

DEHEADING

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THE ARIZONA CORPORATION COMMISSION Arizona Corporation Commission

DOCKETED

APR 19 2001

JIM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

DOCKETED BY []

IN THE MATTER OF THE APPLICATION OF)
U S WEST COMMUNICATIONS, INC., A)
COLORADO CORPORATION, FOR A)
HEARING TO DETERMINE THE EARNINGS)
OF THE COMPANY, THE FAIR VALUE OF)
THE COMPANY FOR RATEMAKING)
PURPOSES, TO FIX A JUST AND)
REASONABLE RATE OF RETURN)
THEREON AND TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP)
SUCH RETURN.)

DOCKET NO. T-01051B-99-0105

AT&T'S APPLICATION
FOR REHEARING

AZ CORP COMMISSION
DOCUMENT CONTROL

2001 APR 19 P 4: 18

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I. INTRODUCTION

On March 30, 2001, the Commission issued Decision No. 63487 approving the Second Revised Settlement Agreement and Price Cap Plan negotiated by Qwest and the Commission Staff. Pursuant to A.R.S. §40-253, AT&T respectfully requests rehearing of that Decision.

The Settlement Agreement approved by the Commission suffers from one clear fatal defect and a number of very serious shortcomings. First, and most importantly, the Settlement Agreement is built on a revenue requirement that was never the subject of careful Commission review. Indeed, Staff frankly admitted that "a handful of specifically identified adjustments" were vigorously negotiated, and the remaining proposed adjustments were not given "line-by-line" scrutiny. Intervenors were barred from questioning the substance of Qwest's claimed revenue requirement during the limited hearing held to review the Price Cap Plan. No one knows, even today, whether the revenue requirement settled on by Qwest and the Commission Staff is 5, 10 or 100 million dollars too high. This cavalier approach to setting the Qwest revenue requirement (a subject that has not been examined closely by the Commission in six

years) violates the Commission's Constitutional obligation to "prescribe . . . just and reasonable rates." Const. Art. 15, sec. 3.

AT&T also submits in this application that rehearing should be granted because the Settlement Agreement and Price Cap Plan: (1) fail to adequately reduce the switched access charges imposed by Qwest, thereby forcing Arizona consumers to pay artificially high per minute fees for instate long distance calls; (2) deny Arizona consumers a fair share of the productivity gains Qwest will likely experience over the life of the Plan; and (3) allow Qwest to use flexible pricing for new services to drive out competition in targeted market segments. We treat each point briefly below.

II. THE REVENUE REQUIREMENT

In this case, the Hearing Examiner accepted into the record all of the testimony previously filed by the parties, including testimony addressing the Qwest claimed revenue requirement. The Hearing Examiner did not, however, permit intervenors to cross – examine Qwest and Staff witnesses on Qwest's earnings during the test year or any other issue relating to the revenue requirement. The final Order accepts a compromise between Staff and Qwest that will allow Qwest to impose a \$23.3 million rate increase on Arizona consumers. This position is unjustified and should be rejected. AT&T, RUCO, and the Department of Defense each filed substantial testimony in this proceeding describing the adjustments required to Qwest's proposed rate base and earnings to develop a revenue requirement that would lead to just and reasonable rates. All of these witnesses determined that Qwest was over-earning. Staff witnesses also identified significant problems with the revenue requirement proposed by Qwest. Although the testimony of Staff witnesses supported a slight increase in Qwest's current revenue requirement, the cumulative effect of reductions proposed by all the parties would be to decrease Qwest's revenue in Arizona by more than \$200 million from their current level. *See Exs. Staff 16, AT&T 6 to 9; RUCO 3, DOD 2 and 3.*

The Commission has no adequate justification for the "compromise" revenue requirement figure that allows Qwest to impose a \$23.3 million rate increase on Arizona consumers. In

contrast, in many other Qwest states the public utility commissions have learned – following weeks of contested hearings – that Qwest is over-earning for its services. These states have also required substantial rate reductions from local exchange carriers in exchange for pricing flexibility. RUCO Ex. 14 at 9-10. Given the record before the Commission, there is simply no evidence supporting the Commission’s determination that the substantial rate increase approved by the Commission in Decision 63487 is just and reasonable. The Commission has necessarily failed in its duty to prescribe just and reasonable rates if it makes no serious inquiry into how much Qwest is earning, and whether Qwest is earning *more* than a fair return on its investment.

During the course of the hearing on the settlement, Qwest witness Mr. Redding admitted that Qwest and Staff arrived at the agreed revenue requirement by according no value to adjustments proposed by any party other than Staff. Tr. 166. In essence, Staff and Qwest agreed that the Commission would not accept, or even review, these other adjustments. A few of the AT&T proposed adjustments are discussed below, simply to illustrate that the Commission could not have arrived at a fair revenue requirement without considering these issues.

A. Qwest Central Office Equipment Audit Results

Beginning in 1997, the FCC undertook an audit of the records kept by the Regional Bell Operating Companies (including U S WEST) to evaluate whether property recorded in their accounts was present, in use, or useful for the provision of telecommunications services. The FCC examined U S WEST’s central office equipment as of June 20, 1997. The FCC made the following general findings and conclusions:

35. We concludes that U S WEST has not maintained its basic property records and its CPR [continuing property records] in a manner consistent with the Commissions rules. We base this conclusion on the findings of our statistical sampling of Hard-wired Equipment and actual records of Undetailed Investment and Unallocated Other Costs that show a high percentage of records with substantive deficiencies such as inadequate or no asset description, inaccurate quantities, missing and inaccurate location descriptions, and the high percentage of assets that count not be found by either our auditors or U S WEST’s technical staff. We also base this conclusion on U S WEST’s inability to provide

supporting cost information and other data to substantiate the existence of a large number of entries in its CPR.

36. We believe the problems revealed in this audit are longstanding and unlikely to self-correct. This is indicated by the fact that similar problems were found in our 1994 audit of US WEST's records. Since that audit, U S WEST conducted an inventory over a substantial portion of its COE. Despite these efforts, the current audit demonstrates that substantive problems in U S WEST's plant records persist.
37. The inability of the company to demonstrate the existence of such a high percentage of the equipment contained in its records raises significant questions about the valuation of U S WEST's plant accounts. At its worst, failure to provide sufficient and convincing documentation for the acquisition of the assets in question and for their placement into regulated accounts *raises doubts about whether policy makers can rely on the records.* [emphasis added].
38. We believe that corrective actions concerning the accounting treatment of the overstated amounts is necessary to address the deficiencies found in our audit. We believe that the amounts associated with Hard-wired Equipment that was not found (\$378.6 million) and Undetailed Investment that could not be substantiated (\$218.6 million) should be written off U S WEST's plant accounts.

The FCC subsequently adjusted upward to \$505.8 million the U S WEST figure for claimed, but "missing" Hard-wired Equipment. The revised total write-off recommended by the FCC for Qwest is now \$724.4 million. Arizona's intrastate share of that figure is \$78 million. AT&T Ex. 6, p. 27, n. 21. If the FCC's recommended write-offs for phantom investment and assets are taken into account, the rate base relied on by U S WEST in calculating its revenue requirement must be overstated. As AT&T witness Susan Gately explained in her testimony (AT&T Ex. 2, p. 27-28), if gross plant is overstated due to phantom investment, the depreciation expense claimed by Qwest is also overstated. To account for this over-statement, Ms. Gately recommended a net operating income adjustment of approximately \$8.1 million.

After Ms. Gately's testimony was filed, but before the hearing in this case, the FCC issued an order explaining that, with regard to interstate revenue issues, it would no longer pursue further investigation into the continuing property records audit. See Second Report and Order in CC Docket No. 99-137 and Order in CC Docket No. 99-117 (November 7, 2000)

(Attached as Exhibit A). This decision was made because FCC audit findings were considered in the FCC access reform docket. In essence, with regard to the RBOCs interstate revenue base, the FCC settled property records audit issues by requiring significant concessions on access reform. (For example elimination of the presubscribed interexchange carrier charge and removal of \$650 million in implicit universal service support from access charges.)

The FCC expressly stated the following in its November 7, 2000 Order: "We wish to make clear, however, that our decision in this order does not preclude the states from investigating relevant state issues raised by the CPR audits." The FCC dealt *only* with the interstate portion of the RBOC rate base and left to the states the task of setting an appropriate adjustment for overstatement of the intrastate rate base. In this case, the Commission staff made no adjustment to the Qwest rate base as a result of the FCC's audit findings. This is extraordinary, given that \$78 million dollars of the total plant that could not be found is attributable to Arizona. Because this issue ultimately affected the revenue requirement sought by Qwest, all testimony and cross-examination on this issue was prohibited by the Hearing Officer.

AT&T submits that it is not in the public interest to approve the Qwest Settlement Agreement without first (1) making an adjustment for the \$78 million in plant claimed but not found in Arizona and (2) acting on the FCC's recommendation that the Commission undertake an investigation into the audit's impact on Qwest's intrastate revenue base.

B. Directory Imputation

Staff witness Mr. Brosch determined that the amount of imputation that should be required was between \$93 million and \$104 million. Ex. Staff 7 at 48. Yet, notwithstanding this calculation, Staff and Qwest agreed to impute only \$43 million in calculating the revenue requirement for purposes of the Settlement Agreement. The only basis for Staff's decision to agree to such a limited imputation amount is a 1988 settlement agreement between the Commission and Qwest predecessor, Mountain Bell. *See* Ex. Qwest 48. Both that settlement and case law interpreting the settlement, however, recognize that the amount agreed upon as

imputation in 1988 could be adjusted in future rate cases. *Id.*; see also Ex. Qwest 49. Moreover, as Mr. Brosch himself admitted,

That \$43 million amount is woefully inadequate as imputation of a reasonable ratepayer's share of the directory publishing business.

Id. at 47.

Based on the testimony of Staff witness Mr. Brosch the Commission should have made directory imputation adjustment significantly larger than \$43 million in fees and services imputed in the approved Order.

C. Removal of LNP Investment and Expenses

By order dated July 9, 1999, the FCC approved a federal charge for the recovery of costs associated with implementation of local number portability ("LNP").¹ In so doing, the FCC narrowly defined what costs were eligible for recovery and how those costs could be recovered. Prior to the FCC's order, US WEST admitted that its LNP costs were included in its intrastate revenue requirement and further admitted that approximately \$341 million in total company LNP investment and expenses (1996-1998) would be accounted for and recovered in the normal course of business in the intrastate jurisdiction. (See U S WEST response to UTI data request 13-023.) Qwest continues to claim that costs for LNP implementation may be recovered from the intrastate jurisdiction. This is incorrect. As the FCC explained in its Memorandum and Opinion and Order, the implementation of LNP was an interstate mandated program and costs associated with it must be assigned to the interstate, not the intrastate, jurisdiction. LNP FCC Order ¶¶ 95-97. The fact that Qwest is claiming LNP implementation costs in its intrastate rate base, suggests that Qwest improperly allocated these interstate LNP costs to the intrastate

¹ In the Matter of Long-Term Number Portability Tariff Filings – U S WEST Communications, Inc. CC Docket No. 99-35, Memorandum Opinion and Order, FCC 99-169, July 9, 1999 ("LNP FCC Order").

jurisdiction. Proper allocation of LNP investment costs would result in a 40.6 million dollar rate base reduction and a 6.6 million dollar reduction in Qwest expenses.

AT&T, RUCO and the Department of Defense have proposed numerous other revenue adjustments that should have been accorded value for the purposes of settling this dispute. Even if only some or a portion of these adjustments were adopted, it is clear that the revenue requirement would have been significantly reduced. The failure of the Commission to review these adjustment was arbitrary and capricious. The revenue requirement agreed upon by Staff and Qwest, and now approved by the Commission, will cause every Arizona consumer to pay artificially high rates for telephone service.

II. REHEARING IS ALSO APPROPRIATE ON THE FOLLOWING ISSUES

1. The Agreement Fails to Set Access Rates at Cost.

In order to reach end use customers who receive their local service from Qwest, providers of toll services have no option but to purchase switched access services from Qwest to originate and terminate toll calls. *See* AT&T Ex. 2 at 5-6. Because Qwest still maintains monopoly power in the local market, Qwest is able to charge substantially more than its cost of providing switched access services. *Id.* at 22-23; *see also* Tr. 186. This injures Arizona consumers by improperly inflating the cost of toll services. *Id.* at 34-35. As Qwest agrees, switched access must move towards cost to mirror the rates that would result from a competitive market. Tr. 189.

Recognizing these concerns, Staff expert Mr. Shooshan recommended that Qwest's switched access prices be reduced substantially over the course of the Price Cap Plan. *See* Ex. Staff 12 at 12. Mr. Shooshan recommended that access rates be reduced to a level agreed upon by Qwest as part of the CALLS proposal for interstate access charges. *Id.* This would

require a reduction of Qwest's access charges from the composite rate of approximately 4.5 cents per minute charged today² to the interstate rate of 0.5 cents per minute. *See* Ex. AT&T 1 at 3.

The Settlement Agreement abandons this approach, guaranteeing the toll rates for Arizona consumers will remain artificially high. Under the Settlement Agreement approved by the Commission, access rates are reduced by only \$15 million over the 3-year term of the Plan, resulting in a composite rate of 3.3 cents per minute in three years (or 6.6 cents a minute for the Arizona consumer). *Id.* The gap between cost and price of switched access under this proposal remains astronomical. This has a substantial negative impact on consumers and competition in Arizona's telecommunications market. *Id.* at 8

The Commission's failure to reduce switched access rates and thus remove implicit subsidies to Qwest, also violates the Telecommunications Act of 1996. 47 U.S.C. 251-261 ("the Act"). The Act eliminates the use of implicit subsidies (to preserve the goal of universal service) and instead mandates a system of explicit subsidies. 47 U.S.C. § 254(e) ("[a]ny such support should be explicit and sufficient to achieve the purpose of this section."). This new system requires, in lieu of implicit subsidies, that all telecommunications carriers to "contribute, on an equitable and nondiscriminatory basis," to the advancement of universal service." See § 254(d), (f). Preserving Qwest's implicit subsidy by retaining artificially high switched access rates, allows Qwest to recover in violation of the Act. See In re Access Charge Reform, 12 F.C.C.R. 15982, ¶ 337 (1997).

Switched access charges could easily have been reduced in this case to better approximate the cost of providing access (and thus reduce the implicit subsidy). AT&T has proposed reducing switched access rates to interstate levels over a five-year transition period, consistent with the transition Qwest has agreed to accept in the CALLS proposal. This reduction in charges would benefit Arizona consumers by allowing intraLATA toll rates to go down.

² 4.5 cents is the switched access average weighted rate per minute for origination or termination of a telephone call. The cost to an interexchange carrier to both originate and terminate a telephone call on Qwest's network is 9 cents per minute.

Under AT&T's existing tariff, it must flow-through intrastate access rate reductions to consumers. Without such a reduction, however, the settlement is contrary to the public interest and should be revisited and revised by the Commission.

2. The Agreement Fails to Share Productivity Gains with Consumers.

The very purpose of a price cap plan is to allow both the incumbent carrier and consumers to benefit from operating efficiencies achieved by the carrier during the course of the Plan. *See* Ex. AT&T 5 at 5. As with most price cap plans, the Qwest/Staff proposal uses a productivity or "X" factor to attempt to capture Qwest's increased efficiency. The approved Order accepts this 4.2% X-factor proposed by Staff and Qwest. However, this X-factor allows Qwest to retain most of the benefit of efficiency rather than sharing it with consumers. For this reason, the Plan is inconsistent with public interest.

There are a number of significant problems with the X-factor agreed upon by Qwest and Staff. First, Staff has admitted that the calculation relies on insufficient data. In addition, the factor is significantly below productivity factors accepted by Qwest both at the FCC and in other states. There is also no proposal to adjust for additional productivity gains Qwest may experience during the three-year period of the Plan, such as gains resulting from the merger between U S WEST and Qwest and the sale by Qwest of rural exchanges to Citizens. Finally, the X-factor does not apply across the board to all Qwest services, but rather only to the monopoly services in Basket 1. This results in an actual effective X-factor that is substantially below the 4.2% represented in the Settlement Agreement. These significant limitations in the productivity calculation ensure that consumers will not benefit from all of Qwest's anticipated efficiency gains during the term of this Plan.

Staff conducted no independent productivity study in determining an appropriate factor for measuring Qwest's efficiency gains. The productivity data relied upon in calculating the X-factor proposed by the Plan is based completely upon limited evidence provided by Qwest of its past productivity gains. Ex. Staff 12 at 12-13. Mr. Shooshan, whose staff performed the calculation, has admitted that Staff sought additional information from Qwest to ensure the

accuracy of its calculation. *Id.* Mr. Shooshan did not receive that information in time for use in calculating the 4.2% X-factor used in the proposed settlement, and he has never reanalyzed the calculation based on the additional information. Ex. 3 at 13-14.

Because Mr. Shooshan had such limited information, he relied upon figures including an adjusted Qwest revenue stream, with no evidence of the basis for the adjustments. Without knowing whether the adjustments were appropriate, Staff should have used an unadjusted Qwest revenue stream to ensure a more accurate measure of Qwest's productivity gains. Ex. AT&T 3 at 13-14. Use of the proper unadjusted revenue stream results in an X-factor of at least 5.3%. *Id.* at 14.

This higher X-factor is more in line with productivity adjustments accepted in other Qwest jurisdictions. For example, earlier this year, Qwest became a signatory to the CALLS settlement in which it agreed to a 6.5% X-factor for reductions to interstate switched access charges. *Id.* at 12. Qwest has also recently agreed to a 6.2% X-factor for the price formula adopted in Utah. *Id.*, 20-21. Qwest has provided no explanation for why this Commission should agree to a smaller X-factor than those Qwest has voluntarily accepted in other jurisdictions.

One of the reasons that the Commission should require a larger X-factor is the likelihood that Qwest will, in fact, experience greater productivity increases during the term of the Plan. Qwest represented to the Commission in the merger proceeding regarding the Qwest/U S WEST merger that the merger would result in efficiency gains. Tr. 79-80. The historical data used in this proceeding, however, fail to take these efficiencies into account. Tr. 83. The historical data also does not take into account the efficiencies Qwest realized due to the sale of high-cost exchanges recently approved by the Commission. The Commission's failure to consider these factors renders the Settlement Agreement's productivity adjustment suspect.

Because the Plan approved by the Decision 63487 does not flow through to consumers the productivity gains and efficiencies promised and achieved by Qwest, the Plan is contrary to the public interest.

3. The Pricing Flexibility Allowed Qwest by the Plan are Anti-Competitive.

The approved order gives Qwest pricing flexibility for new services even if Qwest does not, in fact, face competition for the service. For example, today custom calling features are treated as monopoly services because Qwest continues to maintain monopoly power in the provision of local exchange service, and with it a monopoly in the provision of calling features to local exchange customers. Under the Plan, Qwest could introduce a new custom calling feature and have that feature declared competitive, even though the features can only be offered by Qwest as a monopoly provider of local service. Tr. 284. Qwest could then reap monopoly profits from the service by pricing that service far above its actual cost of providing the new feature.

The Approved Order also fails to address the extent of Qwest's pricing flexibility. The Price Cap Plan states that Qwest will be required to meet the Commission's imputation rules in establishing the price floors for services offered in Basket 3. The Plan does not indicate, however, what elements Qwest will be required to impute into the price floors of competitive services. As it became clear at the hearing, Qwest and Staff have strikingly different views as to what imputation will be required. AT&T and other intervenors proposed that the issue of the price floors for competitive services should be resolved in the Price Cap Plan itself. The Approved Order instead opens a new docket to address scope of the Commission's imputation rules. Approving the Price Cap Plan without addressing this material component of the Plan, is not in the public interest. Nevertheless, this will require that the Staff be diligent in assessing Qwest's prices for competitive services until the imputation docket is complete.

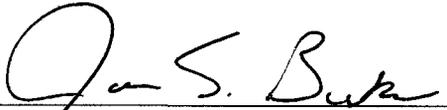
III. CONCLUSION

AT&T agrees that Price Cap regulation, if properly implemented, is a laudable step toward competitive markets and public benefit in Arizona. The Approved Order, however, adopts a plan that is built on a revenue requirement pulled from thin air. The Commission has, in essence avoided its central constitutional obligation in this proceeding; the obligation to ensure

that Arizona consumers are not paying Qwest too much for basic local phone service. For all the reasons outlined above, AT&T respectfully requests that the Commission grant rehearing of this decision.

DATED this ____ day of April, 2001.

**AT&T COMMUNICATIONS OF THE
MOUNTAIN STATES, INC.**

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CERTIFICATE OF SERVICE
ACC Docket No. T-01051B-99-0105

I hereby certify on this 19th day of April 2001, that the original and 10 copies of AT&T's Application for Rehearing were filed with:

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EXHIBIT A

Before the
FEDERAL COMMUNICATIONS COMMISSION
 Washington, D.C. 20554

In the Matter of)	
)	
1998 Biennial Regulatory Review --)	
Review of Depreciation Requirements)	CC Docket No. 98-137
for Incumbent Local Exchange Carriers)	
)	
)	
Ameritech Corporation Telephone Operating)	CC Docket No. 99-117
Companies' Continuing Property Records)	
Audit, <i>et al.</i>)	
)	
)	AAD File No. 98-26
GTE Telephone Operating Companies)	
Release of Information Obtained During)	
Joint Audit)	

**SECOND REPORT AND ORDER IN CC DOCKET NO. 99-137
 AND ORDER IN CC DOCKET NO. 99-117 AND AAD FILE NO. 98-26**

Adopted: November 1, 2000

Released: November 7, 2000

By the Commission: Commissioner Furchtgott-Roth concurring in part, dissenting in part, and issuing a statement.

I. INTRODUCTION

I

1. In this order we decline to adopt the alternative proposal set forth in a Further Notice of Proposed Rulemaking issued on April 3, 2000 (*April 2000 FNPRM*)¹ concerning conditions for price cap incumbent local exchange carriers (ILECs) to obtain relief from the Commission's depreciation requirements. In addition, in light of recent access reform measures taken by the Commission, we decline to pursue further investigation into the continuing property record (CPR) audits of certain ILECs that are currently before the Commission.

¹ 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, CC Docket No. 98-137, Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, et al., CC Docket No. 99-117, GTE Telephone Operating Companies Release of Information Obtained During Joint Audit, AAD file No. 98-26, *Further Notice of Proposed Rulemaking*, FCC 00-119, 15 FCC Rcd 6588 (*rel.* April 3, 2000).

II. BACKGROUND

2. In our 1998 Biennial Regulatory Review proceeding addressing depreciation reform (*December 1999 Order*),² we undertook an extensive review of the current depreciation prescription process for price cap ILECs. We noted in that proceeding how our oversight of carrier depreciation practices has changed from extensive requirements under rate of return regulation to a process today that requires minimal filings from carriers.³ In the *December 1999 Order*, we took further steps to streamline the depreciation process.⁴ We also conducted a detailed analysis under section 10 of the Act to consider a forbearance petition filed by the United States Telecom Association (USTA).⁵ Although we concluded that forbearance of depreciation requirements was not appropriate, we set out a framework under which a price cap ILEC might qualify for a waiver of our depreciation prescription process.⁶

3. In the *December 1999 Order*, we stated that we would consider granting waivers of our depreciation prescription process when certain safeguards were in place to protect against harmful impacts to consumers and competition. Specifically, we found that a waiver of the depreciation requirements would be appropriate when an ILEC, in conjunction with its request for waiver: (1) adjusts the net book costs on its regulatory books to the level currently reflected in its financial books by a below-the-line write-off; (2) uses the same depreciation factors and rates for both regulatory and financial accounting purposes; (3) foregoes the opportunity to seek recovery of the write-off through a low-end adjustment, an exogenous adjustment, or an above-cap filing; and (4) agrees to submit information concerning its depreciable plant accounts, including forecast additions and retirements for major network accounts and replacement plans for digital central offices.⁷ We stated that these specific conditions, along with a showing that the waiver was in the public interest, would provide safeguards against the harmful effects that led us to deny USTA's petition for forbearance and would provide an appropriate basis for our granting a waiver of our depreciation requirements. We noted that alternative proposals by carriers seeking a waiver of the depreciation requirements would be considered on a case-by-case basis. We emphasized, however, that any such proposal must provide the same protections to guard against any adverse impacts on consumers and competition as provided by the conditions we enumerated for obtaining a waiver.⁸

² 1998 Biennial Regulatory Review – Review of Depreciation Requirements for Incumbent Local Exchange Carriers, *Report and Order and Memorandum Opinion and Order*, CC Docket No. 98-137; ASD 98-91, 15 FCC Rcd 242 (*rel.* December 30, 1999).

³ *Id.* at 244-245.

⁴ *Id.* at 246-251.

⁵ *Id.* at 259.

⁶ *Id.* at 252-258.

⁷ *Id.* at 252-253. We also stated that waiver requests must comply with the waiver requirements under the Commission's rules.

⁸ *Id.*

4. On March 3, 2000, four ILECs proffered an alternative proposal that they claimed would provide the basis for a waiver of the Commission's depreciation process similar to what we outlined in the *December 1999 Order (March 3, 2000 letter)*.⁹ The ILECs stated that they would commit to: (1) use the same depreciation factors and rates for both federal regulatory and financial accounting purposes; (2) submit information concerning their depreciation accounts when significant changes to depreciation factors are made; and (3) amortize, over a five-year period, the difference between the depreciation reserve balances on their regulatory books and the corresponding balances on their financial books.¹⁰ In addition, the four ILECs proposed that the amortization expense for each year would be included in the calculation of regulated earnings (treated as an above-the-line expense) when reported to the Commission. The four ILECs committed, however, that the above-the-line amortization would have no effect on interstate price caps or their interstate rates and that they would not seek recovery of the amortization expense through a low-end adjustment, an exogenous adjustment, or an above-cap filing. The four ILECs also stated that they would commit not to seek recovery of the interstate amortization expense through any action at the state level, including any state UNE ratemaking proceeding.¹¹

5. In the *April 2000 FNPRM* we sought comment on the proposed alternative set forth in the ILECs' *March 3, 2000 letter*. We determined that, due to the industry-wide impact of the proposal, we would seek comment on whether the proposal set forth in the *March 3, 2000 letter* presented a framework for providing relief for all price cap carriers subject to the Commission's depreciation requirements. We specifically stated that the proposed alternative must be evaluated against the objectives we identified in the *December 1999 Order* and must provide the same protections against any adverse effects on consumers and competition that we sought to provide through the waiver conditions we approved in the *December 1999 Order*. The *April 2000 FNPRM* also cited the CPR audits of the Regional Bell Operating Companies (RBOCs),¹² as well as the results of a joint State-Federal audit of GTE's CPR, which are currently before the Commission, and sought comment on whether requiring non-recovery of a substantial portion of the carrier's

⁹ See March 3, 2000 *ex parte* letter to Mr. Lawrence Strickling, Chief, Common Carrier Bureau from Frank J. Gumper, Bell Atlantic Network Services, Robert Blau, BellSouth Corporation, Donald E. Cain, SBC Telecommunications, Inc. and Alan F. Ciamporero, GTE Service Corporation ("ILEC Participants") in CC Docket No. 96-262 – Access Charge Reform; CC Docket No. 94-1 – Price Cap Performance Review for Local Exchange Carriers; CC Docket No. 99-249 – Low-Volume Long Distance Users; and CC Docket No. 96-45 – Federal-State Joint Board on Universal Service ("*March 3, 2000 letter*").

¹⁰ *Id.* at p. 1.

¹¹ *Id.* The ILEC Participants made subsequent *ex parte* filings addressing the specifics of the non-recovery commitment they proposed to make. See May 8, 2000 *ex parte* letter to Mr. Lawrence E. Strickling, Chief, Common Carrier Bureau from ILEC Participants; May 23, 2000 *ex parte* letter to Mr. Lawrence E. Strickling, Chief, Common Carrier Bureau from ILEC Participants; June 1, 2000 *ex parte* letter to Mr. Lawrence E. Strickling, Chief, Common Carrier Bureau from ILEC Participants; August 22, 2000 *ex parte* letter to Ms. Dorothy Attwood, Chief, Common Carrier Bureau from ILEC Participants.

¹² The RBOCs subject to the CPR audits include the following carriers: BellSouth Telecommunications; Verizon (Bell Atlantic North (previously NYNEX) and Bell Atlantic South); SBC Telecommunications (Ameritech Corporation, Southwestern Bell, Pacific Bell, and Nevada Bell); and Qwest (US West).

investment as a condition under the depreciation waiver process would have any impact on the CPR audits.¹³

III. DISCUSSION

6. The alternative proposal set forth in the *April 2000 FNPRM*, as an option for price cap ILECs to obtain freedom from the Commission's depreciation requirements, generated a great deal of controversy among the parties.¹⁴ In particular, significant concerns were raised by state regulatory commissions,¹⁵ consumer groups,¹⁶ and industry participants¹⁷ about the effect that the proposed above-the-line accounting treatment would have on local and interstate rates,¹⁸ unbundled network element (UNE) and interconnection rates,¹⁹ and universal service support.²⁰ Many parties

¹³ See *April 2000 FNPRM* at para. 15.

¹⁴ Appendix A includes a list of parties filing initial comments, reply comments, and *ex parte* filings.

¹⁵ See comments and/or *ex parte* filings of: National Association of Regulatory Utility Commissioners (NARUC); Washington Utilities and Transportation Commission; Florida Public Service Commission (Florida Commission); Indiana Utility Regulatory Commission (IURC); Public Utilities Commission of Ohio; Virginia State Corporation Commission; Public Service Commission of Wisconsin (Wisconsin Commission); South Dakota Public Utilities Commission; Maryland Public Service Commission; Public Utility Commission of Texas. See also, *ex parte* letters from individual Commissioners of Washington Utilities and Transportation Commission, Maine Public Utilities Commission, Oregon Public Utility Commission, Florida Public Service Commission, and New Hampshire Public Service Commission.

¹⁶ See comments and/or *ex parte* filings of: National Association of State Utility Consumer Advocates (NASUCA); State of New York, Office of the Attorney General; General Services Administration (GSA); Association for Local Telecommunications Services (ALTS); International Communications Association (ICA); Consumer Federation of America (CFA); Texas Office of Public Utility Counsel (Texas Counsel); Consumers Union (CU); AdHoc Telecommunications Users Committee (AdHoc); New Networks Institute.

¹⁷ See comments and/or *ex parte* filings of: MCI WorldCom, Inc. (MCI); AT&T Corporation (AT&T); National Telephone Cooperative Association (NTCA); United States Telecom Association (USTA); National Exchange Carrier Association, Inc. (NECA); Sprint Corporation (Sprint); National Rural Telecom Association (NRTA); and Association for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO).

¹⁸ Many parties argued that such treatment would provide the carriers with the ability to seek increases in local rates and could consequently expose state jurisdictions to potential litigation to keep ILECs from claiming recovery of approximately \$22.5 billion or 75% of the intrastate portion of the FCC-authorized amortized expense. See *e.g.*, IRUC Comments at 5; NARUC Comments at 6; NASUCA Reply at 6-7; MCI Comments at 13, 29; AT&T Comments at 5-7; AdHoc Comments at 7; ALTS Comments at 5; GSA Reply at 8. In addition, many parties argued that interstate rates would increase because such an accounting treatment, which would not reduce book costs, along with high depreciation expenses due to the use of financial depreciation rates, would depress reported earnings thus triggering low end adjustments. See *e.g.*, MCI Comments at 16-17; ALTS Comments at 4; AdHoc Comments at 7; GSA Reply Comments at 7; NARUC Comments at 8; NASUCA Reply at 8.

¹⁹ Many parties argued that there would be a significant impact on UNE and interconnection rates because depreciation costs are a significant component in determining these rates. Although UNE and

commenting on this issue generally disagreed with an accounting treatment that would permit above-the-line amortization of the regulatory-to-financial book differential over a five-year period.²¹ They also argued that the proposed non-recovery commitment included as part of the proposed alternative did not provide adequate assurance that a significant amount of costs would be excluded from recovery in customers' rates and did not protect against carriers' potential understatement of earnings and rates of return.²² In addition, many parties raised issues about the potential impact of the proposed above-the-line accounting treatment on state cost issues and argued that the non-recovery commitment proposed by the ILECs was not sufficient to assure that the amortized costs, particularly the intrastate portion, would be excluded from cost recovery.²³

7. Our review of the record finds that the parties have raised sufficient concerns that warrant our taking a cautious approach in this matter. We are concerned about assertions that the proposed accounting alternative set forth in the *April 2000 FNPRM*, along with the ILECs' non-recovery commitment, lacks the inherent protections that are provided for in the waiver process we approved in the *December 1999 Order*. In light of the concerns expressed by various parties, particularly our state colleagues, we decline to adopt the proposed alternative set forth in the *April 2000 FNPRM* and instead maintain the status quo. In making a decision here we weigh the concerns expressed by the states heavily in the balance. We are reluctant to take action that could

interconnection rates are established at the state level, the parties contended that many states rely on Commission prescribed depreciation rates, which if no longer subject to regulatory oversight, could increase significantly and have an adverse impact on competitors. *See e.g.*, AdHoc Comments at p. 7-8; ALTS Comments at 6-7; MCI Comments at 29; AT&T Comments at 7; NARUC Comments at 8; Ohio Commission Comments at 2-3; Florida Commission Reply at 4-7; Wisconsin Commission Comments at 5.

²⁰ There was concern that unrestricted depreciation practices could have an adverse impact on smaller and rural ILECs and that discontinuation of Commission oversight of depreciation practices for the large price cap ILECs could affect the amount of federal high cost support for smaller and rural carriers. *See e.g.*, USTA Comments at p. 5; NTCA Comments at p. 3-4; NECA Comments at p. 4-5; NRTA/OPASTCO Comments at p. 3-4; USTA Comments at 5; MCI Comments at 27; AdHoc Comments at 8; GSA Comments at 8; NARUC Comments at 8; IRUC Comments at 2-3; Wisconsin Commission Comments at 5; Sprint Reply at 2-3; NASUCA Reply at 9; Florida Commission Reply at 4-7.

²¹ *See e.g.*, AdHoc Comments at 5-6; MCI Comments at 11; AT&T Comments at 5; GSA Comments at 5-6; ICA/CFA Comments at 4-5; IURC Comments at 5; Wisconsin Commission Comments at 3-4.

²² As called for under the proposal, the above-the-line amortization would be used to offset revenues, but would not be recovered in ILECs' interstate access rates. Many parties argued that this treatment would result in distorted earning reports and to assure that policy decisions were based on accurate earning reports would require ILECs to file an additional accounting report showing the amortization as if it had been taken below-the-line, and not recovered in customer rates. *See e.g.*, AT&T Comments at 6-7; MCI Comments at 8; ICA/CFA Comments at 5; GSA Comments at 5-6; IRUC Comments at 5.

²³ Many parties contended that the ILECs' non-recovery commitment was non-existent with respect to the intrastate amortization and this non-commitment could have harmful consequences on consumers and competition at the local exchange level. *See e.g.*, ALTS Comments at 5; MCI Reply at 3-5; AdHoc Comments at 7; NASUCA Reply at 6. A number of parties also argued that the ILECs' non-recovery commitment was not meaningful at the interstate level and would not prevent ILECs from employing various other mechanisms to recover the amortized amounts. *See e.g.*, AdHoc Comments at 7-8; AT&T Comments at 6-7; MCI Comments at 13-15.

unfairly burden state proceedings, particularly when our *December 1999 Order* provides a waiver process whereby carriers may seek additional relief from our depreciation prescription rules in the future without raising such concerns.

III. CPR Audits of Regional Bell Operating Companies and GTE

8. In 1997, the Common Carrier Bureau's auditors began an audit of the CPRs of the largest ILECs, the RBOCs, to determine if their records were being maintained in compliance with the Commission's rules and to verify that property recorded in their accounts represented equipment used and useful for the provision of telecommunications services.²⁴ Specifically, the Bureau auditors conducted audits of the Bell Atlantic Telephone Companies ("Verizon"),²⁵ BellSouth Telecommunications ("BellSouth"),²⁶ Southwestern Bell Telephone Company, Ameritech Corporation Telephone Operating Companies, Pacific Bell and Nevada Bell Telephone Companies ("SBC"),²⁷ and US West Telephone Company ("Qwest").²⁸ In addition, the Bureau auditors had previously conducted a joint Federal-State CPR audit for GTE.²⁹ In each of the audit reports, the Bureau auditors reported that the carrier's CPRs contained deficiencies and did not comply with the Commission's rules. The auditors further reported that certain equipment described in the CPRs could not be found by the Bureau auditors or by company personnel during the field audits. Also, the auditors reported that the CPRs included records and accounting entries that had no description of the equipment or its location and were described as "undetailed investment" or "unallocated other costs." The Bureau provided each of the RBOCs with a copy of

²⁴ The Commission has specific requirements that carriers must comply with for recording investment in property, plant, and equipment and for maintaining certain supporting records, including basic property records. The basic property records consist of the CPRs, which include details concerning specific location, date of placement in service, and original cost of plant assets, and supplemental records, which include invoices, work orders, and engineering drawings to support the CPRs. These property records are the part of the property accounting system that preserves the identity, vintage, location, and original cost of property, as well as original and ongoing transactional data. *See* 47 C.F.R.32.2000.

²⁵ Bell Atlantic (South) Telephone Companies' Continuing Property Records Audit, *Order*, 14 FCC Rcd 5541 (*rel.* March 12, 1999) and Bell Atlantic (North) Telephone Companies' Continuing Property Records Audit, *Order*, 14 FCC Rcd 5855 (*rel.* March 12, 1999).

²⁶ BellSouth Telecommunications' Continuing Property Records Audit, *Order*, 14 FCC Rcd 4258 (*rel.* March 12, 1999).

²⁷ Southwestern Bell Telephone Company's Continuing Property Records Audit, *Order*, 14 FCC Rcd 4242 (*rel.* March 12, 1999); Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, *Order*, 14 FCC Rcd 4273 (*rel.* March 12, 1999); and Pacific Bell and Nevada Bell Telephone Companies Continuing Property Records Audit, *Order*, 14 FCC Rcd 5839 (*rel.* March 12, 1999).

²⁸ US West Telephone Operating Companies' Continuing Property Records Audit, *Order*, 14 FCC 5731 (*rel.* March 12, 1999).

²⁹ *See* In the Matter of GTE Telephone Operating Companies, Release of Information Obtained During Joint Audit, *Memorandum Opinion and Order*, 13 FCC Rcd 9179 (*rel.* March 18, 1998).

its respective audit report for comment. On March 12, 1999, the Commission publicly released the audit reports and the carriers' comments.³⁰

9. On April 7, 1999, the Commission released a Notice of Inquiry (NOI) that initiated a proceeding based on the CPR audits of the RBOCs' hard-wired central office equipment.³¹ While the Commission stated that it was not passing judgment on the accuracy of the reports, their findings or conclusions, the audit reports, as written, place a potentially high liability on the RBOCs.³² Many comments were filed in response to the Commission's NOI, including the RBOCs' response challenging the conclusions reached by the auditors.³³ The RBOCs asserted, *inter alia*, that the Commission should take additional information into account that would demonstrate that, despite mistakes in their CPRs, the expenditures at issue were all properly made and that no harm to ratepayers had occurred.³⁴

³⁰ See *supra*. notes 25, 26, 27, and 28. The audit report concerning GTE's CPRs was released on March 18, 1998. See *supra*. note 29.

³¹ See In the Matter of Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, Bell Atlantic (North) Telephone Companies' Continuing Property Records Audit; Bell Atlantic (South) Telephone Companies' Continuing Property Records Audit; BellSouth Telecommunications' Continuing Property Records Audit; Pacific Bell and Nevada Bell Telephone Companies' Continuing Property Records Audit; Southwestern Bell Telephone Company's Continuing Property Records Audit, and US West Telephone Operating Companies' Continuing Property Records Audit, CC Docket No. 99-117, *Notice of Inquiry*, 14 FCC Rcd 7019 (*rel.* April 7, 1999).

³² In the RBOC CPR audit reports, the auditors recommended that the carriers write-off \$5.2 billion from their regulatory books of account. See Ameritech Corporation Telephone Operating Companies' Continuing Property Records Audit, *Order*, 14 FCC Rcd 4273; BellSouth Telecommunications' Continuing Property Records Audit, *Order*, 14 FCC Rcd 4258; Southwestern Bell Telephone Company's Continuing Property Records Audit, *Order*, 14 FCC Rcd 4242; Pacific Bell and Nevada Bell Telephone Companies Continuing Property Records Audit, *Order*, 14 FCC Rcd 5839; Bell Atlantic (North) Telephone Companies' Continuing Property Records Audit, *Order*, 14 FCC Rcd 5855; Bell Atlantic (South) Telephone Companies' Continuing Property Records Audit, *Order*, 14 FCC Rcd 5541; and US West Telephone Operating Companies' Continuing Property Records Audit, *Order*, 14 FCC 5731. The interstate portion of the auditor's recommended write-off would be approximately one-fourth of the total write-off, or \$1.3 billion. Additionally, the joint Federal-State GTE audit found inaccuracies in GTE's continuing property records and could potentially place further liability on Verizon. See In the Matter of GTE Telephone Operating Companies, Release of Information Obtained During Joint Audit, *Memorandum Opinion and Order*, 13 FCC Rcd 9179, 9182. The merger of Bell Atlantic and GTE was approved in June 2000. See Application of GTE Corporation and Bell Atlantic Corporation, CC Docket No. 98-184, *Memorandum Opinion and Order* FCC 00-221 (*rel.* June 16, 2000).

³³ Parties filing comments in the NOI proceeding include the State of New York State Office of the Attorney General, State of New York Public Service Commission, Illinois Commerce Commission, Florida Commission, USTA, GTE, MCI, AT&T, Ameritech, Bell Atlantic, BellSouth, Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell, and US West Communications, Inc. (US West).

³⁴ For example, US West acknowledges that its CPRs are not error-free and that its internal processes could be improved. US West states that it is taking steps to correct any deficiencies in its processes and is willing to work with the Commission to address concerns that the Commission might have with respect to its records. See US West Comments at iv. Bell Atlantic claims that evidence subsequently uncovered,

10. In the *April 2000 FNPRM*, we cited the CPR audits of the RBOCs, as well as the results of the joint State-Federal audit of GTE's CPR, which are currently before the Commission.³⁵ We sought comment on whether requiring non-recovery of a substantial portion of carrier's investment as a condition under the depreciation waiver process would have any impact on potential liability issues raised by the CPR audits.³⁶ As reported by the auditors, the RBOCs' CPRs included entries for equipment that could not be found, thus suggesting that such assets were not purchased or used by the RBOCs in accordance with our rules. The audit reports indicate such record keeping could improperly inflate costs and thus impact the prices charged by the RBOCs.

11. We note that the audits of the carriers' CPRs were initiated more than three years ago. The telecommunications landscape has changed significantly since that time. Among other things, in a recent decision issued on May 31, 2000, we adopted reforms intended to accelerate competition in the local and long distance telecommunications markets and set the appropriate level of interstate access charges for the next five years ("*May 2000 Access Reform Order*").³⁷ Specifically, we provided for an immediate reduction in access charges paid by long distance companies and removed implicit subsidies found in interstate access charges by converting them into explicit, portable, universal service support.³⁸ In earlier actions to implement the 1996 Act,³⁹

such as an engineering drawing or manufacturer's schematic demonstrating certain items were embedded inside another item, would undo the damage of the initial inspections. See Bell Atlantic Comments at 6.

³⁵ See *supra*. note 13.

³⁶ Many parties provided comments on this issue. Generally, the RBOCs and GTE claimed that the CPR audits should be declared moot especially in light of the Commission's recent action in the Access Reform proceeding that adopted the modified proposal submitted by the Coalition for Affordable Local and Long Distance (CALLS). See *e.g.*, Bell Atlantic Comments at 6-7; BellSouth Comments at 12-13; GTE Comments at 14. Other parties argued that the CPR audits are independent from the issues raised in this proceeding and that further investigation into the CPR findings should be addressed on the merits in a separate proceeding. See *e.g.*, AT&T Comments at 7-8; MCI Comments at 30-31; ICA/CFA Comments at 6; AdHoc Comments at 10-12; GSA Comments at 10; NARUC Comments at 11-12; IRUC Comments at 6; Wisconsin Commission Comments at 5-6; CFA/Texas Counsel/CU Reply at 4; New Networks Institute Reply at 6-12; NASUCA Reply at 14; Florida Commission Reply at 9-10.

³⁷ Access Charge Reform, CC Docket No. 96-262, Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, FCC 00-193 (*rel.* May 31, 2000).

³⁸ The Commission's *May 2000 Access Reform Order* provides for the following: (1) Elimination of the residential Presubscribed Interexchange Carrier Charge (PICC); (2) Increases to the primary residential and single-line business Subscriber Line Charge (SLC) caps, beginning at \$4.35 on July 1, 2000, and gradually increasing to \$6.50 on July 1, 2003, provided that LECs can justify any increase beyond \$5.00; (3) A review of the SLC rates prior to the increase scheduled for July 1, 2002, including evaluation of forward looking cost information; (4) Targeting of an X-factor for switched access to switching and switched transport elements; (5) Creation of a separate X-factor for special access services; (6) \$2.1 billion in reductions to switched access usage rates effective July 1, 2000; (7) Reduction of the switched access X-factor to the Gross Domestic Product-Price Index (GDP-PI) once specific target rate levels are achieved; (8) Removal of \$650 million in implicit universal service support from access charges, and the creation of an explicit, portable interstate access universal service support mechanism at the same level; (9) Recovery

we took steps to move the price of long distance companies' access to local telephone networks towards levels that reflect costs.⁴⁰ These actions have brought about significant reductions in access charges and major changes in the interstate rate structure that resolve historically complex issues (some dating back nearly two decades), in a manner that benefits consumers.⁴¹

12. In light of these recent reform measures, which in large part are only beginning to get underway,⁴² and the fact that the CPR audits were conducted prior to our implementation of these various reforms, we now decide not to pursue further investigation into the CPR audits and close the proceeding with regard to whether the CPRs reflected assets that were not purchased or used by the RBOCs in accordance with our rules.⁴³ Further, we note that although we have made no decision concerning the findings stated in the CPR audits, we recognize that further investigation into the CPR audit matter will require a great deal of time and effort, and could prove to be a lengthy and costly proceeding for all participants. We wish to make clear, however, that our decision in this order does not preclude the states from investigating relevant state issues raised by the CPR audits.

13. Finally, while we decline here to further pursue investigation into the CPR audits with regard to whether the CPRs reflected assets that were not purchased or used by the RBOCs in accordance with our rules, we remain concerned about the poor record keeping that these audits revealed. The Commission's auditors found, and the RBOCs did not seriously challenge, that the CPRs were not well maintained.⁴⁴ Thus, we find that the RBOCs' CPRs were not maintained in

of LEC universal service contributions directly from end users; (10) Elimination of Minimum Usage Charges (MUCs) by participating long-distance carriers; (11) A commitment by participating long-distance carriers to flow through reductions in access rates to residential and business customers over the life of the plan; and (12) Adjustment of the Lifeline Assistance universal service support mechanism to shield low-income customers from increases in the residential SLC. *Id.* at para. 30.

³⁹ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act). The 1996 Act amended the Communications Act of 1934. 47 U.S.C. §§ 151 *et seq.*

⁴⁰ See, e.g., Access Charge Reform, CC Docket No. 96-262, *First Report and Order*, 12 FCC Rcd 15982 (rel. May 16, 1997), *aff'd sub. nom.*, *Southwestern Bell v. FCC*, 153 F.3d 523 (8th Cir. 1998) (*Access Charge Reform Order*). See also Price Cap Performance Review for Local Exchange Carriers, Access Charge Reform, *Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No. 96-262*, 12 FCC Rcd 16642 (rel. May 21, 1997), *affirmed in part, reversed and remanded in part*, *United States Telecom Association v. Federal Communications Commission*, 188 F.3d at 521 (DC Cir 1999).

⁴¹ See e.g., *Access Charge Reform Order* at 15990; *May 2000 Access Reform Order* at para. 3.

⁴² Price cap carriers made elections between the two access charge rate constraint options outlined in the *May 2000 Access Reform Order* on September 14, 2000. See Access Charge Reform, CC Docket No. 96-262, Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Order*, DA 00-1670 (rel. July 28, 2000).

⁴³ See 47 U.S.C. §154(j).

⁴⁴ We note that the Commission has sought comment on a proposal by USTA to eliminate detailed requirements for property record additions, retirements, and record keeping. See 2000 Biennial

accordance with our rules. Accordingly, we direct the Common Carrier Bureau to work with the RBOCs to evaluate and improve the accuracy of their property records and accounts to ensure compliance with our requirements going forward.

IV. CONCLUSION

14. The alternative proposal set forth in the *April 2000 FNPRM* has generated substantial controversy over whether it provides the same protections as provided in the *December 1999 Order* and given the expressed concerns of our state colleagues, we decline to adopt it. Carriers remain free to seek relief under the waiver approach adopted in the *December 1999 Order* to obtain freedom from the Commission's depreciation requirements. Moreover, we have determined not to pursue further investigation into whether the RBOCs' CPRs reflected assets that were not purchased or used by the RBOCs in accordance with our rules and hereby close the CPR audit proceedings in this respect.

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas
Secretary

Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, *Notice of Proposed Rulemaking*, CC Docket No. 00-199, FCC 00-364, at para. 27 (*rel.* October 18, 2000).

APPENDIX A

Initial Comments

Bell Atlantic
 BellSouth Corporation
 SBC Communications Inc.
 GTE Service Corporation
 Cincinnati Bell Telephone Company
 US West Communications, Inc.
 AT&T Corporation
 MCI WorldCom, Inc.
 Association for Local Telecommunications
 Services (ALTS)
 International Communications Association
 (ICA)/Consumer Federation of America
 (CFA)
 AdHoc Telecommunications Users Committee
 (AdHoc)
 General Services Administration (GSA)
 National Association of Regulatory Utility
 Commissioners (NARUC)
 Indiana Utility Regulatory Commission (IRUC)
 Public Service Commission of Wisconsin
 Public Utilities Commission of Ohio
 National Telephone Cooperative Association
 (NTCA)
 National Exchange Carrier Association, Inc.
 (NECA)
 National Rural Telecom Association (NRTA)/
 Association for the Promotion and
 Advancement of Small Telecommunications
 Companies (OPASTCO)
 United States Telecom Association (USTA)

Reply Comments

Bell Atlantic/BellSouth Corporation/GTE
 Service Corporation/SBC Communications,
 Inc. (Joint Reply)
 US West Communications, Inc.
 National Exchange Carrier Association, Inc.
 (NECA)
 United States Telecom Association (USTA)
 Sprint Corporation
 AT&T Corporation
 MCI WorldCom, Inc.
 AdHoc Telecommunications Users Committee
 (AdHoc)
 General Services Administration (GSA)
 New Networks Institute
 National Association of Regulatory Utility
 Commissioners (NARUC)
 Florida Public Service Commission
 National Association of State Utility Consumer
 Advocates (NASUCA)
 Consumer Federation of America(CFA)/ Texas
 Office of Public Utility Counsel/Consumer
 Union (CU)

Ex Parte Filings – (Date Shown is the Letter Date)

May 2, 2000: Mary L. Brown, on behalf of MCI to Secretary, FCC
 May 5, 2000: Stephen J. Rosen on behalf of AdHoc to Secretary, FCC
 May 8, 2000: Robert T. Blau on behalf of Incumbent Local Exchange Carriers (ILECs) – Bell Atlantic, BellSouth, SBC, GTE (members of Coalition for Affordable Local and Long Distance Service (CALLS)) – to Secretary, FCC attaching May 8, 2000 letter from CALLS ILECs to Lawrence Strickling, Chief, CCB
 May 9, 2000: James Bradford Ramsay on behalf of NARUC to Secretary, FCC
 May 10, 2000: James T. Hannon on behalf of US West to Secretary, FCC
 May 12, 2000: W. Scott Randolph on behalf of GTE to Secretary, FCC
 May 12, 2000: Joel E. Lubin on behalf of AT&T to Secretary, FCC
 May 12, 2000: Susanne A. Guyer on behalf of Bell Atlantic to Secretary, FCC
 May 12, 2000: Robert T. Blau on behalf of CALLS ILECs to Secretary, FCC
 May 15, 2000: Alan Buzacott on behalf of MCI to Secretary, FCC attaching May 15, 2000 letter from Mary L. Brown, MCI to Lawrence Strickling, Chief, CCB
 May 16, 2000: Bradley C. Stillman on behalf of MCI to Secretary, FCC
 May 16, 2000: James S. Blaszak on behalf of AdHoc to Lawrence Strickling, Chief, CCB

May 16, 2000: James S. Blaszak on behalf of AdHoc to Jordan Goldstein, Office of Commissioner Ness
May 16, 2000: Susanne A. Guyer on behalf of Bell Atlantic to Secretary, FCC
May 17, 2000: Carole J. Washburn on behalf of the Washington Utilities and Transportation Commission (WUTC) to Secretary, FCC attaching May 16, 2000 letter from Marilyn Showalter, Chairwoman, Richard Hemstad, Commissioner and William R. Gillis, Commissioner WUTC to William E. Kennard, Chairman, FCC
May 17, 2000: Robert Blau on behalf of CALLS ILECs to Secretary, FCC
May 17, 2000: James Bradford Ramsay on behalf of NARUC to Secretary, FCC
May 17, 2000: Joan H. Smith, Commissioner, Oregon Public Utility Commission to Secretary, FCC
May 19, 2000: Porter Childers on behalf of USTA to Secretary, FCC
May 23, 2000: Robert T. Blau on behalf of CALLS ILECs to Secretary, FCC attaching May 23, 2000 letter from CALLS ILECs to Lawrence Strickling, Chief, CCB
May 24, 2000: Michael J. Travieso on behalf of NASUCA to Lawrence Strickling, Chief, CCB
May 25, 2000: Cynthia Miller on behalf of Florida Public Service Commission (Fla. PSC) to Secretary, FCC attaching May 25, 2000 letter from Joe Garcia, Chairman, Fla. PSC to William E. Kennard, Chairman, FCC
May 25, 2000: Gerald Asch for Bell Atlantic, BellSouth, GTE and SBC to Secretary, FCC
May 31, 2000: Carole J. Washburn on behalf of Bill Gillis, Commissioner WUTC to Secretary, FCC
June 1, 2000: Joel Shifman on behalf of Maine Public Utilities Commission (Maine PUC) to Secretary, FCC attaching June 1, 2000 letter from Thomas L. Welch, Chairman, Maine PUC to William Kennard, Chairman, FCC
June 1, 2000: Michelle A. Thomas on behalf of CALLS ILECs to Secretary, FCC attaching June 1, 2000 letter from Michelle A. Thomas on behalf of CALLS ILECs to Carol Matthey, CCB
June 1, 2000: Robert T. Blau on behalf of CALLS ILECs to Secretary, FCC attaching June 1, 2000 letter from CALLS ILECs to Lawrence Strickling, Chief, CCB
June 1, 2000: Alan Buzacott on behalf of MCI to Secretary, FCC attaching June 1, 2000 letter from Mary L. Brown, MCI to Lawrence Strickling, Chief, CCB
June 6, 2000: Joseph Sutherland on behalf of Indiana Utility Regulatory Commission (IURC) to Secretary, FCC attaching June 6, 2000 letter from Commissioners Camie Swanson-Hill and Judith Ripley, IURC to William E. Kennard, Chairman, FCC
June 9, 2000: Alan Buzacott on behalf of MCI to Secretary, FCC attaching June 9, 2000 letter from Mary L. Brown, MCI to Lawrence Strickling, Chief, CCB
June 9, 2000: Regina McNeil on behalf of NECA to Secretary, FCC
June 14, 2000: Porter E. Childers on behalf of USTA to Secretary, FCC
June 14, 2000: Regina McNeil on behalf of NECA to Secretary, FCC
June 14, 2000: Lori Wright on behalf of MCI to Secretary, FCC
June 15, 2000: Keith H. Gordon on behalf of New York Attorney General's Office to Lawrence Strickling, Chief, CCB
June 16, 2000: William Irby on behalf of the Virginia State Corp. Commission to Lawrence Strickling, Chief, CCB
July 13, 2000: Ex Parte Comments of Public Service Commission of Wisconsin
July 14, 2000: Alan Buzacott on behalf of MCI to Secretary, FCC
July 14, 2000: Cynthia B. Miller on behalf of Fla. PSC to Secretary, FCC attaching July 14, 2000 letter from E. Leon Jacobs, Jr., Commissioner, Fla. PSC to William E. Kennard, Chairman, FCC
July 17, 2000: J. Bradford Ramsay on behalf of NARUC to William E. Kennard, Chairman, FCC
Aug 3, 2000: Lisa M. Zaina on behalf of CALLS ILECs to Secretary, FCC
Aug 8, 2000: Stephen G. Ward and Michael J. Travieso on behalf of NASUCA to William Kennard, Chairman, FCC
Aug 16, 2000: Lisa Zaina on behalf of CALLS ILECs to Secretary, FCC
Aug 22, 2000: Gerald Asch on behalf of CALLS ILECs to Secretary, FCC attaching Aug 22, 2000 letter from CALLS ILECs to Dorothy Attwood, Chief, CCB
Aug 31, 2000: Joan H. Smith, Commissioner, Oregon Public Utility Commission to Dorothy Attwood, Chief, CCB
Aug 31, 2000: Michael J. Trivesio on behalf of NASUCA to Dorothy Attwood, Chief, CCB
Aug 31, 2000: Gerald Asch on behalf of Verizon to Secretary, FCC
Sept 5, 2000: Nancy Brockway, Commissioner, New Hampshire Public Utilities Commission to Secretary, FCC
Sept 7, 2000: Pat Wood, III, Chairman, Judy Walsh, Commissioner, and Brett A. Perlman, Commissioner, of the Public Utility Commission of Texas to William E. Kennard, Chairman, FCC
Sept 7, 2000: William R. Gillis, Commissioner, WUTC to William E. Kennard, Chairman, FCC
Sept 8, 2000: Jim Burg, Chairman, Pam Nelson, Vice Chair, and Laska Schoenfelder, Commissioner of South Dakota Public Utilities Commission to William E. Kennard, Chairman, FCC
Sept 8, 2000: Cynthia B. Miller on behalf of Fla. PSC to Secretary, FCC attaching Sept 8, 2000 letter from E. Leon Jacobs, Jr., Commissioner, Fla. PSC to William E. Kennard, Chairman, FCC

Sept 11, 2000: Glenn Ivey, Chairman, Maryland Public Service Commission to William E. Kennard, Chairman, FCC
Sept 19, 2000: Ex Parte Comments of Public Service Commission of Wisconsin
Sept 20, 2000: J. Bradford Ramsay on behalf of NARUC to William E. Kennard, Chairman, FCC