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Mary L. Henze
Executive Director
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SEP 21 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

September 21, 2001

Ms. Magalie Roman Salas
Secretary
445 Twelfth Street, SW
Room TW-A325
Washington, DC 20554

Re: CC Dkt. 00-199; 2000 Biennial Regulatory Review - Comprehensive Review of Accounting Requirements.

Dear Ms. Salas,

On September 21, 2001, BellSouth sent the attached letter to Carol Mattey, Deputy Chief of the Common Carrier Bureau. The letter provides additional information requested during a meeting on the above captioned proceeding.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,

Mary L. Henze

Mary L. Henze

Attachment

cc: C. Mattey
D. Attwood
K. Dixon
M. Brill
S. Feder
P. Margie

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September 21, 2001

Ms. Carol Mattey
Deputy Bureau Chief
Common Carrier Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20054

Re: CC Dkt. 00-199; 2000 Biennial Regulatory Review - Comprehensive Review of Accounting Requirements.

Dear Ms. Mattey,

During our meeting on September 5, you asked BellSouth to provide examples of actual costs associated with the FCC's current affiliate transactions rules. As we explained, the nature of the rules and the complexity of our business makes it difficult to calculate exact costs. However, we have made a good faith estimate of the costs imposed by the rules' current centralized service exemption which applies on a legal entity basis. Our estimates apply only to the application of this single element of the rules (Part 32.27(c)); the costs associated with the entire body of affiliate transactions rules are obviously much greater.

As you know, under the current rule, if a Service Affiliate has a single sale of a single service outside the corporate family, the exemption is lost and an EFMV/FDC comparison must be performed for all other services of that affiliate, even if they continue to be provided 100% within the corporate family.

BellSouth estimates that the cost of triggering the EFMV/FDC comparison for a single service affiliate is approximately $4.9 million. This is the total cost of obtaining the necessary Estimated Fair Market Value studies for all services provided by the affiliate. This estimate is based on the actual number of services provided by an actual BellSouth affiliate and actual costs of obtaining EFMV studies. We note that this is the cost faced by a single service affiliate; companies with multiple service affiliates face this potential cost many times over.

As we noted in our meeting, since the cost of triggering the EFMV/FDC is so high, companies often seek to avoid those costs by changing the corporate structure instead. For example, the corporation may opt to move the entire organization that provides the service with potential for outside sales out of the exempt service affiliate to another affiliate that is already subject to the EFMV/FDC comparison. BellSouth estimates that the administrative cost of moving a 100-employee organization from one affiliate to another is $95,000. This estimate is based on actual BellSouth costs associated with just such a move. The other option open to the affiliate is to refuse outside sales of the service in question and thus forgo potential revenue and/or expense reduction and other efficiencies.

By adopting the BellSouth/USTA proposal for modifying the current service exemption to apply on a service-by-service basis, the FCC would eliminate the costs associated with the current rule without reducing their effectiveness. Services that are provided outside the corporate family would continue to be subject to all applicable safeguards including the EFMV/FDC comparison. However, companies would no longer face the burden of unnecessary reorganizations or the cost of obtaining EMFV for services that continue to be provide 100% within the corporate family.

Thank you for consideration of this material. Please do not hesitate to contact me should you have any questions.

Sincerely,

Mary L. Henze

Mary L. Henze

cc: D. Attwood
K. Dixon
M. Brill
S. Feder
P. Margie