

*Gathering Program* or to address our deployment concerns through other means. Any such examination would have to involve our state commission colleagues and any interested parties. In the meantime, we decline to impose additional ARMIS requirements that would fall disproportionately on one segment of the industry.

168. Table II - Transmission Facilities. Table II collects information about components of the network that are used to carry voice, video, and data traffic. Data reported in Table II provide information about transmission facilities for the study area of the carrier. The information is not disaggregated by Metropolitan Statistical Areas (MSA) and non-MSA, as Table I is. The deployment of new technologies and new services in rural areas has been a matter of particular concern for the Commission and other policymakers, and we are trying to better understand the provision of services in these areas.<sup>318</sup> In the *Notice*, the Commission sought comment on whether to add columns for MSA and non-MSA in Table II. USTA and Verizon argue that it would be extremely burdensome for LECs to report by MSA and non-MSA on Table II.<sup>319</sup> Ohio CC and NASUCA and Wyoming support the proposal to have carriers report by MSA and non-MSA.<sup>320</sup>

169. Transmission facilities are a critical component in the provisioning of new services to rural areas. We cannot compare rural and urban infrastructure development using information as currently reported in ARMIS 43-07. The commenters persuade us, however, that such disaggregation of these data would require incumbent LECs to undertake labor intensive and costly studies. At this time, we are not persuaded that the benefits of having these data in a more disaggregated form would justify the expense involved in such an undertaking.

170. In the first section of Table II, "Sheath Kilometers," carriers report data on transmission facilities within their operating areas. Carriers use either analog or digital technology on copper wire, coaxial cable, fiber, radio, and other media. In the *Notice*, the Commission proposed to change the title "Sheath Kilometers" to "Loop Sheath Kilometers" and to narrow the collection of data to only local loop facilities connecting customers to their serving offices.<sup>321</sup> We conclude that this information would be more useful for policymakers and interested parties if it were narrowed to local loop facilities connecting customers to their service offices. Therefore, we now change the title to "Loop Sheath Kilometers" and limit the collection of data to local loop facilities.

171. In the second section of Table II, "Interoffice Working Facilities," total circuit links are reported for baseband, analog carrier, and digital carrier. In the *Notice*, the Commission sought comment on whether to eliminate the reporting requirements that further distinguish baseband, analog, and digital (rows 0331, 0332, 0333, 0350, 0351, 0352, 0360, 0361, 0362, 0363).<sup>322</sup> AT&T contends that we should not eliminate these data because they are essential for benchmarking and monitoring purposes.<sup>323</sup> It appears, however, that these data are often reported in an inconsistent manner by the carriers, and therefore are not reliable for benchmarking

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<sup>318</sup> See *Local Competition and Broadband Data Gathering Program*, 15 FCC Rcd 7717 (2000).

<sup>319</sup> USTA Comments at 26; Verizon Comments at 11.

<sup>320</sup> Ohio CC and NASUCA Joint Comments at 9; Wyoming Comments at 4.

<sup>321</sup> USTA contends the majority of LECs do not have the ability to collect these data solely for loop plant. USTA Comments at 26.

<sup>322</sup> *Notice* at ¶ 72.

<sup>323</sup> AT&T Comments at 8. See also Ohio CC and NASUCA Joint Comments at 8.

purposes.<sup>324</sup> We find that there is no significant regulatory need to retain the subcategories in rows 0331 through 0363. Therefore, we eliminate these rows.

172. The Commission also sought comment on including categories for optical carrier facilities and non-optical carrier facilities.<sup>325</sup> Optical carrier facilities, such as synchronous optical networks (SONET) are currently being deployed by the incumbent LECs. Ohio CC and NASUCA support requiring carriers to report this information.<sup>326</sup> After reviewing the record, we are not convinced that our ARMIS reports are appropriate for tracking the deployment of SONET. SONET equipment, *i.e.*, terminal multiplexers and add/drop multiplexers, comprise a major portion of interoffice facilities. It is also present in loop facilities where it supports digital metallic or fiber loops. SONET physical topologies include point-to-point, linear, tree, and ring configurations. Due to SONET's widespread use in diverse configurations, our ARMIS reports may not be adequate to track the deployment of SONET. Therefore, we decline to add categories for these facilities at this time.

173. In the third section of Table II, "Loop Plant-Central Office Terminations," carriers report total working channels and total equipped channels. Under each category, there is a requirement for reporting six subcategories (copper, baseband, analog carrier, digital carrier, fiber digital carrier, and other). In the *Notice*, the Commission sought comment on whether to eliminate the reporting of six subcategories of equipped channels, and retain only the total of equipped channels.<sup>327</sup> GSA argues, and we agree, that these subcategories should not be eliminated at this time because the relationship of working channels to equipped channels is important in the analysis of copper plant utilization. Together with financial information, such analysis is used in determining appropriate forward-looking depreciation lives for present use in developing inputs to our high cost model for our universal service purposes and state use in UNE cost studies.<sup>328</sup> Therefore, we are retaining the subcategories in these rows in ARMIS, pending further exploration of alternative means of gathering such information.

174. In the *Notice*, the Commission proposed to eliminate reporting of fiber strands terminated at the customer premises at the DS-0 rate (row 0481) and fiber strands terminated at the customer premises at the DS-2 rate (row 0483) from the fourth section of Table II, "Other Transmission Facility Data."<sup>329</sup> AT&T argues that these data are essential for benchmarking and monitoring purposes.<sup>330</sup> We agree that as a general matter this information can be helpful; however, virtually no incumbent LEC reports the termination of DS-2 level services at the customer premises, and therefore row 0483 does not provide useful information. We conclude that row 0483 should be eliminated. We also conclude that row 0481 (DS-0 rate) should be eliminated. DS-0 level services are generally bundled into DS-1 size packages, and by capturing the required information at the DS-1 level, we do not need to collect the information at the DS-0

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<sup>324</sup> A review of these data suggests that the reporting carriers are not reporting the same things. Therefore, the data are not comparable.

<sup>325</sup> *Notice* at ¶ 72.

<sup>326</sup> Ohio CC and NASUCA Joint Comments at 9.

<sup>327</sup> *Notice* at ¶ 73.

<sup>328</sup> See, *e.g.*, GSA Comments at 12; AT&T Comments at 8.

<sup>329</sup> *Notice* at ¶ 74.

<sup>330</sup> AT&T Comments at 8.

level. Row 0482 (DS-1) will be renamed, because fiber is terminated at customer premises at the DS-3 level or greater, and referring to fiber terminations at the DS-1 level is inaccurate.

175. The Commission also sought comment on adding information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Such information is not presently collected through any federal reporting program. WorldCom argues that this report should be updated with the reporting of digital loop carrier deployment and other changes in the local loop plant.<sup>331</sup> We find that the addition of these rows to ARMIS would help satisfy an immediate and pressing need to assess the penetration of fiber in the local loop and gauge the development of broadband infrastructure. Hybrid architectures will likely become increasingly important in providing broadband services and are directly relevant to current criticisms by new entrants that the new architectures are systematically diminishing their ability to provide competing DSL service to end-user retail customers. We conclude that there is a present federal regulatory need, at least for the near term, to collect such data to evaluate the effects of our public policy decisions and to consider whether more market-oriented approaches are appropriate. Therefore, we are adding the following rows to ARMIS: “Hybrid Fiber/Metallic Loop Interface Locations,”<sup>332</sup> “Switched Access Lines Served from Interface Locations,”<sup>333</sup> “Total xDSL Terminated at Customer Premises,”<sup>334</sup> and “xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations.”<sup>335</sup> As set forth in the attached Further Notice, we seek comment on whether we should collect this information as part of our *Local Competition and Broadband Data Gathering Program*, rather through ARMIS.

176. Table III - ILEC Call Set-up Time. In Table III, information is provided about incumbent LEC call set-up time for calls delivered by the incumbent LEC to interexchange carriers. Incumbent LEC call set-up time measures the time from when the customer completes dialing until the call reaches an interexchange carrier. This information was important when carriers used different signaling systems, but now that SS7 is predominant, there is little

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<sup>331</sup> WorldCom Comments at 8. See also Maryland Sept. 7, 2001 *ex parte* at Appendix (arguing that we should upgrade ARMIS to collect information on new technologies and upgrades and investments in switching and transmission capacity that are critical components of the carriers’ network infrastructure).

<sup>332</sup> “Hybrid Fiber/Metallic Loop Interface Locations” will contain the number of locations other than central office locations where an interface between fiber cable and copper pairs or coaxial cable exists. This will include fiber to the curb locations, fiber to the pedestal locations, and other similar locations with a fiber/metallic interface capable of providing broadband services.

<sup>333</sup> “Switched Access Lines Served from Interface Locations” will contain the number of switched access lines reported in row 0120 that are physically routed through the interface locations reported in “Hybrid Fiber/Metallic Loop Interface Locations.”

<sup>334</sup> “Total xDSL Terminated at Customer Premises” will contain the total number of incumbent LEC provided working digital subscriber lines terminated at customers’ premises locations. This will include lines provided over metallic loop facilities and lines provided over a combination of fiber and metallic loop facilities. This will also include lines terminating in either incumbent LEC-provided or customer-provided termination equipment. Only those lines that are totally provided by the incumbent LECs are included.

<sup>335</sup> “xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations” will contain the number of customer-premises-terminated working digital subscriber lines that are provided through a hybrid fiber/metallic interface location included in “Hybrid Fiber/Metallic Loop Interface Locations.” This will include only those lines that are provided at least partially on fiber facilities.

difference among LECs. In the *Notice*, the Commission proposed to eliminate this table.<sup>336</sup> AT&T argues that these publicly available data are important for interexchange carriers (IXCs) seeking to monitor the performance of LECs in the provision of access services.<sup>337</sup> We are not persuaded, and conclude that this information is no longer significant.<sup>338</sup> Therefore, we eliminate Table III.

177: Table IV - Additions and Book Costs. In Table IV, carriers report data concerning total access lines in service, access line gain, and total gross capital expenditures. This information provides data on carriers' actions to maintain and upgrade the network. The data in this table are at the study-area level. Similar data in the ARMIS 43-02 Report are available at either the operating-company or company-study-area (state) level, but are not directly comparable to these data. In the *Notice*, the Commission sought comment on whether to continue to collect this information.<sup>339</sup> AT&T argues that these data are essential for benchmarking and monitoring purposes.<sup>340</sup> We conclude that we can eliminate the filing of this table because similar data are available in other ARMIS reports or can be generated by reference to other ARMIS reports.

## 7. ARMIS 43-08 (Operating Data Report)

178. The ARMIS 43-08 Report collects data about the carrier's outside plant, access lines in service by technology and by customer, number of telephone calls, and billed access minutes. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43-08 Report on an operating company basis. USTA, BellSouth, and Verizon argue that we should eliminate Report 43-08 altogether, because it is obsolete.<sup>341</sup> USTA contends that the definitions for the 43-08, Table III are becoming more ambiguous as the public switched network evolves toward a data platform.<sup>342</sup> USTA observes that in a high bandwidth network, the concept of DS0 equivalents is no longer viable.<sup>343</sup> Other commenters contend that the ARMIS 43-08 tables, which collect data on an operating company level by state, provide us with the ability to assess trends in investment in physical plant and to benchmark among carriers.<sup>344</sup> Oregon also states that it periodically uses ARMIS 43-08 to obtain information about access lines in other jurisdictions.<sup>345</sup> After careful consideration of these

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<sup>336</sup> *Notice* at ¶ 75.

<sup>337</sup> AT&T Comments at 8.

<sup>338</sup> WorldCom Comments at 7.

<sup>339</sup> *Notice* at ¶ 76.

<sup>340</sup> AT&T Comments at 8.

<sup>341</sup> USTA Comments at 26; BellSouth Comments at 6 & Reply Comments at 7; Verizon Comments at 12.

<sup>342</sup> USTA Comments at 26.

<sup>343</sup> *Id.*

<sup>344</sup> *See, e.g.*, AT&T Comments at 8; WorldCom Reply Comments at 7-8. NCTA observes that columns in Table I.A for Equivalent number of poles (v), Conduit system trench Km (w), and Conduit system duct Km (x) are needed for calculation of pole and conduit rental. *See* NCTA Aug. 31, 2001 *ex parte*.

<sup>345</sup> Oregon Comments at 6.

competing views, we conclude that some of the information in ARMIS 43-08 is of little value and thus we eliminate certain categories of this report as follows.

179. Table I.A – Outside Plant Statistics – Cable and Wire Facilities. In the *Notice*, the Commission sought comment on whether to eliminate the reporting requirements in Table 1.A (Outside Plant Statistics – Cable and Wire Facilities), that distinguish among aerial, underground, buried, submarine, deep sea, and intrabuilding cable plant (columns d – o). After reviewing the record, we conclude that columns d through i, n, and o are useful and should not be eliminated. As WorldCom and GSA observe, this information concerning network maintenance and upgrading is utilized to develop inputs to the high cost model for universal service purposes and to develop inputs to models used to determine forward-looking economic costs in state UNE ratemaking proceedings.<sup>346</sup> Pending further exploration of alternative means of gathering such information, we believe we should retain this reporting requirement in ARMIS to meet ongoing federal and state regulatory needs.<sup>347</sup> Columns j, k, l, and m, however, can be eliminated because little, if any, data are reported for these categories. Therefore, we are only eliminating columns j, k, l, and m.

180. Table I.B - Outside Plant Statistics – Other. In the *Notice*, the Commission proposed to eliminate the reporting of information on satellite channels and video circuits for carriers' radio relay and microwave systems (columns be, bj, bm). Due to changes in technology, data collected in these areas no longer are relevant to our policy analysis on various issues. Therefore, we are eliminating these three columns.

181. Table II - Switched Access Lines in Service by Technology. In the *Notice*, the Commission proposed to eliminate the distinction between analog and digital lines, and require carriers to report the total of main access lines, PBX and Centrex units, and Centrex extensions (retain columns cc, cd, and ce on a total basis; and eliminate columns cf, cg, and ch).<sup>348</sup> WorldCom contends that we should not eliminate this information because it is required to estimate forward-looking costs in the Commission's synthesis model and in other forward-looking cost models.<sup>349</sup> After reviewing the record, we conclude that this information would be more useful if provided on a total basis, instead of disaggregated by analog and digital. Due to changes in technology, data collected in some of these areas are trivial and no longer provide relevant information. Therefore, we are adopting the proposal in the *Notice*, and eliminating the distinction between analog and digital by eliminating columns cf, cg, and ch.

182. Table III - Access Lines in Service by Customer. In the *Notice*, the Commission proposed to narrow the information collection to total number of Business Access Lines (Single-Line and Multi-Line) and Residential Access Lines (Lifeline/Non-Lifeline and Primary/Non-Primary).<sup>350</sup> For example, the synthesis model uses data concerning single-line business, multi-line business, payphone, residential, and special (special access) in determining wire center costs, for universal service purposes.<sup>351</sup> The Commission also sought comment on whether Special Access Lines (Analog and Digital) (columns dk and dl) provide accurate information about the

<sup>346</sup> WorldCom Comments at 8; GSA Comments at 12.

<sup>347</sup> See Further Notice of Proposed Rulemaking at paragraphs 208-211.

<sup>348</sup> *Notice* at ¶ 77.

<sup>349</sup> WorldCom Comments at 8.

<sup>350</sup> *Notice* at ¶ 79.

<sup>351</sup> *Id.*

carriers' provision of special access lines and whether there is a need for clarification of this reporting requirement.

183. After reviewing the record, we conclude that extensive structural changes to Table III are warranted. We eliminate the column for Mobile Access Lines, because little, if any, data are reported for this category. The revised table will also contain new columns matching the revised data requirements, discussed above. Columns "Single Line Business Access Lines" and "Multiline Business Access Lines" will be under the "Business Switched Access Lines" heading. Columns "Lifeline Access Lines," "Non-Lifeline Primary Access Lines," and "Non-Lifeline Non-Primary Access Lines" will be under the "Residential Switched Access Lines" heading. A column "Local Private Lines" is added. Finally, we conclude that the instructions and definitions for columns dk and dl are sufficiently clear and that there is no need to revise or clarify them.

#### E. Relief for Mid-Sized Carriers

184. As previously noted, the Commission uses an indexed revenue threshold to determine which carriers are classified as Class A and which carriers are classified as Class B. Class A companies are defined as companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.<sup>352</sup> That revenue threshold is currently \$117 million.<sup>353</sup> Class A carriers are required to keep their accounts at a greater level of detail, file CAMs with the Commission, have those CAMs audited by an independent auditor, and file ARMIS reports.<sup>354</sup> Class B carriers, in contrast, may keep their accounts at a more aggregated level of detail, are not required to file CAMs, are not required to have their CAMs audited by an independent auditor, and are not subject to ARMIS financial reporting requirements.<sup>355</sup>

185. Today there are over 1300 incumbent LECs in the country. Of those, the Class A carriers are the BOCs (the operating companies of Verizon, SBC, BellSouth, and Qwest) and the operating companies of ALLTEL, Cincinnati Bell, Citizens Communications, Sprint, C-TEC, Roseville, and CenturyTel. The BOCs have 87.6 percent of the incumbent LECs' access lines, while the remaining Class A companies collectively have 6.1 percent of the incumbent LECs' access lines. Thus, all the Class A companies have 93.7 percent of the incumbent LECs' access

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<sup>352</sup> 47 C.F.R. § 32.11(a)(1).

<sup>353</sup> See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 01-903 (rel. Apr. 11, 2001) (adjusting annual indexed revenue threshold to \$117 million). The classification of a company is determined at the start of the calendar year following the first time its annual operating revenue from regulated operations equals, exceeds, or falls below the indexed revenue threshold. 47 C.F.R. § 32.11(e).

<sup>354</sup> More specifically, a carrier files ARMIS Reports 43-01, 43-02, 43-03, 43-04, and 43-08 when the carrier's annual operating revenues for the preceding year equals to or exceeds the indexed revenue threshold. Similarly, a carrier with annual operating revenues for the preceding year that is equal to or exceeds the indexed revenue threshold must file a CAM and have the CAM audited. These reporting requirements are based on total, not regulated, operating revenues. See *Implementation of the Telecommunications Act of 1996*, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8102, ¶ 68 (1997).

<sup>355</sup> In the *Joint Cost Order*, the Commission adopted cost allocation standards and affiliate transactions rules for all LECs (with the exception of average schedule companies) but exempted the smaller companies from the requirement to file a cost allocation manual and an annual independent audit. See *Joint Cost Order*, 2 FCC Rcd at 1304, ¶ 47.

lines. The remaining companies are classified as Class B; collectively they have 6.3 percent of the incumbent LECs' access lines.

186. There is a significant variation in the size and scope of the operating companies that currently are classified as Class A.<sup>356</sup> In general, the BOCs are significantly larger than the remaining Class A companies.<sup>357</sup> The operating company of BellSouth had annual revenues reported in ARMIS of over \$17.6 billion. The operating company of Qwest had annual revenues reported in ARMIS of over \$11.5 billion. The largest SBC operating company, Southwestern Telephone Company, had annual revenues of over \$12.4 billion.<sup>358</sup> The largest Verizon operating company, Verizon-New York Telephone, had annual revenues of over \$8.1 billion.<sup>359</sup> The revenues of the mid-sized companies range from over \$114.9 million for Roseville to over \$1.4 billion for Sprint-Florida (an operating company of Sprint).<sup>360</sup> Likewise, in terms of access lines, the BOCs range from over 25.4 million (BellSouth) to 193,992 (Verizon Mid-States), while the access lines of the remaining Class A companies (mid-sized companies) range from over 2.2 million for Sprint-Florida to 124,453 for Roseville.<sup>361</sup>

187. In recognition of the differences between the mid-sized companies and the BOCs, the Commission has differentiated between these carriers in terms of accounting and reporting requirements. For example, in the *ARMIS Reductions Report and Order*, the Commission reduced ARMIS filing requirements for mid-sized carriers, defined as a carrier whose operating revenue equals or exceeds the indexed revenue threshold, and whose revenue when aggregated with the revenues of any LEC that it controls, is controlled by, or with which it is under common control is less than \$7 billion.<sup>362</sup> Specifically, the Commission permitted mid-sized carriers to file financial ARMIS reports at a Class B level of detail. Similarly, in the *Accounting Reductions Report and Order*, the Commission allowed mid-sized incumbent LECs to submit CAMs based on Class B accounts and to obtain an attestation every two years in lieu of an annual financial audit.<sup>363</sup> In that proceeding, the Commission concluded that it could maintain the necessary degree of oversight and monitoring to protect consumers' interests while imposing the less administratively burdensome requirements on such carriers.<sup>364</sup>

188. In the *Notice*, the Commission proposed further reductions in accounting and reporting requirements for the mid-sized carriers. The Commission proposed to eliminate mandatory annual CAM filings and biennial CAM attestation engagements for mid-sized

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<sup>356</sup> The following Class A revenues are from 2000 ARMIS data.

<sup>357</sup> There are a few exceptions, such as Nevada Bell (an operating company of SBC) and Verizon Mid-States (an operating company of Verizon), which are smaller than many of the mid-sized companies.

<sup>358</sup> All of the SBC operating companies, combined, reported over \$38.5 billion in 2000 revenues.

<sup>359</sup> All of the Verizon operating companies, combined, reported over \$41.2 billion in 2000 revenues.

<sup>360</sup> All of the Class A Sprint operating companies, combined, reported approximately \$5.3 billion in 2000 operating revenues. Sprint also has Class B companies, which combined had approximately \$128 million in operating revenues. We also note that Roseville has now passed the indexed revenue threshold and is considered a mid-sized carrier.

<sup>361</sup> All of the Class A Sprint operating companies, combined, reported over 7.8 million access lines. Sprint's Class B operating companies had 356,250 access lines.

<sup>362</sup> See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12.

<sup>363</sup> See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11406 - 07, ¶¶ 21 - 22.

<sup>364</sup> *Id.*

carriers.<sup>365</sup> Under this proposal, the mid-sized carriers would instead file an annual certification with the Commission. As an alternative, the Commission sought comment on reclassifying the mid-sized carriers as Class B carriers.<sup>366</sup> The Commission also sought comment on raising the indexed revenue threshold -- the dividing line between Class A carriers and Class B carriers -- to \$200 million.<sup>367</sup>

189. As discussed below, we conclude that we can significantly lighten regulatory burdens for mid-sized carriers by adopting the proposals in the *Notice* to eliminate mandatory CAM filings and attestation audits for mid-sized carriers. We also significantly streamline ARMIS reporting for the mid-size companies. The net effect of the reforms we adopt today, coupled with measures already taken, will be to treat the mid-sized carriers like Class B companies in virtually all respects. We decline to formally reclassify the mid-sized carriers as Class B companies, however, as that action would impact our ability to administer the universal service high-cost support mechanism for non-rural carriers. Finally, we address the status of Roseville and CenturyTel, mid-sized carriers, which crossed the indexed revenue threshold in 1999, and became subject to ARMIS reporting and CAM requirements in 2000.

### 1. Cost Allocation Manuals

190. We adopt the proposal in the *Notice* to eliminate the annual CAM filing for mid-sized carriers. Under section 64.901 of the Commission's rules, all carriers (except average schedule companies) must separate regulated from nonregulated costs. While mid-sized carriers no longer will be required to annually file a CAM, they, like all other carriers, must be prepared to produce documentation of how they separate regulated from nonregulated costs to the Bureau, upon request. To ensure that the carrier has adequate procedures in place to separate the costs of their nonregulated activities from their regulated operations, in accordance with our rules, carriers are always free to seek guidance from the Common Carrier Bureau.

191. We also adopt the proposal in the *Notice* to eliminate the requirement that CAMs of mid-sized carriers be subject to an attest audit every two years. Instead of requiring mid-sized carriers to incur the expense of a biennial attestation engagement, they will file a certification with the Commission stating that they are complying with section 64.901 of the Commission's rules. The certification must be signed, under oath, by an officer of the incumbent LEC, and filed with the Commission on an annual basis. Such certification of compliance represents a less costly means of enforcing compliance with our cost allocation rules.

192. We emphasize that all incumbent LECs (except average schedule companies) remain subject to our cost allocation rules, which are increasingly important as more carriers diversify into competitive ventures. Indeed, one commenter argues that certain mid-sized carriers may have a larger percentage of operations in non-regulated activities than do some of the largest LECs.<sup>368</sup> The action we take today seeks merely to reduce the costs associated with ensuring compliance with our cost allocation rules. We are aware that some mid-sized carriers have more limited resources than the larger companies, and that the cost of regulatory compliance may disproportionately impact these carriers. These carriers account for a small fraction of the

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<sup>365</sup> *Notice* at ¶ 82.

<sup>366</sup> *Id.* at ¶ 80.

<sup>367</sup> *Id.* at ¶ 83.

<sup>368</sup> *See* AT&T Comments at 10.

nation's access lines. These rule changes -- eliminating the annual CAM filing and the biennial attestation engagement -- should significantly reduce the mid-sized carriers' costs in complying with the Commission's cost allocation rules. We note, however, that pursuant to section 220(c), the Commission has the authority to request further information or order an audit of any carrier's books to ensure compliance with our cost allocation requirements.

## 2. ARMIS Reporting Requirements

193. In the *Notice*, the Commission proposed eliminating the ARMIS 43-02, 43-03, and 43-04 reporting requirements for mid-sized carriers.<sup>369</sup> The Commission also sought comment on the costs and benefits of requiring mid-size carriers to file ARMIS 43-08.<sup>370</sup> In addition, the Commission sought comment on eliminating all ARMIS filing for mid-sized carriers.<sup>371</sup> Commenters opposing the proposal to eliminate these reports for mid-sized carriers contend that this information is needed by state commissions, state consumer advocates, and other parties in reviewing the operations of mid-sized carriers.<sup>372</sup> On the other hand, several commenters urge the Commission to eliminate all ARMIS filings for mid-size carriers.<sup>373</sup> CBT argues that mid-sized carrier data are an insignificant portion of the ARMIS data collected, and the Commission should not require mid-sized carriers to file any ARMIS reports.<sup>374</sup> Roseville and Iowa Telecom contend that preparing and filing ARMIS reports for the first time will require substantial personnel and monetary resources.<sup>375</sup> Sprint, the largest of the mid-sized carriers, contends that its annual, fully loaded cost for preparing ARMIS reports is \$250,000.<sup>376</sup>

194. We recognize that some of the mid-sized carriers have financial transactions that are generally smaller and fewer in number than the larger incumbent LECs. We also note that although we have already streamlined the ARMIS reporting requirement for mid-sized carriers, by permitting them to file ARMIS at the more aggregated Class B level, the cost of filing ARMIS reports may be higher for the mid-sized carriers, on a per line basis, than for the larger Class A companies. We are also aware that while mid-sized companies have the same incentives and opportunities for shifting costs between services, our federal regulatory focus has primarily been on the larger LECs that comprise most of the access lines. We therefore conclude that it is appropriate at this time to provide additional reporting relief to mid-sized carriers. In balancing

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<sup>369</sup> *Notice* at ¶ 84.

<sup>370</sup> *Id.* at ¶ 85. Commenters did not specifically address this issue.

<sup>371</sup> *Id.* at ¶ 80.

<sup>372</sup> *See, e.g.*, Ohio CC and NASUCA Joint Comments at 11; AT&T Comments at 9-10; WorldCom Comments at 10; Idaho Comments at 7; Oregon Comments at 7; Wisconsin Comments at 22-23; NARUC Reply Comments at 7.

<sup>373</sup> *See, e.g.*, Sprint Comments at 2; CBT Comments at 8-11; ALLTEL Comments at 3 (requesting no CAM or ARMIS requirements for the ALLTEL companies); Roseville Comments at 8-9; ITTA Comments at 8; USTA Comments at 27.

<sup>374</sup> CBT Comments at 10-11.

<sup>375</sup> Roseville Comments at 3-5; Iowa Telecom Comments at 4. Roseville estimates (for its initial ARMIS filing) that it will take 4,690 hours, or \$272,000. Roseville Comments at 4-5.

<sup>376</sup> Sprint Comments at 4. Clearly this is not an insignificant sum, however, it is only 0.048 percent of Sprint's annual revenue. Ohio CC and NASUCA Joint Reply Comments at 10.

the carriers' costs and our regulatory needs, we conclude that the mid-sized carriers will no longer be required to file the ARMIS 43-02, 43-03, or 43-04 Reports.<sup>377</sup>

195. We are not persuaded, however, that we should eliminate ARMIS reporting altogether for the mid-sized carriers. Our primary concern is to preserve our ability to obtain information used to compute non-rural carrier universal service high-cost support. We retain at this time the requirement that mid-sized carriers file the ARMIS 43-01 and 43-08 Reports. Information in these reports is utilized to develop inputs to the high cost model for universal service purposes and develop inputs to models used to determine forward-looking economic costs in state UNE ratemaking proceedings. For example, the line count input values used in the universal service model include special access lines, which are currently reported in the ARMIS 43-08 Report. Similarly, the switching input values include company-specific telephone call data, which are reported only in the ARMIS 43-08 Report. We intend to initiate a proceeding in the near future to examine how often and to what extent the high cost model inputs should be revised and updated. In that proceeding, we intend to explore alternatives to ARMIS reporting as a means of obtaining the data necessary to generate inputs used in the universal service cost model.

196. We note that in addition to information contained in ARMIS Reports 43-01 and 43-08, the Commission has used other accounting information from mid-sized carriers to develop inputs for the universal service model. While mid-sized carriers no longer are required to report certain information in ARMIS, we expect those companies will maintain sufficient information to be able to produce the data set forth in Appendix E, upon request.

197. In addition, mid-sized incumbent LECs should continue to maintain subsidiary record categories to provide the data currently provided in the Class A accounts, which are necessary to calculate just and reasonable pole, duct, conduit, and right-of-way attachment rates pursuant to section 224 of the Communications Act.<sup>378</sup> These carriers must report this information, necessary for the Commission and interested parties to calculate and verify attachment rates, in ARMIS, so that the information is publicly available and verifiable.

198. We recognize that the states may need certain information from these carriers in order to carry out their regulatory duties and responsibilities.<sup>379</sup> Nothing in this decision is intended to preclude a state from imposing its own reporting requirements to review the operations of the mid-size companies. Moreover, we recognize that the costs and benefits of regulatory compliance may be weighed differently at the state level.

### 3. Regulatory Classification of Mid-Sized Carriers

199. By our actions today, mid-sized carriers will be treated like Class B carriers in virtually all respects. In light of the regulatory relief granted to all mid-sized carriers, we see no reason to modify the current indexed revenue threshold of \$117 million, which is the dividing line between Class A and Class B companies.<sup>380</sup> No party in this proceeding has presented any

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<sup>377</sup> As previously noted, ARMIS 43-05 (filed by all price cap LECs) and 43-06 (filed by mandatory price cap LECs) are under examination in a separate proceeding and are not affected by our decision today.

<sup>378</sup> See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11404-05, ¶ 15.

<sup>379</sup> See, e.g., Maryland Comments at 5-6; NARUC Reply Comments at 7.

<sup>380</sup> The threshold between Class A and Class B will continue to be indexed annually in accordance with our current rules.

persuasive justification for why the threshold should be adjusted to \$200 million, or some higher figure.<sup>381</sup> We will continue to monitor developments in the marketplace, however, to ensure that our current definitional framework does not inadvertently create unintended consequences.

200. We grant ITTA's request that we index the \$7 billion threshold that divides the mid-sized carriers and the larger Class A carriers.<sup>382</sup> In 1996, we indexed the threshold between Class A and Class B carriers to implement the directive of the 1996 Act that the Commission adjust our existing revenue requirement to account for inflation in classifying carriers under section 32.11 and in establishing reporting requirements pursuant to Part 43.<sup>383</sup> Subsequently, in 1999, we streamlined our regulatory treatment for the smaller Class A carriers by creating a new classification within Class A for the mid-sized carriers.<sup>384</sup> We now conclude it would be analytically consistent with section 402(c) to henceforth index for inflation the revenue threshold that separates the larger Class A carriers and the mid-sized carriers.

201. We decline to redefine mid-sized carrier based on the two-percent of access lines standard suggested by several commenters.<sup>385</sup> We historically have used revenues as the dividing line between larger and smaller companies, and we see no need at this time to depart from that practice. With the rule changes adopted today, we ensure that the mid-sized carriers will be subjected to lightened regulatory burdens.

#### 4. Waivers for Roseville and CenturyTel

202. Due to the significant changes adopted in this Report and Order to our Chart of Accounts and the reporting requirements for mid-sized carriers, we are waiving, on our own motion, the ARMIS reporting requirements and CAM attestation requirements for Roseville and CenturyTel for the years 2000 and 2001. These two mid-sized companies have yet to file ARMIS reports for 2000.<sup>386</sup> Without a waiver, these companies would be required to prepare ARMIS

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<sup>381</sup> See Sprint Comments at 5 (\$400 million); TDS Comments at 7-8 (\$500 million); Roseville Comments at 10 (same); Iowa Telecom Comments at 2-3 (\$750 million).

<sup>382</sup> ITTA Comments at 16.

<sup>383</sup> See Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Order and Notice of Proposed Rulemaking*, 11 FCC Rcd 11716, 11721-22, ¶¶ 10-12 (1996) (adopting interim rules to comply with the section 402(c) requirement that we adjust the revenue thresholds for inflation and that the adjustments take effect on February 8, 1996). Permanent rules were subsequently adopted in Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8089-092, ¶¶ 36-44 (1997).

<sup>384</sup> See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11403-04, ¶ 14 .

<sup>385</sup> See ALLTEL Comments at 10; Roseville Comments at 4-5; ITTA Comments at 8-16; CBT Comments at 8. We do not agree with ITTA that the use of a two percent standard in section 251(f)(2) of the Communications Act "represents Congress's view of a proper differentiation between large ILECs with substantial resources that require heightened Commission regulation and scrutiny, and small and mid-size ILECs," see ITTA Comments at 11, and therefore the Commission should use the two percent standard in defining Class A and Class B carriers for accounting purposes. Section 251(f)(2) of the Communications Act permits carriers with fewer than two percent of the Nation's subscriber lines installed in the aggregate nationwide to petition a state commission for a suspension or modification of interconnection requirements in section 251(b) or (c). 47 U.S.C. § 251(f)(2). This section has no application to the CAM and ARMIS filing threshold. See Implementation of the Telecommunications Act of 1996, CC Docket No. 96-193, *Report and Order*, 12 FCC Rcd 8071, 8102-03, ¶ 69 (1997).

<sup>386</sup> These carriers sought, and were granted, extensions of time in which to file ARMIS reports. See Roseville Telephone Company Request for an Extension of Time to File ARMIS Reports, ASD File No.

reports for the years 2000 and 2001 based on our old chart of accounts. The ARMIS reports filed on April 1, 2003 (*i.e.*, for year 2002) will be based on the new chart of accounts adopted in this report and order.

203. The Commission may grant a waiver of its rules for good cause shown.<sup>387</sup> Waiver of the Commission's rules is appropriate only if special circumstances warrant a deviation from the general rule and such deviation will serve the public interest.<sup>388</sup> Roseville and CenturyTel are the only Class A companies that have not yet filed an initial ARMIS report. These companies have been granted an extension of time in which to file. We find that this particular situation, where our rules have changed before the parties have complied under old rules, is a special circumstance. Without a waiver, these companies would file ARMIS reports for the years 2000 and 2001 based on our old chart of accounts, and then file ARMIS reports for year 2002 based on our new chart of accounts. We find that in this case, special circumstances warrant a deviation of the general rule and the deviation will serve the public interest. Under these circumstances, it would be an inefficient use of resources to prepare ARMIS reports for the years 2000 and 2001 based on our old chart of accounts. A deviation of our general rule, in order to allow these two companies to file their initial ARMIS reports on April 1, 2003, under the new chart of accounts adopted in this Report and Order, would serve the public interest. The resources the companies would otherwise use in setting up their computer systems under the old chart of accounts can be used instead on service to their customers.

204. Similarly, we are also waiving our requirements for a CAM attestation for these mid-sized incumbent LECs. The attestation cannot take place until the ARMIS reports are prepared. We cannot, therefore, require a CAM attestation until after the ARMIS reports are filed and a CAM attestation will no longer be required of mid-sized companies under our rules adopted in this Report and Order. Therefore, we are waiving the ARMIS reporting requirements for Roseville and CenturyTel, and the CAM attestation requirement, for the years 2000 and 2001.

#### IV. FURTHER NOTICE OF PROPOSED RULEMAKING

##### A. Phase III (CC Docket No. 00-199 and 99-301)

205. Concurrent with the adoption of the Phase 2 *Notice*, the Commission also undertook a broader examination of the roadmap for accounting and reporting deregulation.<sup>389</sup> The Commission recognized that as regulatory, technological, and market conditions change in the future, it must consider more fundamental changes to the accounting and reporting requirements. The Commission sought comment on whether there are certain triggers that would allow it to significantly modify or relieve accounting and reporting requirements that currently apply to incumbent local exchange companies. Among other things, the Phase 3 *Notice* sought comment on whether accounting and reporting requirements should be eliminated when carriers become

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00-43, *Order*, 15 FCC Rcd 24093 (Com.Car.Bur. 2000); CenturyTel, Inc. and CenturyTel of Washington, Inc. Request for Extension of Time to Submit Cost Allocation Manual Attestation Reports and File ARMIS Reports, ASD File No. 00-45, *Order*, 16 FCC Rcd 1493 (Com.Car.Bur. 2000).

<sup>387</sup> 47 C.F.R. § 1.3.

<sup>388</sup> See United States Telephone Association Petition for Waiver of Part 32 of the Commission's Rules, *Order*, 13 FCC Rcd 214 (Com. Car. Bur. 1997) (*citing Northeast Cellular Tel. Co. v. FCC*, 897 F.2d 1164 (D.C.Cir. 1990) (*Northeast Cellular*); *WAIT Radio v. FCC*, 418 F.2d 1153 (D.C.Cir. 1969), *cert. denied* 409 U.S. 1027 (1972) (*WAIT Radio*)).

<sup>389</sup> See *Notice* at ¶¶ 87-98.

non-dominant. The Commission also sought comment on whether certain accounting requirements should sunset when the section 272 separate affiliate requirements sunset for a given carrier in a particular state, and whether achieving pricing flexibility should be a trigger for relaxing accounting and reporting requirements.

206. We remain fully committed to moving forward with Phase 3 of this proceeding. In our view; the question is not whether further deregulation should occur, but rather when. We are skeptical of assertions that these requirements should continue for the indefinite future. As competition continues to develop, the original justifications for our accounting and reporting requirements may no longer be valid. Even apart from the changing nature of the marketplace, there is a substantial question whether some of the rules we retain today impose burdens unnecessarily. And as formerly distinct sectors of the communications industry continue to converge, there is reason to reexamine the justifications for imposing detailed accounting and reporting requirements on only one class of competitors. With these considerations in mind, we now seek to refresh the Phase 3 record in light of the findings made and actions taken today. We look forward to working closely with the states, incumbent carriers, and other interested parties in this endeavor as we continue our examination of these issues.

207. As set forth above in the Phase 2 *Report and Order*, state regulators have articulated current regulatory needs to maintain certain Class A accounts and ARMIS filing requirements for various purposes, including assisting their work in promoting local competition, developing appropriate prices for unbundled network elements, and conducting local ratemaking proceedings. While the Commission also uses some of this information, in administering our current support mechanisms, for example, we identified in the foregoing order a number of accounts and requirements that appear no longer necessary for federal purposes: Account 5040, Private line revenue; Account 5060, Other basic area revenue; Account 1500, Other jurisdictional assets – net; Account 4370, Other jurisdictional liabilities and deferred credits – net; and Account 7910, Income effect of jurisdictional ratemaking differences – net. We believe that, if we cannot identify a federal need for a regulation, we are not justified in maintaining such a requirement at the federal level. At the same time, however, we recognize that an immediate end to such requirements could cause severe problems for state regulators. We would thus like to work with the states to arrange an orderly transition to a mechanism in which states undertake responsibility for collecting this information. We tentatively conclude that we should leave these federal requirements in place for a period of three years to enable states to develop alternative means of gathering this information, after which the federal requirements would terminate. We seek comment on this proposal. Commenters should address whether three years is a sufficient amount of time to transition from federal to state information gathering mechanisms. Commenters should also address whether it would be necessary for each state to set up its own mechanism or whether states might work collectively to set up a mechanism to collect information for multiple states. We understand that some states are required by state law to mirror federal accounting requirements. We ask that those states identify themselves and describe the precise nature of their state statutory constraints. We also seek comment on whether, rather than sunsetting these federal requirements, there are other means to reform federal requirements that serve only state regulatory needs.

208. For our other accounting and reporting requirements, we continue to have a federal need for this information, such as administering our current support mechanisms for universal service and price cap regulation. While we believe that the benefits of continuing these federal requirements, at present, outweigh the potential burdens, our assessment of that calculation is likely to change as technological and market conditions continue to evolve. Although the sufficiency of alternative mechanisms to obtain the requisite information is not

apparent on the record before us, we seek comment on alternatives to our current accounting and reporting requirements. We also encourage our state colleagues to consider alternative sources of such information at the state level. There may well come a time in the relatively near future when we conclude that there is no ongoing federal need to maintain these requirements at the federal level. We seek comment on these tentative views.

209. In addition to addressing the questions previously raised in the Phase 3 *Notice*, we ask commenters to consider whether any of these accounting and reporting requirements should sunset by a date certain, such as three or five years in the future. In particular, should we sunset the remaining Class A accounts by a date certain? Should we maintain our practice of imposing different accounting requirements on classes of carriers based on their size? If so, and we allow Class A carriers to shift to Class B accounting, are there additional accounts that should be eliminated from the Class B system for small and mid-sized carriers by a date certain? Should the requirement to maintain either Class A or Class B accounts be replaced with a rule requiring adherence to generally accepted accounting principles (GAAP)? Should any or all of our ARMIS reporting requirements sunset by a date certain? We encourage commenters to discuss the implications of any accounting reforms they recommend on the appropriate scope of ARMIS reporting obligations. To the extent commenters argue that certain Part 32 or Part 64 rules, or reporting requirements imposed pursuant to 47 U.S.C. § 43.21, should not sunset by a date certain, they should identify with specificity which rules should remain in place and provide a full analysis of the justification for that rule, on a rule-by-rule basis.

210. What would be the advantages and disadvantages of adopting any of these sunset approaches, as opposed to concluding that requirements should be eliminated only upon the attainment of certain indices associated with the development of a competitive marketplace? For example, if we were to eliminate Class A accounts or shift to a policy of relying on GAAP, could we develop accurate inputs for our universal service cost model by relying on specific, ad hoc data requests?<sup>390</sup> Moreover, what impact would elimination by a date certain of accounting and reporting rules have on attainment of statutory goals, such as the preservation and advancement of universal service and ensuring that pole attachment rates are just and reasonable? Could we satisfy other federal regulatory needs by making data requests on an as-needed basis and relying on other existing data collection mechanisms, such as the *Local Competition and Broadband Data Gathering Program*? If we ultimately decide not to sunset certain rules, but instead eliminate those rules only upon attainment of certain indices associated with competition, what costs would be imposed on both regulators and the industry by future administrative proceedings to determine whether those triggers have been met, particularly if proceedings were undertaken on a carrier-by-carrier basis?

211. We also seek comment from state commissions and all other interested parties on whether ARMIS information (particularly infrastructure data) would be better captured through the *Local Competition and Broadband Data Gathering Program* rather than in ARMIS, as discussed above in paragraphs 162, 169, and 177. This program seeks to develop the Commission's understanding of the deployment and availability of broadband services and the development of local telephone service competition in order to comply with section 706 of the

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<sup>390</sup> We intend to initiate a proceeding in the near future to examine how often and to what extent the high-cost model inputs should be revised and updated. To the extent that the data necessary to generate inputs used for the universal service high-cost model may be provided through other means than ARMIS, we intend to consider such alternatives in that proceeding. To the extent we conclude in that proceeding that certain inputs should be eliminated or modified, we would consider the need for corresponding revisions to our accounting and reporting requirements.

1996 Act.<sup>391</sup> The *Local Competition and Broadband Data Gathering Program* was established for a five-year period, unless the Commission acts to extend it. We seek comment on the costs and benefits associated with collecting infrastructure information through the *Local Competition and Broadband Data Gathering Program* for all affected parties, including potential filers and federal, state, and local regulators. In particular, we seek comment on whether information currently collected in ARMIS 43-07 should instead be collected through the *Local Competition and Broadband Data Gathering Program*, which imposes a reporting obligation on a larger universe of carriers. In addition, we seek comment on collecting such data through the *Local Competition and Broadband Data Gathering Program*, but requiring only the mandatory price cap companies to report. We also seek comment on whether we should require all filers in the *Local Competition and Broadband Data Gathering Program* to report information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Lastly, we seek comment on whether to gather information on new technologies that indicate how carriers are upgrading the public switched network, e.g., information for switches capable of transmitting ATM protocol, and data on SMDS, internet routers, and frame relay service, through our *Local Competition and Broadband Data Gathering Program*.

212. In addition, we seek comment on eliminating our rules for continuing property records (CPR), specifically section 32.2000(e) and (f).<sup>392</sup> As discussed in the foregoing order, our CPR rules largely serve the interests of state regulators.<sup>393</sup> States assert that they have an ongoing need for this information in order to support state ratemaking proceedings. We seek comment on whether there are alternative avenues for states to gather whatever information pertaining to property records they need for state regulatory proceedings. Incumbent LECs are subject to a number of other regulatory constraints and appear to have ample incentives to maintain a detailed inventory of their property.<sup>394</sup> Moreover, the record shows that our detailed requirements, which include rigid rules for recording property, impose substantial burdens on incumbent LECs.<sup>395</sup> In light of all these factors, we tentatively conclude that we should eliminate our detailed CPR rules in three years. We seek comment on this proposal. Commenters should address whether there are any federal or state regulatory needs served by our CPR rules that cannot be met through alternative mechanisms. We also seek further comment on the costs and burdens of maintaining these CPR rules. Additionally, commenters should address whether three years is too little or too much time for states that rely upon the existence of federal CPR rules to transition to alternative mechanisms. Commenters should include an analysis of the costs and benefits of maintaining the CPR rules for a different length of time.

213. We also seek comment on alternative approaches to streamline our CPR rules. In particular, in earlier comments in this proceeding, Verizon proposed that we should eliminate

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<sup>391</sup> Various issues pertaining to the *Local Competition and Broadband Data Gathering Program*, such as confidentiality, are raised in a pending proceeding. See *Local Competition and Broadband Reporting*, CC Docket No. 99-301, *Second Notice of Proposed Rulemaking*, FCC 01-19 (rel. Jan. 19, 2001).

<sup>392</sup> 47 C.F.R. §§ 32.2000(e) and (f).

<sup>393</sup> See paragraph 121.

<sup>394</sup> For example, the Foreign Corrupt Practices Act requires companies to maintain adequate accounting records and devise and maintain an adequate system of internal accounting controls. See Qwest Oct. 3, 2001 *ex parte*.

<sup>395</sup> Verizon Comments at 8.

most of our CPR requirements, but retain the requirement that property records be (1) subject to internal accounting controls; (2) auditable; (3) equal in the aggregate to the total investment reflected in the financial accounts; and (4) maintained for the life of the property.<sup>396</sup> Moreover, Verizon suggested that CPR rules should provide that (1) records be maintained by original cost where appropriate, and otherwise, be maintained using averages or estimates; (2) average costs may be used for plant consisting of a large number of similar units, and units of similar size and type within each specified account may be grouped; and (3) in cases where the actual original cost of property cannot be ascertained, such as pricing for inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. In cases where estimates are used, any estimate shall be consistent with accounting practices in effect at the time the property was constructed. We seek comment on the advantages and disadvantages associated with this proposal.

214. Finally, we seek to refresh the record on our affiliate transactions rules. We note that these rules were created at a time when all incumbent LECs were subject to rate-of-return regulation.<sup>397</sup> To what extent do these rules remain necessary for price cap carriers? Do price cap carriers that have obtained pricing flexibility, and have thus waived low-end formula adjustments, retain any incentive or ability to engage in improper cost-shifting or cross-subsidization? What impact, if any, would elimination of these rules for price cap carriers have on state ratemaking processes? What impact would there be on carriers if we elect to retain these rules?

215. Even if we eliminate some or all of our current affiliate-transactions rules for price-cap carriers, should we maintain those rules, or adopt revised rules, to govern transactions that are subject to section 272 of the Communications Act?<sup>398</sup> Section 272(b)(2) requires that the affiliate required by that section maintain “books, records, and accounts in the manner prescribed by the Commission which shall be separate from the books, records, and accounts maintained by the Bell operating company of which it is an affiliate.”<sup>399</sup> Section 272(b)(5) requires that the separate affiliate conduct all transactions with the Bell operating company “on an arm’s length basis.”<sup>400</sup> The nondiscrimination requirement found in section 272(c) requires the BOC to “account for all transactions with an affiliate . . . in accordance with accounting principles designed by or approved by the Commission.”<sup>401</sup> Section 272(e)(4) specifies that the BOC may provide interLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.<sup>402</sup> What would be the advantages or disadvantages of applying one set of rules to transactions between BOCs and their section 272 affiliates and another set of rules (or no rules) to other transactions between incumbent LECs and other types of

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<sup>396</sup> *Id.*

<sup>397</sup> Our affiliate transactions rules were adopted in 1987 to protect ratepayers of regulated telecommunications services from bearing the costs and risks associated with a carrier’s nonregulated activities. *See Joint Cost Order*. The Commission revised the affiliate transactions rules to implement the statutory prohibitions against cross-subsidization in the 1996 Act. *See Accounting Safeguards Order*; 47 C.F.R. § 32.27.

<sup>398</sup> 47 U.S.C. § 272.

<sup>399</sup> 47 U.S.C. § 272(b)(2).

<sup>400</sup> 47 U.S.C. § 272(b)(5).

<sup>401</sup> 47 U.S.C. § 272(c).

<sup>402</sup> 47 U.S.C. § 272(e)(4).

affiliates? How would this be implemented in situations where an affiliate engages in some activities that are subject to section 272 and other activities that are not?

216. Even if we decline to make broad changes to our affiliate transactions rules, we may wish to adopt additional minor reforms along the lines of the those in the foregoing Phase II Report and Order. In particular, we seek further comment on the proposal of USTA and BellSouth to modify the centralized service exception to the affiliate transactions rules. That rule states that all services received by a carrier from an affiliate that exists solely to provide services to members of the carrier's corporate family shall be recorded at cost. For these types of affiliates, no fair market valuations are required. USTA and BellSouth have argued that this rule is too restrictive, imposes large costs on carriers to comply, and can cause an affiliate to lose its overall exemption from fair market valuation of all of its services if one service is provided outside of the corporate family.<sup>403</sup> USTA and BellSouth argue that, rather than applying the exception on an affiliate-by-affiliate basis, the exception should be applied on a service-by-service basis. This would allow carriers to record services provided solely within the corporate family at fully distributed cost without fair market valuation, whether or not the affiliate also provided other services outside the corporate family.

217. We seek comment on a possible *de minimis* exception that would mitigate some of the harsh consequences of our current rules raised by BellSouth.<sup>404</sup> We ask commenters to address whether the Commission should adopt a threshold of \$500,000 for services provided by an affiliate outside the corporate family. If the Commission adopted such a threshold, an affiliate could provide up to \$500,000 in services outside the corporate family without causing other services it provides solely to the corporate family to undergo fair market valuation. We also ask if there is a different appropriate dollar value threshold. Alternatively, we seek comment on whether the exception should be based on a percentage of transactional volume of the service. For example, if a service is provided outside the corporate family and the transactional volume amounts to only five or ten percent of all of the affiliate's services volume, should transactions within the corporate family remain exempt from the fair market valuation requirement? If the Commission adopts a percentage threshold, should that threshold be five percent, ten percent, or some other percentage?

#### **B. Conforming Amendments to Part 36 Separations Rules (CC Docket No. 80-286)**

218. The revisions to the Chart of Accounts described in this Report and Order affect our Part 36 jurisdictional separations rules in minor respects, as our Part 36 rules are defined in terms of existing accounts. Most of the Part 32 revisions in the attached Order consolidate Class A accounts to the Class B level. We tentatively conclude that the elimination of Class A summary accounts will require clarifying revisions to Part 36. For example, the elimination of Account 6110, Network support expense, from Class A accounting will require sections 36.310 and 36.311 of the Commission's rules to be revised to reflect Network support expenses as the sum of accounts 6112, 6113, and 6114. In contrast, Class B accounting will retain Account 6110. Therefore sections 36.310 and 36.311 will remain intact for Class B carriers, but must be revised to clarify that the use of Account 6110 is for Class B carriers only.<sup>405</sup>

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<sup>403</sup> See USTA Comments at 16-17; BellSouth Sept. 6, 2001 *ex parte* at 2.

<sup>404</sup> See BellSouth Sept. 21, 2001 *ex parte*.

<sup>405</sup> See 47 C.F.R. §§ 36.310-311. Other sections of Part 36 affected include those sections currently referring to the following accounts; 6120, 6210, 6230, 6310, 6410, 6510, 6530, 6610, and 7200. See 47

219. We also tentatively conclude that other changes to Part 36 are required as a result of the elimination of Accounts 2215, 3500, 3600, 5000, 5080, 5084, and 6710 from both Class A and Class B accounting.<sup>406</sup> The Part 36 sections referencing these accounts will require revisions to reflect the respective accounts now utilized. We propose to revise, wherever necessary, those Part 36 sections affected by the revisions adopted in this Report and Order. We seek comment on these proposed conforming amendments.

220. As set forth above, we adopt subaccounts for five existing accounts: 2212, Digital electronic switching; 2232, Circuit equipment, 6212, Digital electronic switching expense; 6232, Circuit equipment expense; and 6620, Services. For now, these accounts will continue to be separated in accordance with current Part 36 rules, including the requirements of the *Separations Freeze Order*, and are subject to the conforming Part 36 amendments proposed in the preceding paragraph. We seek comment on whether the creation of subaccounts warrants any modification to the separations treatment of these accounts.

221. Commenters should also suggest any additional particular Part 36 rules that should be revised, how they should be revised, and which Part 32 modification in this Order forms the basis for each suggested revision. We also seek comment on interplay of the recent *Separations Freeze Order* with any suggested revisions.<sup>407</sup>

222. Finally, although we believe that the effect of the revisions to the Chart of Accounts will have merely ministerial impact on our Part 36 rules, we welcome input from the Federal-State Joint Board on Separations on these issues.<sup>408</sup>

## V. PROCEDURAL ISSUES

### A. Ex Parte Presentations

223. This is a permit but disclose rulemaking proceeding. Ex parte presentations are permitted, except during the Sunshine Agenda period, provided they are disclosed as provided in the Commission's rules. *See generally* 47 C.F.R. §§ 1.1202, 1.1203, and 1.1206.

### B. Paperwork Reduction Act Analysis

224. *Final Paperwork Reduction Act Analysis.* The decision herein has been analyzed with respect to the Paperwork Reduction Act of 1995, Pub. L. 104-13, and found to impose new or modified recordkeeping requirements or burdens on the public. Implementation of these new

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C.F.R. §§ 36.321, 331, 341, 351, 352, 353, 352, 371, 372, and 411. Elimination of these accounts from Class A accounting will require these Part 36 sections to be updated in accordance with the Class A accounting changes adopted in this Report and Order. The current Part 36 use of these accounts will remain for Class B carriers, however, revisions to Part 36 are required to reflect that these accounts are for Class B carriers only.

<sup>406</sup> See 47 C.F.R. §§ 36.121, 124, 125, 201, 211, 212, 213, 501, and 505.

<sup>407</sup> On May 22, 2001, the Commission adopted an interim freeze of the Part 36 category relationships and jurisdictional cost allocation factors for price cap carriers and allocation factors only for rate-of-return carriers. Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Report and Order*, FCC 01-162 (rel. May 22, 2001) (*Separations Freeze Order*).

<sup>408</sup> Should commenters identify impacts that would require changes to Part 36 beyond merely ministerial revisions, we would refer such issues to the Joint Board for its consideration

or modified reporting or recordkeeping requirements will be subject to approval by the Office of Management and Budget (OMB) and will go into effect upon announcement in the Federal Register of OMB approval.

### C. Regulatory Flexibility Act

225. As required by the Regulatory Flexibility Act (RFA),<sup>409</sup> the Commission has prepared both a Final Regulatory Flexibility Analysis (FRFA) and an Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities by the policies and rules proposed in this Further Notice of Proposed Rulemaking and the rules adopted in this Report and Order. Both the FRFA and the IRFA are set forth in Appendix H. Written public comments are requested on the IRFA. These comments must be filed in accordance with the same filing deadlines for comments on the rest of this Further Notice of Proposed Rulemaking and they must have a separate and distinct heading, designating the comments as responses to the IRFA. The Consumer Information Bureau, Reference Information Center, will send a copy of this Report and Order and Further Notice of Proposed Rulemaking, including the FRFA and IRFA, to the Chief Counsel for Advocacy of the Small Business Administration.<sup>410</sup> In addition, the Report and Order and Further Notice of Proposed Rulemaking and FRFA and IRFA (or summaries thereof) will be published in the Federal Register.<sup>411</sup>

### D. Comment Filing Procedures

226. Pursuant to sections 1.415 and 1.419 of the Commission's rules, 47 C.F.R. §§ 1.415, 1.419, interested parties may file comments on or before sixty days from date of publication in the Federal Register (for issue A) and thirty days from date of publication in the Federal Register (for issue B), and reply comments on or before ninety days from date of publication in the Federal Register (for issue A) and forty-five days from date of publication in the Federal Register (for issue B). Comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies.<sup>412</sup>

227. Comments filed through the ECFS can be sent as an electronic file via the Internet to <<http://www.fcc.gov/e-file/ecfs.html>>. Generally, only one copy of an electronic submission must be filed. If multiple docket or rulemaking numbers appear in the caption of this proceeding, however, commenters must transmit one electronic copy of the comments to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, Postal Service mailing address, and the applicable docket or rulemaking number. Parties may also submit an electronic comment by Internet e-mail. To get filing instructions for e-mail comments, commenters should send an e-mail to [ecfs@fcc.gov](mailto:ecfs@fcc.gov), and should include the following words in the body of the message, "get form <your e-mail address.>" A sample form and directions will be sent in reply.

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<sup>409</sup> See 5 U.S.C. § 603. The RFA, see 5 U.S.C. § 601 *et seq.*, has been amended by the Contract With America Advancement Act of 1996, Pub. L. No. 104-121, 110 Stat. 847 (1996) (CWAAA). Title II of the CWAAA is the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA).

<sup>410</sup> See 5 U.S.C. § 603(a).

<sup>411</sup> *Id.* §§ 603(a), 604(b).

<sup>412</sup> See Electronic Filing of Documents in Rulemaking Proceedings, 63 Fed. Reg. 24,121 (1998).

228. Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appear in the caption of this proceeding, commenters must submit two additional copies for each additional docket or rulemaking number. All filings must be sent to the Commission's Secretary, Magalie Roman Salas, Office of the Secretary, Federal Communications Commission, 445 12th Street, S.W., Washington, D.C. 20554.

229. Parties who choose to file by paper should also submit their comments on diskette. These diskettes should be submitted to: Ernestine Creech, Accounting Safeguards Division, 445 12th Street, S.W., Washington, D.C. 20554. Such a submission should be on a 3.5-inch diskette formatted in an IBM compatible format using Word or compatible software. The diskette should be accompanied by a cover letter and should be submitted in "read only" mode. The diskette should be clearly labeled with the commenter's name, proceeding (including the docket number, in this case CC Docket Nos. 00-199, 99-301, and 80-286, type of pleading (comment or reply comment), date of submission, and the name of the electronic file on the diskette. The label should also include the following phrase "Disk Copy - Not an Original." Each diskette should contain only one party's pleadings, preferably in a single electronic file. In addition, commenters must send diskette copies to the Commission's copy contractor, Qualex International, Portals II, 445 12th Street, SW, Room CY-B402, Washington, DC, 20554.

230. Written comments by the public on the proposed and/or modified information collections are due on or before thirty days after the date of publication in the Federal Register. Written comments must be submitted by the Office of Management and Budget (OMB) on the proposed and/or modified information collections on or before 60 days after date of publication in the Federal Register. In addition to filing comments with the Secretary, a copy of any comments on the information collections contained herein should be submitted to Judy Boley, Federal Communications Commission, Room 1-C804, 445 12th Street, S.W., Washington, DC 20554, or via the Internet to [jboley@fcc.gov](mailto:jboley@fcc.gov) and to Edward Springer, OMB Desk Officer, 10236 NEOB, 725 - 17th Street, N.W., Washington, D.C. 20503.

## VI. ORDERING CLAUSES

231. Accordingly, IT IS ORDERED that, pursuant to sections 1, 4, 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154, 201-205, 215, and 218-220, Parts 32 and 64 of the Commission's rules, 47 C.F.R. Parts 32 and 64, are amended as described above and in Appendix F below.

232. IT IS FURTHER ORDERED that, pursuant to section 220(g) of the Communications Act of 1934, as amended, 47 U.S.C. § 220(g), changes to our Part 32, System of Accounts, adopted in this Report and Order shall take effect six months after publication in the Federal Register following OMB approval, unless a notice is published in the Federal Register stating otherwise. We will, however, permit carriers to implement Part 32 accounting changes as of January 1, 2001.

233. IT IS FURTHER ORDERED that, pursuant to the authority contained in sections 4(i), 4(j), 11, 201(b), 303(r), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. sections 154(i), 154(j), 161, 201(b), 303(r), and 403, this Further Notice of Proposed Rulemaking in CC Docket Nos. 80-286, 99-301, and 00-199 IS ADOPTED.

234. IT IS FURTHER ORDERED that the proceeding in CC Docket No. 97-212 is TERMINATED.

235. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in sections 1, 4(i), 4(j), 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154(i), 154(j), 201-205, 215, and 218-220, that FCC Report 43-04, the Separations and Access Report IS REVISED, as set forth above and in Appendix G to this Report and Order, effective for filings due April 1, 2002.

236. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in sections 1, 4(i), 4(j), 201-205, 215, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154(i), 154(j), 201-205, 215, and 218-220, that revisions to FCC Report 43-01, the Annual Summary Report; FCC Report 43-02, the USOA Report; FCC Report 43-03, the Joint Cost Report; FCC Report 43-07, the Infrastructure Report; and 43-08, the Operating Data Report as set forth above, shall be effective for filings due April 1, 2003.

237. IT IS FURTHER ORDERED THAT, pursuant to the authority contained in section 0.291 of the Commission's rules, 47 C.F.R. § 0.291, that the Common Carrier Bureau IS DELEGATED authority to implement all changes to ARMIS reporting as above set forth.

238. IT IS FURTHER ORDERED that the Commission's Consumer Information Bureau, Reference Information Center, SHALL SEND a copy of this Report and Order and Further Notice of Proposed Rulemaking, including the two Regulatory Flexibility Analyses, to the Chief Counsel for Advocacy of the Small Business Administration.

FEDERAL COMMUNICATIONS COMMISSION



Magalie Roman Salas  
Secretary

**APPENDIX A – Parties Filing Comments and Reply Comments****Parties filing initial comments in CC Docket No. 00-199**

ALLTEL Communications Corporation (ALLTEL)  
AT&T Corporation (AT&T)  
BellSouth Corporation (BellSouth)  
Cincinnati Bell Telephone Company (CBT)  
Florida Public Service Commission (Florida)  
General Services Administration (GSA)  
Idaho Public Service Commission (Idaho)  
Iowa Telecommunications Services, Inc. (Iowa Telecom)  
Independent Telephone and Telecommunications Alliance (ITTA)  
Maryland Public Service Commission (Maryland)  
Montana Public Service Commission (Montana)  
National Association of Regulatory Utility Commissioners (NARUC)  
Nebraska Public Service Commission (Nebraska)  
New York State Department of Public Service (New York)  
North Carolina Utilities Commission – Public Staff (North Carolina Public Staff)  
Ohio Consumers' Counsel and the National Association of State Utility Consumer Advocates (Ohio CC and NASUCA)  
Public Utility Commission of Oregon (Oregon)  
Qwest Corporation (Qwest)  
Roseville Telephone Company (Roseville)  
Rural Utilities Service (RUS)  
Sprint Corporation (Sprint)  
TDS Telecommunications Corporation (TDS)  
United States Telecom Association (USTA)  
Utah Public Service Commission and the Utah Division of Public Utilities (Utah)  
Verizon Communications, Inc. (Verizon)  
Washington Utilities and Transportation Commission (Washington)  
Public Service Commission of Wisconsin (Wisconsin)  
WorldCom, Inc. (WorldCom)  
Wyoming Public Service Commission (Wyoming)

**Parties filing reply comments in CC Docket No. 00-199**

Regulatory Commission of Alaska (Alaska)  
ALLTEL  
Association for Local Telecommunications Services (ALTS)  
AT&T  
BellSouth  
California Public Utilities Commission (California)  
Federal-State Joint Board on Separations  
GSA  
Illinois Commerce Commission (Illinois)  
ITTA  
NARUC  
National Cable Television Association (NCTA)

Ohio CC and NASUCA  
Public Utilities Commission of Nevada (Nevada)  
Qwest  
Sprint  
USTA  
Verizon  
Virginia State Corporation Commission (Virginia)  
WorldCom  
XO Communications, Inc. (XO Communications)

**Parties filing comments to June 8 Public Notice**

BellSouth  
GSA  
New York  
Ohio Consumer's Counsel (Ohio CC)  
Oregon  
RUS  
SBC Communications, Inc. (SBC)  
Sprint  
USTA  
Verizon  
Wisconsin  
WorldCom

**Parties filing reply comments to June 8 Public Notice**

GSA  
New Hampshire Public Utilities Commission (New Hampshire)  
Ohio CC  
Sprint  
USTA  
Verizon

**Ex parte filings**

ALTS and XO Communications, July 26, 2001  
BellSouth, August 2, 2001  
Washington, August 16, 2001  
Illinois, August 24, 2001  
Nebraska, August 27, 2001  
South Dakota Public Utilities Commission, August 27, 2001 (South Dakota)  
AT&T, August 29, 2001  
New Mexico Public Regulation Commission, August 30, 2001 (New Mexico)  
NCTA, August 31, 2001  
North Dakota Public Service Commission, August 31, 2001 (North Dakota)  
Utah, August 31, 2001  
North Carolina Utilities Commission, September 4, 2001 (North Carolina)  
NARUC, September 6, 2001  
Florida, September 6, 2001  
Maryland, September 7, 2001

New Hampshire, September 7, 2001

Qwest, September 10, 2001

Michigan Public Service Commission, September 14, 2001 (Michigan)

Indiana Utility Regulatory Commission, September 21, 2001 (Indiana)

NARUC, September 26, 2001

USTA, September 28, 2001

Kansas Corporation Commission, October 2, 2001 (Kansas)

California, October 2, 2001

Competitive Telecommunications Association, October 3, 2001 (CompTel)

Michigan, October 3, 2001

239. NASUCA, October 4, 2001

NARUC, October 4, 2001

## APPENDIX B – List of eliminated Class A accounts

1130	Cash	4020	Notes payable
1140	Special cash deposits	4030	Advance billing and payments
1150	Working cash advances	4050	Current maturities—long-term debt
1160	Temporary investments	4060	Current maturities—capital leases
1180	Telecommunications accounts receivable	4120	Other accrued liabilities
1181	Accounts receivable allowance—telecommunications	4210	Funded debt
1190	Other accounts receivable	4220	Premium on long-term debt
1191	Accounts receivable allowance—other	4230	Discount on long-term debt
1200	Notes receivable	4240	Reacquired debt
1201	Notes receivable allowance	4250	Obligations under capital leases
1210	Interest and dividends receivable	4260	Advances from affiliated companies
1290	Prepaid rents	4270	Other long-term debt
1300	Prepaid taxes	4310	Other long-term liabilities
1310	Prepaid insurance	4360	Other deferred credits
1320	Prepaid directory expenses	5000	Basic local service revenue
1330	Other prepayments	5002	Optional extended area revenue
1401	Investment in affiliated companies	5003	Cellular mobile revenue
1402	Investments in nonaffiliated companies	5004	Other mobile services revenue
1406.1	Permanent investment	5050	Customer premises revenue
1406.2	Receivable/payable	5069	Other local exchange revenue settlements
1406.3	Current net income or loss	5080	Network access revenue
1407	Unamortized debt issuance expense	5084	State access revenue
1408	Sinking funds	5110	Unidirectional long distance revenue
1437	Deferred tax regulatory asset	5111	Long distance inward-only revenue
1439	Deferred charges	5112	Long distance outward-only revenue
2123.1	Office support equipment	5120	Long distance private network revenue
2123.2	Company communications equipment	5121	Subvoice grade long distance private network revenue
2215	Electro-mechanical switching	5122	Voice grade long distance private network revenue
	Step-by-step switching	5123	Audio program grade long distance private network revenue
	Crossbar switching	5124	Video program grade long distance private network revenue
	Other electro-mechanical switching	5125	Digital transmission long distance private network revenue
2231.1	Satellite and earth station facilities	5126	Long distance private network switching revenue
2231.2	Other radio facilities	5128	Other long distance private network revenue
2425	Deep sea cable	5129	Other long distance private network revenue settlements
	Nonmetallic cable	5160	Other long distance revenue
	Metallic cable	5169	Other long distance revenue settlements
3420	Accumulated amortization—leasehold improvement		
3500	Accumulated amortization—intangible		
3600	Accumulated amortization—other		
4010	Accounts payable		

5230	Directory revenue	6725	Legal
5240	Rent revenue	6726	Procurement
5250	Corporate operations revenue	6727	Research and development
5260	Miscellaneous revenue	6728	Other general and administrative
5261	Special billing arrangements revenue	7110	Income from custom work
5262	Customer operations revenue	7130	Return from nonregulated use of regulated facilities
5263	Plant operations revenue	7140	Gains and losses from foreign exchange
5264	Other incidental regulated revenue	7150	Gains and losses from the disposition of land and artworks
5269	Other revenue settlements	7160	Other operating gains and losses
5270	Carrier billing and collection revenue	7200	Operating taxes
5301	Uncollectible revenue-telecom	7310	Dividend income
5302	Uncollectible revenue-other	7320	Interest income
6110	Network support expense	7330	Income from sinking and other funds
6120	General support expenses	7340	Allowance for funds used during construction
6210	Central office switching expenses	7350	Gains and losses from the disposition of certain property
6215	Electro-mechanical expense	7360	Other nonoperating income
	Step-by-step switching	7370	Special charges
	Crossbar switching	7410	Nonoperating Investment tax credit—net
	Other electro-mechanical switching	7420	Nonoperating federal income taxes
6230	Central office transmission expense	7430	Nonoperating state and local income taxes
6231.1	Satellite and earth station facilities	7440	Nonoperating other taxes
6231.2	Other radio facilities	7450	Provision for deferred nonoperating income taxes—net
6310	Information origination/termination expense	7510	Interest on funded debt
6410	Cable and wire facilities expense	7520	Interest expense—capital leases
6425	Deep sea cable expense	7530	Amortization of debt issuance expense
	Nonmetallic cable	7540	Other interest deductions
	Metallic cable	7610	Extraordinary income credits
6510	Other property, plant and equipment expenses	7620	Extraordinary income charges
6530	Network operations expenses	7630	Current income tax effect of extraordinary items—net
6561	Depreciation expense—	7640	Provision for deferred income tax effect of extraordinary items—net
	Telecommunications plant in service		
6562	Depreciation expense—property held for future telecommunications use		
6563	Amortization expense—tangible		
6564	Amortization expense—intangible		
6565	Amortization expense—other		
6610	Marketing		
6612	Sales		
6621	Call completion services		
6622	Number services		
6623	Customer services		
6710	Executive and planning		
6711	Executive		
6712	Planning		
6721	Accounting and finance		
6722	External relations		
6723	Human resources		
6724	Information management		

## APPENDIX C – Revised list of Class A accounts

1120 Cash and equivalents	2351 Public telephone terminal equipment
1170 Receivables	2362 Other terminal equipment
1171 Allowance for doubtful accounts	2411 Poles
1220 Inventories	2421 Aerial cable
1220.1 Materials and supplies	Nonmetallic
1220.2 Property held for sale or lease	Metallic
1280 Prepayments	2422 Underground cable
1350 Other current assets	Nonmetallic
1406 Nonregulated investments	Metallic
1410 Other noncurrent assets	2423 Buried cable
1438 Deferred maintenance, retirements, and other deferred charges	Nonmetallic
1500 Other jurisdictional assets – net	Metallic
2001 Telecommunications plant in service	2424 Submarine and deep sea cable
2002 Property held for future telecommunications use	Nonmetallic
2003 Telecommunications plant under construction	Metallic
2005 Telecommunications plant adjustment	2426 Intrabuilding network cable
2006 Nonoperating plant	Nonmetallic
2007 Goodwill	Metallic
2111 Land	2431 Aerial wire
2112 Motor vehicles	2441 Conduit systems
2113 Aircraft	2681 Capital leases
2114 Tools and other work equipment	2682 Leasehold improvements
2121 Buildings	2690 Intangibles
2122 Furniture	Network software
2123 Office equipment	General purpose computer software
2124 General purpose computers	3100 Accumulated depreciation
2211 Non-digital switching	3200 Accumulated depreciation--held for future telecommunications use
2212 Digital electronic switching	3300 Accumulated depreciation nonoperating
2212.1 Circuit	3410 Accumulated amortization—capitalized leases
2212.2 Packet	4000 Current accounts and notes payable
2220 Operator systems	4040 Customers' deposits
2231 Radio systems	4070 Income taxes--accrued
2232 Circuit equipment	4080 Other taxes--accrued
2232.1 Electronic	4100 Net current deferred operating income
2232.2 Optical	taxes
2311 Station apparatus	
2321 Customer premises wiring	
2341 Large private branch exchanges	

4110 Net current deferred nonoperating income	6121 Land and building expenses
taxes	6122 Furniture and artworks expense
4130 Other current liabilities	6123 Office equipment expense
4200 Long term debt and funded debt	6124 General purpose computers expense
4300 Other long term liabilities and deferred credits	6211 Non-digital switching expense
4320 Unamortized operating investment tax	6212 Digital electronic switching expense
credits--net	6212.1 Circuit
4330 Unamortized nonoperating investment tax	6212.2 Packet
credits--net	6220 Operator systems expense
4340 Net noncurrent deferred operating income	6231 Radio systems expense
taxes	6232 Circuit equipment expense
4341 Net deferred tax liability adjustments	6232.1 Electronic
4350 Net noncurrent deferred nonoperating income taxes	6232.2 Optical
4361 Deferred tax regulatory adjustments—net	6311 Station apparatus expense
4370 Other jurisdictional liabilities and deferred credits—net	6341 Large private branch exchange expense
4510 Capital stock	6351 Public telephone terminal equipment expense
4520 Additional paid-in capital	6362 Other terminal equipment expense
4530 Treasury stock	6411 Poles expense
4540 Other capital	6421 Aerial cable expense
4550 Retained earnings	Nonmetallic
5001 Basic area revenue	Metallic
5040 Private line revenue	6422 Underground cable expense
5060 Other basic area revenue	Nonmetallic
5081 End user revenue	Metallic
5082 Switched access revenue	6423 Buried cable expense
5083 Special access revenue	Nonmetallic
5105 Long distance message revenue	Metallic
5200 Miscellaneous revenue	6424 Submarine and deep sea cable expense
5280 Nonregulated operating revenue	Nonmetallic
5300 Uncollectible revenue	Metallic
6112 Motor vehicle expense	6426 Intrabuilding network cable expense
6113 Aircraft expense	Nonmetallic
6114 Tools and other work equipment expense	Metallic
	6431 Aerial wire expense
	6441 Conduit systems expense
	6511 Property held for future telecommunications use expense
	6512 Provisioning expense
	6531 Power expense

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6532 Network administration expense  
6533 Testing expense  
6534 Plant operations administration  
expense  
6535 Engineering expense  
6540 Access expense  
6560 Depreciation and amortization  
expenses  
6611 Product management and sales  
6613 Product advertising  
6620 Services  
    6620.1 Wholesale  
    6620.2 Retail  
6720 General and administrative  
6790 Provision for uncollectible notes  
    receivable  
7100 Other operating income and  
expenses  
7210 Operating investment tax credits –  
net  
7220 Operating Federal income taxes  
7230 Operating state and local income  
taxes  
7240 Operating other taxes  
7250 Provision for deferred operating  
income  
    taxes – net  
7300 Nonoperating income and expense  
7400 Nonoperating taxes  
7500 Interest and related items  
7600 Extraordinary items  
7910 Income effect of jurisdictional  
ratemaking  
    differences – net  
7990 Nonregulated net income

## APPENDIX D – Revised list of Class B accounts

1120 Cash and equivalents	4080 Other taxes—accrued
1170 Receivables	4100 Net current deferred operating income
1171 Allowance for doubtful accounts	taxes
1220 Inventories	4110 Net current deferred nonoperating income
1220.1 Materials and supplies	taxes
1220.2 Property held for sale or lease	4130 Other current liabilities
1280 Prepayments	4200 Long term debt and funded debt
1350 Other current assets	4300 Other long term liabilities and deferred
1406 Nonregulated investments	credits
1410 Other noncurrent assets	4320 Unamortized operating investment tax
1438 Deferred maintenance and retirements	credits—net
1500 Other jurisdictional assets—net	4330 Unamortized nonoperating investment tax
2001 Telecommunications plant in service	credits—net
2002 Property held for future telecommunications use	4340 Net noncurrent deferred operating income
2003 Telecommunications plant under construction	taxes
2005 Telecommunications plant adjustment	4341 Net deferred tax liability adjustments
2006 Nonoperating plant	4350 Net noncurrent deferred nonoperating
2007 Goodwill	income taxes
2110 Land and support assets	4361 Deferred tax regulatory adjustments—net
2210 Central office switching	4370 Other jurisdictional liabilities and deferred
2220 Operator systems	credits—net
2230 Central office—transmission	4510 Capital stock
2310 Information origination/termination	4520 Additional paid-in capital
2410 Cable and wire facilities	4530 Treasury stock
2680 Amortizable tangible assets	4540 Other capital
2690 Intangibles	4550 Retained earnings
3100 Accumulated depreciation	5000 Basic local service revenue
3200 Accumulated depreciation--held for future	5081 End user revenue
telecommunications use	5082 Switched access revenue
3300 Accumulated depreciation— nonoperating	5083 Special access revenue
3410 Accumulated amortization—capitalized	5105 Long distance message revenue
leases	5200 Miscellaneous revenue
4000 Current accounts and notes payable	5280 Nonregulated operating revenue
4040 Customers' deposits	5300 Uncollectible revenue
4070 Income taxes—accrued	6110 Network support expense

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6120 General support expenses	6620 Services
6210 Central office switching expenses	6720 General and administrative
6220 Operator systems expense	6790 Provision for uncollectible notes receivable
6230 Central office transmission expense	7100 Other operating income and expenses
6310 Information origination/termination expense	7200 Operating taxes
6410 Cable and wire facilities expenses	7300 Nonoperating income and expense
6510 Other property, plant and equipment expenses	7400 Nonoperating taxes
6530 Network operations expenses	7500 Interest and related items
6540 Access expense	7600 Extraordinary items
6560 Depreciation and amortization expenses	7910 Income effect of jurisdictional ratemaking differences-net
6610 Marketing	7990 Nonregulated net income

**APPENDIX E – Data for High-Cost Model Inputs Purposes**

2111 Land  
2112 Motor vehicles  
2113 Aircraft  
2114 Tools and other work equipment  
2121 Buildings  
2122 Furniture  
2123 Office equipment  
2124 General purpose computers

2212 Digital electronic switching  
2220 Operator systems  
2232 Circuit equipment  
2362 Other terminal equipment

2411 Poles  
2421 Aerial cable  
    Nonmetallic  
    Metallic  
2422 Underground cable  
    Nonmetallic  
    Metallic  
2423 Buried cable  
    Nonmetallic  
    Metallic  
2426 Intrabuilding network cable  
    Nonmetallic  
    Metallic  
2441 Conduit systems

6112 Motor vehicle expense  
6113 Aircraft expense  
6114 Tools and other work equipment expense  
6121 Land and building expenses  
6122 Furniture and artworks expense  
6123 Office equipment expense  
6124 General purpose computers expense

6212 Digital electronic switching expense  
6232 Circuit equipment expense

6411 Poles expense  
6421 Aerial cable expense  
    Nonmetallic

## APPENDIX F – FINAL RULES

Part 32 of title 47 of the C.F.R. is amended as follows:

PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

The authority citation for part 32 continues to read as follows:

**Authority:** 47 U.S.C. 154(I), and 154(j) and 220 as amended, unless otherwise noted.

Table of Contents, Part 32—Uniform System of Accounts for Telecommunications Companies is revised to read as follows:

PART 32—UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

**Subpart A—Preface**

Sec.

- 32.1 Background.
- 32.2 Basis of the accounts.
- 32.3 Authority
- 32.4 Communications Act.

**Subpart B—General Instructions**

- 32.11 Classification of companies.
- 32.12 Records.
- 32.13 Accounts—general.
- 32.14 Regulated accounts.
- 32.15 [Reserved]
- 32.16 Changes in accounting standards.
- 32.17 Interpretation of accounts.
- 32.18 Waivers.
- 32.19 Address for reports and correspondence.
- 32.20 Numbering convention.
- 32.21 Sequence of accounts.
- 32.22 Comprehensive interperiod tax allocation.
- 32.23 Nonregulated activities.
- 32.24 Compensated absences.
- 32.25 Unusual items and contingent liabilities.
- 32.26 Materiality.
- 32.27 Transactions with affiliates.

**Subpart C—Instructions for Balance Sheet Accounts**

- 32.101 Structure of the balance sheet accounts.

- 32.102 Nonregulated investments.
- 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.
- 32.1120 Cash and equivalents.
- 32.1170 Receivables.
- 32.1171 Allowance for doubtful accounts.
- 32.1220 Inventories.
- 32.1280 Prepayments.
- 32.1350 Other current assets.
- 32.1406 Nonregulated investments.
- 32.1410 Other noncurrent assets.
- 32.1438 Deferred maintenance and retirements.
- 32.1500 Other jurisdictional assets – net.
- 32.2000 Instructions for telecommunications plant accounts.
- 32.2001 Telecommunications plant in service.
- 32.2002 Property held for future telecommunications use.
- 32.2003 Telecommunications plant under construction.
- 32.2005 Telecommunications plant adjustment
- 32.2006 Nonoperating plant
- 32.2007 Goodwill.
- 32.2110 Land and support assets.
- 32.2111 Land.
- 32.2112 Motor vehicles.
- 32.2113 Aircraft.
- 32.2114 Tools and other work equipment.
- 32.2121 Buildings.
- 32.2122 Furniture.
- 32.2123 Office equipment.
- 32.2124 General purpose computers.
- 32.2210 Central office switching.
- 32.2211 Non-digital switching.
- 32.2212 Digital electronic switching.
- 32.2220 Operator systems.
- 32.2230 Central office—transmission.

32.2231 Radio systems.  
 32.2232 Circuit equipment  
 32.2310 Information origination/termination.  
 32.2311 Station apparatus.  
 32.2321 Customer premises wiring.  
 32.2341 Large private branch exchanges.  
 32.2351 Public telephone terminal equipment  
 32.2362 Other terminal equipment  
 32.2410 Cable and wire facilities.  
 32.2411 Poles.  
 32.2421 Aerial cable.  
 32.2422 Underground cable.  
 32.2423 Buried cable.  
 32.2424 Submarine and deep sea cable.  
 32.2426 Intrabuilding network cable.  
 32.2431 Aerial wire.  
 32.2441 Conduit systems.  
 32.2680 Amortizable tangible assets.  
 32.2681 Capital leases.  
 32.2682 Leasehold improvements.  
 32.2690 Intangibles.  
 32.3000 Instructions for balance sheet  
 accounts—Depreciation and  
 amortization.  
 32.3100 Accumulated depreciation.  
 32.3200 Accumulated depreciation--held for  
 future telecommunications use.  
 32.3300 Accumulated depreciation  
 nonoperating.  
 32.3410 Accumulated amortization—capitalized  
 leases.  
 32.3999 Instructions for balance sheet  
 accounts—liabilities and stockholders'  
 equity.  
 32.4000 Current accounts and notes payable.  
 32.4040 Customers' deposits.  
 32.4070 Income taxes—accrued.  
 32.4080 Other taxes—accrued.  
 32.4100 Net current deferred operating income  
 taxes.  
 32.4110 Net current deferred nonoperating  
 income taxes.  
 32.4130 Other current liabilities  
 32.4200 Long term debt and funded debt  
 32.4300 Other long term liabilities and deferred  
 credits.  
 32.4320 Unamortized operating investment tax  
 credits—net.  
 32.4330 Unamortized nonoperating investment  
 tax credits—net.  
 32.4340 Net noncurrent deferred operating  
 income taxes.  
 32.4341 Net deferred tax liability adjustments.  
 32.4350 Net noncurrent deferred nonoperating  
 income taxes.  
 32.4361 Deferred tax regulatory adjustments—

net.  
 32.4370 Other jurisdictional liabilities and  
 deferred credits—net.  
 32.4510 Capital stock.  
 32.4520 Additional paid-in capital.  
 32.4530 Treasury stock.  
 32.4540 Other capital.  
 32.4550 Retained earnings.

**Subpart D—Instructions for Revenue  
Accounts**

32.4999 General.  
 32.5000 Basic local service revenue.  
 32.5001 Basic area revenue.  
 32.5040 Private line revenue.  
 32.5060 Other basic area revenue.  
 32.5081 End user revenue.  
 32.5082 Switched access revenue.  
 32.5083 Special access revenue.  
 32.5105 Long distance message revenue.  
 32.5200 Miscellaneous revenue.  
 32.5280 Nonregulated operating revenue.  
 32.5300 Uncollectible revenue.

**Subpart E—Instructions for Expense  
Accounts**

32.5999 General.  
 32.6110 Network support expense.  
 32.6112 Motor vehicle expense.  
 32.6113 Aircraft expense.  
 32.6114 Tools and other work equipment  
 expense.  
 32.6120 General support expenses.  
 32.6121 Land and building expenses.  
 32.6122 Furniture and artworks expense.  
 32.6123 Office equipment expense.  
 32.6124 General purpose computers expense.  
 32.6210 Central office switching expenses.  
 32.6211 Non-digital switching expense.  
 32.6212 Digital electronic switching expense.  
 32.6220 Operator systems expense.  
 32.6230 Central office transmission expense.  
 32.6231 Radio systems expense.  
 32.6232 Circuit equipment expense.  
 32.6310 Information origination/termination  
 expense.  
 32.6311 Station apparatus expense.  
 32.6341 Large private branch exchange  
 expense.  
 32.6351 Public telephone terminal equipment  
 expense.  
 32.6362 Other terminal equipment expense.  
 32.6410 Cable and wire facilities expenses.

	<b>Subpart F—Instructions for Other Income Accounts</b>
32.6411 Poles expense.	32.6999 General.
32.6421 Aerial cable expense.	32.7099 Content of accounts.
32.6422 Underground cable expense.	32.7100 Other operating income and expenses.
32.6423 Buried cable expense.	32.7199 Content of accounts.
32.6424 Submarine and deep sea cable expense.	32.7200 Operating taxes.
32.6426 Intrabuilding network cable expense.	32.7210 Operating investment tax credits – net.
32.6431 Aerial wire expense.	32.7220 Operating Federal income taxes.
32.6441 Conduit systems expense.	32.7230 Operating state and local income taxes.
32.6510 Other property, plant and equipment expenses.	32.7240 Operating other taxes.
32.6511 Property held for future telecommunications use expense.	32.7250 Provision for deferred operating income taxes – net.
32.6512 Provisioning expense.	32.7299 Content of accounts.
32.6530 Network operations expenses.	32.7300 Nonoperating income and expense.
32.6531 Power expense.	32.7399 Content of accounts.
32.6532 Network administration expense.	32.7400 Nonoperating taxes.
32.6533 Testing expense.	32.7499 Content of accounts.
32.6534 Plant operations administration expense.	32.7500 Interest and related items.
32.6535 Engineering expense.	32.7599 Content of accounts.
32.6540 Access expense.	32.7600 Extraordinary items.
32.6560 Depreciation and amortization expenses.	32.7899 Content of accounts.
32.6610 Marketing.	32.7910 Income effect of jurisdictional ratemaking differences – net.
32.6611 Product management and sales	32.7990 Nonregulated net income.
32.6613 Product advertising	
32.6620 Services.	
32.6720 General and administrative.	<b>Subpart G—Glossary</b>
32.6790 Provision for uncollectible notes receivable.	32.9000 Glossary of terms.

Section 32.11 Classification of companies is revised to read as follows:

**§ 32.11 Classification of Companies.**

(a) For purposes of this section, the term “company” or “companies” means incumbent local exchange carrier(s) as defined in section 251(h) of the Communications Act, and any other carriers that the Commission designates by Order.

(b) For accounting purposes, companies are divided into classes as follows:

(1) Class A. Companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.

(2) Class B. Companies having annual revenues from regulated telecommunications operations that are less than the indexed revenue threshold.

(c) Class A companies, except mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all the accounts of this system of accounts which are

applicable to their affairs and are designated as Class A accounts. Class A companies, which include mid-sized incumbent local exchange carriers, shall keep Basic Property Records in compliance with the requirements of §§ 32.2000(e) and (f) of this part.

(d) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all accounts of this system of accounts which are applicable to their affairs and are designated as Class B accounts. Mid-sized incumbent local exchange carriers shall also maintain subsidiary record categories necessary to provide the pole attachment data currently provided in the Class A accounts. Class B companies shall keep Continuing Property Records in compliance with the requirements of §§ 32.2000(e)(7)(A) and 32.2000(f) of this part.

(e) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000 of this part, that desire more detailed accounting may adopt the accounts prescribed for Class A companies upon the submission of a written notification to the Commission.

(f) The classification of a company shall be determined at the start of the calendar year following the first time its annual operating revenue from regulated telecommunications operations equals, exceeds, or falls below the indexed revenue threshold.

Section 32.13 Accounts—general is amended by deleting paragraph (a)(1) and redesignating paragraphs (a)(2) and (a)(3) as (a)(1) and (a)(2).

Section 32.14 Regulated accounts is amended by revising paragraph (e) to read as follows:

**§32.14 Regulated accounts.**

\* \* \* \* \*

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telephone companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in Account 5200, Miscellaneous revenue.

\* \* \* \* \*

Section 32.16 Changes in accounting standard is amended by revising paragraph (a) to read as follows:

**§ 32.16 Changes in accounting standard.**

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. The change in an accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Any change adopted shall be disclosed in annual reports required by § 43.21(f) in the year of adoption.

\* \* \* \* \*

Section 32.24 Compensated absences is amended by revising paragraph (b) to read as follows:

**§32.24 Compensated absences.**

\* \* \* \* \*

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this part, the liability shall be recorded in Account 4130, Other current liabilities, with a corresponding entry to Account 1438, Deferred maintenance, retirements and other deferred charges. This deferred charge shall be amortized on a straight-line basis over a period of ten years.

\* \* \* \* \*

Section 32.27 Transactions with affiliates is revised to read as follows:

**§32.27 Transactions with affiliates.**

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred

to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.

(1) *Floor*. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling*. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold*. For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed \$500,000, the asset(s) shall be recorded at net book cost.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost.

(1) *Floor*. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

Section 32.101 Structure of the balance sheet accounts is revised to read as follows:

**§32.101 Structure of the balance sheet accounts.**

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and equivalents, through Account 1500, Other jurisdictional assets--net, shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications plant in service, through Account 2007, Goodwill, shall include the regulated-fixed assets.

Account 3100, Accumulated depreciation through Account 3410, Accumulated amortization—capitalized leases, 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.)

Account 4000, Current accounts and notes payable, through Account 4550, Retained earnings, shall include all liabilities and stockholders equity.

Section 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained is revised as follows:

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

**BALANCE SHEET ACCOUNTS**

Account Title	Class A account	Class B account
Current Assets		
Cash and equivalents	1120	1120
Receivables	1170	1170
Allowance for doubtful accounts	1171	1171
Supplies:		
Material and supplies	1220	1220
Prepayments	1280	1280
Other current assets	1350	1350
Noncurrent Assets		
Investments:		
Nonregulated investments	1406	1406
Other noncurrent assets	1410	1410
Deferred charges:		
Deferred maintenance, retirements and other deferred charges	1438	1438
Other:		
Other jurisdictional assets-net	1500	1500

Section 32.1120 Cash and equivalents is revised to read as follows:

**§ 32.1120 Cash and equivalents.**

(a) This account shall include the amount of current funds available for use on demand in the hands of financial officers and agents, deposited in banks or other financial institutions and also funds in transit for which agents have received credit.

(b) This account shall include the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due one year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within one year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished.

(c) Cash on special deposit to be held for more than one year from the date of deposit shall be included in Account 1410, Other noncurrent assets.

(d) This account shall include the amount of cash advanced to officers, agents, employees, and others as petty cash or working funds from which expenditures are to be made and accounted for.

(e) This account shall include the cost of current securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character.

(f) Accumulated changes in the net unrealized losses of current marketable equity securities shall be included in the determination of net income in the period in which they occur in Account 7300, Other Nonoperating Income and Expense.

(g) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts of temporary investments that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.

Section 32.1130 Cash is deleted.

Section 32.1140 Special cash deposits is deleted.

Section 32.1150 Working cash advances is deleted.

Section 32.1160 Temporary investments is deleted.

Section 32.1170 Receivables is added to read as follows:

**§ 32.1170 Receivables.**

(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis:

(1) Amounts due from customers who are receiving telecommunications service.

(2) Amounts due from customers who are not receiving service and whose accounts are in process of collection.

(b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded.

(c) Cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue.

(d) Amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned.

(e) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds.

(f) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investment.

(g) This account shall include all amounts currently due, and not provided for in (a)-(g) above such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts. If any of these items are not to be paid currently, they shall be transferred to Account 1410, Other noncurrent assets.

(h) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this Commission's Rules and Regulations.