

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

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

**COMMENTS OF CENTURYLINK**

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CenturyLink, on behalf of its incumbent local telephone companies (“ILECs”), submits these comments in response to the Federal Communications Commission’s (“Commission”) Notice of Proposed Rulemaking (“NPRM”), released August 20, 2014, addressing reform of the Part 32 Uniform System of Accounts (“USOA”).<sup>1</sup>

**I. INTRODUCTION AND SUMMARY**

In its Notice, the Commission addresses the issue of eliminating or, in the alternative, reforming the USOA for price cap ILECs and ILECs subject to rate-of-return regulation. Rather than focusing on streamlining the USOA, the Commission should eliminate USOA requirements for price cap carriers and allow such carriers to use Generally Accepted Accounting Principles (“GAAP”) accounting. As demonstrated below and in an attached appendix, the USOA requirements impose considerable unnecessary costs. Given that price cap regulation is the norm, any current federal regulatory data needs can be satisfied under GAAP accounting. In all events, additional accounting requirements including the use of the USOA, can be justified only when GAAP accounting is not sufficient to meet the Commission’s regulatory needs.

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<sup>1</sup> *Comprehensive Review of the Part 32 Uniform System of Accounts*, WC Docket No. 14-130, Notice of Proposed Rulemaking, 29 FCC Rcd 10638 (rel. Aug. 20, 2014); 79 Fed. Reg. 54942 (Sept. 15, 2014) (“NPRM” or “Notice”).

In the NPRM, the Commission identifies three areas where it relies on Part 32 accounting information: 1) pole attachment rules under Section 224 of the Act; 2) preventing cross-subsidization between local and long distance service under Section 272(e); and 3) ensuring no cross-subsidization between competitive and non-competitive services under Section 254(k).<sup>2</sup> As CenturyLink demonstrates below, Part 32 accounting data is not necessary to ensure compliance with either Section 254(k) or Section 272(e). While the Commission has found a federal need for pole attachment data, its NPRM recognizes that there are other ways of satisfying this information need than with USOA cost data. A much less burdensome way of satisfying this information need is through the use of GAAP, as USTelecom demonstrated in the USTelecom Forbearance proceeding.<sup>3</sup>

If the Commission declines to modify its Part 32 rules to relieve price cap ILECs of USOA accounting requirements, it should streamline USOA requirements as much as possible to reduce the unnecessary burden on price cap ILECs. If the Commission chooses this route, the streamlining should be far-reaching and comprehensive including: 1) eliminating the distinction between Class A and B carriers and allowing all ILECs to use streamlined Class B accounts; 2) allowing price cap ILECs to use GAAP accounting in valuing assets and calculating depreciation going forward; 3) allowing price cap ILECs to use GAAP in accounting for Allowance for Funds Used During Construction (“AFUDC”); and 4) modifying Section 32.26 to establish a materiality standard in line with GAAP for price cap ILECs.

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<sup>2</sup> NPRM, 29 FCC Rcd 10638 at ¶ 32.

<sup>3</sup> *Petition of USTelecom for Forbearance Under 47 U.S.C. § 160(c) from Enforcement of Certain Legacy Telecommunications Regulations, et al.*, WC Docket Nos. 12-61, et al., Memorandum Opinion and Order and Report and Order, etc., 28 FCC Rcd 7627 (2013) (“USTelecom Forbearance Order”), *aff’d sub nom., Verizon and AT&T v. FCC*, No. 13-1220, Opinion, 2014 WL 5487624 (D.C. Cir. Oct. 31, 2014).

Lastly, in these comments on Part 32 reform, CenturyLink addresses the related issue of continuing property record (“CPR”) requirements. CenturyLink fully supports the Commission’s proposal to relieve price cap ILECs of the onerous burdens of complying with outdated and overly broad CPR rules.

## **II. THE COMMISSION SHOULD MODIFY ITS RULES TO ELIMINATE PART 32 USOA REQUIREMENTS FOR PRICE CAP CARRIERS**

The Part 32 USOA requirements were adopted when all ILECs were subject to cost-based rate-of-return regulation at the federal level<sup>4</sup> and faced minimal, if any, competition. Today, as the Commission notes in its NPRM, “fewer than five percent of access lines are served by rate-of-return carriers[]”<sup>5</sup> and price cap ILECs face rampant competition in all their markets.<sup>6</sup> The USOA was designed to allow the Commission to tightly control cost assignments to different accounts and to ensure that interstate rates were based on these costs.<sup>7</sup> With the adoption of price cap regulation for the largest ILECs in 1991, the link between rates and costs was severed for these carriers.<sup>8</sup> Since that time, virtually all ILECs of any size have become subject to price cap regulation at the federal level.<sup>9</sup>

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<sup>4</sup> “At the time, virtually all interstate access rates were subject to rate-of-return regulation, under which rates are set to cover an entity’s regulated operating expenses and provide a pre-specified return on the capital the company uses to provide regulated services.” NPRM, 29 FCC Rcd 10638 at ¶ 4.

<sup>5</sup> *Id.* at ¶ 6.

<sup>6</sup> For a further discussion of the competition that ILECs face in their interstate markets, *see* USTelecom Forbearance Order, 28 FCC Rcd at 7729-7732 ¶¶ 230-236. A good example of the dramatic competitive changes that have occurred in traditional interstate markets is the fact that “interstate telephone traffic passing through ILEC switches (‘interstate switched access minutes of use’) declined by 58 percent from 1997 through 2011.” *Id.* at ¶ 232 (footnote omitted).

<sup>7</sup> NPRM, 29 FCC Rcd 10638 at ¶ 5.

<sup>8</sup> *Policies and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786 (1990).

<sup>9</sup> NPRM, 29 FCC Rcd 10638 at ¶ 6, note 18.

Rather than focusing on streamlining the USOA, as the Commission has done in its NPRM, the Commission should acknowledge that price cap regulation is the norm and first address how its current federal regulatory data needs can be satisfied under GAAP accounting. To its credit, the Commission in reviewing accounting requirements for price cap carriers seeks comment on whether it should eliminate the requirement that price cap carriers comply with the USOA and impose “targeted” accounting requirements.<sup>10</sup> CenturyLink strongly supports modifying the Commission’s rules to eliminate USOA requirements for price cap carriers and to allow such carriers to use GAAP accounting.<sup>11</sup> For those few areas where the Commission finds there is a current federal regulatory need for detailed cost accounting data (*e.g.*, pole attachment information), it should impose “targeted accounting requirements.”

It should be recognized that, even in the absence of Commission-mandated accounting standards, such as the USOA, CenturyLink’s accounting practices and those of other price cap ILECs will be subject to significant regulation and structure under GAAP.<sup>12</sup> Moreover, under Section 11 of the 1996 Act the Commission must find that GAAP accounting will not permit the

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<sup>10</sup> NPRM, 29 FCC Rcd 10638 at ¶ 33.

<sup>11</sup> While the issue of relief from the Part 32 USOA requirements for price cap carriers was recently raised in USTelecom’s Forbearance Petition, any relief granted to ILECs in this rulemaking proceeding should be accomplished through permanent rule changes rather than through forbearance.

<sup>12</sup> This is particularly true since the passage of the Sarbanes-Oxley Act. This Act expanded the SEC’s authority and provides significant incentives for corporations and their officers to maintain and file accurate information with the SEC. Sarbanes-Oxley dramatically increases the penalties for filing false information with the SEC and imposes specific reporting responsibilities on accountants, attorneys and others that might become aware of corporate wrongdoing. Moreover, these requirements apply to all telecommunications service providers (that are publicly traded), not just to price cap ILECs. *See* Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745.

Commission to perform its statutory duties before the Commission's existing accounting requirements can be retained.<sup>13</sup>

Additional accounting requirements including the use of the USOA can be justified only when GAAP accounting is not sufficient to meet the Commission's regulatory needs.<sup>14</sup> The Commission also must find that the USOA is "necessary" in light of the availability of GAAP accounting data from SEC filings. To justify a rule requiring the use of a unique accounting system (*i.e.*, USOA) under Section 11 of the Act, the Commission must find that information available through GAAP accounting (or other non-FCC sources) is insufficient to meet the Commission's regulatory needs for information.<sup>15</sup> The burden on the Commission to justify the use of a separate accounting system such as the USOA is all the greater when the requirement

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<sup>13</sup> In Section 11 of the 1996 Act, Congress directed the Commission to review its rules every two years and to repeal or modify any rule that is no longer necessary. Section 11(b) of the Act requires that information provided by an accounting or reporting requirement be directly used to regulate affected companies and that such regulation is required to protect the public interest. A requirement would not be deemed "necessary" under this definition if the information in it is merely helpful or of general interest to regulators. Similarly, if an accounting or reporting requirement was the product of another era (*e.g.*, when the ILECs were true monopolists subject to rate-of-return regulation) and the information is no longer directly used to regulate the provision of ILEC services in today's environment, it would not be a "necessary" requirement and should be eliminated. A good example of such a requirement is the Commission's rules governing depreciation expense which are no longer used in establishing rates for interstate services under price cap regulation.

<sup>14</sup> The Commission explicitly recognized that GAAP is an appropriate method for maintaining regulated books when it required Bell Operating Companies' section 272 affiliates to use GAAP. *Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996*, Report and Order, 11 FCC Rcd 17539, 17618 ¶ 170, 17649 ¶ 243 (1996).

<sup>15</sup> The fact that the Commission might have a need for particular information under some circumstances is not by itself sufficient justification for requiring separate accounting to track the information. Unless collection or review of the information requires unique accounting in order to be accurate, it would be all but impossible to justify such an accounting requirement under any reasonable interpretation of the standard that Congress established in Section 11 of the 1996 Act.

only applies to a small segment of the industry, the ILECs.<sup>16</sup> Most of the Commission's existing accounting and reporting requirements that apply to CenturyLink and other price cap ILECs are the result of ongoing regulatory practices, past regulatory needs, and inertia – not current federal regulatory needs. As such, the Commission should eliminate the requirement that price cap ILECs use USOA accounting at the earliest possible date. As discussed in an appendix hereto, the Part 32 USOA requirements impose considerable unnecessary costs.<sup>17</sup>

#### **A. Current Regulatory Needs for Cost Accounting Information**

In referencing the USTelecom Forbearance Order, the Commission identifies three areas where it may need to rely on Part 32 accounting information: 1) pole attachment rules under Section 224 of the Act; 2) preventing cross-subsidization between local and long distance service under Section 272(e); and 3) ensuring no cross-subsidization between competitive and non-competitive services under Section 254(k).<sup>18</sup> While the Commission may rely on Part 32 data in performing its regulatory duties for the above areas, CenturyLink is of the opinion that, in each case, there are other less onerous means of providing the Commission the information that it needs to fulfill its statutory duties than continued use of the USOA.

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<sup>16</sup> At a minimum, the Commission should review the impact of the Sarbanes-Oxley Act to determine how it might benefit the Commission by eliminating the need for the Commission to collect carrier-specific information from a small number of carriers (*i.e.*, price cap ILECs).

<sup>17</sup> See Attachment A, entitled "Additional Costs of Part 32 Compliance", for a discussion of certain additional costs that CenturyLink incurs in complying with just some of the USOA accounting requirements. As shown therein, CenturyLink estimates it employs approximately eleven (11) full-time employee equivalents to maintain the dual accounting requirements related to these issues. It also experiences significant system functionality and maintenance that would be eliminated if Part 32 requirements were repealed.

<sup>18</sup> NPRM, 29 FCC Rcd 10638 at ¶ 32 (citing USTelecom Forbearance Order, 28 FCC Rcd at 7646 ¶ 62).

**B. Section 254(k) and Section 272(e)(3)**

Part 32 accounting is not necessary to ensure compliance with either Section 254(k) or Section 272(e). In compliance plans filed in the USTelecom Forbearance proceeding and the Qwest Forbearance proceeding,<sup>19</sup> CenturyLink's ILECs have demonstrated that USOA accounting data is no longer necessary for the Commission to ensure compliance with Section 254(k). In both instances, forbearance was conditioned on CenturyLink's (and other affected ILECs) attesting to its compliance with Section 254(k) through annual written certifications by a corporate officer. In those certifications, CenturyLink's officers have made such attestations and have committed to provide the Commission with any cost accounting information necessary to establish compliance with Section 254(k) upon appropriate request.<sup>20</sup>

To the best of CenturyLink's knowledge, the Commission has never requested any information associated with any ILECs' certifications provided in accordance with ILEC certification plans since these plans were first filed in 2008. As such, it is difficult, if not impossible, to claim that USOA accounting is necessary to ensure compliance with Section 254(k). Under such circumstances, it is CenturyLink's opinion that it is not necessary for the Commission to impose any "targeted accounting requirements" on price cap ILECs to ensure compliance with Section 254(k). Furthermore, it should also be noted that, with price cap regulation and with ILECs facing pervasive competition in all of their markets, a price cap ILEC

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<sup>19</sup> Ex parte letter from John E. Benedict, CenturyLink to Julie Veach, FCC, WC Docket Nos. 12-61, *et al.*, and appended CenturyLink Cost Assignment Forbearance Compliance Plan for Its Independent LEC Operations (Dec. 5, 2013); Ex parte letter from Melissa Newman, Qwest to Dana Shaffer, FCC, WC Docket Nos. 07-204, *et al.*, and appended Qwest Corporation's Compliance Plan (Sept. 24, 2008).

<sup>20</sup> See Section 254(k) Certification of Jerry M. Allen, as attached to CenturyLink's Dec. 5, 2013 Cost Assignment Forbearance Compliance Plan for Its Independent LEC Operations in WC Docket Nos. 12-61, *et al.*; Section 254(k) Certification of R. William Johnston, as attached to Qwest Corporation's Sept. 24, 2008 Compliance Plan in WC Docket Nos. 07-204, *et al.*

has nothing to gain from shifting costs to allegedly non-competitive services from either a market or regulatory perspective.<sup>21</sup>

Section 272(e)(3) and recent Commission Orders granting relief from the long distance separate affiliate requirements (*i.e.*, for providing in-region long distance services) require ILECs taking advantage of this relief to comply with certain imputation requirements.<sup>22</sup> As USTelecom notes:

“Neither section 272(e)(3) nor any Commission order mandates that a BOC maintain Part 32 accounts in order to demonstrate compliance with its imputation obligations. In fact, the expense accounts mandated by Part 32, . . . , are completely irrelevant to section 272(e)(3) compliance.”<sup>23</sup>

CenturyLink agrees with USTelecom’s assertion. While the Commission has historically required BOCs to record imputed amounts in Account 32.5280 (Unregulated Operating Revenue), “there is nothing magical about this particular account as it relates to a BOC’s ability to track and record amounts imputed under section 272(e)(3).”<sup>24</sup> As such, the Commission’s goal of ensuring that there is no cross-subsidization between local and long distance services can be

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<sup>21</sup> As USTelecom pointed out, even if a price cap ILEC attempted to cross-subsidize a competitive service, “the Commission would have to determine whether the particular service being used to subsidize another service is in fact ‘not competitive’ – a determination that would not require access to any cost data.” Letter from Bennett L. Ross, Wiley Rein to Marlene H. Dortch, FCC, WC Docket No. 12-61 (Apr. 18, 2013), at 12.

<sup>22</sup> See 47 U.S.C. § 272(e)(3); also, see the Non-dominant Order, *Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements*, WC Docket No. 02-112, *et al.*, Report and Order and Memorandum Opinion and Order, 22 FCC Rcd 16440, 16490 ¶ 100 (2007), which addresses AT&T, Qwest and Verizon’s provision of in-region long distance services; and the USTelecom Forbearance Order, WC Docket Nos. 12-61, *et al.*, 28 FCC Rcd at 7692-7693 ¶¶ 145-148, which addresses independent price cap ILECs’ provision of in-region, interstate or international, long distance services.

<sup>23</sup> Letter from Bennett L. Ross, Wiley Rein to Marlene H. Dortch, FCC, WC Docket No. 12-61 (Apr. 18, 2013), at 6.

<sup>24</sup> *Id.* “In fact, the BOCs can readily track the imputation transactions subject to section 272(e)(3) in a subsidiary record or using some other identifier without maintaining every single expense and revenue account mandated by Part 32.” *Id.*

achieved without requiring price cap ILECs to comply with Part 32 accounting requirements. If the Commission relieves price cap ILECs of Part 32 accounting requirements, going forward, CenturyLink will ensure compliance with section 272(e)(3)'s requirement by maintaining "an annual subaccount/identifier or other record to track transactions subject to section 272(e)(3) in a reasonable (and auditable) manner."<sup>25</sup>

### **C. Pole Attachment Data**

The Commission currently relies on Part 32 cost data in pole attachment complaint proceedings and ILECs taking advantage of forbearance from filing ARMIS Report 43-01 have an obligation to file annual public filings containing pole attachment cost data with the Commission.<sup>26</sup> However, as USTelecom noted in its ex parte in the USTelecom Forbearance proceeding, "price cap carriers can meet their obligations to provide pole attachment data annually without continued adherence to Part 32."<sup>27</sup> It makes no sense to retain the whole panoply of USOA accounting requirements simply to ensure that pole attachment data is available for those states not exercising their right to regulate pole attachments under Section 224 of the Act.<sup>28</sup> While the Commission has found a federal need for pole attachment data, its

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<sup>25</sup> *Id.* at 7.

<sup>26</sup> USTelecom Forbearance Order, 28 FCC Rcd at 7676 ¶ 109; and Qwest ARMIS Forbearance Order, *Petition of Qwest Corporation for Forbearance from Enforcement of the Commission's ARMIS and 492A Reporting Requirements Pursuant to 47 U.S.C. § 160(c)*, WC Docket No. 07-204, Memorandum Opinion and Order, 23 FCC Rcd 18483, 18490-18491 ¶ 13 (2008).

<sup>27</sup> Letter from Bennett L. Ross, Wiley Rein to Marlene H. Dortch, FCC, WC Docket No. 12-61 (Apr. 18, 2013), at 4.

<sup>28</sup> 47 C.F.R. § 224(c). It should be noted that the scope of Section 224 is much broader than ILECs and applies to "any attachment[s] by a cable television system or provider of telecommunications service to a pole, duct, conduit, or right-of-way owned or controlled by a utility." *Id.* at § 224(a)(4). The term "utility" includes "any person who is a local exchange carrier or an electric, gas, water, steam, or other public utility, and who owns or controls poles, ducts, conduits, or rights-of-way used, in whole or in part, for any wire communications." *Id.* at § 224(a)(1).

NPRM recognizes that there are other ways of satisfying this information need than with USOA cost data.<sup>29</sup> A much less burdensome way of satisfying this information is through the use of GAAP, as USTelecom pointed out:

“For the vast majority of expense categories that are used in calculating pole attachment rates, price cap carriers can provide the same expense information maintained in accordance with GAAP rather than Part 32. For those limited expense categories under Part 32 that do not have a precise corollary under GAAP, price cap carriers can utilize a reasonable accounting proxy in satisfying their reporting obligations, which, as would be the case for all reported pole attachment data, would be subject to audit.”<sup>30</sup>

To provide the Commission with further assurance that the elimination of Part 32 requirements and the transition to GAAP would not harm pole attachment users, CenturyLink would not oppose a requirement that would cap pole attachment rates at their current levels plus an annual inflation adjustment, as measured by the U.S. Consumer Price Index, in states subject to federal regulation for a reasonable period of time (*e.g.*, three years), except to the extent that pole attachment rate increases are justified by causes other than moving from Part 32 rules to GAAP accounting (*i.e.*, as demonstrated by appropriate documentation).

### **III. IN THE ALTERNATIVE THE COMMISSION SHOULD STREAMLINE THE USOA**

If the Commission declines to modify its rules to relieve price cap ILECs of USOA accounting requirements, it should streamline USOA requirements to reduce the unnecessary burden on price cap ILECs. In its NPRM, the Commission notes that “Part 32 deviated from GAAP to the extent needed to support cost-based regulatory activities such as jurisdictional

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<sup>29</sup> “Another targeted accounting requirement could be to require price cap carriers to publicly report the same information [pole attachment cost information], but do so using expense information maintained in accordance with GAAP.” NPRM, 29 FCC Rcd 10638 at ¶ 39.

<sup>30</sup> Letter from Bennett L. Ross, Wiley Rein to Marlene H. Dortch, FCC, WC Docket No. 12-61 (Apr. 18, 2013), at 5.

separations, cost assignment, and rate-of-return ratemaking.”<sup>31</sup> With the advent of price cap regulation and subsequent forbearance from enforcing the cost assignment rules and separations and access reform,<sup>32</sup> there is no need for the cost information contained in Part 32 accounts.<sup>33</sup> Therefore, if the Commission decides to streamline Part 32 USOA requirements for price cap ILECs rather than relieving them of this requirement, the streamlining should be far-reaching and comprehensive.

If the Commission proceeds with a streamlining approach, CenturyLink agrees with the Commission’s proposal that the distinction between Class A and Class B carriers should be eliminated and all ILECs should be allowed to use streamlined Class B accounts.<sup>34</sup> CenturyLink also supports the Commission’s proposal to eliminate other distinctions between Class A and Class B carriers in Part 32 -- such as different thresholds for accounting for assets and requirements regarding subsidiary records and sub-accounts.<sup>35</sup> Furthermore, CenturyLink agrees

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<sup>31</sup> NPRM, 29 FCC Rcd 10638 at ¶ 5.

<sup>32</sup> *See Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786 (1990); *Service Quality, Customer Satisfaction, Infrastructure and Operating Data Gathering, et al.*, WC Docket No. 08-190, Memorandum Opinion and Order and Notice of Proposed Rulemaking, 23 FCC Rcd 13647 (2008); *appeal dismissed sub nom. National Association of State Utility Consumer Advocates v. FCC*, No. 08-1353 (D.C. Cir., Aug. 23, 2013); *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing an Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform - Mobility Fund*, WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Rcd 17663 (rel. Nov. 18, 2011), *aff’d sub nom.*, In re: FCC 11-161, Nos. 11-9900, *et al.*, 753 F.3d 1015 (10<sup>th</sup> Cir. 2014), *petitions for rehearing en banc denied* (10<sup>th</sup> Cir., Aug. 27, 2014).

<sup>33</sup> As the Commission notes in its NPRM and was stated above, fewer than five percent of the access lines are served by carriers subject to rate-of-return regulation. *See note 5 supra.*

<sup>34</sup> NPRM, 29 FCC Rcd 10638 at ¶ 12.

<sup>35</sup> *Id.* at ¶ 13.

with the Commission's interpretation that Section 402(c) of the 1996 Act does not require the Commission to classify carriers for purposes of Part 32.<sup>36</sup>

CenturyLink strongly supports the use of GAAP accounting in valuing assets and calculating depreciation for price cap companies going forward.<sup>37</sup> If the Commission determines that it continues to need USOA's requirements (in valuing assets and calculating depreciation) for regulating rate-of-return ILECs, it should not impose those same requirements on price cap ILECs.<sup>38</sup> In the absence of rate-of-return regulation, there is no valid reason for maintaining a distinction between USOA and GAAP for asset valuation and depreciation purposes for price cap ILECs.<sup>39</sup> Similarly, there is no justification for requiring price cap ILECs to calculate AFUDC differently than they would under GAAP. Therefore, CenturyLink supports the Commission's proposal to better align USOA with GAAP in calculating AFUDC.<sup>40</sup>

Lastly, and of great importance, is the treatment of materiality under the existing USOA rules. When the Commission first adopted its Part 32 rules in 1985, it declined to adopt a materiality standard.<sup>41</sup> At that time, all ILECs were subject to cost-based rate-of-return

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<sup>36</sup> *Id.* at note 30.

<sup>37</sup> *Id.* at ¶¶ 16-20.

<sup>38</sup> Clearly, with less than five percent of ILEC access lines being subject to rate-of-return regulation, the Commission should not "let the tail wag the dog" by continuing to impose USOA's asset and depreciation requirements on price cap ILECs.

<sup>39</sup> Additionally, USOA's rules governing cost of removal and salvage should be aligned with GAAP for price cap companies. *See* NPRM, 29 FCC Rcd 10638 at ¶¶ 21-22.

<sup>40</sup> As the Commission notes, reliance on GAAP rather than USOA in calculating AFUDC "would negligibly decrease recorded asset values and depreciation expense." NPRM, 29 FCC Rcd 10638 at ¶ 24.

<sup>41</sup> *See USOA Order, Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles (Parts 31, 33, 42 and 43 of the FCC's Rules)*, CC Docket No. 84-469, Report and Order, 102 FCC 2d 964, 987 ¶ 80 (rel. Nov. 14, 1985).

regulation and the Commission’s decision was based on its concern that ratemaking considerations required greater specificity than what was provided under GAAP.<sup>42</sup> Any such concerns have been alleviated with price cap regulation.

While the Commission has addressed the issue of GAAP materiality in numerous proceedings since Part 32 was first adopted,<sup>43</sup> it has declined to modify Section 32.26 of its rules to allow ILECs to use a different materiality standard. The current approach to materiality in the USOA places a significant burden on ILECs. As such, CenturyLink welcomes the Commission’s proposal to “revise the USOA’s treatment of materiality to better align with GAAP.”<sup>44</sup> Specifically, the Commission should modify Section 32.26 to establish a materiality standard in line with GAAP for price cap ILECs.<sup>45</sup> However, CenturyLink opposes the adoption of a materiality standard based on set dollar threshold amounts and believes that the best approach for all price cap ILECs is to adopt GAAP’s qualitative materiality standard.

As the Commission notes in its NPRM:

“as used in GAAP, materiality means that the nature of the economic event(s), including the dollar amount being accounted for and the overall economic environment, should be considered in determining how a particular transaction should be treated for reporting purposes.[footnote omitted] An item is considered to be material if the accounting and reporting will affect the decision of a user of financial statements.”<sup>46</sup>

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<sup>42</sup> *Id.*

<sup>43</sup> *E.g., see 2012 Biennial Review of Telecommunications Regulations*, WC Docket Nos. 13-33, *et al.*, Public Notice, 28 FCC Rcd 11255, 11258 (Aug. 6, 2013).

<sup>44</sup> NPRM, 29 FCC Rcd 10638 at ¶ 26.

<sup>45</sup> The Wireline Competition Bureau’s Staff Report in the 2006 Biennial Review recommended that Section 32.26 be modified to reflect a materiality standard based on GAAP. *See 2006 Biennial Regulatory Review*, Report, 22 FCC Rcd 2803, 2809 at ¶ 15 and Recommendation at 2817 (2007).

<sup>46</sup> NPRM, 29 FCC Rcd 10638 at ¶ 25. As the Financial Accounting Standards Board (“FASB”) points out: “Individual judgments are required to assess materiality in the absence of authoritative criteria or to decide that minimum quantitative criteria are not appropriate in

Employing GAAP materiality in the USOA would reduce the burden on price cap ILECs and provide the Commission with more useful and meaningful information. CenturyLink urges the Commission to incorporate GAAP materiality in the USOA at the earliest possible date.

#### **IV. RELATED ISSUES**

The Commission also proposes to amend its Part 32 CPR rules to allow price cap carriers to “‘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’ and for each price cap carrier to file a compliance plan with the Commission to that effect.”<sup>47</sup> In making this recommendation, the Commission references its findings in the USTelecom Forbearance Order where the Commission stated that it “‘believe[d] that the property record requirements in sections 32.2000(e) and (f) are overly broad for purposes of regulating price cap carriers and not necessary to ensure just and reasonable rates [footnote omitted].”<sup>48</sup> CenturyLink fully supports the Commission’s proposal to relieve price cap ILECs of the onerous burdens of complying with outdated and overly broad CPR rules.

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particular situations. The essence of the materiality concept is clear. The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.” Financial Accounting Standards Board, Concept Statement No. 2 Qualitative Characteristics of Accounting Information, at ¶ 132.

<sup>47</sup> NPRM, 29 FCC Rcd 10638 at ¶ 54 (citation omitted).

<sup>48</sup> USTelecom Forbearance Order, 28 FCC Rcd at 7667 ¶ 84.

**V. CONCLUSION**

For the foregoing reasons, the Commission should modify its rules to eliminate Part 32 USOA requirements for price cap ILECs with the proviso that the ILECs continue to provide pole attachment information sufficient for the Commission to fulfill its statutory duties under Section 224 of the 1996 Act. In the alternative, the Commission should streamline its Part 32 rules as discussed above.

Respectfully submitted,

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Its Attorney

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## ATTACHMENT A

### **Additional Costs of Part 32 Compliance**

CenturyLink's additional burden of Part 32 compliance is significant both in terms of personnel and systems costs. The following discusses just some of the elements of that burden.

#### **Asset Accounting**

GAAP accounting and Part 32 accounting for property plant and equipment, capitalized software and other intangible assets differ in several respects. As a result, CenturyLink bears the burden of performing double the number of monthly account reconciliations it would perform if it did not need to comply with Part 32, maintaining double the number of balances on its General Ledger and Continuing Property Records than it would if it did not need to comply with Part 32.

Because CenturyLink must comply with both GAAP and Part 32, it must maintain Continuing Property Records on both bases to account for:

- Aid to Construction;
- Inter-company asset transfers;
- Intra-company Site to Site Transfers;
- Retirements (Partial & Full Retirements);
- Interest during construction adjustments; and
- Other acquisition accounting related adjustments.

Satisfying dual Continuing Property Record accounting requirements requires ongoing maintenance and support of a sub-ledger accounting system.

Part 32 compliance requires additional management oversight and coordination of all Asset Accounting functions to ensure all accounting activities are designed to satisfy and do in fact satisfy both Part 32 and GAAP accounting requirements.

CenturyLink estimates the additional burden of Asset Accounting in compliance with Part 32 instead of only with GAAP requires two and a half full time equivalent employees.

#### **Depreciation & Capital Lease Accounting**

GAAP accounting and Part 32 accounting for depreciation and capitalized leases differ in several respects. Consequently, CenturyLink bears the burden of maintaining additional sets of depreciation accounting records that it would not keep if it did not need to comply with Part 32. These additional records are necessary so that CenturyLink can

- account for depreciation rates that differ between Part 32 and GAAP
- account for depreciable bases that differ between Part 32 and GAAP
  - Cost of removal recognition differences

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- Construction financing cost differences
- monitor accumulated depreciation levels (service value limits)

Compliance with Part 32 increases the burden of monthly reconciliations because the number of reconciliations of accumulated depreciation accounts is twice the number that would be performed if CenturyLink did not need to comply with Part 32.

Compliance with Part 32 requires CenturyLink to bear the burden of maintaining historical records and information supporting Part 32 depreciation rates as well as information in support of GAAP rates.

Compliance with Part 32 requires CenturyLink to bear the burden of maintaining double the valuations of capitalized leases that it would maintain if it did not need to comply with Part 32 because Part 32 does not incorporate acquisition accounting required by GAAP.

CenturyLink estimates the additional burden of Depreciation and Capital Lease Accounting in compliance with Part 32 instead of only with GAAP requires two full time equivalent employees.

### **Contributions In Aid of Construction**

CenturyLink ILECs receive one-time payments from customers for installation of service and to reimburse the ILECs for the cost of facilities necessary to provide the customer service. The accounting for these payments differs between Part 32 and GAAP. Accounting for the differences requires approximately half of a full time equivalent employee.

### **Pension and Post-retirement Benefits Accounting**

Because CenturyLink must account for pensions and post-retirement benefits under both Part 32 rules and GAAP, its efforts are essentially doubled. Although Part 32 and GAAP both rely on ASC Topic 715, "Compensation - Retirement Benefits," to account for pensions and post-retirement benefits, the GAAP basis expenses recorded by the parent corporation cannot be simply allocated to the ILECs. Instead, for Part 32 purposes the ILEC expense must be separately calculated and recorded in a separate set of accounting records. Consequently, instead of calculating and accruing pension and post-retirement expenses once for GAAP only, CenturyLink must double its efforts, calculating and accruing once for GAAP and again for Part 32. Also, to account for pension and post-retirement benefit expenses, CenturyLink must maintain double the sets of records it would maintain if it were not required to comply with Part 32. Hence, it must:

- 1) post double the number of monthly journal entries it would post if it did not have to comply with Part 32;
- 2) perform double the number of account reconciliations it would perform if it did not have to comply with Part 32;

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- 3) prepare double the number of budgets for its business units that it would prepare if it did not have to comply with Part 32;
- 4) provide two analyses on variances between budget and actual instead of one;
- 5) reconcile the difference between GAAP and Part 32 for its business units.

CenturyLink maintains seven distinct pension and benefit plans. Maintaining a second set of pension and post-retirement benefits records for Part 32 requires CenturyLink to incur the expense of obtaining two actuarial reports from its actuaries for each of the seven plans at double the cost it would incur if it did not have to comply with Part 32.

CenturyLink prepares an annual reconciliation of all activity in the pension and postretirement accounts on a Part 32 basis that it would not prepare were it not required to comply with Part 32.

CenturyLink estimates that it would require two fewer full time equivalent employees but for the burden of accounting for pensions and post-retirement benefits in compliance with Part 32.

### **Income Taxes**

Because it must comply with both Part 32 and, under GAAP, ASC Topic 740, “Income Taxes,” CenturyLink prepares two sets of accounting records on a single set of financial transactions. Keeping two sets of records requires double the effort to compute current and deferred income taxes for those records. The computation of current and deferred income taxes on a large multi-subsidiary corporation requires sophisticated and expensive tax accounting systems provided by vendors that specialize in such systems. Vendors offer tax accounting systems designed to account for taxes under GAAP, not under Part 32. Hence, the computation of taxes for Part 32 requires the customization of tax accounting systems to make them capable of computing current and deferred income taxes on both a GAAP basis and a Part 32 basis and to maintain accumulated deferred income tax balances on both bases for each entity that must report under Part 32. The ongoing maintenance and validation of the customized system and the data it produces is time consuming, complicated and costly. CenturyLink must also track and amortize tax regulatory liabilities that it would not track were it not required to comply with Part 32.

CenturyLink estimates that it would require one fewer full time equivalent employee but for the burden of accounting for income taxes in compliance with Part 32.

### **Miscellaneous Journal Entries and General SME responsibilities for GAAP**

Compliance with Part 32 imposes additional burdens for other miscellaneous issues – for example, because the accounting for all new services and products must be reviewed and analyzed for compliance not with just GAAP but also with Part 32. CenturyLink must employ a person as a general Part 32 subject matter expert to provide guidance on Part 32 compliance and how Part 32 differs from GAAP.

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The estimated burden of these activities and personnel is three full time equivalent employees.

### **System Costs**

Relief from compliance with Part 32 would allow CenturyLink to avoid the burden of certain accounting systems costs, including as follows:

- General Table Maintenance and documentation on over 400 GAAP specific account codes
- Additional processing required by increased volume of transactions in the system
- System and entry customization from the need to keep and maintain GAAP and Part 32 accounting records