 Financial</u></p> <ul style="list-style-type: none"> • FCC Staff to generate Income Statement and Balance Sheet. • Add 12 new rows for 12 existing accounts (Income Statement and Balance Sheet) <p><u>43-03 Nonreg Cost Allocation</u></p> <ul style="list-style-type: none"> • Add up to 63 accounts so FCC Staff can generate the 43-02 Income Statement and Balance Sheet <p><u>43-04 Jurisdictional Separations</u></p> <ul style="list-style-type: none"> • Add 12 new rows for 12 existing accounts so FCC staff can generate the 43-02 Income Statement and Balance Sheet • A separate Public Notice only on ARMIS 43-04 has been released that proposed to eliminate 8 columns and 347 lines. <p><u>43-07 Infrastructure</u></p> <ul style="list-style-type: none"> • Eliminate 69 of 111 lines, then add 9 lines. • For Table II, add 2 columns.

ACCOUNTING/REPORTING PHASE 2 STREAMLINING PROPOSALS - September 2001

Item	Industry	NPRM and Public Notice
	<p>Eliminate ARMIS 43-02 Schedules B4 and I2</p> <p>Modify nonregulated adjustment threshold from \$1 million per holding company to > \$1 million or 2% nonregulated expense and only aggregate material dollars</p> <p>Eliminate ARMIS 43-07 Infrastructure Report (States already collect this information)</p> <p>One definition of access lines (billable access lines)</p> <p>Eliminate access line tables and traffic data on ARMIS 43-08 Operating Data Report (billable access lines reported on ARMIS 43-01)</p> <p>Eliminate ARMIS 495A and 495B forecasted and actual nonregulated usage data.</p>	<p><u>43-08 Operating Data</u></p> <ul style="list-style-type: none"> • Eliminate 25 of 75 columns, then add 3 columns <p>Sought comment on USTA proposal</p>
<p>6 Mid Size Carrier Relief</p>	<p>Eliminate CAM filings</p> <p>Eliminate CAM Audits</p> <p>Eliminate ARMIS (43-01, 43-02,43-03, 43-04, 43-05,43-06, 43-07, 43-08, 495A, 495B)</p>	<p>Proposed to eliminate CAM filings but require carriers to maintain a CAM per or file an annual certification stating compliance with the cost allocation rules</p> <p>Proposed to change threshold for definition of mid-size incumbent LEC from \$114 million to \$200 million for not maintaining a CAM or filing a certification</p> <p>Proposed to eliminate CAM Audit</p> <p>Proposed to have midsize carriers report the ARMIS 43-01 Summary Report and not the supporting details in the ARMIS 43-02, 03 or 04. Also sought comment on eliminating ARMIS 43-08 operating data report.</p>