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FEDERAL COMMUNICATIONS COMMISSION

47 CFR Parts 1, 32, and 65

[**WC Docket No. 14-130, CC Docket No. 80-286; FCC 17-15]**

Comprehensive Review of the Uniform System of Accounts, Jurisdictional Separations and Referral to the Federal-State Joint Board

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this document, the Federal Communications Commission (Commission) completes its proceeding to review the Uniform System of Accounts (USOA) to minimize the compliance burdens on carriers while ensuring that the agency retains access to the information it needs to fulfill its regulatory duties.

DATES: The rules adopted in this document shall become effective on **January 1, 2018**, with the exception of amendments to §§ 1.1409 and 32.1, which shall become effective following publication in the Federal Register of a document announcing approval by OMB of these amendments.

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SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Report and Order, WC Docket No. 14-130, CC Docket 80-286; FCC 17-15, adopted February 23, 2017 and released February 24, 2017. The full text of this document may be downloaded at https://transition.fcc.gov/Daily_Releases/Daily_Business/2017/db0228/FCC-17-15A1.pdf.

In this present document, we have assessed the effects of our streamlining the part 32 Uniform System of Accounts (part 32 USOA) accounting rules and find that the Commission's actions will result in overall reduced regulatory burdens for both price cap and rate-of-return carriers, including small businesses with fewer than 25 employees. In addition, the Report and Order allows price cap carriers to elect to use GAAP for all regulatory accounting purposes so long as they comply with targeted accounting rules. Because incumbent LECs subject to price cap regulation are among the largest of telecommunications companies, we do not anticipate any impact from this action on small businesses with fewer than 25 employees.

Synopsis

I. INTRODUCTION

1. In this Report and Order (Order), we complete our proceeding to review our part 32 Uniform System of Accounts (USOA) to consider ways to minimize the compliance burdens on carriers while ensuring that the agency retains access to the information it needs to fulfill its regulatory duties. Section 220 of the Communications Act of 1934, as amended (the Act), authorizes the Commission to prescribe the system of accounts to be used by carriers subject to the Act, and the USOA and its predecessors have historically performed this function for regulated telephone companies. But the USOA comes with a cost: Many regulated companies must maintain two sets of books—one for financial reporting and another for regulatory purposes—with the attendant costs of additional training for accountants, creating a second set of customized accounting software, and auditing two sets of processes for compliance.

2. We now conclude that, in light of the Commission's actions in areas of price cap regulation, universal service reform, and intercarrier compensation reform, as well as the advancement of robust intermodal competition in the market for telephone services, the duty to maintain two sets of accounts is generally not necessary for price cap carriers. Moreover, with respect to all carriers, we streamline and eliminate outdated accounting rules no longer needed to fulfill our statutory or regulatory duties. By reducing the costly burden of outdated regulatory requirements placed upon carriers, today's reforms give

carriers the ability to better allocate scarce resources toward expanding modern networks which are critical to bringing economic opportunity, job creation, and civic engagement to all Americans.

II. BACKGROUND

3. Section 220 of the Act requires the Commission to "prescribe a uniform system of accounts for use by telephone companies." The Commission adopted its first accounting system in 1935 as parts 31 and 33 of the Commission's rules "when a rigid institutionalized regulatory environment was expected to continue forever." In 1986, the Commission adopted the USOA contained in part 32 to respond to the "introduction of competition and an explosion of new products and services to which the existing systems could not respond without massive modification."

4. The Commission intended the USOA to "accommodate generally accepted accounting principles (GAAP) to the extent regulatory considerations permit." As the Commission explained:

GAAP is that common set of accounting concepts, standards, procedures and conventions which are recognized by the accounting profession as a whole and upon which most nonregulated enterprises base their external financial statements and reports. It directs the recording of financial events and transactions and relates to how assets, liabilities, revenues and expenses are to be identified, measured, and reported. While part 32 specifies a chart of accounts and the types of transactions to be maintained in each account, GAAP allows companies to determine their own system of accounts subject to certain principles.

5. The Commission adopted the USOA "at a time when regulators were required or inclined to organize telecommunications costs in a manner that allowed a logical mapping of these costs to telecommunications rate structures." Accordingly, the USOA was designed to complement rate-of-return regulation and the system of tariffed interstate access charges that incumbent LECs were required to follow at that time. Part 32 required carriers to record their assets, expenses, and revenues in prescribed accounts. Part 64's cost assignment rules apportioned the investment, expenses, and revenues between regulated and nonregulated activities. Part 36 prescribed rules for separating regulated investment, expenses, and revenues between the interstate and intrastate jurisdictions. Part 69 then specified how carriers were to apportion costs assigned to the interstate jurisdiction among the interexchange service

category and the access categories and rate elements. In other words, the access rates carriers charged were directly tied to the costs of the carriers, and thus the accurate recording of such costs in the USOA.

6. From 1984 until 1991, virtually all interstate access services were subject to rate-of-return regulation, under which carriers' charges are set to cover an entity's regulated operating expenses and to provide the opportunity to earn a prescribed return on the capital the company uses to provide regulated services. Earnings were monitored through part 32 data that incumbent LECs filed annually through the Commission's Automated Reporting Management Information System (ARMIS). Future carriers' charges were adjusted if profit margins were above or below the prescribed rate of return.

7. In 1991, the Commission adopted price cap regulation for the largest incumbent local exchange carriers (LECs) while making it optional for other incumbents. Price cap regulation is a form of incentive regulation that relies on a series of Price Cap Indexes (PCIs) to limit the prices that these carriers charge for services to levels that are presumed to be just and reasonable. Today, more than 95 percent of access lines are served by price cap carriers.

8. Price cap regulation eliminated the direct link between changes in allocated accounting costs and changes in price, but as originally implemented, it did not sever the connection between accounting costs and prices entirely. The 1991 LEC price cap plan required earnings above prescribed levels to be shared with ratepayers and provided for upward adjustment of PCIs if earnings fell below a prescribed level. LECs were also permitted to file above-cap rates if cost-based showings demonstrated that a rate within the cap would be confiscatory. In 1997, the Commission eliminated the sharing mechanism, and in 1999, the Commission eliminated the low-end adjustment for incumbent LECs that received and exercised pricing flexibility. This had the practical effect of severing the connection between prices and the need to account for costs from a regulatory point of view.

9. In the years following passage of the Telecommunications Act of 1996, the Commission reviewed and streamlined its accounting rules on several occasions. In 1997, the Commission clarified that "only incumbent local exchange carriers" are subject to specific USOA requirements and other accounting rules. In 1999, the Commission "greatly streamline[d]" its depreciation requirements for price

cap carriers, and established a waiver process whereby these carriers could obtain the ability to set their own depreciation rates in accordance with GAAP. In 2000, the Commission streamlined part 32 obligations by eliminating the expense matrix filing requirement, reducing the cost allocation manual audit requirement, relaxing certain affiliate transaction requirements for services, and eliminating the reclassification requirement for certain plant under construction. In 2001, it consolidated and streamlined Class A accounting requirements, relaxed additional aspects of the affiliate transaction rules, reduced the cost of regulatory compliance with cost allocation rules for mid-sized incumbent LECs, and reduced financial reporting requirements. And in 2008, the Commission forbore from applying its cost assignment rules and financial reporting rules to AT&T, Verizon, and Qwest, finding that its need for cost data had significantly diminished with continuing refinement of price cap ratemaking and universal service reforms.

10. In 2012, USTelecom filed a petition pursuant to section 10 of the Act requesting that the Commission forbear from enforcing certain "legacy telecommunications regulations." In the USTelecom Forbearance Order, the Commission extended the forbearance it had granted to AT&T, Verizon, and Qwest to other price cap carriers, but declined to forbear from applying the USOA to these carriers. Nevertheless, the Commission "acknowledge[d] that further streamlining of our rules is likely appropriate," and promised to "conduct a comprehensive review of the Part 32 Uniform System of Accounts" with the aim of "minimiz[ing] the compliance burdens of our regulations while ensuring our continued access to the relevant financial information necessary to fulfill our duties."

11. On September 15, 2014, the Commission published the *Comprehensive Review of Uniform System of Accounts*, Notice of Proposed Rulemaking, 79 FR 54942 (2014 NPRM), initiating the instant proceeding to reform its rules to ease the accounting burdens on carriers. First, the 2104 NPRM proposed to streamline the Commission's USOA accounting rules while preserving their existing structure. In this regard, the 2014 NPRM proposed to consolidate Class A and Class B accounts, to revise our rules regarding continuing property records for price cap carriers, and to better align with GAAP the USOA's asset accounting rules, its Allowance-for-Funds-Used-During-Construction (AFUDC) rules, its

materiality rules, and its rules requiring that carriers submit all prior period adjustments (PPAs) and unusual or extraordinary items to the Commission for review and approval. It sought comment on whether to better align the USOA's depreciation and cost of removal-and-salvage accounting rules with GAAP. Second, the 2014 NPRM also sought focused comment on additional specific requirements that should be applied to price cap carriers. These included "eliminating the requirement that price cap carriers comply with the USOA and imposing targeted accounting requirements that fit our specific statutory needs." Third, it sought comment on several related issues, including state requirements, rate effects, implementation, and legal authority. The Commission received ten comments and seven reply comments in response to the 2014 NPRM.

II. DISCUSSION

12. In this Order, we make significant revisions to our part 32 USOA accounting rules and take a number of steps to substantially reduce the accounting burdens on incumbent LECs. First, we streamline the USOA for all carriers, amending 39 rules effective January 1, 2018. Second, we allow price cap carriers to elect to use GAAP for all regulatory accounting purposes so long as they comply with targeted accounting rules. These additional reforms will eliminate burdensome accounting requirements that serve no federal purpose for electing price cap carriers.

13. The reforms we adopt herein will significantly reduce the regulatory burdens associated with maintaining separate sets of financial accounts. As previously noted, while part 32 specifies a chart of accounts and the types of transactions to be maintained in each account, GAAP allows companies to determine their own system of accounts subject to certain principles in the form of an overarching system of broad accounting guidelines that address the recording of assets, liabilities, and stockholders' equity. Further, GAAP allows carriers to record financial transactions in a manner that reflects the broader nature of the enterprise, while part 32 compliance requires carriers to maintain two separate sets of financial and accounting books for federal regulatory purposes. Commenters emphasized the burdensome nature of this requirement, which we acknowledge here.

A. Streamlining the USOA

14. In this section, we adopt revisions to part 32 that significantly streamline the accounting requirements applicable to incumbent LECs. Specifically, we adopt our proposals to consolidate Class A and Class B accounts and to revise our rules regarding continuing property records for price cap carriers. We better align with GAAP the USOA's asset accounting rules, its AFUDC rules, and its materiality rules. And we decline to amend the USOA's depreciation and cost of removal-and-salvage rules. These revisions, with the exception of the continuing property records rules, will apply to all carriers subject to part 32's USOA, but not to any price cap carriers that elect to use GAAP accounting.

1. Consolidating the Class A and Class B Accounts

15. Part 32, as authorized by section 220(h) of the Act, divides incumbent LECs into two classes for accounting purposes based on annual revenues: Class A (carriers with annual revenues equal to or above $152.5 million) and Class B (smaller carriers). These rules require Class A carriers to generally maintain 138 accounts, which provide more detailed records of investment, expense, and revenue than the 80 accounts that smaller Class B carriers are required to maintain. When the Commission adopted this regime, it drew this line to "adopt a far less burdensome system" for smaller carriers—but one that was nevertheless sufficient to meet its statutory obligations. The Commission has gradually altered these requirements as regulatory needs and market conditions have changed.

16. We now eliminate the classification of carriers, so that all carriers subject to part 32's USOA will be required to keep only the streamlined Class B accounts and will otherwise be treated as Class B carriers for purposes of part 32. Collapsing the distinction between Class A and Class B carriers will simplify our rules and reduce the number of accounts that Class A carriers must keep by one-third. Doing so will ensure a more uniform treatment of accounts for carriers subject to the USOA, simplifying both compliance for carriers and oversight by the Commission. Furthermore, we find that eliminating Class A treatment is sufficient to meet our regulatory needs, since no rate-of-return carrier (i.e., those where cost accounting is most important) is required by the Commission's rules today to keep Class A accounts.

17. Ad Hoc disagrees, arguing that eliminating the distinction would prevent the Commission from carrying out its statutory duties. Ad Hoc argues that we should retain the Class A accounts for cable and

wire facilities, depreciation, amortization, amortizable assets, and revenue reporting for the basic local exchange category that includes private line revenue because doing so has "obvious import, both for the setting of pole and conduit rates and for the ongoing special access proceeding."

18. Contrary to Ad Hoc's contentions, maintenance of accounts at the Class B level, coupled with the Commission's ability to require carriers to produce additional accounting data when there is an express federal need, will enable us to ensure that Class A carriers' rates are just and reasonable and not unreasonably discriminatory. Indeed, no rate-of-return carrier currently qualifies as a Class A carrier, although the Commission's need for part 32 accounting data are unquestionably greater for carriers subject to rate-of-return regulation and legacy universal service mechanisms that tie federal support to a carrier's reported costs. And Ad Hoc offers nothing beyond mere assertions that the rates would differ in any material way with Class B treatment, and ignores the fact that the Commission neither relied on part 32 accounts when formulating its special access data collection nor relied on any existing part 32 Class A account in the 2014 NPRM. We accordingly find Ad Hoc's assertions speculative and baseless.

19. Furthermore, we conclude that section 402(c) of the Telecommunications Act of 1996 does not prohibit us from eliminating the distinction between Class A and Class B carriers. That section states that "[i]n classifying carriers according to section 32.11 of [the FCC's] regulations . . . the Commission shall adjust the revenue requirements to account for inflation . . . annually." In the 2014 NPRM, the Commission did "not read this provision to require the Commission to classify carriers for purposes of Part 32 accounting rules, but instead to require annual adjustments so long as the Commission continues to classify carriers for these purposes." The only party to address this issue agreed with this interpretation. We adopt it now.

2. Continuing Property Records for Price Cap Carriers

20. In the USTelecom Forbearance Order, the Commission concluded that forbearance from the continuing property records requirements in § 32.2000(e) and (f) was warranted for price cap carriers, as long as they could demonstrate in compliance plans how they would "maintain the records necessary to track substantial assets and investment in an accurate, auditable manner that enables them to verify

account balances in their Part 32 Uniform System of Accounts, make such property information available to the Commission upon request, and ensure maintenance of such data." In the 2014 NPRM, the Commission sought comment on memorializing these requirements in a rule. USTelecom supports requiring price cap carriers to maintain property records necessary to track substantial investments in an auditable fashion that enables verification and the ability to make such information available to the Commission upon request. These data can be maintained by utilizing GAAP, according to USTelecom. No party opposed the property records proposal advanced in the 2014 NPRM.

21. As proposed in the 2014 NPRM, we revise part 32 to require price cap carriers with a continuing part 32 accounting obligation to maintain continuing property records necessary to track substantial assets and investments in an accurate, auditable manner that enables them to verify their accounting books, make such property information available to the Commission upon request, and ensure the maintenance of such data. This rule change reflects the expectations and commitments connected with the forbearance relief we granted in the USTelecom Forbearance Order.

22. We decline at this time to require price cap carriers to file compliance plans, as proposed by the 2014 NPRM, to the extent they have not done so. No commenter addressed this issue. In the absence of record support for the proposal, we decline to adopt any compliance plan filing requirement.

3. Aligning the USOA More Closely with GAAP

23. In the 2014 NPRM, the Commission proffered several different proposals for aligning the USOA more closely with GAAP. We adopt the proposals to align with GAAP the USOA's asset accounting rules, its AFUDC rules, and its materiality rules. First, we align our definition of original cost to align with GAAP so that carriers carry an asset at its purchase price when it was acquired, even if its value has increased or has declined when it goes into regulated service. Second, we allow carriers to reprice an asset at market value after a merger or acquisition. The record is barren of evidence that these requirements for carriers to price assets differently than they would in the ordinary course of business retain any value.

24. Third, we find that using GAAP principles to determine AFUDC should be the applicable standard. We revise the rules accordingly. As the Commission noted at the time, the resulting difference in accounting is immaterial from a regulatory perspective but may increase the administrative burdens of compliance for carriers otherwise required to meet GAAP standards.

25. Fourth, we revise our rules to incorporate the concept of materiality. As USTelecom explains, "USOA has no materiality standard and requires all transactions be booked regardless of any materiality consideration. This forces carriers to justify every accounting discrepancy, no matter how trivial and immaterial, thereby adding unnecessary costs to the preparation and audit of a carrier's accounting records." We agree and incorporate the GAAP standard of materiality for price cap carriers. We believe the flexible GAAP standard offers the "case-by-case" standard proposed by the Nevada Public Utilities Commission—and we agree with the state commission that the Commission will "ultimately be[] the arbiter" of whether a carrier has complied with GAAP's materiality standard.

26. We also agree with Alexicon that "it would be beneficial to NECA and its pool members if the Commission adopted a definition of materiality that provided guidance related to NECA's review procedures." Indeed, more particular guidance may be especially important for carriers receiving legacy universal service support because federal support is tied to the reported costs of such carriers. We adopt the general materiality guidelines promulgated by the Auditing Standards Board. Materiality levels are in large part a matter of professional judgment, and according to generally accepted auditing standards, may consider such factors as:

> (1) The elements of the financial statements (for example, assets, liabilities, equity, income, and expenses) and the financial statement measures defined in generally accepted accounting principles (for example, financial position, financial performance, and cash flows), or other specific requirements;
>
> (2) Where there are financial statement items on which, for the particular entity, users' attention tends to be focused (for example, for the purpose of evaluating financial performance);
>
> (3) The nature of the entity and the industry in which it operates; and

(4) The size of the entity, nature of its ownership, and the way it is financed.

Because independent auditors are required to undertake assessments of materiality and risk in all audit engagements, their judgment can and should be relied upon when determining materiality levels for purposes of regulatory reporting and review.

27. In contrast, we decline at this time to revise the USOA's depreciation procedures or its rules for cost of removal-and-salvage accounting. As the Rural Associations argue, and we agree, revising USOA's depreciation rules might result in unpredictable changes in rates and universal service funding mechanisms—potentially rendering universal service support unpredictable absent further study. And we find the record too spare to quell the concern we recognized in the 2014 NPRM that changing the USOA's rules for cost of removal-and-salvage accounting could have a significant impact on pole attachment rates.

28. We are unconvinced that the generic opposition in the record to the wholesale adoption of GAAP for rate-of-return carriers warrants rejecting the targeted reforms we adopt in this Section. Nor are we convinced by the Rural Associations' argument that no changes should be made to the USOA for rate-of-return carriers. The association does not identify any of the reforms we are adopting as significant, nor do we find based on the record any reason to think that these paperwork-reducing reforms will not be beneficial to rural carriers. Further, we do not anticipate any significant rate effects resulting from these efforts to further align the USOA with GAAP principles.

B. Elective Use of Targeted Accounting Rules for Price Cap Carriers

29. In the 2014 NPRM, the Commission sought comment on either maintaining the USOA for price cap carriers or replacing it with a more limited set of accounting rules targeted to our particular statutory needs. Based on developments in the market and the nature of telephone rate regulation, and in light of the record before us, we conclude that we should let price cap carriers elect to use targeted accounting rules in lieu of the strictures and the second set of books required by the USOA.

30. Indeed, all evidence in the record demonstrates that continued application of the USOA to price cap carriers is a substantial and unjustifiable burden. ACS, for example, "incurs substantial and ongoing

costs maintaining an entire second set of account books that meet the requirements of the USOA. The information they contain has no bearing on ACS's corporate planning, financial results, or service rates." CenturyLink appends to its comments an appendix of the separate accounting entries it must maintain to comply with USOA and notes the "over 400 GAAP specific account codes" it must document so that its accountants can translate entries from one set of books to the other. And AT&T explains how it must pay software engineers up to $24 million a year to "bolt on" changes to vendor general ledger packages and to maintain the USOA on top of its existing GAAP-compliant accounts.

31. We conclude that none of the three particular statutory obligations nor the regulatory requirement identified in the 2014 NPRM justify the requirement that price cap carriers comply with the USOA. Instead, we conclude that price cap carriers may elect to comply with GAAP accounting, subject to a commitment to mitigate any impact election would have on pole attachment rates. We address these four issues in turn.

32. <u>Pole Attachment Rates</u>. Section 224 of the Act allows state commissions to regulate pole attachment rates so long as they certify to the Commission that they will do so; elsewhere, the Commission's rules apply. Under the Commission's rules, pole attachment rates are set in the first instance through private negotiation using cost data reported by carriers. Because many poles and conduits are owned by electric or other utilities not regulated by the Commission, our rules do not require all pole attachments to be based on USOA data, but instead require that the "data and information should be based upon historical or original methodology" and "should be derived from ARMIS, FERC 1, or other reports filed with state or federal regulatory agencies." For incumbent LECs, however, the Commission has relied on data from "various Part 32 accounts (e.g., gross pole investment, gross plant investment, accumulated depreciation—poles, maintenance expense—poles etc.)." And the Commission has used the USOA data to modify the formula by which pole attachment rates are calculated.

33. USTelecom and AT&T contend that for price cap carriers, the use of a rate-of-return-based formula for pole attachments does not preclude the use of GAAP. Verizon agrees with USTelecom, contending that the formulae used to derive pole attachment rates could be populated with GAAP-based

data. USTelecom also argues that there is no evidence that relying upon GAAP would alter rates price cap carriers charge for pole attachments, while AT&T contends that there is no basis to believe that pole attachment rates calculated based on GAAP accounting would not be just and reasonable. ACS also supports allowing price cap carriers to use GAAP. CenturyLink proposes to address concerns about possible harms to pole attachment users during a transition to the use of GAAP by capping pole attachment rates at their current levels plus an annual inflation adjustment in states subject to federal regulation, except to the extent that rate increases are justified. On the other hand, NCTA urges the Commission to continue compliance with part 32 accounting in connection with pole attachment data, while NASUCA argues that targeted accounting requirements would be more complicated and costly than maintaining the current mechanisms.

34. We find that USOA accounting data are not necessary for the continued development of pole attachment rates in accordance with the statute. Nothing in section 224 directs or requires us to rely on the USOA, and we see no reason to subject one set of pole and conduit owners to onerous accounting obligations just because they happen to operate in a federal-default state or happened to have provided telephone service 21 years ago. Nor is there any reason to think the continued maintenance of USOA data for pole attachments is necessary for any future reforms. The Commission successfully collected data from hundreds of carriers on demand in the special access proceeding, and it could require similar disclosure of pole attachment costs if the need should arise.

35. Nonetheless, we share the concern of some commenters that a change in accounting rules could lead to rate shock—a large swing in rates as price cap carriers transition from one accounting system to another. This possible rate differential is due to a number of factors, such as depreciation rates, cost of removal, and return on investment. Pole attachment rates play a significant role in the deployment and availability of voice, video, and data networks, and sharp changes in pole attachment rates may distort infrastructure investment decisions and in turn could negatively affect the availability of advanced services and broadband, contrary to the policy goals of the Act.

36. As such, we condition any price cap carrier's election of GAAP accounting on compliance with one of two framework options to mitigate any disruption in pole attachment rates from the election. The first option is for electing carriers to calculate an Implementation Rate Difference between the attachment rates calculated by the price cap carrier under the USOA and under GAAP as of the last full year preceding the carrier's initial opting-out of part 32 USOA accounting requirements. We further require electing carriers to adjust their annually computed GAAP-based rates by the Implementation Rate Difference for a period of 12 years after the election. This framework largely parallels the plan offered by industry representatives to mitigate any pole attachment rate increases due to fluctuations and timing differences associated with the treatment of depreciation rates, the cost of removal, and salvage when GAAP is utilized instead of part 32. It relies on the half-life of a typical pole to establish the 12-year term (as a means of ensuring against double recovery). We find this option is an appropriate means of mitigating rate shock to attaching ISPs while still allowing the price cap carrier to shed its USOA obligations.

37. As a second option, price cap carriers may comply with GAAP accounting for all purposes other than those associated with setting pole attachment rates while continuing to use the part 32 accounts and procedures necessary to establish and evaluate pole attachment rates. Carriers have a period of 12 years in which they can opt into GAAP accounting for pole attachment rates and would be required to utilize the Implementation Rate Difference for the remaining portion of the 12 years after they have chosen to move to GAAP accounting. We find that this approach offers flexibility for price cap carriers who do not wish to immediately transition to GAAP for purposes of setting pole attachment rates.

38. We emphasize that a shift in accounting methodology (here, from USOA to GAAP) does not change what costs may be included in pole attachment rates—instead, it changes only how and when those costs are recognized. We thus expect that shifting the accounting method is unlikely to result in abrupt changes in pole attachment rates in the near term, and that rates will remain steady over the long-run. Price cap carriers have explained that shifting accounting methods is "not an effort to increase pole

attachment rates" and "not an attempt to do some other rate- or cost-shifting," and we intend to monitor pole attachment rates and hold them to that promise.

39. Finally, to facilitate transparency of pole attachment rates during the transition from USOA to GAAP, a pole attacher may request that a price cap carrier submit its pole attachment accounting data for a particular state to this Commission for three years following the effective date of the rule permitting a price cap carrier to elect GAAP accounting. Thus, if a pole attacher informs the Commission of a suspected problem with pole attachment rates, the Commission will require the price cap carrier to file its pole attachment data for the state in question. This requirement will assist the parties and the Commission in monitoring and evaluating any abrupt rate changes that may occur. If it proves necessary, the Commission may extend this obligation for an additional three years.

40. Other Issues. We conclude that USOA accounting data is unnecessary to ensure compliance with section 254(k) of the Act, which prohibits a telecommunications carrier from "us[ing] services that are not competitive to subsidize services that are subject to competition." As the 2014 NPRM explained, the Commission has never found it necessary to seek accounting data to address allegations of violations of section 254(k). In other words, USOA data have not been needed to ensure compliance with section 254(k), even right after the end of legal telephone service monopolies in the late 1990s. Given the advent of even more intermodal competition, we do not foresee a need for USOA data to resolve any section 254(k) violations going forward.

41. The Commission also sought comment on whether the harm intended to be addressed by section 272(e)(3) continues to be a concern, or whether the Commission should consider forbearing from this requirement. In the record, the BOCs primarily focused on alternatives to antiquated part 32 accounting, rather than addressing forbearance from section 272(e)(3). In evaluating the lack of utility of part 32 accounting rules, our attention is also focused on regulatory requirements such as section 272(e)(3) that, similar to the USOA, have outgrown their usefulness.

42. Before 1996, the BOCs were prohibited from entering the long-distance market (i.e., from offering interexchange service) out of concern that they could use their local monopoly to subsidize

competitive operations in the long-distance market. The Telecommunications Act created a path for the BOCs to enter that market, requiring, among other things, that a BOC that offers its long-distance service to "impute to itself . . . an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service."

43. We conclude that we should forbear from the continued application of section 272(e)(3)'s imputation requirements. No party commented on whether the Commission should forbear. The rationales for removing the accounting requirements associated with section 272(e)(3) are equally applicable to considerations of forbearing from the requirements of the subsection completely. In the USF/ICC Transformation Order, the Commission placed terminating intercarrier compensation charges on a path toward bill-and-keep, which greatly diminishes the need for imputation charges. Furthermore, many other entities provide integrated long-distance service, such as non-BOC LECs, cable operators, over-the-top voice over Internet Protocol companies, and commercial mobile radio service providers; these entities are not required to impute charges between their local and long-distance affiliates (to the extent they even offer those services through separate affiliates). In the last 20 years, increased competition in access markets as a result of legislative, regulatory, and technological changes has reduced the need for section 272 imputation requirements to prevent cross-subsidization between incumbent LECs' local and long distance services. Thus, continued enforcement of the section 272(e)(3) imputation requirements is not necessary to ensure that the charges, practices, classifications, or regulations by, for, or in connection with that telecommunications carrier or telecommunications service are just and reasonable and are not unjustly or unreasonably discriminatory. Given these changes in the regulatory landscape and the diminished importance of imputation requirements to prevent marketplace harms, section 272(e)(3) is not necessary for the protection of consumers, and forbearance will be in the public interest. Accordingly, we determine that forbearing from the continued application of these requirements is appropriate.

44. Finally, we terminate the conditions that the Commission placed on a variety of carriers granted forbearance from our cost allocation rules. Forbearance was expressly premised on the continued

availability of part 32 accounting data and the filing of compliance plans consistent with that condition. AT&T, Qwest and Verizon filed compliance plans that detailed their commitment to continue to maintain part 32 accounting data. In the 2014 NPRM, the Commission invited parties to comment on how changes to the part 32 requirements would affect the commitments made in compliance plans filed in connection with forbearance proceedings. Commenters directly addressing this issue support the action taken herein. Although we speculated in 2013 that "there may be a 'federal need for this accounting information in the future to adjust our existing price cap regime or in our consideration of reforms moving forward,'" time has proven that prediction untrue. And continuing to maintain these costly requirements on the speculation that at some point, some day, the Commission might do something with them fails any cost-benefit analysis.

C. Other Considerations

45. We decline requests to reconsider other deregulatory actions by the Commission in this proceeding. NASUCA broadly argues that it opposes the rationale behind the 2014 NPRM because the Commission has already minimized the compliance burden below the level needed for its regulatory duties, and urges the Commission to reverse course on other information requirements, pointing to ARMIS forbearance and other recent forbearance decisions. The issues NASUCA raises are rejected as being overly vague and beyond the scope of the 2014 NPRM. In any event, NASUCA has not presented sufficient support for its arguments to allow the Commission to act on these requests, instead merely stating its objections to the proposed reforms in a conclusory manner and failing to suggest concrete alternative solutions.

IV. REFERRAL TO THE JOINT BOARD

46. We recognize that eliminating the distinctions between Class A and Class B accounts and allowing all carriers to utilize the more streamlined requirements of Class B accounts has implications for the Commission's jurisdictional separations rules pursuant to part 36. For instance, many of the separations rules also designate accounts by Class A and Class B categories, and those rules likely would need to be modified to be consistent with the revised part 32 regulations. Accordingly, pursuant to

section 410(c) of the Act, we refer to the Joint Board the issue of examining jurisdictional separations rules in light of the reforms adopted to the part 32 regulations in this Report and Order. We ask the Joint Board to consider the reforms adopted in this Report and Order and to consider how such reforms impact part 36 and consequently the rule changes necessary to ensure the jurisdictional separations rules are consistent. We request that the Joint Board prepare a recommended decision within nine months of publication in the Federal Register regarding how and when the Commission's jurisdictional separations rules should be modified to reflect the issues in the referral.

V. PROCEDURAL MATTERS

A. Final Regulatory Flexibility Analysis

47. As required by the Regulatory Flexibility Act of 1980 (RFA), an Initial Regulatory Flexibility Analysis (IRFA) was incorporated into the 2014 NPRM. The Commission sought written public comment on the possible significant economic impact on small entities regarding the proposals in the 2014 NPRM, including comments on the IRFA. Pursuant to the RFA, a Final Regulatory Flexibility Analysis (FRFA) is set forth in Appendix C of the Commission's Report and Order, WC Docket No. 14-130, CC Docket No. 80-286; FCC 17-15, adopted February 23, 2017 and released February 24, 2017.

B. Final Paperwork Reduction Act Analysis

48. This document contains modified information collection requirements subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. The requirements will be submitted to the Office of Management and Budget (OMB) for review under Section 3507(d) of the PRA. OMB, the general public, and other Federal agencies are invited to comment on the modified information collection requirements contained in this proceeding. In addition, we note that pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, see 44 U.S.C. 3506(c)(4), we previously sought specific comment on how the Commission might further reduce the information collection burden for small business concerns with fewer than 25 employees.

49. In this present document, we have assessed the effects of our streamlining the part 32 USOA accounting rules and find that the Commission's actions will result in overall reduced regulatory burdens

for both price cap and rate-of-return carriers, including small businesses with fewer than 25 employees. In addition, the Report and Order allows price cap carriers to elect to use GAAP for all regulatory accounting purposes so long as they comply with targeted accounting rules. Because incumbent LECs subject to price cap regulation are among the largest of telecommunications companies, we do not anticipate any impact from this action on small businesses with fewer than 25 employees.

C. Congressional Review Act

50. The Commission will send a copy of this Report and Order in a report to be sent to Congress and the Government Accountability Office pursuant to the Congressional Review Act, see 5 U.S.C. 801(a)(1)(A).

VI. ORDERING CLAUSES

51. Accordingly, IT IS ORDERED that, pursuant to the authority contained in sections 10, 201, 219-220, 224, 254(k), 272(e)(3), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. 160, 201, 219-220, 224, 254(k), 272(e)(3), 403, this Report and Order IS ADOPTED.

52. IT IS FURTHER ORDERED that, pursuant to the authority contained in sections 10, 201, 219-220, 224, 254(k), 272(e)(3), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. 160, 201, 219-220, 224, 254(k), 272(e)(3), 403, 47 CFR parts 1, 32, and 65, ARE AMENDED, effective on a date ("Effective Date") following publication in the Federal Register of a document announcing approval by the Office of Management and Budget (OMB) of these rules, which contain requirements involving Paperwork Reduction Act burdens, or on January 1, 2018, whichever is later, with the exception of amendments to §§ 1.1409 and 32.1, which the Effective Date shall be following publication in the Federal Register of a document announcing approval by OMB of these amendments.

53. IT IS FURTHER ORDERED that the Commission SHALL SEND a copy of this Report and Order to Congress and the Government Accountability Office pursuant to the Congressional Review Act, see 5 U.S.C. 801(a)(1)(A).

54. IT IS FURTHER ORDERED that the Commission's Consumer and Governmental Affairs Bureau, Reference Information Center, SHALL SEND a copy of this Report and Order, including the

Final Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration.

55. IT IS FURTHER ORDERED that, pursuant to section 410(c) of the Communications Act of 1934 as amended, 47 U.S.C. 410(c), the issues specified in Section IV of this Report and Order are hereby referred to the Federal-State Joint Board on Separations for preparation of a recommended decision to be produced within nine months of publication in the Federal Register.

56. IT IS FURTHER ORDERED that, should no petitions for reconsideration, applications for review, or petitions for judicial review be timely filed, this proceeding shall be TERMINATED and its docket closed.

List of Subjects in 47 CFR Parts 1, 32, and 65

Communications common carriers, Reporting and recordkeeping requirements, Telephone, Uniform System of Accounts.

FEDERAL COMMUNICATIONS COMMISSION.

Marlene H. Dortch,
Secretary.

Final Rules

For the reasons discussed in the preamble, the Federal Communications Commission amends 47 CFR parts 1, 32, and 65 as follows:

PART 1 – PRACTICE AND PROCEDURE

1. The authority citation for part 1 is revised to read as follows:

   AUTHORITY: 15 U.S.C. 79 *et seq*.; 47 U.S.C. 151, 154(j), 160, 201, 225, 303, and 309.

2. Section 1.791 is revised to read as follows:

§ 1.791 Reports and requests to be filed under part 32 of this chapter.

Reports and requests shall be filed either periodically, upon the happening of specified events, or for specific approval by telephone companies in accordance with and subject to the provisions of part 32 of this chapter.

3. Section 1.1409 is amended by adding paragraph (g) to read as follows:

§ 1.1409 Commission consideration of the complaint.

* * * * *

(g) A price cap company opting-out of part 32 of this chapter may calculate attachment rates for its poles, conduits, and rights of way using either part 32 accounting data or GAAP accounting data. A price cap company using GAAP accounting data to compute rates to attach to its poles, conduits, and rights of way in any of the first twelve years after opting-out must adjust (increase or decrease) its annually computed GAAP-based rates by an Implementation Rate Difference for each of the remaining years in the period. The Implementation Rate Difference means the difference between attachment rates calculated by the price cap carrier under part 32 and under GAAP as of the last full year preceding the carrier's initial opting-out of part 32 USOA accounting requirements.

PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

4. The authority citation for part 32 is revised to read as follows:

   AUTHORITY: 47 U.S.C. 219, 220 as amended, unless otherwise noted.

5. Section 32.1 is revised to read as follow:

§ 32.1 Background.

The revised Uniform System of Accounts (USOA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USOA also provides the financial community and others with financial performance results. In order for an accounting system to fulfill these purposes, it must exhibit consistency and stability in financial reporting (including the results published for regulatory purposes). Accordingly, the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of the well established body of accounting theories and principles commonly referred to as generally accepted accounting principles (GAAP). Price cap companies that have opted-out of USOA requirements pursuant to the conditions specified by the Commission in § 32.11(g) are relieved of the rules of this part in their entirety, including any other rules or orders that are derivative of or dependent on the rules in this part.

§ 32.3 [Removed and Reserved]

6. Section 32.3 is removed and reserved.

7. Section 32.11 is amended by revising the section heading and paragraph (a), removing and reserving paragraphs (b) though (f), and adding paragraph (g) to read as follows:

§ 32.11 Companies subject to this part.

(a) This part applies to every incumbent local exchange carrier, as defined in section 251(h) of the Communications Act, and any other carrier that the Commission designates by order. This part refers to such carriers as “companies” or “Class B companies.” Incumbent local exchange carriers’ successor or assign companies, as defined in section 251(h)(1)(B)(ii) of the Communications Act, that are found to be non-dominant by the Commission, will not be subject to this Uniform System of Accounts.

* * * * *

(g) Notwithstanding paragraph (a) of this section, a price cap company that elects to calculate its pole attachment rates pursuant to § 1.1409(g) of this chapter will not be subject to this Uniform System of Accounts.

8. Section 32.26 is revised to read as follows:

§ 32.26 Materiality.

(a) Except as provided in paragraph (b) of this section, companies may abide by the materiality standards of GAAP when implementing this system of accounts.

(b) For companies that receive High-Cost Loop Support, or Connect America Fund Broadband Loop Support, materiality shall be determined consistent with the general materiality guidelines promulgated by the Auditing Standards Board.

9. Section 32.101 is amended by revising paragraph (c) to read as follows:

§ 32.101 Structure of the balance sheet accounts.

* * * * *

(c) Account 3100, Accumulated depreciation through Account 3400, Accumulated amortization—tangible, shall include the asset reserves except that reserves related to certain asset accounts will be included in the asset account. (See §§ 32.2005, 32.2682 and 32.2690.)

* * * * *

10. Section 32.103 is revised to read as follows:

§ 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.

Balance sheet accounts to be maintained by companies for other than regulated-fixed assets are indicated as follows:

Balance Sheet Accounts

Account title	
Current assets	
Cash and equivalents	1120

Receivables	1170
Allowance for doubtful accounts	1171
Supplies:	
Material and supplies	1220
Prepayments	1280
Other current assets	1350
Noncurrent assets	
Investments:	
Nonregulated investments	1406
Other noncurrent assets	1410
Deferred charges:	
Deferred maintenance, retirements and other deferred charges	1438
Other:	
Other jurisdictional assets-net	1500

11. Section 32.2000 is amended by:

a. Removing and reserving paragraph (a)(4);

b. Revising paragraphs (b)(1), (b)(2)(iii), and (c)(2)(x);

c. Adding paragraph (e)(8); and

d. Revising paragraphs (f)(2)(iii) and (j).

The revisions and addition read as follows:

§ 32.2000 Instructions for telecommunications plant accounts.

(a) * * *

(4) [Reserved]

(b) * * *

(1) Property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for at original cost, except that property, plant and equipment acquired from a nonaffiliated entity through an acquisition or merger may be accounted for at market value at the time of the acquisition or merger.

(2) * * *

(iii) Accumulated Depreciation and amortization balances related to plant acquired shall be credited to Account 3100, Accumulated depreciation, or Account 3200, Accumulated depreciation—held for future telecommunications use, or Account 3400, Accumulated amortization—tangible and debited to Account 1438. Accumulated amortization balances related to plant acquired which ultimately is recorded in Accounts 2005, Telecommunications plant adjustment, Account 2682, Leasehold improvements, or Account 2690, Intangibles shall be credited to these asset accounts, and debited to Account 1438.

* * * * *

(c) * * *

(2) * * *

(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications plant under construction, and credited to Account 7300, Nonoperating income and expense. The rate for calculating AFUDC shall be determined in accordance with GAAP when implementing this system of accounts. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

* * * * *

(e) * * *

(8) Notwithstanding any other provision of this part concerning continuing property records, carriers subject to price cap regulations set forth in part 61 of this chapter shall maintain property records necessary to track substantial assets and investments in an accurate, auditable manner that enables them to

verify their accounting books, make such property information available to the Commission upon request, and ensure the maintenance of such data.

(f) * * *

(2) * * *

(iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also paragraph (f)(3) of this section) of the property record units. The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts) and maintained in such manner as will provide for the verification of property record units by physical examination. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined.

* * * * *

(j) Plant accounts to be maintained by telephone companies as indicated:

Account title	
Regulated plant	
Property, plant and equipment:	
Telecommunications plant in service	[1]2001
Property held for future telecommunications use	2002
Telecommunications plant under construction-short term	2003
Telecommunications plant adjustment	2005
Nonoperating plant	2006
Goodwill	2007
Telecommunications plant in service (TPIS)	

TPIS—General support assets:	
Land and support assets	2110
TPIS—Central Office assets:	
Central Office—switching	2210
Operator systems	2220
Central Office—transmission	2230
TPIS—Information origination/termination assets:	
Information origination termination	2310
TPIS—Cable and wire facilities assets:	
Cable and wire facilities	2410
TPIS—Amortizable assets:	
Amortizable tangible assets	2680
Intangibles	2690

[1] Balance sheet summary account only.

12. Section 32.2110 is revised to read as follows:

§ 32.2110 Land and support assets.

This account shall be used by companies to record the original cost of land and support assets of the type and character detailed in Accounts 2111 through 2124.

13. Section 32.2210 is revised to read as follows:

§ 32.2210 Central office—switching.

This account shall be used by companies to record the original cost of switching assets of the type and character detailed in Accounts 2211 through 2212.

14. Section 32.2230 is revised to read as follows:

§ 32.2230 Central office—transmission.

This account shall be used by companies to record the original cost of radio systems and circuit equipment of the type and character detailed in Accounts 2231 and 2232.

15. Section 32.2310 is revised to read as follows:

§ 32.2310 Information origination/termination.

This account shall be used by companies to record the original cost of information origination/termination equipment of the type and character detailed in Accounts 2311 through 2362.

16. Section 32.2410 is revised to read as follows:

§ 32.2410 Cable and wire facilities.

This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441.

17. Section 32.2680 is revised to read as follows:

§ 32.2680 Amortizable tangible assets.

This account shall be used by companies to record amounts for property acquired under capital leases and the original cost of leasehold improvements of the type of character detailed in Accounts 2681 and 2682.

§ 32.2682 [Amended]

18. Section 32.2682 is amended by removing the last sentence in paragraph (c).

§ 32.2690 [Amended]

19. Section 32.2690 is amended by removing and reserving paragraph (b).

20. Section 32.3000 is revised to read as follows:

§ 32.3000 Instructions for balance sheet accounts—depreciation and amortization.

(a) *Depreciation and amortization subsidiary records*. (1) Subsidiary record categories shall be maintained for each class of depreciable telecommunications plant in Account 3100 for which there is a prescribed depreciation rate. (See also § 32.2000(g)(1)(iii).)

(2) Subsidiary records shall be maintained for Accounts 2005, 2682, 2690, 3400 in accordance with § 32.2000(h)(4).

(b) *Depreciation and amortization accounts to be maintained by telephone companies, as indicated*.

Account title	
Depreciation and amortization:	
Accumulated depreciation	3100
Accumulated depreciation—Held for future telecommunications use	3200
Accumulated depreciation—Nonoperating	3300
Accumulated depreciation—Tangible	3400

21. Section 32.3400 is amended by revising paragraph (a) introductory text to read as follows:

§ 32.3400 Accumulated amortization—tangible.

(a) This account shall include:

* * * * *

22. Section 32.3999 is revised to read as follows:

§ 32.3999 Instructions for balance sheet accounts—liabilities and stockholders' equity.

LIABILITIES AND STOCKHOLDERS' EQUITY ACCOUNTS TO BE MAINTAINED BY COMPANIES

Account title	
Current liabilities:	
Current accounts and notes payable	4000
Customer's Deposits	4040
Income taxes—accrued	4070
Other taxes—accrued	4080
Net Current Deferred Nonoperating Income Taxes	4100

Net Current Deferred Nonoperating Income Taxes	4110
Other current liabilities	4130
Long-term debt:	
Long Term debt and Funded debt	4200
Other liabilities and deferred credits:	
Other liabilities and deferred credits	4300
Unamortized operating investment tax credits—net	4320
Unamortized nonoperating investment tax credits—net	4330
Net noncurrent deferred operating income taxes	4340
Net deferred tax liability adjustments	4341
Net noncurrent deferred nonoperating income taxes	4350
Deferred tax regulatory adjustments—net	4361
Other jurisdictional liabilities and deferred credits—net	4370
Stockholder's equity:	
Capital stock	4510
Additional paid-in capital	4520
Treasury stock	4530
Other capital	4540
Retained earnings	4550

23. Section 32.4999 is amended by revising paragraphs (f) and (n) to read as follows:

§ 32.4999 General.

* * * * *

(f) *Subsidiary records—jurisdictional subdivisions and interconnection*. Subsidiary record categories shall be maintained in order that the company may separately report revenues derived from charges imposed under intrastate, interstate and international tariff filings. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

* * * * *

(n) *Revenue accounts to be maintained*.

Account title	
Local network services revenues:	
Basic local service revenue	
Network access service revenues:	
End user revenue	5081
Switched access revenue	5082
Special access revenue	5083
Long distance network services revenues:	
Long distance message revenue	5100
Miscellaneous revenues:	
Miscellaneous revenue	5200
Nonregulated revenues:	
Nonregulated operating revenue	5280
Uncollectible revenues:	
Uncollectible revenue	5300

24. Section 32.5000 is revised to read as follows:

§ 32.5000 Basic local service revenue.

Companies shall use this account for revenues of the type and character detailed in Accounts 5001 through 5060.

25. Section 32.5200 is amended by revising the introductory text to read as follows:

§ 32.5200 Miscellaneous revenue.

This account shall include revenue derived from the following sources, as well as revenue of the type and character detailed in Account 5230, Directory revenue.

* * * * *

26. Section 32.5999 is amended by revising paragraph (g) to read as follows:

§ 32.5999 General.

* * * * *

(g) *Expense accounts to be maintained*.

Account title	
Income Statement Accounts	
Plant specific operations expense:	
Network support expense	6110
General support expenses	6120
Central office switching expense	6210
Operators system expense	6220
Central office transmission expenses	6230
Information origination/termination expense	6310
Cable and wire facilities expenses	6410
Plant nonspecific operations expense:	
Other property plant and equipment expenses	6510
Network operations expenses	6530

Access expense	6540
Depreciation and amortization expenses	6560
Customer operations expense:	
Marketing	6610
Services	6620
Corporate operations expense:	
General and administrative	6720
Provision for uncollectible notes receivable	6790

27. Section 32.6110 is revised to read as follows:

<u>§ 32.6110 Network support expenses.</u>

(a) Companies shall use this account for expenses of the type and character detailed in Accounts 6112 through 6114.

(b) Credits shall be made to this account by companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

28. Section 32.6120 is revised to read as follows:

<u>§ 32.6120 General support expenses.</u>

Companies shall use this account for expenses of the type and character detailed in Accounts 6121 through 6124.

29. Section 32.6230 is amended to read:

<u>§ 32.6230 Central office transmission expense.</u>

Companies shall use this account for expenses of the type and character detailed in Accounts 6231 and 6232.

30. Section 32.6310 is revised to read as follows:

§ 32.6310 Information origination/termination expenses.

Companies shall use this account for expenses of the type and character detailed in Accounts 6311 through 6362.

31. Section 32.6410 is revised to read as follows:

§ 32.6410 Cable and wire facilities expenses.

Companies shall use this account for expenses of the type and character detailed in Accounts 6411 through 6441.

32. Section 32.6510 is revised to read as follows:

§ 32.6510 Other property, plant and equipment expenses.

Companies shall use this account for expenses of the type and character detailed in Accounts 6511 and 6512.

33. Section 32.6530 is revised to read as follows:

§ 32.6530 Network operations expense.

Companies shall use this account for expenses of the type and character detailed in Accounts 6531 through 6535.

34. Section 32.6560 is revised to read as follows:

§ 32.6560 Depreciation and amortization expenses.

Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565.

35. Section 32.6610 is revised to read as follows:

§ 32.6610 Marketing.

Companies shall use this account for expenses of the type and character detailed in Accounts 6611 through 6613.

36. Section 32.6620 is revised to read as follows:

§ 32.6620 Services.

Companies shall use this account for expenses of the type and character detailed in Accounts 6621 through 6623.

37. Section 32.6999 is revised to read as follows:

§ 32.6999 General.

(a) *Structure of the other income accounts*. The other income accounts are designed to reflect both operating and nonoperating income items including taxes, extraordinary items and other income and expense items not properly included elsewhere.

(b) *Other income accounts listing*.

Account title	
Other operating income and expense:	
Other operating income and expense	7100
Operating taxes:	
Operating taxes	7200
Nonoperating income and expense:	
Nonoperating income and expense	7300
Nonoperating taxes:	
Nonoperating taxes	7400
Interest and related items:	
Interest and related items	7500
Extraordinary items	7600
Jurisdictional differences and non-regulated income items:	
Income effect of jurisdictional ratemaking difference—net	7910
Nonregulated net income	7990

38. Section 32.7200 is revised to read as follows:

<u>§ 32.7200 Operating taxes.</u>

Companies shall use this account for operating taxes of the type and character detailed in Accounts 7210 through 7250.

39. Section 32.9000 is amended by revising the definition of "Original cost" to read as follows:

<u>§ 32.9000 Glossary of terms.</u>

* * * * *

Original cost or *cost*, as applied to telecommunications plant, rights of way and other intangible property, means the actual money cost of (or the current money value of any consideration other than money exchanged for) property at the time when it was purchased.

* * * * *

PART 65 –INTERSTATE RATE OF RETURN PRESCRIPTION, PROCEDURES, AND METHODOLOGIES

40. The authority citation for part 65 continues to read as follows:

AUTHORITY: 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 254, 303(r), 403, and 1302 unless otherwise noted.

41. The heading for part 65 is revised to read as set forth above.

42. Section 65.810 is revised to read as follows:

<u>§ 65.810 Definitions.</u>

As used in this subpart "account xxxx" means the account of that number kept in accordance with the Uniform System of Accounts for Telecommunications Companies in 47 CFR part 32.

43. Section 65.820 is amended by revising paragraph (d) to read as follows:

<u>§ 65.820 Included items.</u>

* * * * *

(d) *Cash working capital*. The average amount of investor-supplied capital needed to provide funds for a carrier's day-to-day interstate operations. Carriers may calculate a cash working capital allowance either by performing a lead-lag study of interstate revenue and expense items or by using the formula set forth in paragraph (e) of this section. Carriers, in lieu of performing a lead-lag study or using the formula in paragraph (e) of this section, may calculate the cash working capital allowance using a standard allowance which will be established annually by the Chief, Wireline Competition Bureau. When either the lead-lag study or formula method is used to calculate cash working capital, the amount calculated under the study or formula may be increased by minimum bank balances and working cash advances to determine the cash working capital allowance. Once a carrier has selected a method of determining its cash working capital allowance, it shall not change to an optional method from one year to the next without Commission approval.

* * * * *

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