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

In the Matter of	)	
	)	
Comprehensive Review of the	)	WC Docket No. 14-130
Part 32 Uniform System of Accounts	)	

COMMENTS OF
ALEXICON TELECOMMUNICATIONS CONSULTING

Alexicon Telecommunications Consulting (Alexicon) hereby provides these comments in response to the Notice of Proposed Rulemaking adopted by the Commission in the above-captioned docket.[1]

Alexicon provides professional management, financial and regulatory services to a variety of small rate-of-return (RoR) Incumbent Local Exchange Carriers (ILECs) and their affiliates who serve diverse geographical areas characterized by rural, insular or Native American Tribal Lands. These ILECs, similar to most other small rate-of-return regulated ILECs, not only provide a wide range of technologically advanced services to their customers but also are providing customers in rural, insular and Tribal areas with services equal to or greater than urban areas, and at comparable pricing. Furthermore, these ILECs are committed to providing their customers with innovative solutions, by adapting technologies that fit rural America, including Broadband and IP-enabled services. A majority of Alexicon's clients are subject to 47 CFR § 32, are small rate-of-return regulated carriers, and thus will be directly affected by any changes made by the Commission as a result of this proceeding.

[1] *In the Matter of Comprehensive Review of the Part 32 Uniform System of Accounts*, Notice of Proposed Rulemaking, WC Docket No. 14-130, released August 20, 2014 (*NPRM*)

I. STREAMLINING THE USOA

The Commission requests comment on ways to streamline the Part 32 uniform system of accounts (USOA), including consolidating the Class A and Class B accounts (which affects only price cap regulated carriers) and aligning the USOA with Generally Accepted Accounting Principles (GAAP). Overall, the Commission must recognize that a *uniform* system of accounts is vital in many respects, and indeed it is the uniformity that allows for the Commission and other regulators to discharge their statutory duties in as accurate and efficient a manner as possible. Therefore, any changes to the Part 32 USOA must maintain a certain amount of uniformity, or the Commission (and state regulators) risks losing an important tool used in meeting its statutory responsibilities. At the same time, however, it will be important to note the waning influence accounting costs will have on establishing rates and determining universal service fund support, and therefore it is reasonable to take this opportunity to reduce regulatory accounting and reporting burdens of small RoR ILECs.

The Commission requests comment on instances where the Part 32 USOA differs from GAAP, and whether GAAP or other systems of accounting present an opportunity for further Part 32 USOA streamlining. In general, GAAP, and the related International Financial Reporting Standards (IFRS) consist of fairly broad financial and accounting requirements, with details left to complying companies to implement. As the basis of a uniform system of accounts, it does little to solve regulatory issues that require uniform accounting, oftentimes at the account level, and could leave regulators at the federal and state levels lacking in vital information. Furthermore, GAAP is in a state of flux at this moment, with guidelines being addressed that could affect small companies, such as those subject to the Commission's USOA rules. This all

leads to the recommendation that the Part 32 USOA should reflect GAAP as much as possible, but should retain its unique aspects important to the regulation of telecommunications services.

A. Depreciation

As part of its investigation into more fully aligning the Part 32 USOA with GAAP, the Commission asks if changes should be made to the depreciation procedures embedded in Part 32 " to better align with GAAP."[2] As stated in the NPRM, carriers may choose depreciation rates that are included in a range adopted by the Commission in 1999.[3] Clearly, depreciation rate ranges adopted in 1999 have little or no relevance to equipment being used today by small, RoR carriers, and need, at the very least, to be updated.

Alexicon recommends that Part 32 depreciation procedures be aligned with GAAP to the greatest extent possible; however, there still must be some uniformity inherent in these procedures in order to provide the Commission, and other regulatory bodies, useful and reliable financial information. This is especially so in the often esoteric and highly technical nature of the plant investment associated with today's telecommunications networks. Therefore, the Commission should consider immediately updating the allowable depreciation rate ranges, and then adopt a procedure to (1) update the rate range on a frequent basis (2) allow for automatic changes to rates within the ranges adopted, and (3) allow for an expedited procedure for individual companies (or groups of companies) to adopt rates outside of the ranges for good cause shown.

As an example of a state commission-adopted depreciation rate process, the Commission can examine the process adopted by the Kansas Corporation Commission (KCC) for small

[2] *NPRM* at 20
[3] *Id.*, at 19, footnote 40

independent local exchange carriers operating in the state of Kansas.[4] The KCC adopted this depreciation procedure for small ILECs in order to allow for requests for depreciation schedules to be approved without need for depreciation rate studies, as long as the requested rates were within the adopted range. While this has much in common with the Commission's procedure, the KCC process was designed specifically for small ILECs, and is designed to recognize their unique circumstances. As with the FCC's rate ranges, attention is needed to the account-level rate ranges and in ensuring the rates are updated to reflect investment, competition, and the overall market in today's environment.

Overall, the Commission's current rate ranges need to be increased in order to recognize the technological advancements and increased rate of innovation that has occurred since the current rate ranges were adopted in 1999 and that continues to occur today. In order to keep up with these rapid technological changes, depreciation rates need to reflect the relatively shorter expected useful life of telecommunications plant being deployed today, which means the rates need to be higher. Therefore, the Commission should consider the adoption of an entirely new set of depreciation rate ranges that reflect the realities of investment being deployed for today's telecommunications services.

B. Materiality

Alexicon agrees with the Commission's statement that its "current approach to materiality is more restrictive than necessary" to meet statutory obligations.[5] Materiality should be defined to be more in line with how independent auditors view this issue and less subject to individual interpretations by regulators and quasi-governmental agencies such as the National

[4] See KCC Docket No. 94-GIMT-082-DRS
[5] *NPRM* at 26

Exchange Carriers Association (NECA) and the Universal Service Administrative Company (USAC). Currently, the Part 32 rule covering materiality states as follows:

> Companies shall follow this system of accounts in recording all financial and statistical data irrespective of an individual item's materiality under GAAP, unless a waiver has been granted under the provisions of §32.18 of this subpart to do otherwise.[6]

As the Commission notes, current rules require "that all transactions be booked regardless of any materiality consideration."[7] While small RoR ILECs generally record each and every transaction related to their business, the issue is the materiality level at which regulators review, analyze, and ultimately treat such transactions. For example, NECA has the responsibility for ensuring the rates contained in its interstate tariff, NECA Tariff FCC No. 5, are just and reasonable and reflect the costs of service related to its pool members. To carry out these responsibilities, NECA utilizes various Commission rules, including the above-quoted materiality rule, in reviewing and revising member company data submissions. 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, which would provide all parties involved with a more predictable and efficient process.

In general, the materiality is the recognition that "some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles, while other matters are not important."[8] For purposes of Part 32, providing the specialized accounting data needed to support cost-based regulatory needs such as cost separations and access charge determination is a similar process to producing materially accurate financial statements. Thus, the general materiality guidelines promulgated

[6] 47 CFR § 32.26
[7] *NPRM* at 25
[8] Auditing Standard, AU Section 312.03 "Audit Risk and Materiality in Conducting an Audit"

by the Auditing Standards Board should be instructive to the Commission in deciding how to revise its Part 32 materiality rule.

One option for the Commission to consider is to establish materiality levels by relying on outside auditors. 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.
> (4) The size of the entity, nature of its ownership, and the way it is financed.[9]

Considering 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.

II. CONCLUSION

Alexicon commends the Commission for undertaking this opportunity to reduce regulatory burdens on small RoR ILECs through the streamlining of Part 32 USOA rules at this time. In general, the Part 32 USOA provides the Commission with vital, uniform, data needed to discharge it's, and other regulatory bodies', statutory duties and thus needs little substantial change. However, as discussed above, Alexicon believes depreciation schedules and materiality levels are two areas that the Commission can streamline and clarify that would have an overall beneficial impact on small RoR ILECs.

[9] *Id.*, § 312.28

Respectfully Submitted,

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