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United States General Accounting Office ~~34263~~

GAO

Report to the Honorable
Thomas A. Luken
House of Representatives

April 1986

TELEPHONE COMMUNICATIONS

Bell Operating Company Entry Into New Lines of Business



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Resources, Community, and
Economic Development Division

B-212866

April 16, 1986

The Honorable Thomas A. Luken
House of Representatives

Dear Mr. Luken:

In your January 17, 1986, letter, you requested us to examine the rationale being advanced for allowing the regulated Bell Operating Companies (BOCs)¹ to enter various lines of business, such as interstate long-distance service, which are currently restricted by the Consent Decree² that required the January 1, 1984, American Telephone and Telegraph Company (AT&T) divestiture.

Accordingly, appendixes I through V of our report provide information on the Consent Decree, specifically its restrictions on the BOCs; current procedures and results of the restriction waiver process; the basic issues and arguments for and against BOCs' expansion; federal agency views on the restrictions; and related FCC regulation of BOCs' businesses. You also requested that we outline and provide information on controls needed to assure that subsidization of unregulated businesses does not occur, and whether revenues from unregulated activities could be helpful to the telephone ratepayer.

Due to the complexity and nature of information requested, as agreed with your office, we are providing readily available, existing information that summarizes the major issues. To provide the information we reviewed the Consent Decree and subsequent Court rulings³ and examined waiver requests filed with the Department of Justice along with comments received from interested parties on these requests. We examined various Federal Communications Commission (FCC) and

¹We use BOCs to refer to the seven regional holding companies that now own the regulated local telephone companies divested by AT&T. The seven companies are Pacific Telesis Group in California and Nevada; U.S. West Inc., in the Northwest, Mountain and Northern Plains states; Southwestern Bell Corporation; American Information Technologies Corporation in the midwestern states; Bell Atlantic Corporation in the Mid-Atlantic region; Bell South Corporation; and NYNEX Corporation in New York and New England.

²United States v. American Telephone and Telegraph Company, 552 F. Supp. 131 (D.D.C. 1982) Aff'd 460 U.S. 1001 (1983).

³United States v. Western Electric Co., Inc., 569 F. Supp. 990 (D.D.C. 1983); United States v. Western Electric Co., Inc., 569 F. Supp. 1057 (D.D.C. 1983); United States v. Western Electric Co., Inc., 592 F. Supp. 846 (D.D.C. 1984); United States v. Western Electric Co., Inc., 604 F. Supp. 256 (D.D.C. 1984); and United States v. AT&T Co., Civil Action No. 82-0192 (D.D.C. January 13, 1986).

Department of Justice records and interviewed officials of these agencies. We also analyzed several articles and studies on the issue, in particular, the Department of Commerce's National Telecommunications and Information Administration (NTIA) July 1985 policy study, which recommended changes be made in the Consent Decree. We interviewed NTIA officials who contributed to the study and examined the detailed comments NTIA received from interested telecommunications firms and trade groups.

The 1982 Consent Decree that settled the Department of Justice anti-trust suit required AT&T to divest its regulated monopoly components, creating BOCs to provide regulated local telephone service and certain other specified services. Since then BOCs have sought waivers from the restrictions in the Consent Decree to engage in new unregulated lines of business, both related and unrelated to their basic telephone service. Federal District Court Judge Harold H. Greene, who presided at the anti-trust trial and must rule on requests for waivers, has approved BOC requests to enter new lines of business not related to basic telephone service, but has indicated that requests to enter the specifically restricted lines of business would not be approved. The Department of Justice is studying all developments in the telecommunications industry since divestiture and plans to report its findings and any recommendations for changes in the restrictions to Judge Greene in January 1987.

FCC and NTIA are among those supporting the BOCs expansion into telecommunications markets currently prohibited by the Consent Decree. Proponents generally argue that telecommunications technology and the marketplace are rapidly changing and that BOCs are a multibillion dollar national resource that should be used, with appropriate regulatory safeguards, to advance the nation's telecommunications technology and competitiveness. Those opposed to BOC expansion generally argue that the federal government's antitrust concerns which led to the AT&T divestiture will be recreated at the BOC level if BOCs are allowed to provide unregulated telecommunications services while they still maintain monopoly service to local telephone subscribers.

Parties on both sides of the argument recognize that anticompetitive problems can be caused by mixing regulated and competitive activities and that the federal government has a legitimate oversight role in assuring that abuses do not occur. However, they disagree about the magnitude of the problems, and thus on what is the appropriate federal role. Disagreement centers on which is the greater danger:

- losing economic efficiency and competitive benefits by continuing to restrict BOC activities or
- risking anticompetitive behavior by allowing BOCs to enter new lines of business.

Some parties agree on actions needed but not on the timing involved, that is, whether BOCs' equal access long-distance connections should be completed before they are allowed to enter new lines of business.

Information contained in appendixes III and V address your specific concern about controls needed to prevent subsidization of unregulated business. Appendix III also contains information regarding your concern about how the local telephone customers might be affected by relaxation of the line-of-business restrictions. This includes arguments on the potential for cross-subsidization and the relative benefit expansion would have for the BOCs. In this regard, we found agreement among many interested parties, public and private, that profits (or losses) resulting from BOCs' unregulated activities would be kept separate and thus not directly impact the customers of BOCs' regulated telephone business. Based on the limited work done during this short assignment, we cannot express an opinion about the effect on such customers of relaxing the restrictions.

As you requested, we did not obtain official agency comments on this report. However, we did discuss information in the report with FCC, NTIA, and Department of Justice officials during the course of our work and have incorporated their views as appropriate. As agreed, we plan no further distribution of this report for 21 days or until you publicly release it. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



J. Dexter Peach
Director

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Abbreviations

AT&T	American Telephone & Telegraph Company
BOC	Bell Operating Company
FCC	Federal Communications Commission
GAO	General Accounting Office
GTE	General Telephone and Electronics Corporation
IBM	International Business Machines Corporation
MCI	MCI Telecommunications Corporation
NTIA	National Telecommunications and Information Administration
RCED	Resources, Community, and Economic Development Division
USOA	Uniform System of Accounts

Key Facts About the AT&T Consent Decree and Subsequent Clarifications That Guide BOC Business Activities

Description of the Consent Decree

In January 1982 the American Telephone and Telegraph Company (AT&T) and the Department of Justice agreed to settle the antitrust lawsuit brought by the Department of Justice in 1974. The agreement proposed to the Court split AT&T generally into two components: (1) competitive services (long distance and telecommunications equipment) and (2) regulated monopoly services (local telephone service). Provisions of the agreement included the following:

- AT&T would divest itself of its monopoly local operating companies, thus would no longer provide local telephone service.
- The divested Bell Operating Companies (BOCs) would provide local service and equal access to all long-distance carriers (AT&T, MCI, etc.).
- AT&T would keep its competitive long-distance service, its manufacturing arm, Western Electric, and its research and development unit, Bell Laboratories.
- A 1956 Consent Decree would be repealed, allowing AT&T to keep its patents and provide unregulated services and equipment.

The rationale behind the divestiture was that a company providing both regulated monopoly services and related competitive services has the incentive to limit access or discriminate among customers or against its rivals in the competitive markets for access to its monopoly services. Also, profits from the monopoly services can be used to subsidize its competitive activities. Such cross-subsidization would be unfair to (1) its rivals in the competitive markets and (2) local telephone subscribers who would have to pay more than they should for service.

The Department of Justice prepared a competitive impact statement on the proposed Consent Decree. Regarding the proposed restriction on BOC activities, the Department stated that BOCs' financial viability was assured by being able to earn, as telephone monopolies with regulatory supervision, revenues adequate to cover operating costs and the costs of capital.

Adjustments to the Proposed Consent Decree

The "Tunney Act"¹ requires public hearings be held on antitrust settlements so that the presiding Court is assured the settlement is in the public interest.

Federal District Court Judge Harold H. Greene, who presided in the AT&T antitrust case, viewed his public interest responsibility as (1) promoting

¹Antitrust Procedures and Penalties Act, 15 U.S.C. §§16 (e)-(f).

**Appendix I
Key Facts About the AT&T Consent Decree
and Subsequent Clarifications That Guide
BOC Business Activities**

competition in the long distance and equipment markets, (2) maintaining AT&T as a dynamic force in the telecommunications field, and (3) protecting universal telephone service for all.

Judge Greene recommended that some restrictions contained in the Consent Decree be eased to ensure BOCs' vitality (and thus reduce upward pressure on local telephone rates). He recommended that BOCs

- be able to control profitable Yellow Pages advertising instead of AT&T,
- be allowed to market (but not manufacture) customer premises equipment, and
- be allowed to apply for waivers of the restrictions in the future, if BOCs can show that there is no substantial possibility they could use their monopoly power to impede competition.

Recognizing that technological developments could change the need for some of the BOC restrictions, the Department of Justice agreed to report to the Court every 3 years on whether changes in the Consent Decree are appropriate. Its first report is due in January 1987.

The Court's Procedures for Line-Of-Business Waivers and Facts on the Process to Date

The Court's Procedures

After receiving nine requests from BOCs to engage in restricted businesses during the first 4 months after the AT&T divestiture, Judge Greene established procedures in July 1984 for BOCs to follow in applying for waivers. The procedures follow:

- BOCs will be required to conduct competitive activities through separate subsidiaries to minimize the opportunity for cross-subsidization or other anticompetitive conduct.
- Financial resources for competitive ventures should not come from regulated activities.
- No more than 10 percent of a BOC's revenues should come from competitive activities, to assure that proper management attention remains focused on their telephone service responsibilities.
- The Department of Justice will monitor compliance with the waiver provisions when permission is granted to engage in competitive activities.

All waiver requests will be referred first to the Department of Justice, which will evaluate them and recommend to the Court what action to take on each request.

Judge Greene said that the Consent Decree did not contemplate the BOCs entering new competitive fields except on a limited and slowly evolving basis, to assure they do not neglect their responsibilities and are not diverted by more interesting speculative business ventures.

Judge Greene also said that waiver requests to provide long-distance service will not even be considered until such time as there is substantial competition for local service. "That is not now," he said.

Similarly, Judge Greene said that he would not consider waiver requests involving information services or equipment manufacturing until significant technological or structural changes have occurred in these markets to justify relaxing these line-of-business restrictions.

Experience With the Waiver Process to Date

As of March 14, 1986, the Court has granted 54 of the 91 line-of-business waiver requests received since 1984. In addition, 27 requests were under consideration by the Department of Justice, and 8 were pending before the Court.

Since waivers have been received, the Department of Justice has opposed only two. The Court denied one of these waiver requests and

the other was withdrawn by the BOC involved. The Department seeks comments from interested parties before acting on the waiver requests.

In keeping with Judge Greene's guidance furnished in July 1984, waiver approvals have been given only for competitive ventures unrelated to basic regulated telephone service, including such activities as

- foreign business ventures,
- cellular telephone monitoring and consulting services,
- office equipment,
- print media,
- real estate, and
- computer software.

Concern has been expressed that the Consent Decree's waiver approval process superimposes another regulatory regime, administered by the Department of Justice and the Court, over companies already regulated by FCC and the states.

The Department of Justice's Assistant Attorney General, Antitrust Division, said that the Department plans to streamline its review and processing of waiver requests and that it intends to be a law-enforcement agency, not a regulatory agency.

Issues and Arguments About Bell Operating Company Entry Into New Lines of Business

The Cross-Subsidy Issue

A major consideration in the AT&T divestiture was separating AT&T's regulated monopoly telecommunications services from its competitive activities to avoid the possibility of monopoly activities subsidizing competitive activities.

The subjectivity inherent in allocating common costs among various regulated telecommunications services makes it hard to identify the extent cross-subsidies may occur, and thus makes regulatory oversight difficult. This oversight becomes even more sensitive when costs have to be allocated between regulated and competitive activities.

Ways to deal with cross-subsidy include (1) setting up separate subsidiaries and (2) maintaining separate accounting controls. Separate subsidiaries is a cleaner demarcation, but it involves costs to set up and maintain the subsidiary. Use of separate accounting controls is easier and less costly for management but also can lead to questions of how certain common costs are allocated.

Some proponents of BOC entry into currently prohibited competitive markets say the potential danger of cross-subsidization should not be used as a reason for prohibition. Historically, local regulated telephone rates have been kept low and were subsidized by revenue from long-distance rates. Thus, there is little likelihood that excess revenues will be available from BOCs' local regulated service to subsidize competitive activities.

Proponents of BOC entry into competitive markets argue that the risks of improper subsidies are not so great as to preclude the BOCs entirely from entering these markets. They contend that proper federal and state oversight can prevent or correct such cross-subsidy. Further they argue, the costs imposed by the line-of-business restrictions may exceed the benefits gained.

The Equal Access Issue

A major condition in the Consent Decree was for BOCs to complete necessary technical modifications by September 1986 so that long-distance carriers could each connect to their subscribers through BOC facilities on an equal basis.

NTIA and the Court have stated that BOCs should be prohibited from new ventures until equal access has been achieved, in order to properly focus management attention and resources. Equal access implementation requires a major financial and technological commitment on the part of

the BOCs, and their attention should not be diverted by starting up new competitive ventures.

BOCs have opposed linkage between equal access and new lines of business stating that there should be no relationship between obtaining a waiver to enter new lines of business and completing equal access connections because one is not necessarily dependent on the other.

Judge Greene has stated that he will closely scrutinize any waiver request to ensure that, if granted, it would not interfere with equal access obligations.

The "Bottleneck" Issue

BOCs will continue to have monopoly power and thus will be subject to regulatory controls as long as they continue to have the exclusive, so called, "bottleneck" access to the local subscribers. Bottleneck access refers to BOCs' monopoly control over the local exchange facilities, for which there is no equal alternative.

The Consent Decree dealt with this bottleneck by separating out the competitive long distance and equipment markets. Efforts by BOCs to reenter these competitive markets will be influenced by the extent to which the bottleneck continues to exist.

BOCs say they no longer have bottleneck monopoly control over access to local telephone users because users have the ability to bypass them, because of new equal access connections for long distance, and because of other technological advances. Thus, the argument follows, competition exists in the local telephone service market and there is no reason to restrain BOC competitive activities.

Opponents reply that only large business concerns have the financial incentive to bypass and that most telephone subscribers have no other reasonable option than using the local BOC. Thus the bottleneck remains.

For the future, according to FCC's Chairman, cable television and cellular telephone are technologies that could provide alternatives to the local exchange bottleneck. Also, FCC and others have cited the concept of "open architecture" or "comparably efficient interconnection" of BOC central office equipment, in which competitors have access to local exchange equipment in order to provide services similar to those offered by BOCs, as having the potential for eliminating the bottleneck.

Potential for Creation of Monopolies at Regional Levels

Opponents of BOC efforts to expand into prohibited long-distance services and equipment manufacturing argue that such expansion would result in creation of vertically integrated monopolies like AT&T was before the divestiture, except that there would be seven regional monopolies instead of one national monopoly.

Opponents contend that the result would be the same anticompetitive behavior and cross-subsidization problems that led to the breakup of AT&T but on a regional rather than a national basis.

Supporters of BOC expansion argue that technology and the marketplace have changed the nature of the industry, so that it is unlikely that vertically integrated monopolies will reform. If they do, antitrust and regulatory safeguards are sufficient to correct the problem.

BOCs stated that it is unfair to prohibit them from providing a full range of equipment and services when other non-Bell local telephone providers, such as GTE, are able to do so. Also, AT&T's bypass technologies are increasingly competing with BOCs for traffic between the user and the long-distance network, and AT&T is not restricted as are the BOCs.

Interest of the BOCs in Maintaining Universal Telephone Service

A public interest consideration of Judge Greene in overseeing the Consent Decree is protecting the principle of universal telephone service—accessible to all segments of the population regardless of income.

Judge Greene expressed concern that BOCs' rush to diversify indicates a lack of interest in local telephone service, thus threatening the goal of universal service. The more they diversify, the less central their telecommunications functions will become to their corporate existence.

The Consent Decree allowed for the possibility that BOCs would eventually be allowed to enter unregulated activities. But according to Judge Greene, no one envisioned that they would seek to diversify within weeks after divestiture.

BOCs maintain that they remain committed to the principle of universal service.

General Arguments About BOCs Entry Into New Lines of Business

The following arguments are drawn from the statements of the proponents and opponents of BOC entry into new lines of business.

Arguments For:

BOCs are a multibillion dollar resource that should be used to advance the nation's telecommunications technology. Allowing them to enter new markets should result in more competition in these markets, and thus more consumer choices, better products and services, and cheaper prices.

Allowing BOCs to provide information services and manufacture equipment could help prevent the existing giants, AT&T and IBM, from dominating these markets.

Allowing BOCs to provide a greater range of telecommunications services adds value to the telephone network and helps keep customers from bypassing BOCs for competitors' services.

Diversification helps keep BOCs financially strong, and it is in the interest of the telephone ratepayers to have their local phone companies healthy financially.

Restrictions on BOC domestic activities may make sense; however, there is no good reason for prohibiting their foreign ventures, as such activities can help strengthen the U.S. competitiveness overseas. Further, foreign firms can freely compete against BOCs for business in this country, but not vice versa.

Rigid restrictions, such as those imposed by the Consent Decree, need periodic reexamination in light of changing technology and the marketplace.

The waiver process BOCs must endure to enter new businesses limits their flexibility, is time consuming, and creates unnecessary uncertainty about future business plans.

The waiver process runs opposite to traditional antitrust law. A BOC applying for a waiver to enter a new line of business must prove a negative—that competition will not be harmed—rather than putting the

burden of proof on the federal government to show that competition will be harmed.

Arguments Against:

The competition among BOCs could lead to a lack of cooperation in establishing national networks for national defense purposes, if BOCs are allowed to expand beyond their current geographic boundaries set by the Consent Decree and provide information services and long-distance service.

It has been just 2 years since the Consent Decree took effect. It is wise to wait a while before instituting wholesale changes to the Decree, at least until the Department of Justice makes its report to the Court in January 1987.

Loss of revenues to BOCs due to bypass is not a valid justification for easing the line-of-business restrictions. Bypass is caused by an uneconomic allocation of BOC fixed costs, which FCC's access charge decision is addressing. The solution to bypass is to properly allocate BOC costs, not to ease the line-of-business restrictions.

AT&T, before divestiture, did not generally compete in overseas telecommunications equipment markets. Independent equipment suppliers did compete for business overseas and to permit BOCs to do so now would just hurt the business that the independent suppliers built up.

Federal Views on Line-Of-Business Restrictions

In its July 1985 publication, Issues in Domestic Telecommunications: Directions for National Policy, the Department of Commerce's National Telecommunications and Information Administration made the following recommendations:

- Retain the restrictions on manufacturing equipment (domestically) and providing long-distance service until equal access has been achieved (scheduled for September 1986); then consider eliminating or substantially changing them.
- Eliminate immediately the restrictions on providing information services, since information services are increasingly becoming extensions of basic exchange service.
- Do not restrict BOC activities in foreign markets unless it can be demonstrated that such restrictions are necessary.
- Develop a less burdensome process for handling waiver requests.

FCC initially opposed the line-of-business restrictions and their public statements support easing them.

- FCC stated, in a paper filed with the Court in 1982, that it did not believe that a properly regulated firm providing local telephone service was more likely to monopolize an unrelated business any more than another firm would participating in more than one market.
- The Chairman of FCC, Mark Fowler, said in January 1986 that he favored lifting the line-of-business restrictions and that more vigorous competition would result.
- FCC Commissioner Mimi Dawson stated in December 1985 that she believed the restraints of the Consent Decree need to be reexamined. She said that competition in the market is increasingly among providers of a package of integrated services rather than discrete components. As such, BOCs should be able to provide these services rather than being restricted to specific portions of the market.

The Department of Justice's Assistant Attorney General, Antitrust Division, made the following observations on the Consent Decree implementation:

- The Department of Justice's primary Consent Decree enforcement effort is to ensure effective implementation of the equal access provisions.
- BOCs might be allowed to provide information services when they can also offer to their competitors the same interconnection to the BOCs' facilities that it provides to itself. This equal interconnection or "open

architecture” will help regulators prevent BOCs from discriminating against information service competitors.

- The Department of Justice is streamlining the line-of-business waiver process and seeks to cooperate fully with BOC efforts to enter new businesses (other than those specifically prohibited by the Consent Decree).
- The Department of Justice has sought to broaden many waiver requests and minimize conditions that would require its ongoing supervision.
- The Department of Justice realizes that the telecommunications industry has changed significantly since 1982 and thus recognizes the need for its 1987 report to the Court examining whether changes are needed in the Consent Decree.

Judge Greene, in a January 1986 opinion clarifying the Consent Decree, restated the basic purpose underlying the restrictions imposed on BOCs by the Decree.

- He stated that the bottleneck monopoly control over access to local subscribers still exists and that this bottleneck was the basis for the restrictions. Thus, he concluded that the restrictions have “far from outlived [their] usefulness.”
- He also criticized some of the regional holding companies for the “relative lack of interest” in providing telephone service and their preoccupation with diversifying.

Key Facts on Related FCC Issues

In a 1980 decision, FCC allowed AT&T to provide unregulated "enhanced" telecommunications services if the business was conducted through separate subsidiaries to prevent cross-subsidy with regulated revenues. FCC's ongoing "Third Computer Inquiry"¹ proposes to revise this requirement for the divested BOCs. In a related area, FCC is also currently revising its accounting system requirements and plans to use these financial reporting requirements to help guard against cross-subsidy.

FCC's Third Computer Inquiry May Change Separate Subsidiary Rules for BOCs

Policies set by FCC's Second Computer Inquiry (Computer II) in 1980 were designed to separate "basic" regulated telephone services from "enhanced" unregulated activities, such as data processing, by requiring separate subsidiaries.

FCC claims that this requirement has resulted in some technologies and services not being implemented by BOCs because the separation rules made them impractical. Other services have been the subject of extensive FCC proceedings brought by BOCs to obtain waivers of the full separation requirement.

The Third Computer Inquiry (Computer III) is "comprehensively" reexamining this policy. FCC is proposing to redefine basic and enhanced services, eliminate strict structural separation in favor of lesser separation such as separate accounting records, and would consider a BOC's dominant or nondominant status in a market as a decision-making factor.

In comments on FCC's Computer III proposals, the Department of Justice agreed with a more flexible approach to regulation, driven by an analysis of competitive factors rather than continuing to base decisions on technological categorization, that is, basic vs. enhanced services.

Computer III is driven by the marked changes in telecommunications since the Computer II decision:

¹"Third Computer Inquiry" is the short title for FCC's proceeding in Common Carrier Docket 85-229, which was initiated on July 25, 1985. The inquiry is the third FCC proceeding to deal with the question of whether or not computer services using the telecommunications network should be regulated or not. The First Computer Inquiry decision in 1970 concluded computer services should not be regulated but could be offered by entities that were structurally separate from regulated telephone companies. In 1980 the Second Computer Inquiry further defined the unregulated "enhanced" activities and the regulated "basic" services offered by telephone companies. The Second Computer Inquiry's rules require fully separate subsidiaries for the competitive activities to prevent anticompetitive behavior. The Third Inquiry proposes to change these rules significantly.

- The government's antitrust suit resulted in AT&T's divestiture of BOCs, which are to provide "equal access" to all of AT&T's long-distance competitors.
- Many waivers of the Computer II rules have been sought and granted because of the inefficiencies telephone companies say are created by the rules.
- Competition for the telephone companies has grown in many areas, such as customer premises equipment and computer services, leaving them less dominant and less likely to carry out the abuses Computer II was to prevent.

Accounting Systems

The Uniform System of Accounts (USOA), established in 1935, provides a means for classifying, recording, interpreting, and reporting a telephone company's financial information. FCC recently stated that the system has become outdated because the industry is now much more complex, competitive, and technology oriented.

After 8 years of work, FCC plans to finish revising USOA by summer 1986.

The revised USOA (FCC Docket 78-196) is to provide only a financial accounting system. A separate FCC proposal regarding allocation of common costs between regulated and unregulated activities—such as the businesses the BOCs seek to enter—was approved on April 3, 1986. FCC expects to publish the cost allocation proposal for public comment in the near future. Implementation of the revised USOA is now proposed for January 1, 1987, but it is likely to be delayed 1 year depending on how soon FCC is able to take final action. The Chairman, FCC, said recently that implementation of the cost allocation rules is targeted for 1987.

Another FCC proposal is related to the Computer III changes and adoption of an accounting system for allocation of common costs. In the separate March 1986 proceeding (Docket 86-79), FCC proposes to eliminate the Computer II separate subsidiary requirements for the BOCs' provision of customer premises telephone equipment.

Congressional Request Letter

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January 17, 1976

Charles A. Bowsher
Comptroller General of
the United States
441 G Street, NW
Washington, D.C. 20540

Dear Mr. Bowsher:

The basic operating companies (BOC's) that were created by the January divestiture of AT&T are prohibited from entering certain lines of business. An existing court order, resulting from the settlement of the antitrust suit, prevents these companies from providing information services, manufacturing equipment, or offering long-distance services.

Proposals are now being made in Congress to permit the BOC's to enter into these unregulated markets. Proponents argue that permission to enter these activities should be granted to offset revenue the BOC's are losing due to the "bypassing" of their facilities by large users.

Your examination of the rationale being advanced for allowing BOC's into these activities would be helpful to Members of Congress as we begin to review the pending legislation.

I also request that you outline the regulatory and structural controls that would be necessary to assure that no subsidization of these unregulated businesses would occur.

Finally, I would appreciate any information GAO could provide to determine whether revenues from these unregulated activities could be helpful to the ratepayers of the utilities.

Members of my staff and I have met with your staff to discuss these matters. Please let me know if you have any questions about this request.

Your assistance is greatly appreciated.

Sincerely,


THOMAS A. LUKEN
Member of Congress

TAL:ls

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