

Before the  
Federal Communications Commission  
Washington, D.C. 20554

In the Matter of	)	
	)	
2000 Biennial Regulatory Review --	)	
Comprehensive Review of the	)	CC Docket No. <b>00-199</b>
Accounting Requirements and	)	
ARMIS Reporting Requirements for	)	
Incumbent Local Exchange Carriers:	)	
Phase 2	)	
	)	
Amendments to the Uniform System	)	CC Docket No. <b>97-212</b>
of Accounts for Interconnection	)	
	)	
Jurisdictional Separations Reform and	)	CC Docket No. <b>80-286</b>
Referral to the Federal-State Joint Board	)	
	)	
Local Competition and Broadband Reporting	)	CC Docket No. <b>99-301</b>

**COMMENTS OF THE MICHIGAN PUBLIC SERVICE COMMISSION**

**Introduction:**

The Federal Communications Commission (Commission) issued its Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286 and issued a Further Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301, and 80-286 that was adopted on October 11, 2001. In addition to the ordered findings regarding the Uniform System of Accounts and ARMIS reporting, the Commission also adopted a Further Notice of Proposed Rulemaking addressing certain issues. Specifically in the Further Notice, the Commission seeks to further develop the record on the appropriate circumstances for elimination of accounting and reporting requirements for incumbent local exchange carriers, including whether some or all requirements should be eliminated by a date certain; and seeks comment on whether certain ARMIS

information would more appropriately be collected through other means such as ad hoc data requests or our Local Competition and Broadband Data Gathering Program; and the Commission seeks comment on conforming amendments to their separations rules, necessitated by our modifications to the Uniform System of Accounts. The Commission requests comment on these issues by April 8, 2002. The Michigan Public Service Commission (MPSC) hereby submits the following comments on some of the issues outlined in the Commission's Further Notice.

**Specific Commission Proposals:**

The Commission acknowledges that State regulators have articulated current regulatory needs to maintain certain Class A accounts and ARMIS filing requirements for various purposes, including assisting their work in promoting local competition, developing appropriate prices for unbundled network elements, and conducting local ratemaking proceedings. While the Commission also uses some of this information, in administering their current support mechanisms; for example, it identified in the order a number of accounts and requirements that appear no longer necessary for federal purposes. The Commission believes that if it cannot identify a federal need for a regulation, it is not justified in maintaining such a requirement at the federal level. At the same time, however, the Commission recognizes that an immediate end to such requirements could cause severe problems for State regulators. The Commission states that it would like to work with the States to arrange an orderly transition to a mechanism in which states undertake responsibility for collecting this information. The Commission seeks comment on a proposal that would leave federal requirements in place for a period of three years to enable States to develop alternative means of gathering this information, after which the federal requirements would terminate. Commenters were asked to address whether three years is a sufficient amount of time to transition from federal to state information gathering mechanisms.

Commenters were also asked to address whether it would be necessary for each state to set up its own mechanism or whether states might work collectively to set up a mechanism to collect information for multiple states. The Commission asked that those States required by state law to mirror federal accounting requirements to identify themselves and describe the precise nature of their state statutory constraints. The Commission seeks comment on whether, rather than sunseting these federal requirements, there are other means to reform federal requirements that serve only state regulatory needs.

**State Statutory Constraints:**

The MPSC is one of those States that rely on the federal accounting requirements. The Michigan Legislature, in enacting the Michigan Telecommunications Act (MTA) of 1996 specifically eliminated MPSC authority over accounting standards. Sec. 213(2) of the MTA provides:

Except as provided in subsection (3), effective September 1, 1996, the following administrative rules shall not apply to telecommunication providers or telecommunication services: . . . (e) Uniform systems of accounts for Class A and Class B telephone companies: R 460.9041 and R 460.9059.

Further, on December 12, 1996, in *In the Matter, on the Commission's Own Motion, to Determine the Total Service Long Run Incremental Costs and Imputation Requirements Under the Michigan Telecommunications Act*, Case No. U-11103, 2000 Mich PSC LEXIS 294 (December 12, 1996), the MPSC adopted an order setting forth the Total Service Long Run Incremental Costs (TSLRIC) and imputation requirements under the MTA. Attachment A of this order lays out the framework for telecommunication providers in Michigan to establish the manner and form in which telecommunication providers of regulated services within the state

keep accounts, books of accounts, and records in order to determine these costs. More specifically, the order states:

At a minimum, however, an accounting structure is necessary to determine TSLRIC and imputation requirement. With that in mind, the logical first choice to fill those requirements is the Federal Communications Commission's (FCC) rules in 47 CFR pt. 32 - Uniform System of Accounts for Telecommunications Companies (USOA). While the FCC's USOA is based on historical financial results, the USOA is a well established accounting system based on accounting theories and principles commonly referred to as generally accepted accounting principles. It offers a map or basis from which TSLRIC and imputation computations can be made. All telecommunication companies are required by the FCC to abide by these rules unless granted a waiver.

The accounting structure of the USOA provides a useful vehicle for identifying the different types of costs that are associated with TSLRIC for basic network components. The USOA provides a basis, for example, for categorizing types of investments. The advantage of the USOA structure and numbering system is, it exists today and is used by providers. Its utilization places no additional requirements on providers. The Commission is simply selecting an existing system of accounts that is sound and familiar to the industry.

In the determination of TSLRIC, the USOA is utilized as an identification mechanism for costs, as opposed to actual cost determination. As an example, the USOA identifies and categorizes various types of cable investment, e.g., aerial, buried, and underground, by separate accounts. As a result, specific cost factors related to the different types of cable investment can be applied in order to determine the TSLRIC.

In performing some imputation calculations, booked access expenses and revenues are used. As will be discussed later, accounting records are necessary to determine, for example, average access expenses and average rates.

In addition to providing the fundamental structure and basis for performing TSLRIC studies and imputation computations, a system of accounts allows telecommunication providers to meet various financial requirements in the course of doing business. The FCC's USOA is a useful resource. This vast supply of data should provide assistance to the companies in their determination of TSLRIC and imputation calculations. 2000 Mich PSC LEXIS 294, \*47-\*50.

### **Adverse Consequences of Elimination of Accounting and Reporting Requirements:**

As demonstrated above, the MPSC relies heavily on the Commission's ARMIS reports and on the Uniform System of Account information that the Commission gathers. Since the

merger of SBC with Ameritech, ARMIS data is now the MPSC's only source of individual state by state financial information available for review. Elimination of state by state ARMIS reporting data will make it impossible for the MPSC and other state regulatory commissions to ascertain the level of investment necessary to provide reliable service or to compare state by state infrastructure development efforts. This is especially critical in Michigan and other Ameritech states where service quality continues to vacillate. Also, the ability of all States to meet pre or post Section 271 review obligations may be severely limited if additional ARMIS reporting requirements are eliminated or accounts combined before reasonable benchmarks are achieved. The lack of ARMIS data will likely increase the time required by state regulatory commissions to ascertain incumbent local exchange carriers (ILECs) progress toward competition. This could potentially delay the entrance of new long distance competitors and the benefits of competition to consumers.

The MPSC does not favor the elimination of the accounting and reporting requirements unless there is a finding of non-dominance first. Elimination of the accounting and reporting requirements without such a finding will provide certain opportunity for cross-subsidization and non-cost based UNE and interconnection pricing consequences that would hamper the development of local competition. Included in a finding of non-dominance should be an identification of the relevant market and market conditions under which an ILEC may be declared non-dominant. Also, in determining market dominance, the operating company level or the holding company level must also be addressed. If deregulation occurs at an operating company level based on some measurement of non-dominance, a carrier operating in multiple states could be deregulated in some and not in other states in which it operates. The MPSC is concerned with the possible cross-subsidization between the holding company and the operating

company as well as with the possibility of predatory pricing. Without reporting uniformity, such market abuses will be difficult to detect.

**Proposal for Accounting and Reporting Requirements Eliminated by a Date Certain:**

The Commission asks commenters to consider whether any of these accounting and reporting requirements should sunset by a date certain, such as three or five years in the future. In particular, should the Commission sunset the remaining Class A accounts by a date certain? Should the Commission maintain its practice of imposing different accounting requirements on classes of carriers based on their size? Should any or all of the ARMIS reporting requirements sunset by a date certain? The Commission encourages commenters to discuss the implications of any accounting reforms they recommend on the appropriate scope of ARMIS reporting obligations.

The Commission's accounting and reporting requirements should not be eliminated by a date certain. Without uniform accounting and reporting requirements, it will be extremely difficult for the Commission and States to monitor such things as market share and service quality. Elimination of accounting and reporting requirements prior to a finding of non-dominance can destroy LEC uniformity, lead to higher universal service support requirements as ILECs will unilaterally determine and raise rates, lead to higher UNE prices, make post-merger review unnecessarily complicated and impede the development of competition. If a finding of market dominance by a carrier still exists, it matters little if 3 or 5 or 50 years have elapsed. The affected states will be unable to adequately review financial information of the carriers.

### **Collection of ARMIS Information Through Other Means:**

The Commission seeks comment from state commissions and all other interested parties on whether ARMIS information (particularly infrastructure data) would be better captured through the Local Competition and Broadband Data Gathering Program rather than in ARMIS. This program seeks to develop the Commission's understanding of the deployment and availability of broadband services and the development of local telephone service competition in order to comply with section 706 of the 1996 Act. The Local Competition and Broadband Data Gathering Program was established for a five-year period, unless the Commission acts to extend it.

The Commission has proposed using the Local Competition and Broadband Data Gathering Program (Form 477) data in lieu of accounting data. There are several problems with this. First, FCC Form 477 has no interconnection revenue or expense data. While some data relates to local competition, none of that data is audited, thus raising reliability questions. Second, the data does not collect comprehensive data on all interconnection activities. Third, because accounting data is essential to understand the nature of the competition and since Form 477 data is confidential, it will result in delays for States to obtain access to the data while making other State's data unobtainable. Finally, States will face further difficulties in using the data in a hearing or public-issued decisions.

As for broadening the Local Competition and Broadband Data Gathering Program to include ARMIS information, a determination must be made that a similar level of financial information will be reported. The last concern with the Form 477 data collection program is that the program was established as a temporary program that may or may not continue. The

Commission has suggested ad hoc requests for data collection and the problem here is whether the ILECs will be willing to provide the data without objections.

**Continuing Property Records (CPR) Rules:**

The Commission tentatively concludes that detailed CPR rules should be eliminated in three years and seeks comment on this proposal. Commenters are asked to address whether there are any federal or state regulatory needs served by our CPR rules that cannot be met through alternative mechanisms.

The MPSC's position is that the CPR rules should not be eliminated. CPR rules are necessary to ensure that the largest and most important accounts, the network plant accounts, accurately reflect those assets actually in service. CPRs also provide data for jurisdictional separations and cost allocations studies. These records provide the basic information used as the beginning point in forward-looking pricing models. CPR records are also used in valuations of property for sales and mergers as well as for property tax assessments. The MPSC believes that there may be ways to streamline the CPR rules without destroying their usefulness or integrity.

**Affiliate Transaction Rules:**

The Commission seeks to refresh the record on the affiliate transactions rules. The Commission notes that these rules were created at a time when all incumbent LECs were subject to rate-of-return regulation.

The position of the MPSC is that the affiliate transaction rules should not be eliminated until there is a finding of effective competition and non-dominance. These rules protect ratepayers from possible cross-subsidies occurring from transactions between the ILECs and



their affiliates and it does not make sense to eliminate these rules until there is effective competition.

**Conclusion:**

As mentioned throughout these comments, the MPSC heavily relies on the Commission's ARMIS reports and on the Uniform System of Account information that the Commission gathers. The Commission has taken the position that they would like to work in partnership with the states on issues of jurisdictional importance. The MPSC would welcome that partnership idea but would request that the Commission do what it can to continue the requirements for accounting/ARMIS information and make this information available to the states. If the states do not have this information available for their use, the companies are in the position of having more information than the state commissions and this makes it difficult for the states to oversee the industry.

Since the merger of SBC with Ameritech, ARMIS data is the MPSC's sole source of individual state-by-state financial information available for review. Elimination of state-by-state ARMIS reporting data will make it impossible for individual States to ascertain the level of investment necessary to provide reliable service or to compare state-by-state infrastructure development efforts. The ability of all states to meet pre or post Section 271 review obligations may be severely limited if additional ARMIS reporting requirements are eliminated or accounts combined before reasonable benchmarks are achieved. The lack of ARMIS data will likely increase the time required by state regulatory commissions to ascertain incumbent local exchange carriers (ILECs) progress toward competition. This could potentially delay the entrance of new long distance competitors and the benefits of competition to consumers.

The MPSC does not favor the elimination of the accounting and reporting requirements unless there is a finding of non-dominance first. Elimination of the accounting and reporting requirements without such a finding will provide certain opportunity for cross-subsidization and non-cost based UNE and interconnection pricing consequences that would hamper the development of local competition. The MPSC is concerned with the possible cross-subsidization between the holding company and the operating company as well as with the possibility of predatory pricing. Without reporting uniformity, CPR records and affiliate transaction rules these market abuses will be difficult to detect.

Respectfully submitted,

**MICHIGAN PUBLIC SERVICE COMMISSION**

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