Appendix

I. **NMPRC urges the FCC to reject in toto the USTA's Proposal to Eliminate Class A Accounting for Large ILECs – taking them down to Class B level of reporting.**

- **Elimination of Class A accounting requirements would undermine States' ability to understand the nature of the carriers' costs – and make it more difficult for States to evaluate ILEC Cost studies prepared for determining universal service support, UNE prices, and interconnection prices.**

- **The USTA argument that Class A accounting requirements are too burdensome for the largest ILECs is disingenuous as the data is already collected – whether it is reported or not.**

- **The USTA argument that no accounting and reporting requirements are necessary under a price cap/"CALLS" regulatory regime is false.**

- **Accounting and reporting requirements are clearly necessary for monitoring UNE pricing and universal service support, both critical elements in promoting competition and connectivity as required by the 1996 Act.**

II. **The NMPRC generally supports the NPRM Proposal to eliminate 125 of 296 Class A accounts (mostly revenue, expense, and liability accounts); retaining 171 current accounts.**

- **In general we applaud the FCC's efforts to simplify and streamline its accounting and reporting requirements and certainly agree with the elimination of any overlap of federal and State reporting requirements (one focus of this proceeding) as well as elimination of other unnecessary reporting requirements.**

- **We appreciate the fact that we were invited into the process early to work with the FCC on reforming these accounts. We believe the process worked. Not only were there informal discussions in advance of the notice – but also 16 States and NARUC filed comments in various stages of the proceeding. The streamlining suggested has eliminated about 40 percent of the accounts. We believe the right balance – with the addition of several new accounts – has been struck.**

III. The NMPRC generally supports the State proposals to add several new accounts to reflect new technologies and the requirements of the '96 Act (e.g., universal service support, UNE pricing, number portability).

- **The accounts suggested by States for new technologies are appropriate and necessary to enable the FCC to maintain an up-to-date accounting system.**

- **The following few additional accounts, along with the proposed Class A structure, are necessary for both federal and State regulators to determine universal service funding levels, pole attachment rates, customer rates in rate of return States, and UNE and interconnection rates:**

  - Creation of expense and revenue accounts for UNE and interconnection to help States administer the prices of these services.
  - Creation of a new account for packet and ATM switches to reflect the planned wide-scale deployment of such facilities.
  - Creation of expense and revenue accounts for universal service funding, reciprocal compensation, resale and collocation activities.

IV. The NMPRC supports (1) elimination of reporting requirements in ARMIS that are less useful and/or obsolete, (2) upgrades of ARMIS to collect information on new technologies, and (3) believes elimination of State-by-State ARMIS data would be counterproductive.

- **The NMPRC fully supports the FCC's proposal to eliminate the collection of obsolete data and to update its ARMIS reports to obtain information on new technologies (upgrades and investments in switching and transmission capacity) that are critical components of the carrier's network infrastructure.**

- **The NMPRC believes the USTA's proposal to eliminate State-by-State ARMIS information would undermine the States' ability to use any data provided by ARMIS.**

ORIGINAL

EX PARTE OR LATE FILED

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State of North Carolina
Utilities Commission

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PO Box 29510
Raleigh, NC 27626-0510

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September 4, 2001

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SEP 5 2001

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Commissioner Gloria Tristani
Federal Communications Commission
445 12th Street, SW Portals II Building
Washington, DC 20554

RE: *Ex Parte Letter of the North Carolina Utilities Commission filed In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 00-199

Dear Commissioner Tristani:

In accordance with Section 1.1206(b)(1) of the FCC's rules, the North Carolina Utilities Commission (NCUC) submits for filing this *ex parte* letter for inclusion in the public record of this proceeding.

The NCUC strongly supports NARUC's position on this issue as outlined in NARUC's December 21, 2000 Comments filed in this regard.

Specifically, the NCUC has the following comments:

(1) The NCUC urges the FCC to reject in toto the USTA's Proposal to eliminate Class A accounting for large ILECs, which would, if adopted, take them down to a Class B level of reporting.

Elimination of Class A accounting requirements would undermine a state's ability to understand the nature of the carriers' costs – and make it more difficult for states to evaluate ILEC cost studies prepared for determining universal service support, UNE prices, and interconnection prices. ILEC costs are largely driven by network plant investments. Class B accounting reveals little about such investments. For example, under Class B, all outside cable and wire investments are contained in one account. No detail

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would be provided regarding the construction or makeup of the various types of outside plant. All fiber, copper, aerial, underground, and buried cables as well as poles and conduit would be combined together in one account. These separate accounts are critical cost components used to establish proper universal service support, UNE, pole attachment, and other rates that ILECs charge their customers and competitors. Furthermore, it would undermine the states' ability to set or assess the carriers' depreciation rates or even the FCC's life and salvage rates. This is because various types of plant inherently have widely diverse life and salvage factors. Combining them would seriously distort the usefulness of the current prescribed ranges and undermine all of the programs that rely on them (i.e., universal service model, UNE pricing).

The USTA's argument that Class A accounting requirements are too burdensome for the largest ILECs is disingenuous as the data is already collected – whether it is reported or not. Today these carriers maintain from 2,500 to 4,500 accounts in each of their own accounting systems. To comply with Class A accounting, all that they do is aggregate their own account balances into the standard Class A format of about 300 accounts. If carriers are allowed to move to Class B accounting, only the ILECs would have the detailed data critical to evaluate the appropriate rates and support levels for these federal and State activities. State and Federal regulators would lack access to the critical data needed to assess appropriate rates and funding levels.

The USTA argument that no accounting and reporting requirements are necessary under a price cap/"CALLS" regulatory regime is false. Carriers may still justify rate increases based on low-end adjustment claims and other measures that rely on cost data that are in place under current federal and State regulatory schemes.

Accounting and reporting requirements are clearly necessary for monitoring UNE pricing and universal service support, both critical elements in promoting competition and connectivity as required by the Telecommunications Act of 1996.

(2) The NCUC generally supports the NPRM Proposal to eliminate 125 of 296 Class A accounts (mostly revenue, expense, and liability accounts) and retain 171 current accounts.

In general, we applaud the FCC's efforts to simplify and streamline its accounting and reporting requirements and certainly agree with the elimination of any overlap of federal and state reporting requirements (one focus of this proceeding) as well as elimination of other unnecessary reporting requirements. The NCUC generally agrees with the streamlined Class A level detail, as proposed by the FCC; however, there are a few areas where additional detail, as proposed by the States, will be necessary to ensure that the accounting system reflects recent technological changes and allow both federal and State regulators to carry out their mandates under TA96.

We appreciate the fact that we were invited into the process early to work with the FCC on reforming these accounts. We believe the process worked. Not only were their informal discussions in advanced of the notice – but 16 states (including the Public Staff – NCUC) and NARUC filed comments in various stages of the proceeding. The streamlining suggested has eliminated about 40 percent of the unneeded accounts – but we believe the right balance – with the addition of several new accounts – has been struck. The FCC's proposal for Class A streamlining generally maintains sufficient detail for regulators, but some crucial areas are ignored in plant, expense, and revenue accounts. These are covered by the proposed new accounts.

(3) The NCUC generally supports the State proposals to add several new accounts to reflect new technologies and the requirements of TA96 (e.g., universal service support, UNE pricing, and number portability).

The accounts suggested by states for new technologies are appropriate and necessary to enable the FCC to maintain an up-to-date accounting system. These accounts will enable the FCC and states to continue to understand the nature of the carrier's investment and ensure that prices are reflective of their actual costs. Moreover, such information will enable the FCC and states to monitor issues such as deployment, collocation, and interconnection cooperation.

Creation of the following few additional accounts, along with the proposed Class A structure, are necessary for both federal and State regulators to appropriately determine universal service funding levels, pole attachment rates, customer rates in rate of return States, and UNE and interconnection rates:

Expense and revenue accounts for UNEs and interconnection to help states administer the prices of these services.

A new account for packet and ATM switches to reflect the planned wide-scale deployment of such facilities.

Expense and revenue accounts for universal service funding, reciprocal compensation, resale, and collocation activities.

(4) The NCUC supports (1) elimination of reporting requirements in ARMIS that are less useful and/or obsolete, and (2) upgrades of ARMIS to collect information on new technologies. Further, the NCUC believes that elimination of state-by-state ARMIS data would be counterproductive.

The NCUC fully supports the FCC's proposal to eliminate the collection of obsolete data and to update its ARMIS reports to obtain information on new technologies (upgrades and investments in switching and transmission capacity) that are critical components of the carrier's network infrastructure. The information that the FCC proposes to collect is basic to the FCC's responsibilities to assure the integrity of the country's network and should impose minimal burden on the carriers. The elimination of data (approximately half of what is collected today) will further ease the data collection burden on the carrier.

The NCUC believes the USTA's proposal to eliminate state-by-state ARMIS information would undermine the states' ability to use any data provided in ARMIS. Moreover, it would harm the FCC's ability to monitor and investigate ILEC activities, especially in cases where a targeted investigation may be warranted. ARMIS was designed to accommodate both FCC and state needs. To eliminate the information provided on a state basis would undermine the goals that ARMIS sought to achieve. The carriers are required by most states to maintain this data on a state basis. Thus, no additional burden is placed on the carrier to maintain the state data, and the burden to report it is minimal.

Thank you for your consideration of the NCUC's *ex parte* letter in this regard.

Very truly yours,

Jo Anne Sanford

Jo Anne Sanford
Chair

cc: Magalie R. Salas
Deena Shetler

ORIGINAL

N A R U August 17, 2001

National Association of Regulatory Utility Commissioners

EX PARTE OR LATE FILED

September 6, 2001

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magali R. Salas
Secretary
Federal Communications Commission
445 12th Street, SW Portals II Building
Washington, DC 20544

RE: **Ex Parte Comments - To be filed in the proceeding captioned "*In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers*," CC Docket No. 00-199.**

Dear Ms. Salas:

In accordance with Section 1.1206(b)(1) of the FCC's rules, the National Association of Regulatory Utility Commissioners ("NARUC") submits for filing this notice of *ex parte* contacts for inclusion in the public record of this proceeding. We respectfully request any waivers need to file the notices that are more than 24 hours old out of time.

In the contacts listed below, NARUC and several individual State commissioner representatives suggested generally:

- ***NARUC applauds the FCC's successful efforts to involve the states in this streamlining process, and respectfully suggests that the cooperative effort has been of mutual benefit resulting in proposed reductions in Class A Accounts of about 40 percent. The few new accounts proposed are necessary adjuncts to the reform proposal.***

The states appreciate the fact that we were invited into the process early to work with the FCC on reforming these accounts. The process worked. Not only were there informal discussions in advance of the notice – but 16 states and NARUC filed comments in various stages of the proceeding. The streamlining suggested has eliminated about 40 percent of the unneeded accounts. We believe the right balance – *with the addition of several new accounts* – has been struck.

The FCC's proposal for Class A streamlining generally maintains sufficient detail for regulators, but some crucial areas are ignored in plant, expense, and revenue accounts. These areas are covered by the proposed new accounts covering universal service, new technology deployments, and interconnection arrangements.

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Those additional accounts, along with the proposed reduced Class A structure, are necessary for FCC and state regulators to appropriately determine universal service funding levels, pole attachment rates, customer rates in rate of return states, and UNE and interconnection rates.[1]

- ***We also agree with the FCC's cautious approach to eliminating requirements that are necessary to promote universal service, foster efficient competition, and protect consumers before significant market changes occur.***

- ***NARUC and its members also made several detailed arguments concerning the addition of new accounts to the USOA. Those are covered in the attached Appendix A.***

The time and attendees involved in each ex parte contact are listed below:

(1) **THURSDAY, AUGUST 30, 2001, 1:00-2:30:** Discussion involving FCC's CCB Chief Dorothy Attwood and CCB Deputy Chief Carol Mattey and NARUC general counsel Brad Ramsay.

(2) **TUESDAY, SEPTEMBER 4, 2001, 3:00-4:00:** Discussion involving FCC's Kyle Dixon (Advisor to the Chairman), Deena Shelter (Advisor to Commissioner Tristani), CCB Chief Dorothy Attwood, CCB Deputy Bureau Chief Carol Mattey, Accounting Safeguards Division Chief Ken Moran and Accounting Safeguards Division Deputy Chief Tim Peterson and State commission Commissioners and staff from Nebraska (Commissioner Anne Boyle), Wyoming (Denise Parrish), Florida (Pat Lee), Virginia (Chris Harris) and NARUC general counsel Brad Ramsay.

(3) **TUESDAY, SEPTEMBER 4, 2001:** Michigan Commissioner Robert Nelson voice mail to FCC Commissioner K. Abernathy's CCB assistant Matt Brill referencing generally the critical need to continue accounting and ARMIS reporting and citing Michigan's experience.

(4) **WEDNESDAY, SEPTEMBER 5, 2001, 3:30 – 6:00:** Discussion involving FCC's Kyle Dixon (Advisor to the Chairman), and CCB Deputy Bureau Chief Carol Mattey, ASD Chief Ken Moran and ASD Deputy Division Chief Tim Peterson and State commission staff from South Dakota (Commissioner Pam Nelson), Nebraska (Commissioner Anne Boyle) California (Tom Long, Advisor to CPUC Chair Lynch, Jonathan Lakritz, Advisor to CPUC Commissioner Wood, and Gretchen Dumas), Wyoming (Denise Parrish), Florida (Pat Lee), Virginia (Chris Harris), Indiana (Karl Henry and Pam Tabor) and NARUC general counsel Brad Ramsay.

(5) **WEDNESDAY, SEPTEMBER 5, 2001:** Brief discussion involving FCC Commissioner M. Copps' CCB Advisor Paul Margie and NARUC's general counsel Brad Ramsay. Mr. Margie received an electronic version of the addendum to this ex parte.

(6) **THURSDAY, SEPTEMBER 6, 2001, 8:15-8:40:** Discussion involving FCC Commissioner K. Martin's CCB Advisor Sam Feder and NARUC's general counsel Brad Ramsay.

(7) **THURSDAY, SEPTEMBER 6, 2001, 9:00-10:00:**Discussion involving FCC Commissioner K. Martin's CCB Advisor Sam Feder and State commission staff from Florida (Pat Lee), Wyoming (Denise Parrish), Virginia (Chris Harris) and NARUC's general counsel Brad Ramsay.

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[1] Some States have taken advantage of The Pole Attachment Act and supplanted the FCC in regulating pole attachments. States generally develop these rates using a formula based on Class A accounting data. If carriers are allowed to move to Class B accounting, neither the FCC, States, nor competitors will have the data necessary to evaluate these rates.

(8) **THURSDAY, SEPTEMBER 6, 2001, 11:00-11:45:** Discussion involving FCC Commissioner K. Abernathy's Advisor Matt Brill, South Dakota Commissioner Pam Nelson, and State commission staff from Florida (Pat Lee), Wyoming (Denise Parrish), Virginia (Chris Harris) and NARUC's general counsel Brad Ramsay.

(9) **THURSDAY, SEPTEMBER 6, 2001, 4:30:** Sent this Letter and all attachments to all FCC Commissioner offices and the Common Carrier Bureau Staff.

If you have any questions about these or any other NARUC positions, please do not hesitate to contact me at 202.898.2207 or jramsay@naruc.org.

Respectfully Submitted,

James Bradford Ramsay
NARUC General Counsel

APPENDIX A[2]

Background: What has been the process so far?

Before the original notice of proposed rulemaking, the FCC invited the states to work with them informally on ways to streamline the accounting functions at the Commission. There was some involvement by the staffs of the two joint boards on related accounts. At least 7 or 8 states participated in the process in one way or another. Last spring there were 5 public meetings where carriers, consumer groups, and NARUC members participated. The states have been working with the FCC to streamline the system by about 40 percent overall - updating chart of accounts for new technologies and for nascent competition.

NARUC suggested some new accounts to assure States and the FCC continue to understand the nature of the ILEC's investment and ensure that prices are reflective of actual costs. Additionally, such information will enable the FCC and states to monitor issues such as competitive market development, deployment, collocation, and interconnection cooperation. The FCC's proposed accounting and reporting streamlining measures made in the NPRM and PN are made in the spirit of cooperation with the ILECs and the states to reduce regulatory burdens while still maintaining the data necessary for regulatory oversight obligations. These standards in accounting and reporting data are essential in the monitoring of the network and the state of competition. Elimination of accounting safeguards before competition has sufficiently begun to develop will provide certain opportunity for cross-subsidization, non-cost based UNE and interconnection pricing consequences that will hamper the development of competition in the exchange access and local exchange markets.

The June 2001 notice listing the new proposed accounts reflected generally what the States understandably anticipated would be the Bureau's recommendation.

It is very important to emphasize that (1) we've been working with the FCC all along on the reform effort not just because we were invited in, but because FCC action in this area can directly affect State interests (2) the joint effort has achieved significant reductions (about 40%) in the number of accounts.

Key Issues

I. THE USOA GENERALLY: *Changes to the Uniform System of Accounts, which is used by both FCC and the States to fulfill duties assigned under the 1996 Act, should reflect our common interest to migrate the markets towards competition.*

- *Historically, NARUC has been involved in the creation of Uniform Systems of Accounts for all regulated industries, most often in tandem with our federal counterparts. The FCC's Uniform System of Accounts includes both intrastate and interstate revenues and expenses and many states, either as a matter of PSC regulation or state law, mirror the FCC USOA.*

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[2] IMPORTANT CAVEAT – I have included all of the arguments presented during these conferences supporting retention of these NEW accounts – a position affirmed by NARUC. This includes the arguments originally presented by NARUC in its comments and the others suggested by other state staff participating in the discussions.

- *Some States, like the Virginia PSC, operate essentially as judges, get their information through interrogatories, and cannot require the creation of new workpapers to back up existing accounts. The USOA is an important tool for such commissions.*

- *Even those States that do have independent authority to require separate and detailed reporting cannot require carriers to provide information on operations out of state. The existence of ARMIS allows States to determine, e.g., if certain carriers are over-recovering overheads via misallocations of the same costs to more than one state.*

- *Congress gave the States significant duties under Sections 251 and 252 - and Section 271 - of the 1996 Act and the FCC not hesitated to give States significant guidance on how those duties are to be carried out – particularly with respect to how prices and rates are established. States are also charged with certifying carrier's use of universal service funds.*

- *The existing and proposed accounts provide useful and essential information to the states to carry out each of those duties*

- *With that history, and the FCC's own detailed 1996 Act implementation regulations, the need for a common approach to USOA changes is heightened.*

- *Moreover, aside from the obvious utility in this circumstance of a basic USOA, the state UNE proceedings rely heavily on data from the FCC's Part 32. It is also difficult to see how the FCC could run federal support programs, like the Universal Service program without uniformity in accounts and reporting.*

II. **THE PROPOSAL TO ELIMINATE 125 OF 296 CLASS A ACCOUNTS (mostly revenue, expense, and liability accounts) and to retain 171 accounts:** *NARUC and individual States worked with the FCC to achieve most of these reductions – at the FCC's invitation. Overall, NARUC did not oppose the elimination of the overwhelming majority of these accounts in tandem with the new suggested accounts. Indeed, this was the goal of working informally with the FCC – a significant reduction in the accounting requirements – without elimination of information the States rely upon.*

- ***In general NARUC applauds the FCC's efforts to simplify and streamline its accounting and reporting requirements and certainly agrees with the elimination of any overlap of federal and state reporting requirements (one focus of this proceeding) as well as elimination of other unnecessary reporting requirements.*** *NARUC generally agrees with the streamlined Class A level detail, as proposed by the FCC; however, there are a few areas where additional detail, as proposed by the States, will be necessary to ensure that the accounting system reflects recent technological changes and allow both federal and State regulators to carry out their mandates under the 1996 Act.*

- ***We appreciate the fact that we were invited into the process early to work with the FCC on reforming these accounts. We believe the process worked. Not only were their informal discussions in advanced of the notice – but 16 states and NARUC filed comments in various stages of the proceeding. The streamlining suggested has eliminated about 40 percent of the unneeded accounts – but we believe the right balance – with the addition of several new accounts – has been struck.*** *Anything less will not provide sufficient information to fulfill regulatory oversight obligations. The FCC's proposal for Class A streamlining* *generally maintains sufficient detail for regulators, but some crucial areas are ignored in plant, expense, and revenue accounts. These are covered by the proposed new accounts.*

III. ***The PN proposes adding 20 new accounts suggested by the States to reflect new technologies and the requirements of the '96 Act (e.g., universal service support, UNE pricing, number portability).*** *NARUC fully supported the states' proposed additional accounts to track new technologies, universal service costs, interconnection revenues and expense - as necessary to ensure that the accounting system reflects recent technological changes and allow both federal and state regulators to carry out their mandates under the 1996 Act.*

- ***The accounts suggested by states for new technologies are appropriate and necessary to enable the FCC to maintain an up-to-date accounting system.*** These accounts will enable the FCC and states to continue to understand the nature of the carrier's investment and ensure that prices are reflective of their actual costs. Unlike other sources – including from other FCC required reports – USOA amounts are audited. Moreover, such information will enable the FCC and states to monitor issues such as deployment, collocation, and interconnection cooperation.

- ***The following few additional accounts, along with the proposed Class A structure, are necessary for both federal and State regulators to appropriately determine universal service funding levels, pole attachment rates, customer rates in rate of return States, and UNE and interconnection rates:***[3]

    - *Creation of expense and revenue accounts for UNE and interconnection to help states administer the prices of these services.*
    - *Creation of a new account for packet and ATM switches to reflect the planned wide-scale deployment of such facilities.*
    - *Creation of expense and revenue accounts for universal service funding, reciprocal compensation, resale, and collocation activities.*

A more detailed discussion of each category of new accounts follows:

A. NEW INTERCONNECTION REVENUE /EXPENSE ACCOUNTS

These accounts should help commissions assess the level of local competition as well as the proper prices for interconnection arrangements (e.g., UNEs and resale). This information is not difficult to obtain – each has clearly identifiable Uniform Service Order Codes – so it can be entirely mechanized for collection purposes. The opposition to the collection, and most of the other proposed accounts, appears to be more related to not allowing access to the information than any administrative burden in collection.

5086 INTERCONNECTION REVENUE [Subaccounts - UNE revenue/ Resale revenue/ Reciprocal Compensation revenue/ Other Interconnection revenue]

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[3] Some States have taken advantage of The Pole Attachment Act and supplanted the FCC in regulating pole attachments. States generally develop these rates using a formula based on Class A accounting data. If carriers are allowed to move to Class B accounting, neither the FCC, States, nor competitors will have the data necessary to evaluate these rates.

What gets booked Revenue side? Revenues the ILEC receives from UNE or Resale or Reciprocal compensation get booked here. The UNE and Resale numbers and trends will provide valuable insight on whether competition is trending upward or downward. If the ILECs are making money from the sale of UNE's – the trend will develop here. It also shows – re: reciprocal compensation – if there is a problem and what kind of problem you have. The section also obviously provides useful information for analysis of the FCC's intercarrier compensation NPRM also. This would get the maximum audited data over the course of the likely 3 – 4 year decision track. Is the data obtained in that proceeding audited? Also, like the rest of the USOA, this information would be audited and thus more reliable. As an aside, if the new accounts are not included or others are rejected, states that mirror the federal USOA will have a tough time requiring changes just to get local data. The ILECs always will argue to the state legislatures that the FCC says the accounts are no longer needed. They also will use the lack of the USOA requirements as a basis for a burden argument at the state level, i.e., its not in the FCC USOA so (1) you must not really need it and (2) we have not segregated it out for you and must recreate it – a significant burden. States can use this date as a benchmark. Trends in UNE/Resale revenues <u>across states</u> can inform specific state regulators if their UNE/resale rates are too low or high to incent competitive entry.

6551 INTERCONNECTION EXPENSE [Subaccounts - UNE expense/ Resale expense/ Reciprocal Compensation expense/ Other interconnection expense]

What gets booked Expense side? One important and noncontroversial subaccount on the expense side covers reciprocal compensation. If carrier buys a UNE from anther carrier, it gets booked in that subaccount. If they are paying reciprocal compensation, it gets booked in that subaccount. It is true that frequently if they are buying UNE's they claim it will be out of a separate subsidiary and shouldn't get booked here. But if facilities are purchased from CLECs from time to time, and it is booked improperly, it will distort plant accounts and under FCC rule 32.27 – if there is any joint use of assets or transfer of assets across an ILEC and its subsidiary – they will have to be booked with the ILEC's books. This also provides an obvious place for ILECs expected to use CLEC facilities to provide in-region service.

B NEW UNIVERSAL SERVICE ACCOUNTS 5090 (USF SUPPORT REVENUE) & 6554 (USF SUPPORT EXPENSE).

Expense and revenue accounts must be created for the federal and state universal service programs to ensure that the carriers' universal service billing rates reflect the needs of the programs. *These accounts (revenue and expense) are needed to evaluate the carriers' USF billing rates and to ensure that these rates reflect the needs of the USF programs. If an ILEC pays to a State Universal Service Fund or the USAC – it goes in the expense account. IF A CARRIER BILLS AN ENDUSER FOR USF – IT GOES TO REVENUE. With these accounts we can see if the ILECs are over-recovering or if there is a mismatch.*

Unlike other FCC reporting forms – this one is audited. The fact that at least the expense accounts are reflected in another FCC form decrys the notion that such accounts impose any additional burden. The USF payments and expense – by definition for the ILECs (with 91 – 99 percent of the market) is also <u>not</u> <u>competitively</u> <u>sensitive</u> <u>information.</u> The addition of these accounts to the USOA would also allow the end user revenue accounts to better reflect facilities based competition. Without these two new accounts these fixed, not demand or competitively sensitive costs would be booked in those accounts.

As a related point for the USF Joint Board's consideration, these accounts and some minimal federal USOA generally is required presumably as long as the federal USF program continues. If, in the absence of federal accounting rules, one state adopts accounting rules that expense costs that other states allow to be capitalized, excess Federal USF monies could flow to that state from the other states.

C. PROPOSAL TO ELIMINATE ACCOUNT 5084 ("STATE ACCESS REVENUE") AND TAKE THE "FEDERAL" DESIGNATOR OFF OF ACCOUNTS 5081(END USER REVENUE), 5082 (SWITCHED ACCESS REVENUE), AND 5083(SPECIAL ACCESS REVENUE).

NARUC DID NOT TAKE A SPECIFIC POSITION ON THIS. But some states supported it informally – AS LONG AS THE ARMIS SECTION 4304 REPORT BREAKS OUT THE INTRA AND INTERSTATE DATA.

D. NEW OPTICAL SWITCHING ACCOUNTS 6213 OPTICAL EXPENSE (Circuit/Packet)/ DIGITAL ELECTRONIC EXPENSE (Circuit /Packet)/ 2212 DIGITAL ELECTRONIC SWITCHING (Circuit /Packet)/ 2213 OPTICAL SWITCHING

Carriers ARE DEPLOYING this technology today. The new accounts splits costs between circuit and packet.

With the move towards packet – this could be a source of trend data. As networks move toward Internet protocol (IP), these technologies will become more predominant. The difference in their functions, designs, and costs require that they be placed in new accounts, and not lumped with existing and/or older technologies. Plant accounts must recognize technologies being deployed by the industry today to avoid cross subsidy – for non-reg services provided via packet technologies – and to establish the proper cost for UNEs. Switching accounts that recognize only electronic circuit switching is already anachronistic. It is therefore imperative that switching accounts include categories for packet switching (ATM, frame relay) and optical switching. These technologies are in place today and are being deployed by the industry on a fast track

As noted above, these accounts are also ultimately critical for UNE and USF cost models. The cost characteristics of the legacy circuit switching is different from packet. The ILEC business plans suggest the carriers are migrating from circuit to packet. This changet could result in shifts from non-traffic sensitive costs to traffic sensitive costs and effectively move costs from the loop to transport. Specifically, as the network configuration changes from circuit to packet switching – the switching function will effectively migrate towards the end user to where the DLC was once located. This should reduce loop expense and make the transitional UNE rollout strategy more cost effective/attractive to CLECs..

The ILECs have complained that where entire switches are not replaced – it may happen that a "circuit" switch that is added to or modified to provide "packet" switching and thus they would not know how to account for the switch. Near term, it would seem the standard mode of classification – by predominant use – would suffice – though over time that may need to be re-examined. This also provides the most reliable audited information on the deployment of new technologies – something the FCC has been instructed by Congress to track.

E. NEW PROPOSED CUSTOMER SERVICES ACCOUNTS:

****These new accounts show wholesale/retail revenue/expense splits. If the ILEC is selling to a CLEC – booked as wholesale – to residential/retail/business – booked as retail. NOTE – NARUC Comments suggested the FCC might want to use retail wholesale measures as a means of assessing ILEC market dominance.*

IV. FCC PROPOSED CHANGES TO THE AFFILIATE TRANSACTION RULE:

The states are concerned that any changes do not effectively incent cross subsidy. We are also concerned that there could be a gap between the time the rules are modified and the apparent FCC monitoring program goes into effect. Eventually, competition could reduce the need for such regulation, but significant changes are premature.

V. USING FORECAST RULE TO ALLOCATE BETWEEN REG AND NON-REG

For years the ILECS have fought against using this methodology, but the FCC has had a solid basis for retaining this allocation method. If this forecast metholodogy is revised as the ILECS have requested, this could create serious cross-subsidies issues and dump significant costs on the states. As the FCC has consistently held since it established the reg/nonreg cost allocation procedures (ie, Part64) in Computer III, the cost of an asset that will be used jointly for both an ILEC's regulated and nonregulated operations must be allocated based upon a forecast of the asset's use. Consider an ILEC that decides to re-wire a city to provide both telco and cable operations and the ILEC expects to achieve a 50% market share for cable in that city (otherwise it wouldn't have made the investment) In the first year the ILEC expects to achieve a 10% cable market share, in the second it expects to achieve a 30% cable market share, and in the third year it expects to achieve a 50% market share. Current cost allocation rules require the carrier to make a 3-year forecast of the reg/nonreg use (in this case the regulated *use is telco, the nonreg use is cable) and allocate the cost of the asset based on the highest nonreg percentage In this case the ILEC would have to allocate 50% of the cost of the new assets to cable (nonreg) and 50 % to telco (reg). The reason for this is the cost allocations are supposed to be based on cost-causation, if ultimately 50% of the capacity were expected to be used for cable, then, 50% of the cost should be allocated to cable. This would be so even if the ILEC's cable operation never took hold and it only achieved an ultimate market share for cable of 10%. Otherwise 90% of the cost of this asset would be permanently allocated to the ILEC's regulated (telco) operations. Thus, the ILEC's telco operations would be permanently subsidizing its nonreg (cable) operations. The reason why this issue is so important to the states is that the reg/nonreg cost allocation defines the amount of regulated cost that is subject to jurisdictional separations. Getting rid of the forecasts and relying on current factors will necessarily dump more costs on states. For every extra dollar that gets assigned to regulated operations, 75 cents would be assigned to the states. Price cap regulation may delay but will not eliminate the state impact – which is to inflate "regulated" costs and effectively subsidize the "non-reg" service.*

VII. PROPOSAL TO ELIMINATE REPORTING REQUIREMENTS IN ARMIS THAT ARE LESS USEFUL AND/OR OBSOLETE.

NARUC fully supports the FCC's proposal to (i) eliminate the collection of obsolete data and (ii) to update its ARMIS reports to obtain information on new technologies (upgrades and investments in switching and transmission capacity) that are critical components of the carrier's network infrastructure. *The information that the FCC proposes to collect is basic to the FCC's responsibilities to assure the integrity of the country's network and should impose minimal burden on the carriers. The elimination of data (approximately half of what is collected today) will further ease the data collection burden on the carrier.*

NARUC strongly opposes USTA's proposal to eliminate practically all current ARMIS reporting requirements for mid-sized carriers. *ARMIS data contains both interstate and intrastate accounting data. The ILECs' proposals to eliminate practically all current reporting requirements would seriously inhibit the states' use of any data provided in ARMIS. This information represents the only publicly available source of accounting data and information utilized in establishing UNE prices, interconnection rates, universal service support; and, assessing service quality trends and network functionality, capabilities, and reliability. All of the ARMIS reports are important to understand the carriers' local exchange and access operations, both financially and technically. The FCC's statutory mandate is to assure a rapid and efficient nationwide telecommunications system to all Americans. The states have other responsibilities that in many ways mirror the FCC's responsibilities. Without certain basic information, the FCC and the states will be hampered in carrying out their responsibilities. The FCC sets forth the basic information it will require from carriers in its accounting, service quality, and network infrastructure rules and orders. ARMIS makes this basic information public. ARMIS reporting does not present a significant burden to the carriers. ARMIS only requires carriers to provide information on certain data otherwise required by FCC rules and does not make public any proprietary data. Additionally, ARMIS data is collected in a uniform and standard format so that the states and the public have efficient and reliable access to critical data that is needed in establishing regulated service rates, UNE prices, interconnection rates, depreciation rates, universal service support, assessing service quality, and service quality trends, network functionality, capabilities, and reliability.*

NARUC believes the USTA's proposal to eliminate state-by-state ARMIS information would undermine the states' ability to use any data provided in ARMIS. Moreover, it would harm the FCC's ability to monitor and investigate ILEC activities, especially in cases where a targeted investigation may be warranted.[4] ARMIS was designed to accommodate both FCC and state needs. To eliminate the information provided on a state basis would undermine the goals that ARMIS sought to achieve. The carriers are required by most states to maintain this data on a state basis. Thus, no burden is placed on the carrier to maintain the state data, and the burden to report it is minimal.

[4] The Ameritech service quality issue is a good example where target investigation may be warranted as a result of the data reported in ARMIS. See October 6, 2000 letter to James Calloway, Group President - SBC Services from Dorothy Attwood, Chief, Common Carrier Bureau, FCC, DA 00-2298, regarding the downward trend in service quality based on quarterly reports filed with the FCC pursuant to the Merger Conditions.

EX PARTE OR LATE FILED

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September 7, 2001

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Ms. Magali R. Salas
Secretary
Federal Communications Commission
445 12th Street, SW Portals II Building
Washington, DC 20554

RE: Ex Parte Comments - To be filed in the proceeding captioned "*In the Matter of 2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers.*, CC Docket No. 00-199.

Dear Ms. Salas:

In accordance with Section 1.1206(b)(1) of the FCC's rules, the Maryland Public Service Commission submits for filing this notice of an *ex parte* contact for inclusion in the public record of this proceeding.

On August 29, 2001, I and Nancy Zearfoss, PSC Technical Advisor to the Commissioners, contacted FCC Commissioner Copps directly to reiterate our desire for several additional accounts as well as our general support for the streamlined Class A Accounts suggested in the June 2001 notice. On September 4, 2001 we contacted Chairman Powell and on September 5, we contacted Commissioners Abernathy and Martin.

On August 29, 2001, we also contacted Deena Shetler directly to cover the same concerns.

Briefly, we suggested the following:

➢ ***The MD PSC commission applauds the FCC's successful efforts to involve the states in this streamlining process, and respectfully suggests that the cooperative effort has been of mutual benefit resulting in proposed reductions in Class A Accounts of about 40 percent. The few new accounts proposed are necessary adjuncts to the reform proposal.***

The states appreciate the fact that we were invited into the process early to work with the FCC on reforming these accounts. The process worked. Not only were there informal discussions in advance of the notice – but 16 states and NARUC filed comments in various stages of the proceeding. The streamlining suggested has eliminated about 40 percent of the unneeded accounts. We believe the right balance – with the addition of several new accounts – has been struck.

The FCC's proposal for Class A streamlining generally maintains sufficient detail for regulators, but some crucial areas are ignored in plant, expense, and revenue accounts. These areas are covered by the proposed new accounts covering universal service, new technology deployments, and interconnection arrangements. Those additional accounts, along with the proposed reduced Class A structure, are necessary for

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FCC and state regulators to appropriately determine universal service funding levels, pole attachment rates, customer rates in rate of return states, and une and interconnection rates:[1]

- ***We also agree with the FCC's cautious approach to eliminating requirements that are necessary to promote universal service, foster efficient competition, and protect consumers before significant market changes occur.***

More detail on our specific positions is provided in the appendix included with this letter. If you have any questions about this or any other PSC position, please do not hesitate to contact me at 410 767-8099.

Respectfully Submitted,

Gail C. McDonald

Gail C. McDonald

[1] *Some States have taken advantage of The Pole Attachment Act and supplanted the FCC in regulating pole attachments. States generally develop these rates using a formula based on Class A accounting data. If carriers are allowed to move to Class B accounting, neither the FCC, States, nor competitors will have the data necessary to evaluate these rates.*

APPENDIX TO MARYLAND COMMISSION EX PARTE

I. MD PSC urges the FCC to reject in toto the USTA's Proposal to Eliminate Class A Accounting for Large ILECs - taking them down to Class B level of reporting.

- ***Elimination of Class A accounting requirements would undermine state's ability to understand the nature of the carriers' costs – and make it more difficult for states to evaluate ILEC Cost studies prepared for determining universal service support, UNE prices, and interconnection prices.*** *ILEC costs are largely driven by network plant investments. Class B accounting reveals little about such investments. For example, under Class B, all outside cable and wire investments are contained in one account. No detail would be provided regarding the construction or makeup of the various types of outside plant. All fiber, copper, aerial, underground, and buried cables as well as poles and conduit would be combined together in one account. These separate accounts are critical cost components used to establish proper universal service support, UNE, Pole attachment and other rates that ILECs charge its customers and competitors. Furthermore, it would undermine the states' ability to set or assess the carriers' depreciation rates or even the FCC's life and salvage rates. This is because various types of plant inherently have widely diverse life and salvage factors. Combining them would seriously distort the usefulness of the current prescribed ranges and undermine all the programs that rely on them (i.e., universal service model, UNE pricing)*

- ***The USTA argument that Class A accounting requirements are too burdensome for the largest ILECs is disingenuous as the data is already collected – whether it is reported or not.*** Today these carriers maintain from 2,500 to 4,500 accounts in each of their own accounting systems. To comply with Class A accounting, all that they do is aggregate their own account balances into the standard Class A format of about 300 accounts. If carriers are allowed to move to Class B accounting, only the ILECs would have the detailed data critical to evaluate the appropriate rates and support levels for these federal and State activities. State and Federal regulators would lack access to the critical data needed to assess appropriate rates and funding levels.

- ***The USTA argument that no accounting and reporting requirements are necessary under a price cap/"CALLS" regulatory regime is false.*** *Carriers may still justify rate increases based on low-end adjustment claims and other measures that rely on cost data that are in place under current federal and State regulatory schemes.*

- ***Accounting and reporting requirements are clearly necessary for monitoring UNE pricing and universal service support, both critical elements in promoting competition and connectivity as required by the 1996 Act.***

II. The MD PSC generally supports the NPRM Proposal to eliminate 125 of 296 Class A accounts (mostly revenue, expense, and liability accounts); retain 171 current accounts.

- ***In general we applaud the FCC's efforts to simplify and streamline its accounting and reporting requirements and certainly agree with the elimination of any overlap of federal and state reporting requirements (one focus of this proceeding) as well as elimination of other unnecessary reporting requirements.*** *NARUC generally agrees with the streamlined Class A* *level detail, as proposed by the FCC; however, there are a few areas where additional detail, as proposed by the States, will be necessary to ensure that the accounting system reflects recent technological changes and allow both federal and State regulators to carry out their mandates under the 1996 Act.*

- ***We appreciate the fact that we were invited into the process early to work with the FCC on reforming these accounts. We believe the process worked. Not only were their informal discussions in advanced of the notice – but 16 states and NARUC filed comments in various stages of the proceeding. The streamlining suggested has eliminated about 40 percent of the unneeded accounts – but we believe the right balance – with the addition of several new accounts – has been struck.*** *The FCC's proposal for Class A streamlining generally maintains sufficient detail for regulators, but some crucial areas are ignored in plant, expense, and revenue accounts. These are covered by the proposed new accounts.*

II. The MD PSC generally supports the State proposals to add several new accounts to reflect new technologies and the requirements of the '96 Act (*e.g.*, universal service support, UNE pricing, number portability).

- ***The accounts suggested by states for new technologies are appropriate and necessary to enable the FCC to maintain an up-to-date accounting system.*** These accounts will enable the FCC and states to continue to understand the nature of the carrier's investment and ensure that prices are reflective of their actual costs. Moreover, such information will enable the FCC and states to monitor issues such as deployment, collocation, and interconnection cooperation.

- ***The following few additional accounts, along with the proposed Class A structure, are necessary for both federal and State regulators to appropriately determine universal service funding levels, pole attachment rates, customer rates in rate of return States, and UNE and interconnection rates:***[2]

  - *Creation of expense and revenue accounts for UNE and interconnection to help states administer the prices of these services.*
  - *Creation of a new account for packet and ATM switches to reflect the planned wide-scale deployment of such facilities.*
  - *Creation of expense and revenue accounts for universal service funding, reciprocal compensation, resale, and collocation activities.*

- **NEW PROPOSED INTERCONNECTION REVENUE AND EXPENSE ACCOUNTS**

These accounts should help commissions assess the level of local competition as well as the proper prices for interconnection arrangements (e.g., UNEs and resale). They also provide critical inputs needed to assess the FCC's intercarrier compensation NPRM.

- **NEW PROPOSED UNIVERSAL SERVICE ACCOUNTS 5090 (USF SUPPORT REVENUE) & 6554 (USF SUPPORT EXPENSE).**

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[2] *Some States have taken advantage of The Pole Attachment Act and supplanted the FCC in regulating pole attachments. States generally develop these rates using a formula based on Class A accounting data. If carriers are allowed to move to Class B accounting, neither the FCC, States, nor competitors will have the data necessary to evaluate these rates.*

Expense and revenue accounts must be created for the federal and state universal service programs to ensure that the carriers' universal service billing rates reflect the needs of the programs.

- **PROPOSAL TO ELIMINATE ACCOUNT 5084 WHICH IS CAPTIONED "STATE ACCESS REVENUE" AND TAKE THE "FEDERAL" DESIGNATOR OFF OF ACCOUNTS 5081(END USER REVENUE), 5082 (SWITCHED ACCESS REVENUE), AND 5083(SPECIAL ACCESS REVENUE).**

This proposal provides the States with a better breakout of access revenues. Currently all STATE access revenue – included, e.g., state switched and special access, any state "SLC" – are all booked in a single account. If this proposal is adopted – the ILECs will have to book intrastate/State costs into three separate accounts, e.g., enduser/switched access/special access, and THEN when the carrier files its Separations ARMIS report "the Separations 43-04" – the costs will be broken down by interstate/intrastate via direct assignment.

- **NEW PROPOSED OPTICAL SWITCHING ACCOUNTS 6213 OPTICAL EXPENSE (Circuit/Packet)/ DIGITAL ELECTRONIC EXPENSE (Circuit /Packet)/ 2212 DIGITAL ELECTRONIC SWITCHING (Circuit /Packet)/ 2213 OPTICAL SWITCHING**

With the move towards packet – this could be a source of trend data. As networks move toward Internet protocol (IP), these technologies will become more predominant. The difference in their functions, designs, and costs require that they be placed in new accounts, and not lumped with existing and/or older technologies. Plant accounts must recognize technologies being deployed by the industry today. Switching accounts that recognize only electronic circuit switching is already anachronistic. It is therefore imperative that switching accounts include categories for packet switching (ATM, frame relay) and optical switching. These technologies are in place today and are being deployed by the industry on a fast track.

IV. The MD PSC supports (1) elimination of reporting requirements in ARMIS that are less useful and/or obsolete, (2) upgrades of ARMIS to collect information on new techonologies, and (3) believes elimination of State-by-State ARMIS data would be counterproductive.

- ***The MD PSC fully supports the FCC's proposal to eliminate the collection of obsolete data and to update its ARMIS reports to obtain information on new technologies (upgrades and investments in switching and transmission capacity) that are critical components of the carrier's network infrastructure.*** The information that the FCC proposes to collect is basic to the FCC's responsibilities to assure the integrity of the country's network and should impose minimal burden on the carriers. The elimination of data (approximately half of what is collected today) will further ease the data collection burden on the carrier.

- ***The MD PSC believes that USTA's proposal to eliminate state-by-state ARMIS information would undermine the states' ability to use any data provided in ARMIS.*** Moreover, it would harm the FCC's ability to monitor and investigate ILEC activities, especially in cases where a targeted investigation may be warranted.[3] ARMIS was

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designed to accommodate both FCC and state needs. To eliminate the information provided on a state basis would undermine the goals that ARMIS sought to achieve. The carriers are required by most states to maintain this data on a state basis. Thus, no burden is placed on the carrier to maintain the state data, and the burden to report it is minimal.

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regarding the downward trend in service quality based on quarterly reports filed with the FCC pursuant to the Merger Conditions.