

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

In the Matter of

Implementation of Further
Cost Allocation Uniformity

AAD 92-42

MEMORANDUM OPINION AND ORDER

Adopted: June 23, 1993;

Released: July 1, 1993

By the Acting Chief, Common Carrier Bureau:

I. INTRODUCTION AND BACKGROUND

1. On October 15, 1992, the Common Carrier Bureau (Bureau) released an *Order Inviting Comments*,¹ in which it proposed cost allocation uniformity practices for local exchange carriers (LECs) who file cost allocation manuals (CAMs). Specifically, we proposed to (1) clarify the distinctions among apportionment methods; (2) specify cost pools and allocation procedures for ten accounts; and (3) specify implementation procedures. Seventeen comments and eleven replies were filed.² In this Order, we adopt our proposals with modifications as discussed in the succeeding paragraphs.

2. The Bureau was directed to initiate this proceeding in the *Computer III Remand Order*³ in order to strengthen the Commission's nonstructural safeguards for enhanced services and other nonregulated offerings. The Commission directed the Bureau to develop ways to obtain greater uniformity in LEC cost allocation practices, and to promulgate uniformity requirements.⁴ We decided the best way to accomplish this would be to propose minimum cost pool requirements and specific allocation procedures for ten Part 32 accounts which contain large amounts of nonregulated costs.⁵

3. The Commission's cost allocation procedures for separating the costs of regulated services from nonregulated services were established in the *Joint Cost Order*.⁶ The primary purpose was to assure that regulated activities do not cross-subsidize nonregulated activities. The Commission established two separate but complementary sets of rules, one which governs how carriers allocate their costs be-

tween regulated and nonregulated activities,⁷ and the other which governs transactions between carriers and their affiliates.⁸ To implement these rules, the Commission required LECs with \$100 million or more in annual operating revenue to file CAMs that set forth their cost allocation procedures.⁹ The CAMs describe the carriers' nonregulated activities, list the activities the carriers treat as incidental activities, and provide information on the carriers' affiliate transactions, employee time reporting procedures, and cost apportionment methods.

4. The Commission requires that each CAM show, for Part 32 revenue requirement accounts, the carrier's cost pools, the procedures used to place costs into these cost pools, and the basis on which each cost pool is apportioned between regulated and nonregulated activities.¹⁰ Cost pools are comprised of logical, homogeneous groupings of costs that maximize the extent to which cost-causative allocation factors can be used to divide the costs between regulated and nonregulated activities. Cost pools can be dedicated exclusively to either regulated or nonregulated activities, or they can contain common costs which must be apportioned between regulated and nonregulated activities.¹¹

II. DISCUSSION

A. General

5. Several LECs argue that it is inappropriate to require absolute uniformity in the cost allocation procedures, because the LECs provide different products and services and have different organizational structures. They maintain that the Bureau's attempt to establish CAM uniformity may actually result in less cost-causative and more costly allocation methods.¹² MCI disagrees, arguing that the primary business of all LECs is the provision of local exchange services. MCI believes that CAM uniformity will eliminate a variable that impedes analysis by establishing the same rules for all carriers.¹³ The New York Department of Public Service (NYDPS) believes we need to provide more detail regarding the cost allocation procedures in order that the LECs' actual cost allocations will be more uniform.¹⁴

6. When the Commission adopted the joint cost rules, it determined that the carriers should use individually-designed CAMs to reflect their unique operational characteristics. Through our audit and review process we have found that, given our budgetary constraints, additional uniformity in the CAMs is necessary in order for us to provide more effective oversight. We do not believe LEC operations need to be identical in order for us to require more CAM uniformity. In this proceeding, we selected areas in which the LECs' operations are very similar and their current

¹ Implementation of Further Cost Allocation Uniformity, 7 FCC Rcd 6688 (1992) (*Order Inviting Comments*).

² The list of parties filing Comments and Replies can be found in Appendix A.

³ Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier I Local Exchange Company Safeguards, *Report and Order*, CC Docket No. 90-623, 6 FCC Rcd 7571 (1991) (*Computer III Remand Order*), recon. pending.

⁴ *Computer III Remand Order*, 6 FCC Rcd at 7584-85.

⁵ Uniform System of Accounts for Telecommunications Companies (USOA), 47 C.F.R. Part 32.

⁶ Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, *Report and Order*, CC Docket No. 86-111, 2 FCC Rcd 1298, 1300 (1987) (*Joint Cost Order*),

modified on recon., 2 FCC Rcd 6383 (1987), *modified on further recon.*, 3 FCC Rcd 6701 (1988), *aff'd sub nom.* Southwestern Corp. Bell v. FCC, 896 F.2d 1378 (D.C. Cir. 1990).

⁷ 47 C.F.R. §§32.23, 64.901.

⁸ 47 C.F.R. §§32.27, 64.902.

⁹ *Computer III Remand Order*, 6 FCC Rcd at 7642-43 (adopting Section 64.903 of the Commission's rules); *Joint Cost Order*, 2 FCC Rcd at 1326-29.

¹⁰ *Computer III Remand Order*, 6 FCC Rcd at 7642; *Joint Cost Order*, 2 FCC Rcd at 1328.

¹¹ *Id.* at 1319.

¹² Pacific Comments at 5-8; GTE Comments at 3-5.

¹³ MCI Comments at 7.

¹⁴ NYDPS Comments at 3.

CAM differences are more attributable to individual preferences than differing operational characteristics. Therefore, we will adopt minimum CAM uniformity requirements, as specified below. These requirements provide additional cost allocation detail that should satisfy the concern raised by NYDPS.

B. Distinctions Among Apportionment Methods

7. *Proposal.* In the *Order Inviting Comments*, we proposed that all LECs revise their CAMs to the extent necessary to distinguish properly among direct assignment, direct attribution, and indirect attribution. We proposed to clarify these standards and guidelines as follows: (1) direct assignment occurs when the costs are incurred in providing either regulated service exclusively or nonregulated service exclusively; (2) direct attribution occurs when common costs are allocated between regulated and nonregulated activities based on direct measures of cost-causation or direct analysis of the origin of the cost themselves; and (3) indirect attribution occurs when common costs are allocated between regulated and nonregulated activities based on indirect measures of cost-causation.

8. *The Parties' Positions.* LECs are concerned that our proposal will shift costs from directly assigned to directly attributed in the Automated Reporting Management Information System Report 43-03 (ARMIS Joint Cost Report).¹⁵ Further, several LECs contend that implementation should be phased-in and should apply only to the accounts for which uniform cost pools and costing methodologies are adopted. They state that flash-cut implementation of these definitions for all accounts would result in multiple changes for the majority of accounts, with possible separations and ratemaking impacts.¹⁶ Also, the LECs question the need for a distinction between direct and indirect attribution of costs. They argue that such a distinction could result in misunderstandings and is inconsistent with the ARMIS Joint Cost Report.¹⁷ Finally, BellSouth and Pacific believe that if a portion of an asset is identifiable as exclusively regulated or nonregulated, it should be characterized as directly assigned.¹⁸

9. *Discussion.* Our goal is to clarify distinctions between direct assignment, direct attribution, and indirect attribution. Such distinctions are necessary to assure that LECs apply these definitions uniformly in their CAMs. Phasing-in implementation, as some LECs suggest, is contrary to this goal. The Commission requires that costs be directly assigned or directly attributed in a cost-causative manner, before indirect allocators are used. Therefore, for CAM purposes we will continue to preserve this cost allocation hierarchy. For reporting purposes, however, we intend to amend the ARMIS Joint Cost Report by combining the directly assigned and directly attributed categories into one category, thus eliminating the LECs' concern that this report will reflect shifts between directly assigned and directly attributed. We will amend this report prior to the required filing date of the affected data.¹⁹ Further, we

disagree with BellSouth's and Pacific's interpretation of exclusive use. Under our definition of direct assignment, an individual asset is considered one undivided unit. Therefore, direct assignment of an asset can only occur when an entire asset is used exclusively for regulated activities or when an entire asset is used exclusively for nonregulated activities.

C. Disaggregation of Cost Pools

10. *Proposal.* In the *Order Inviting Comments* we stated that the proposed allocation procedures are intended to be minimum requirements. Further disaggregation of cost pools would be permitted when it would achieve greater precision in the allocation of costs. We proposed that such further disaggregation could be achieved by subdividing the required cost pools into sub-pools provided that the apportionment procedures are consistent with our required procedures. We also proposed that the use of sub-pools be disclosed in the cost apportionment table of the CAM.

11. *The Parties' Positions.* Several parties support our proposal for the use of sub-pools, and believe that sub-pools will provide meaningful information regarding further disaggregation of cost pools and that such use is essential in order to provide accurate allocations.²⁰ United agrees with the use of sub-pools, however, it believes including sub-pools in the CAM would complicate the CAM process and serve no useful purpose.²¹ BellSouth believes the Bureau should only require the disclosure of those sub-pools which impact the cost allocation process. BellSouth states that the disclosure of sub-pools used internally for management purposes may divulge competitively sensitive information, and would provide no useful information as to a carrier's cost allocation processes.²²

12. *Discussion.* We are adopting our proposal to permit carriers to divide prescribed cost pools into sub-pools so long as the disaggregation will achieve greater precision in the allocation of costs and the sub-pools are apportioned using procedures that are consistent with those prescribed for the cost pool to which the sub-pool relates. Although we initiated this proceeding to establish a greater degree of uniformity among the cost allocation methods used by the carriers, we do not want our prescribed procedures to be so rigid as to prevent the establishment of sub-pools that would improve the allocations. We believe, however, that the CAMs should state that carriers have established sub-pools and should describe the sub-pools and the apportionment procedures used for the sub-pools. The inclusion of these additional sub-pools in the CAM will ensure adequate disclosure of the carriers' cost allocation practices. Sub-pools created for internal management purposes which have no impact on regulated and nonregulated activities within an account need not be disclosed.

¹⁵ USTA Comments at 3; GTE Comments at 10; U S West Comments at 3.

¹⁶ USTA Comments at 4; BellSouth Comments at 7-8; U S West Comments at 3.

¹⁷ USTA Comments at 4-5; BellSouth Comments at 8-9; CBT Comments at 8-9, GTE Comments at 11-12; NYNEX Comments at 4-5; Southwestern Comments at 7-8.

¹⁸ BellSouth Comments at 6-7, 10-11; GTE Comments at 11;

NYNEX Comments at 4; Pacific Comments at 10; Southwestern Comments at 8; CBT Replies at 3-4.

¹⁹ See para. 42 *infra*.

²⁰ U S West Comments at 2; GVNW Comments at 1; NYDPS Comments at 4; Southwestern Comments at 8-9; USTA Replies at 2.

²¹ United Comments at 3-4.

²² BellSouth Comments at 9; BellSouth Replies at 5-6.

D. Account Proposals

13. In this section we discuss matters related to the ten accounts selected for CAM uniformity. We discuss these accounts in the same sequence as they were discussed in the *Order Inviting Comments*. The specific cost pools and allocators for these accounts are presented in Appendix B by account in numerical order.

General

14. Some of the commenting parties note that the allocators proposed in the *Order Inviting Comments* for the network operations cost pools in Account 2121, Buildings, and Account 2112, Motor vehicles, include circular definitions. Circularity occurs, for example, when the account to be allocated is included in a group of accounts used to make the allocation. Regarding Accounts 2121 and 2112, we proposed to allocate the network operations cost pools based on the corresponding expense accounts (Account 6121 for buildings and Account 6112 for motor vehicles), which in turn would be allocated based, in part, on the network operations cost pool.²³ We have amended the network operations cost pools to exclude the inappropriate accounts, thereby eliminating the circularity. In addition, we proposed to allocate these cost pools based on salaries and wages, and we included some accounts in the allocator which do not contain salaries and wages. NYDPS suggests that we make it clear that the accounts used to apportion network operations should exclude accounts which do not have salaries and wages, such as access, depreciation, and amortization (Accounts 6540, and 6561-6565).²⁴ We agree and have made the necessary modifications.

15. MCI believes that we should include four additional accounts in this proceeding which it believes would extend the benefit of uniformity.²⁵ Although it may be possible to establish uniform CAMs for these four accounts, we cannot do so in this proceeding. Establishing CAM uniformity for an account would require a considerable amount of study to determine the uniform cost pools and cost allocation factors that would be most effective in preventing cross-subsidies while being practical for all LECs to implement. Neither MCI nor any other party offered specific recommendations on any of these issues for these four accounts. Therefore, we will defer consideration of these accounts at this time.

Account 2121, Buildings

16. In the *Order Inviting Comments* we proposed that investment in the Buildings Account be apportioned in accordance with the functional use of the buildings themselves. To accomplish this, we proposed two direct cost pools (regulated and nonregulated) and six common cost pools (non-telecommunications, central office, distribution services, network operations, customer operations, and cor-

porate operations). To apportion building investment to the common cost pool functions, we proposed that LECs use floor space studies which would be updated annually and whenever significant changes occur in the building functions. We proposed that the non-telecommunications cost pool be directly attributed to nonregulated, that the central office cost pool be apportioned based on central office investment, and that the remaining common cost pools be apportioned based on the related salaries and wages.

a. Non-telecommunications

17. Several LECs suggest that the non-telecommunications cost pool is unnecessary and should be eliminated. They argue that costs of buildings used for non-telecommunications should either be treated as incidental activities and assigned to regulated²⁶ or should be removed from the Telecommunications Plant Accounts.²⁷ We find, however, that this cost pool is necessary. Under Section 32.4999(l)²⁸ there is a limit on activities that can be treated as incidental, and under Section 32.23(c)²⁹ costs associated with activities that involve the joint use of assets must be accounted for in the regulated accounts. Thus, the non-telecommunications cost pool is needed for costs that do not qualify as incidental and must be accounted for in the regulated accounts. To provide more clarity, however, we have changed the name of this cost pool from non-telecommunications to nonregulated.

b. Space Rented to Others

18. Several parties state that we need to add a common cost pool for space rented to others that would be attributed to regulated.³⁰ They believe this is necessary for incidental activities and for tariffed leasing activities such as those associated with expanded access interconnection.³¹ We agree and will add a directly attributed to regulated cost pool for this purpose.

c. Floor Space Studies

19. *Parties' Positions.* BellSouth opposes the use of an annual floor space study to apportion costs to the common cost pools. It argues that such a study would be burdensome and costly and that it currently uses mechanized floor space records which are updated monthly and thus, are more precise.³² GTE argues that it would be extremely costly for it to prepare annual floor space studies of its more than 12,000 buildings. It suggests that we add a common - multi-use building cost pool that would be apportioned based on a composite of the other common cost pools.³³

20. *Discussion.* We have decided to adopt our proposal that building costs be assigned to the various functions based on floor space studies that are to be updated at least annually because we believe this is necessary to achieve

²³ USTA Comments at 12; Bell Atlantic Comments at 4; CBT Comments at 9; Pacific Comments at 13,15; U S West 8.

²⁴ NYDPS Comments at 4-5.

²⁵ The four accounts are: Account 2124, General Purpose Computers; Account 6124, General Purpose Computer Expense; Account 2212, Digital Electronic Equipment; and Account 6212, Digital Electronic Equipment Expense. MCI Comments at 5.

²⁶ BellSouth Comments at 11; GTE Comments at 7-8; NYDPS Comments at 4; Pacific Comments at 8; Southwestern Comments at 10-11.

²⁷ United Comments at 5; CBT Comments at 2.

²⁸ 47 C.F.R. §32.4999(l).

²⁹ 47 C.F.R. §32.23(c).

³⁰ USTA Comments at 11; Bell Atlantic Comments at 1,3-4; CBT Comments at 2; NYNEX Comments at 7; Pacific Comments at 8-9; United Comments at 5; U S West Comments at 7-8.

³¹ See Expanded Interconnections with Local Telephone Facilities; 23 FCC Rcd 7369 (1992).

³² BellSouth Comments at 11-12.

³³ GTE Comments at 8-9.

accurate results. We believe that all LECs have the resources to implement this requirement. If, on the other hand, GTE believes its circumstances make it impractical to comply with the proposed rule, it should seek relief through the waiver process. BellSouth's use of a mechanized system which updates its floor space apportionments monthly exceeds the requirement for annual floor space studies and, thus, is acceptable.

d. Functional Use of Buildings

21. *Parties' Positions.* Pacific states that it does not track salaries and wages by building, therefore, it would be difficult to implement the proposed salaries and wages allocators. According to Pacific, it has two options: (1) it could assign all building investment to common cost pools; or (2) it could make costly changes to its recordkeeping of salary and wage data in order to identify the buildings where employees work.³⁴

22. *Discussion.* We reject Pacific's first option to assign all building investment to common cost pools. This option is contrary to the Commission's requirements that costs shall be directly assigned whenever possible. Therefore, buildings dedicated entirely to regulated or nonregulated activities must be directly assigned. As to Pacific's second option, we agree that recordkeeping changes may be required. When salaries and wages are used to allocate common building cost pools, the salaries and wages related to directly assigned buildings must be excluded. Otherwise the allocations will yield distorted results.³⁵ We believe that Pacific's concerns about the need for costly recordkeeping changes are overstated. We believe that most buildings will not meet the test of exclusively regulated or exclusively nonregulated, and will therefore be assigned to the common cost pools. Thus, Pacific will need to implement recordkeeping for those relatively few buildings which are dedicated to regulated or nonregulated activities.

Account 2111, Land

23. *Proposal and Parties' Positions.* In the *Order Inviting Comments* we proposed the same cost pool structure for land as we did for buildings. That is, we proposed an item-by-item assignment or apportionment of individual parcels of land into one of eight cost pools, two directly assigned and six common pools. Then the six common cost pools were to be allocated between regulated and nonregulated activities based upon the allocation of the respective common building cost pools. Several LECs argue that the use of eight cost pools for land would be burdensome and unnecessary. They contend that land not directly assigned should be apportioned based on the relative investment in buildings (Account 2121).³⁶

³⁴ Pacific Comments at 11-12.

³⁵ For example, assume we have two buildings with the salaries of Building A being entirely regulated and the salaries of Building B being half regulated and half nonregulated. Also assume that the total salaries of both buildings are equal. In this example, Building A would be directly assigned to regulated and Building B would be a common building. In this case it would be inappropriate to combine Building A salaries and Building B salaries to allocate the cost of Building B because that would result in three-fourths of Building B being allocated to regulated when in fact only half of Building B should be allocated to regulated.

24. *Discussion.* We proposed the same cost pool structure for land as we did for buildings because we believed it was necessary to do so in order to provide an accurate result. We have reviewed carrier data and concluded there is only a minimal difference between apportioning the common land investments item-by-item and apportioning them based upon the overall investment in common building investments. As a result, we will require only three cost pools for land: directly assigned to regulated, directly assigned to nonregulated, and common. The common pool shall be apportioned based on the overall investment in the common building cost pools.

Account 6121, Land and Building Expense

25. *Proposal.* This account includes expenses associated with land and buildings.³⁷ In the *Order Inviting Comments* we proposed two directly assigned cost pools (regulated and nonregulated) and two common cost pools (operating rents,³⁸ and other). We proposed that the operating rent cost pool be allocated based on an annual analysis of the rented space and that the other cost pool be allocated based on the aggregate of the common cost pools for land and buildings.

26. *Parties' Positions.* GTE and BellSouth believe that all common expenses should be aggregated into one cost pool and allocated based on the relative investment in buildings. Further, they state that it is unnecessary to have a separate cost pool for operating rents because it would require an additional study with no benefit.³⁹

27. *Discussion.* We will require the use of two common cost pools for land and building expense: operating rents and other common expense. We cannot prescribe the use of a single common cost pool, as suggested by GTE and BellSouth, because we could identify no one allocation factor that is appropriate for both cost pools. We conclude that the "other common expense" pool should be allocated based on the sum of the common building cost pools, while the "operating rents" pool should be allocated based upon special studies, prepared at least annually, of the LEC's rental space. Allocation based upon the use of a LEC's building investment would not be appropriate here, because a LEC's use of space rented from others has no direct correlation to its use of its own buildings.

Account 2112, Motor Vehicles

28. In the *Order Inviting Comments* we proposed that LECs apportion this investment in accordance with the functional uses of the motor vehicles. To accomplish this, we proposed two directly assigned cost pools (regulated and nonregulated) and six common cost pools (central office, distribution services, network operations, customer operations, corporate operations, and motor pool). We pro-

³⁶ USTA Comments at 11; BellSouth Comments at 12; CBT Comments at 3; GTE Comments at 9; NYNEX Comments at 3-4; Pacific Comments at 12-13; Southwestern Comments at 11; United Comments at 5-6; U S West Comments at 7; Pacific Replies at 8.

³⁷ 47 C.F.R. §32.6121.

³⁸ See, e.g., Bell Atlantic Operating Companies' Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, 3 FCC Rcd 109, 120 (1988) (*Bell Atlantic Order*).

³⁹ BellSouth Comments at 12; GTE Comments at 9-10.

posed that all investment in motor vehicles that is not used exclusively for regulated or nonregulated activities be placed in one of the common cost pools and apportioned based on the related salaries and wages. If a motor vehicle serves multiple functions, its investment would be assigned to the motor pool cost pool and apportioned based on the related salaries and wages. No one disagreed with our cost pool structure; therefore, we adopt it.

Account 6112, Motor Vehicle Expense

29. This is a clearing account for motor vehicle expense. That is, expenses are accumulated in this account for later disposition to other accounts such as construction projects or other plant-specific expense accounts. After clearances, a residual amount of motor vehicle expense may remain in this account. In the *Order Inviting Comments* we proposed that LECs apportion this remaining expense in accordance with the functional use of the motor vehicles. To accomplish this, we proposed two directly assigned cost pools (regulated and nonregulated) and one common cost pool to be allocated based on the relative investment in common motor vehicles excluding central office and distribution services motor vehicles. No one disagreed with our proposal; therefore, we adopt it.

Account 6362, Other Terminal Equipment; Account 6311, Station Apparatus Expense; and Account 6341, Large Private Branch Exchange Expense

a. Background

30. Most of the costs recorded in these accounts are technician labor costs. The same technicians that perform jobs relating to these accounts sometimes perform jobs related to other accounts such as the cable expense accounts. The work performed can be regulated, nonregulated, or a combination of both. Since the work performed can affect multiple accounts, analysis of the work performed by the technicians is essential to assign costs to the proper Part 32 accounts and to apportion these costs within the accounts. For each of these accounts, we proposed four directly assigned cost pools (regulated and nonregulated single purpose visits and regulated and nonregulated combination visits), and three common cost pools (combination travel, no access, and no trouble found).

31. USTA and the LECs oppose this proposal. They question the need for four directly assigned cost pools⁴⁰ or for a separate cost pool for combination travel,⁴¹ and they believe costs associated with no access and no trouble found visits should be combined into one cost pool. We have considered their comments and agree that certain modifications are necessary.

32. We agree that there is no need to distinguish between directly assigned cost pools for single purpose visits and combination visits. Therefore, we will require only two directly assigned cost pools (regulated and nonregulated). In addition, we will require changes to how travel expenses

are captured, thereby eliminating the need for a separate cost pool. We also will require only one cost pool for costs related to no access and no trouble found visits and we discuss how these costs should be allocated in a succeeding paragraph.

b. Travel Time

33. Travel time is incurred by a technician *en route* to and from a job site. To assign travel costs, we have developed the following methodology. Travel time related to single purpose visits (*i.e.*, those jobs that are all regulated or all nonregulated work) will be charged to the appropriate Part 32 accounts and identified as directly assigned regulated or directly assigned nonregulated. Travel time related to no access and no trouble found visits is to be assigned to the no access/no trouble found cost pool. Travel time related to combination visits is to be assigned 50 percent to regulated activities and 50 percent to nonregulated activities.

c. No Access/No Trouble Found

34. Technicians are frequently dispatched on no access or no trouble found visits. No trouble found visits occur when a technician is dispatched to correct trouble on a customer line and finds the line in working order. Such visits occur, for example, when the problem is intermittent. The technician has no basis to determine whether the problem that caused a no trouble found visit was regulated or nonregulated. No access visits occur when a technician is dispatched to a customer's premises to clear a trouble condition of unknown origin. Upon arrival, the technician finds no problem checking the network from outside the premises and cannot gain access to the premises to determine if the problem is on the customer, instead of the network, side of the demarcation point. As with no trouble found visits, the technician cannot determine whether the visit should be classified as regulated or nonregulated.

35. The LECs and USTA believe that no access and no trouble found should be combined into one cost pool and allocated based on productive labor hours.⁴² We have two reservations about that proposal. First, we are reluctant to establish a single cost pool for no access and no trouble found because we believe the characteristics of no access and no trouble found require different allocators. We believe a greater percentage of no access visits should be assigned to nonregulated because, for these visits, the technician has already checked the network and found no problem and gaining access to the premises would primarily determine whether the visit was a no trouble found visit or a nonregulated customer premises visit. Second, we believe that productive labor hours is not a suitable allocator for no access and no trouble found; we believe trouble counts cleared is a more appropriate allocator because the number of no access and no trouble found visits is more directly related to the number of trouble counts cleared than to productive hours.

⁴⁰ USTA Comments at 6-7; Ameritech Comments at 2-3; Bell Atlantic Comments at 2-3; BellSouth Comments at 13-16; CBT Comments at 4; GTE Comments at 6; NYNEX Comments at 3; Pacific Comments at 16-17; Rochester Comments at 1-2; Southwestern Comments at 5-7; United Comments at 12-13; U S West Comments at 5-6.

⁴¹ Bell Atlantic at 2-3; BellSouth at 14-16; CBT at 6; GTE at 6-7; Pacific at 16-18; Rochester at 2-3; Southwestern at 5; U S West at 6-7; USTA at 8.

⁴² USTA at 9-10; BellSouth at 17-18; CBT at 5; GTE at 6-7; NYNEX at 6-7; Pacific at 18-19; Rochester at 2-3; United at 11-12.

36. If we created separate cost pools for no trouble found and no access, we would allocate the no trouble found cost pool to regulated based on the proportion of regulated trouble counts cleared to total trouble counts cleared and to nonregulated based on the proportion of nonregulated trouble counts cleared to total counts cleared. For the no access cost pool, however, we would select an allocator which would be more heavily weighted towards nonregulated because in these cases the technician would have checked the regulated network up to the customers' premises. Despite our preference for separate cost pools for these visits, we recognize that establishing separate cost pools would place a burden on the carriers that may not be warranted considering the relatively small amount of costs associated with these visits. Therefore, we establish a single cost pool for no access and no trouble found. Moreover, we will use trouble counts cleared as the foundation for allocating the combined cost pool. However, because we believe no access visits should be more heavily weighted toward nonregulated activities than regulated activities, we have decided to assign the combined cost pool to regulated based on 75 percent of the ratio of regulated trouble counts cleared to total trouble counts cleared.⁴³ The 75 percent factor was selected because we believe: (1) it is a fair representation of the combination of no trouble found and no access; (2) it reflects that the regulated portion of the combined cost pool should be less than the ratio of the regulated trouble counts cleared to total trouble counts cleared; and (3) takes into consideration that no access is not always attributed entirely to nonregulated.

Account 2311, Station Apparatus and Account 2341, Large Private Branch Exchanges

37. For these accounts we proposed two directly assigned cost pools: regulated and nonregulated. All commenting parties support our proposal for these accounts; therefore, we adopt them.⁴⁴

E. Quantification

38. *Proposal and Parties' Positions.* D.C. and MCI state that LECs should be required to quantify the effects of the CAM change on their regulated/nonregulated cost allocations. MCI believes that we may identify potential problems by analyzing the carriers' estimated cost shifts.⁴⁵

39. *Discussion.* In accordance with Section 64.903(b) of our rules, the LECs must provide estimates of the effects of CAM revisions. We expect the LECs to use sound judgment and statistically valid data in making these estimates. If our audits conclude that actual results vary significantly from the estimates, we will take appropriate action.⁴⁶

⁴³ For example, if the cost pool for no access/no trouble found was \$2000 and there were 40 regulated trouble counts cleared and 60 nonregulated trouble counts cleared, an allocation using relative trouble counts cleared would assign \$800 to regulated and \$1200 to nonregulated. After applying the 75 percent factor, however, only \$600 ($\$800 \times .75$) would be assigned to regulated and \$1400 would be assigned to nonregulated.

⁴⁴ The cost pools and allocators for Account 2311 are on page 5, and the cost pools and allocators for Account 2341 are on page 6 of Appendix B.

⁴⁵ D.C. Comments at 1; MCI Replies at 3.

⁴⁶ We note that in *ex parte* communications many of the LECs

F. Implementation and Applicability

40. *Proposal and Parties' Positions.* We proposed that any required changes in cost allocation methods be implemented within 120 days after the release of the final order. Most commenting parties state that it is not feasible to incorporate these significant changes within 120 days. They argue that the changes are as complicated as any Part 32 change for which the Commission's rules allow six months for implementation. They state that in order to protect the integrity of the ARMIS Joint Cost Report and to ensure the continuity of financial data, implementation should occur on a prospective basis, at the beginning of the calendar year.⁴⁷ GTE also contends that implementation should be on a one-time basis when all phases of uniformity have been completed.⁴⁸

41. *Discussion.* We will require LECs to implement the CAM changes discussed herein effective January 1, 1994. Implementation of these changes at the beginning of 1994 should allow for a smooth transition and make it easier for independent auditors to complete their annual CAM audits. Furthermore, this schedule will provide LECs more than six months for implementation. Because our rules require carriers to file CAM revisions at least 60 days prior to implementation, LECs must file these revisions by November 1, 1993. Finally, we will not delay implementation of the proposed CAM changes until we have completed all phases of CAM uniformity, as GTE suggests. We have not decided what additional accounts, if any, will be targeted for CAM uniformity. Before deciding, we intend to scrutinize thoroughly the LECs' implementation of the CAM revisions for these ten accounts.

G. Automated Reporting Management Information System (ARMIS)

42. We requested comment on whether any of the proposed cost allocation method changes would require modification of the ARMIS reports and, if so, what changes would be necessary. The National Association of Regulatory Utility Commissioners (NARUC) believes ARMIS should be expanded to include: the amounts in each cost pool; the allocation of these costs between regulated and nonregulated services, and between state and interstate services.⁴⁹ The CAMs do not describe how costs are allocated between jurisdictions. We therefore see little benefit in requiring carriers to report cost pool allocations by jurisdiction. On the other hand, the reporting of uniform cost pool allocations between regulated and nonregulated activities may warrant further consideration. Therefore, when we amend the ARMIS Joint Cost Report (see para. 9), we will consider the feasibility of expanding ARMIS reporting in this way.

submitted estimates of the effects of the proposed CAM changes. We found that these estimates contained numerous discrepancies and statistical anomalies and that they were, therefore, unreliable.

⁴⁷ USTA Comments at 5-6; Southwestern Comments at 11-12; BellSouth Comments at 21-22; CBT Comments at 7-8; GTE Comments at 12-13; NYNEX Comments at 8; Pacific Comments at 3-5; United Comments at 13; US West Comments at 8-9; GVNW Comments at 2; NYDPS Comments at 5; MCI Replies at 2-3.

⁴⁸ GTE Comments at 13.

⁴⁹ NARUC Replies at 3.

III. CONCLUSION

43. In conclusion: (1) we adopt definitions which clarify distinctions among apportionment methods; (2) we allow carriers to use sub-pools; (3) we adopt uniform cost pools and allocators for ten Part 32 accounts as shown in Appendix B; and (4) we require all LECs that file CAMs to file these changes with the Commission by November 1, 1993, and to implement them by January 1, 1994.

IV. OTHER MATTERS

44. Implementation of the modified requirements prescribed in this Order are subject to approval by the Office of Management and Budget as prescribed by the Paperwork Reduction Act of 1980.⁵⁰

V. ORDERING CLAUSE

45. Accordingly, IT IS ORDERED, pursuant to Sections 4(i), 4(j), 201-205, 215, 218, 219, and 220 of the Communications Act of 1934, as amended, 47 U.S.C. §§154(i), 154(j), 201-205, 215, 218, 219, and 220 and Section 0.291 of the Commission's rules, 47 C.F.R. §0.291, that the cost allocation uniformity requirements set forth in the attached Appendix B ARE ADOPTED, effective January 1, 1994.

FEDERAL COMMUNICATIONS COMMISSION

Kathleen B. Levitz
Acting Chief, Common Carrier Bureau

APPENDIX A**Parties Filing Comments**

1. The Ameritech Operating Companies (Ameritech)
2. The Bell Atlantic Telephone Companies (Bell Atlantic)
3. BellSouth Corporation (BellSouth)
4. Cincinnati Bell Telephone Company (CBT)
5. GTE Service Corporation and its affiliated domestic operating companies (GTE)
6. New England Telephone and Telegraph Company and New York Telephone Company (NYNEX)
7. Pacific Bell and Nevada Bell (Pacific)
8. Rochester Telephone Corporation (Rochester)
9. Southwestern Bell Telephone Company (Southwestern)
10. The United States Telephone Association (USTA)
11. The United Telephone Companies (United)
12. U S West Communications, Inc. (U S West)
13. MCI Telecommunications Corporation (MCI)

14. The People of the State of California and the Public Utilities Commission of the State of California (California)

15. GVNW, Inc./Management (GVNW)

16. The Public Service Commission of the District of Columbia (D.C.)

17. The New York Department of Public Service (NYDPS)

Parties Filing Reply Comments

1. Bell Atlantic
2. BellSouth
3. CBT
4. GTE
5. NYNEX
6. Pacific
7. USTA
8. United
9. U S West
10. MCI
11. National Association of Regulatory Utilities' Commissioners (NARUC)

⁵⁰ 44 U.S.C. §§3510-20.

Account 2111, Land

Land used exclusively for regulated or nonregulated activities is directly assigned. Land used for both regulated and nonregulated activities is assigned to the Common Cost Pool and apportioned using the allocator shown below:

| <u>Cost Pool</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|------------------|--|---|
| Regulated | Cost associated with parcels of land that are used entirely for the provision of regulated services. | Direct Assignment |
| Nonregulated | Cost associated with parcels of land that are used entirely for the provision of nonregulated services. | Direct Assignment |
| Common | Cost associated with parcels of land which are used for the provision of both regulated and nonregulated services. | Indirect Attribution Based on the overall investment in the Common Buildings Cost Pools. |

Account 2112, Motor Vehicles

Motor vehicles that are dedicated entirely to regulated or nonregulated activities are directly assigned. Motor vehicles that are used for both regulated and nonregulated activities are assigned to one of the common cost pools and apportioned using the allocators shown below:

| <u>Direct Cost Pools</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|---------------------------------|---|--|
| Regulated | Cost associated with motor vehicles that are used entirely for the provision of regulated services. | Direct Assignment |
| Nonregulated | Cost associated with motor vehicles that are used entirely for the provision of nonregulated services. | Direct Assignment |
| <u>Common Cost Pools</u> | | |
| Central Office | Cost associated with motor vehicles used to support central office functions. | Indirect Attribution Current year salaries and wages in Accounts 2210–2232 and 6210–6232. |
| Distribution Services | Cost associated with motor vehicles used to support information origination/termination equipment and cable and wire facilities. | Indirect Attribution Current year salaries and wages in Accounts 2310–2441 and 6310–6441. |
| Network Operations | Cost associated with motor vehicles used to support network operations. | Indirect Attribution Current year salaries and wages in Accounts 6113–6124 and 6510–6535. |
| Customer Operations | Cost associated with motor vehicles used to support customer operations. | Indirect Attribution Current year salaries and wages in Accounts 6610–6623. |
| Corporate Operations | Cost associated with motor vehicles used to support corporate operations. | Indirect Attribution Current year salaries and wages in Accounts 6710–6728. |
| Motor Pool | Cost associated with motor vehicles used to support multiple functions. | Indirect Attribution Current year salaries and wages of those employees served by the motor pool. |

4672

Account 2121, Buildings

Buildings used exclusively for regulated or nonregulated activities are directly assigned. Buildings used for both regulated and nonregulated activities are assigned to common cost pools based on annual floor space studies and apportioned using the allocators shown below:

| <u>Directly Assigned Cost Pools</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|--|--|---|
| Regulated | Cost associated with buildings that are used entirely for the provision of regulated services. | Direct Assignment |
| Nonregulated | Cost associated with buildings that are used entirely for the provision of nonregulated services. | Direct Assignment |
| <u>Directly Attributed Common Cost Pools</u> | | |
| Regulated | Cost associated with portions of buildings which are rented to others and are either regulated or qualify as incidental to telephone operations. | Direct Attribution -- Regulated |
| Nonregulated | Cost associated with portions of buildings which house nonregulated activities that do not qualify as incidental to telephone operations. | Direct Attribution -- Nonregulated |
| <u>Indirectly Attributed Common Cost Pools</u> | | |
| Central Office | Cost associated with portions of buildings which house central office equipment and central office support personnel. | Indirect Attribution Central Office Equipment Investment in Accounts 2210-2232, excluding investment in central office equipment in buildings directly assigned to regulated or nonregulated activities. |

4673

4674

| Indirectly Attributed Comon Cost Pools(cont.) | <u>Account 2121, Buildings</u> Cost Pool Definition | Regulated/Nonregulated Apportionment Basis |
|--|--|--|
| Distribution Services | Cost associated with portions of buildings which house personnel who install, maintain, or support information origination/termination equipment or cable and wire facilities. | Indirect Attribution Current year salaries and wages in Accounts 2310–2441 and 6310–6441, excluding such salaries and wages associated with personnel who are assigned to buildings that are directly assigned to regulated or nonregulated activities. |
| Network Operations | Cost associated with portions of buildings which house personnel who support network operations. | Indirect Attribution Current year salaries and wages in Accounts 6110–6124 and 6510–6535, excluding such wages associated with personnel who are assigned to buildings that are directly assigned to regulated or nonregulated activities. |
| Customer Operations | Cost associated with portions of buildings which house personnel who support customer operations. | Indirect Attribution Current year salaries and wages in Accounts 6610–6623, excluding such salaries and wages associated with personnel who are assigned to buildings that are directly assigned to regulated or nonregulated activities. |
| Corporate Operations | Cost associated with portions of buildings which house personnel who support corporate operations. | Indirect Attribution Current year salaries and wages in Accounts 6710–6728, excluding such salaries and wages associated with personnel who are assigned to buildings that are directly assigned to regulated or nonregulated activities. |

Account 2311, Station Apparatus

Station Apparatus is directly assigned to either regulated or nonregulated activities.

| <u>Cost Pool</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|-------------------------|--|--|
| Regulated | Cost associated with station apparatus that is used entirely for the provision of regulated service. | Direct Assignment |
| Nonregulated | Cost associated with station apparatus that is used entirely for the provision of nonregulated service. | Direct Assignment |

Account 2341, Large Private Branch Exchanges

Large Private Branch Exchange equipment is directly assigned to either regulated or nonregulated activities.

| Cost Pool | Cost Pool Definition | Regulated/Nonregulated Apportionment Basis |
|---------------------|--|---|
| Regulated | Cost associated with large private branch exchange equipment that is used entirely for regulated services. | Direct Assignment |
| Nonregulated | Cost associated with large private branch exchange equipment that is used entirely for nonregulated services. | Direct Assignment |

Account 6112, Motor Vehicle Expense

Expense related to construction projects or other plant specific accounts is cleared as required by Commission rules. Expense remaining in this account that exclusively relates to regulated or nonregulated activities is directly assigned. Expense that relates to both regulated and nonregulated activities is assigned to the common cost pool and apportioned based on the allocator shown below:

| <u>Cost Pool</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|------------------|---|---|
| Regulated | Expense associated with vehicles assigned to the Direct Regulated Motor Vehicle Cost Pool. | Direct Assignment |
| Nonregulated | Expense associated with vehicles assigned to the Direct Nonregulated Motor Vehicle Cost Pool. | Direct Assignment |
| Common | Expense associated with vehicles assigned to the Common Motor Vehicle Cost Pools. | Indirect Attribution Relative investment in the Network Operations; Customer Operations; Corporate Operations; and Motor Pool Common Motor Vehicle Cost Pools. |

4677

Account 6121, Land and Building Expense

Expense that exclusively relates to regulated or nonregulated activities is directly assigned. Expense that relates to both regulated and nonregulated activities is assigned to common cost pools and apportioned based on the allocator shown below:

| <u>Direct Cost Pools</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|--------------------------|---|---|
| Regulated | Expense associated with land and buildings assigned to the Direct Regulated Land and Buildings Cost Pools. | Direct Assignment |
| Nonregulated | Expense associated with land and buildings assigned to the Direct Nonregulated Land and Buildings Cost Pools. | Direct Assignment |
| <u>Common Cost Pools</u> | | |
| Operating Rents | Operating rents related to land and buildings which are used in regulated and nonregulated operations. | Direct Attribution Based on an analysis of the use of the rented asset. |
| Other Common Expense | Expense associated with land and buildings assigned to the Common Land and Building Cost Pools. | Indirect Attribution Based on the sum of the common cost pools for land and buildings. |

4678

Account 6311, Station Apparatus Expense

All productive labor expense is directly assigned to regulated or nonregulated cost pools based on the technician's time reporting. No Access/No Trouble Found visits are common expense and is apportioned to regulated and nonregulated activities based on the stated allocator. Travel expense related to single purpose regulated visits (jobs that are exclusively regulated work) is directly assigned to regulated activities. Travel expense related to single purpose nonregulated visits (jobs that are exclusively nonregulated work) is directly assigned to nonregulated activities. Travel expense related to combination visits (jobs that include both regulated and nonregulated work) is split evenly between regulated and nonregulated activities. Travel expense related to No Access/No Trouble Found visits is assigned to the No Access/No Trouble Found cost pool and apportioned based on the stated allocator.

4679

| Cost Pool | Cost Pool Definition | Regulated/Nonregulated Apportionment Basis |
|--|--|---|
| Regulated | Expense (including travel) associated with Station Apparatus assigned to the Direct Regulated Station Apparatus Cost Pool. | Direct Assignment |
| Nonregulated | Expense (including travel) associated with Station Apparatus assigned to the Direct Nonregulated Station Apparatus Cost Pool. | Direct Assignment |
| Common – No Access/No Trouble Found | Expense (including travel) associated with "no access/no trouble found" visits. | Indirect Attribution Regulated equals 75% of the ratio of regulated trouble counts cleared to total trouble counts cleared. Residual amount equals nonregulated. |

Account 6341, Large Private Branch Exchange Expense

All productive labor expense is directly assigned to regulated or nonregulated cost pools based on the technician's time reporting. No Access/No Trouble Found visits are common expense and is apportioned to regulated and nonregulated activities based on the stated allocator. Travel expense related to single purpose regulated visits (jobs that are exclusively regulated work) is directly assigned to regulated activities. Travel expense related to single purpose nonregulated visits (jobs that are exclusively nonregulated work) is directly assigned to nonregulated activities. Travel expense related to combination visits (jobs that include both regulated and nonregulated work) is split evenly between regulated and nonregulated activities. Travel expense related to No Access/No Trouble Found visits is assigned to the No Access/No Trouble Found cost pool and apportioned based on the stated allocator.

4680

| <u>Cost Pool</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|---|---|---|
| Regulated | Expense (including travel) associated with Large Private Branch Exchange equipment assigned to the Direct Regulated Large Private Branch Exchange Cost Pool. | Direct Assignment |
| Nonregulated | Expense (including travel) associated with Large Private Branch Exchange equipment assigned to the Direct Nonregulated Large Private Branch Exchange Cost Pool. | Direct Assignment |
| Common – No Access/ No Trouble Found | Expense (including travel) associated with "no access/no trouble found" visits. | Indirect Attribution Regulated equals 75% of the ratio of regulated trouble counts cleared to total trouble counts cleared. Residual amount equals nonregulated. |

Account 6362, Other Terminal Equipment Expense

All productive labor expense is directly assigned to regulated or nonregulated cost pools based on the technician's time reporting. No Access/No Trouble Found visits are common expense and is apportioned to regulated and nonregulated activities based on the stated allocator. Travel expense related to single purpose regulated visits (jobs that are exclusively regulated work) is directly assigned to regulated activities. Travel expense related to single purpose nonregulated visits (jobs that are exclusively nonregulated work) is directly assigned to nonregulated activities. Travel expense related to combination visits (jobs that include both regulated and nonregulated work) is split evenly between regulated and nonregulated activities. Travel expense related to No Access/No Trouble Found visits is assigned to the No Access/No Trouble Found cost pool and apportioned based on the stated allocator.

4681

| <u>Cost Pool</u> | <u>Cost Pool Definition</u> | <u>Regulated/Nonregulated Apportionment Basis</u> |
|---|---|---|
| Regulated | Expense (including travel) associated with Other Terminal Equipment assigned to the Direct Regulated Other Terminal Equipment Cost Pool. | Direct Assignment |
| Nonregulated | Expense (including travel) associated with Other Terminal Equipment assigned to the Direct Nonregulated Other Terminal Equipment Cost Pool. | Direct Assignment |
| Common – No Access/ No Trouble Found | Expense (including travel) associated with "no access/no trouble found" visits. | Indirect Attribution Regulated equals 75% of the ratio of regulated trouble counts cleared to total trouble counts cleared. Residual amount equals nonregulated. |