

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

| | | |
|------------------------------------|---|----------------------|
| In the Matter of |) | |
| |) | |
| 2000 Biennial Regulatory Review -- |) | |
| Comprehensive Review of the |) | |
| Accounting Requirements and |) | CC Docket No. 00-199 |
| ARMIS Reporting Requirements for |) | |
| Incumbent Local Exchange Carriers: |) | |
| Phase 2 and Phase 3 |) | |

NOTICE OF PROPOSED RULEMAKING

Adopted: October 12, 2000

Released: October 18, 2000

Phase 2 Comment Date: December 21, 2000

Phase 2 Reply Comment Date: January 30, 2001

Phase 3 Comment Date: January 30, 2001

Phase 3 Reply Comment Date: February 28, 2001

By the Commission:

TABLE OF CONTENTS

| | <u>paragraph</u> |
|--|------------------|
| I. INTRODUCTION | 1 |
| II. BACKGROUND..... | 4 |
| III. PHASE 2 - STREAMLINING MEASURES | 10 |
| A. Part 32 Accounting Rules..... | 14 |
| 1. Chart of Accounts..... | 15 |
| 2. Other Regulatory Relief..... | 21 |
| a. Inventories..... | 22 |
| b. Charges to Plant Accounts..... | 23 |
| c. Contributions..... | 25 |
| d. Additional USTA Proposals..... | 27 |
| 3. Affiliate Transactions..... | 28 |
| a. Eliminate requirement for fair market value comparison for asset transfers under \$500,000 | 32 |
| b. Establish ceiling and floor for recording transactions | 35 |
| c. Exempt nonregulated to nonregulated transactions from affiliate transactions rules | 36 |
| 4. Incidental Activities..... | 39 |
| 5. Expense Limits..... | 40 |
| 6. Additional Modifications to Cost Allocation Manual Requirements | 43 |
| 7. Classification of Companies..... | 44 |
| 8. Cost Allocation Forecasts | 45 |
| B. ARMIS Reporting Requirements..... | 46 |

| | |
|---|-----|
| 1. ARMIS Reports 43-01, 43-02, 43-03, and 43-04 | 56 |
| 2. ARMIS Reports 43-07 and 43-08..... | 64 |
| C. Relief for Mid-Sized Carriers | 80 |
| 1. Reduced Cost Allocation Manual Procedures | 81 |
| 2. Streamlined ARMIS Reporting Requirements..... | 84 |
| IV. PHASE 3 - LONG TERM TRANSITION TO DEREGULATION..... | 87 |
| V. PROCEDURAL ISSUES | 99 |
| A. Ex Parte Presentations..... | 99 |
| B. Regulatory Flexibility Analysis | 100 |
| C. Paperwork Reduction Act..... | 101 |
| D. Comment Filing Procedures | 102 |
| VI. ORDERING CLAUSES..... | 107 |

APPENDIX 1 – Part 32 Class A Accounts

APPENDIX 2 – Part 32 Class B Accounts

APPENDIX 3 – Class A Accounts Proposed To Be Eliminated

APPENDIX 4 – Class A Accounts on Which We Seek Comment

APPENDIX 5 – States’ Proposals

APPENDIX 6 – USTA’s Proposals

APPENDIX 7 – Initial Regulatory Flexibility Analysis

I. INTRODUCTION

1. In 1999, the Commission initiated a two-phased comprehensive review of its accounting rules and the related reporting requirements for incumbent local exchange carriers (LECs) to keep pace with changing conditions in the competitive telecommunications industry.¹ In Phase 1, which concluded with our *Phase 1 Report and Order*,² we adopted Part 32 accounting rule changes and reporting reform measures for the Automated Reporting Management Information System (ARMIS) that could be implemented quickly. After reviewing the issues and our accounting and reporting rules, we realize that our comprehensive review requires more than the two-phased process initially contemplated when we established this proceeding. Thus, in this item, we commence Phase 2, to seek comment on further accounting and reporting reform measures that may be implemented in the near term, and Phase 3, to consider the appropriate indicia for more significant deregulation in this area.³

¹ "Common Carrier Bureau Announces Initiative to Undertake Comprehensive Review of Part 32 and ARMIS Requirements," *Public Notice*, 14 FCC Rcd 6345 (1999). The initial workshop to solicit ideas on streamlining accounting and reporting rules took place on April 21, 1999. "Common Carrier Bureau Announces Agenda for Initial Workshop for Phase 1 of the Comprehensive Review of Accounting and Reporting Requirements and Treatment of Ex Parte Presentations in Related Proceedings," *Public Notice*, 14 FCC Rcd 6746 (1999). See Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99-253, *Notice of Proposed Rulemaking*, FCC 99-174 (rel. July 14, 1999).

² Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99-253, *Report and Order*, 15 FCC Rcd 8690 (2000) (*Phase 1 Report and Order*).

³ We recognize that we may need to adopt additional streamlining measures before Phase 3 is concluded.

2. Commencement of Phase 2, that is also part of our biennial regulatory review process,⁴ is particularly appropriate at this time given the recent changes in the telecommunications industry and recent changes in regulatory requirements for the largest incumbent LECs. For example, after initiating this comprehensive review in April 1999, carriers are entering markets from which they were previously barred, *e.g.*, Bell operating companies entering the long-distance market. Regulatory requirements have also recently changed with the Commission's significant restructuring of price cap incumbent LECs' access rates for the next five years.⁵ The Commission's accounting rules and ARMIS reporting requirements have played a changing role in the evolving telecommunications markets, from the pre-divestiture period to the present era of emerging competition. In this Notice of Proposed Rulemaking, we continue our efforts to reduce regulatory burdens on the industry by seeking comment on various measures to eliminate or streamline existing accounting and reporting requirements.

3. In this Notice, we seek comment on whether and how to streamline significantly the existing accounting and reporting requirements. Specifically, we seek comment on:

- ☐ Our proposal to eliminate one-fourth of the Class A accounts in Part 32 of our rules;
- ☐ The United States Telecom Association's (USTA's) proposal to eliminate the remaining Class A accounts;
- ☐ Eliminating inventory requirements in sections 32.1220(h) and 32.2311(f) of our rules;
- ☐ Eliminating the threshold requirements in section 32.2003(b) of our rules;
- ☐ Whether we should allow carriers to adopt SFAS-116 for federal accounting purposes;
- ☐ Revising our affiliate transactions rules to (1) eliminate the requirement for a fair market value comparison for asset transfers under \$500,000; (2) establish a ceiling and floor for recording transactions; and (3) exempt nonregulated to nonregulated transactions from affiliate transactions rules;
- ☐ Our proposal to eliminate the "treated traditionally" requirement from "incidental activities;"
- ☐ Modifying our expense limit rules;
- ☐ Whether section 32.11 should be amended to be limited to incumbent LECs;

⁴ See 47 U.S.C. § 161.

⁵ See Access Charge Reform, CC Docket No. 96-262, *Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, and Eleventh Report and Order in CC Docket No. 96-45*, FCC 00-193 (rel. May 31, 2000) (*CALLS Report and Order*). The measures were proposed by the Coalition for Affordable Local and Long Distance Service (CALLS), a group that included AT&T, SBC, Bell Atlantic (now Verizon), BellSouth, GTE (now Verizon), and Sprint.

- ❑ USTA's proposal to eliminate section 64.901(b)(4) of our rules;
- ❑ Our proposal to simplify the reporting requirements for both large incumbent LECs and mid-sized incumbent LECs by eliminating or revising ARMIS Reports: 43-01 (Annual Summary Report); 43-02 (USOA Report); 43-03 (Joint Cost Report); 43-04 (Separations and Access Report); 43-07 (Infrastructure Report); and 43-08 (Operating Data Report);
- ❑ Our proposal to eliminate cost allocation manual (CAM) filing requirements for mid-sized carriers;
- ❑ Raising the income threshold that determines which companies are required to file certain ARMIS reports; and
- ❑ Whether there are triggers for more drastic deregulation of accounting and reporting requirements in a competitive marketplace.

II. BACKGROUND

4. Under the Commission's rules, incumbent LECs record their costs and revenues in the Uniform System of Accounts (USOA).⁶ The USOA provides a financial based system maintained in sufficient detail to facilitate recurrent regulatory decision making.⁷ This data has been used in analyzing a variety of policy issues such as universal service support, consolidations and mergers, affiliate transactions, service quality, and infrastructure development, as well as focussed areas such as network reliability, rate development, depreciation, rates of return, and industry trends. The states historically have relied upon Part 32 accounts, rather than imposing different accounting requirements.

5. There are two classes of incumbent LECs for accounting purposes: Class A and Class B.⁸ Carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$114 million, are classified as Class A; those with annual revenues from regulated telecommunications operations that are below the threshold are considered Class B.⁹ Class A carriers -- SBC Communications, Inc., Qwest, Verizon, and BellSouth Corporation -- are required to maintain 296 Class A accounts,¹⁰ which

⁶ 47 C.F.R. Part 32. The establishment of a uniform system of accounts is mandated by section 220(a)(2) of the Communications Act. 47 U.S.C. § 220(a)(2).

⁷ See Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42, and 43 of the FCC's Rules), CC Docket No. 78-196, *Report and Order*, 60 Rad. Reg. 2d (P&F) 1111 (1986) (creating Part 32 of the Commission's rules).

⁸ 47 C.F.R. § 32.11.

⁹ See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 00-971 (rel. May 3, 2000) (adjusting annual indexed revenue threshold to \$114 million).

¹⁰ Other Class A carriers include Alltel Corporation, Frontier Corporation, Citizens Telecom, Cincinnati Bell, C-TEC, and Sprint. We have already taken measures to lighten accounting requirements for these mid-sized companies, however, and thus allow them to report on a Class B level. See 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, CC Docket No. 98-117, 14 FCC Rcd 11443, 11449, ¶ 11 (1999) (*ARMIS Reductions Report and Order*).

provide more detailed records of investment, expense, and revenue than the 113 Class B accounts that Class B carriers are required to maintain.¹¹ The Class A accounts are listed in Appendix 1. The more generalized level of accounting required under Class B was established to accommodate smaller carriers, which number over 1,200.¹² The Class B accounts are listed in Appendix 2.

6. Although we acknowledge that there may be alternative ways to achieve their underlying purposes, Part 32 accounting data are currently used for various regulatory purposes. For example, this accounting data is used in our cost allocation procedures under Part 64.¹³ Part 32 accounting data are also required for jurisdictional separations under Part 36. The dual system of federal and state regulation reflected in the Communications Act requires the separation of common carrier costs and revenues between interstate and intrastate operations. USOA data is used to allocate costs between the interstate and intrastate jurisdictions.¹⁴

7. The accounting data reported in Part 32 accounts are also currently used to determine interstate access charges. Prior to the adoption of price cap regulation in 1991, access charges for all incumbent LECs were governed by Part 69 access charge rules. The USOA continues to be used, even with the Commission's adoption of price cap regulation for many incumbent LECs.¹⁵ For example, data recorded in uniform accounts are used to adjust price cap indices upward if a price cap carrier earns returns below a specified level in a given year. Price cap carriers may also seek exogenous adjustments based on actual cost changes. Accounting costs are used to define claims for exogenous adjustments. In addition, a price cap LEC may petition the Commission to set its rates above the levels permitted by the price cap indices based

¹¹ The difference in the number of accounts is that many of the Class A accounts are aggregated into summary accounts under Class B.

¹² We recognize that small carriers often have limited resources and have financial transactions that are smaller and fewer in number than the larger incumbent LECs. For example, in the *Joint Cost Order* we applied our cost allocation standards and affiliate transactions rules to all local exchange carriers, but exempted the smaller carriers from the potentially burdensome enforcement provisions, e.g., CAM annual filing, an annual independent audit, and reporting requirements. See Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, *Report and Order*, CC Docket No. 86-111, 2 FCC Rcd 1298, 1330-31, ¶¶ 254-56 (1987) (*Joint Cost Order*), *recon.*, 2 FCC Rcd 6283 (1987), *further recon.*, 3 FCC Rcd 6701 (1988), *aff'd sub nom.* Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C.Cir. 1990).

¹³ The Commission's rules under Part 64 require that joint costs incurred in providing regulated and nonregulated services be allocated so that regulated services do not subsidize nonregulated services.

¹⁴ We note that the Federal-State Joint Board on Separations has recommended an interim five-year freeze of Part 36 category relationships and jurisdictional allocation factors for price cap carriers and allocation factors only for rate-of-return carriers. See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Recommended Decision*, FCC 00J-2 (rel. July 21, 2000); "Comment Sought on Recommended Decision Issued by Federal-State Joint Board on Jurisdictional Separations," CC Docket No. 80-286, *Public Notice*, DA 00-1865 (rel. Aug. 15, 2000).

¹⁵ The Commission required price cap regulation for the BOCs and GTE, and permitted other incumbent LECs to elect price cap regulation. Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, *Second Report and Order*, 5 FCC Rcd 6786 (1990).

on a showing that the authorized rate levels will produce earnings that are so low as to be confiscatory.¹⁶

8. Finally, USOA data also is currently used to calculate high cost support in the Universal Service Program. Under our universal service rules, the cost basis used in determining high cost support for rural carriers differs from that used for non-rural carriers. Both approaches, however, rely on our uniform system of accounts. For a rural carrier, high cost support is based on the extent to which its average cost per loop exceeds the nationwide average cost per loop for all carriers. For a non-rural carrier, high cost support is also based on relative cost per loop. That cost is determined, however, based either on actual booked costs or on the prescribed forward-looking cost model.

9. As with the development of the Part 32 USOA, the ARMIS system was designed to facilitate the Commission's decision making efforts and to eliminate undue reliance on ad hoc information requests and special studies. ARMIS is an automated reporting system developed by the Commission in 1987 for collecting financial, operating, service quality, and network infrastructure information from certain incumbent LECs.¹⁷ ARMIS contains eight reports, including four financial reports: ARMIS 43-01 (Annual Summary Report), ARMIS 43-02 (USOA Report), ARMIS 43-03 (Joint Cost Report),¹⁸ and ARMIS 43-04 (Separations and Access Report); and four non-financial reports: ARMIS 43-05 (Service Quality Report), ARMIS 43-06 (Customer Satisfaction Report), ARMIS 43-07 (Infrastructure Report), and ARMIS 43-08 (Operating Data Report). As discussed in more detail below, there are 52 incumbent LECs that file ARMIS reports containing financial and operating data.¹⁹ These ARMIS filings provide information on carriers serving more than 90 percent of the nation's telephone customers.²⁰

III. PHASE 2 - STREAMLINING MEASURES

10. This Notice of Proposed Rulemaking commences Phase 2 of our comprehensive review proceeding to examine reform of the accounting and ARMIS reporting requirements for incumbent LECs, and is part of our biennial regulatory review under section 11 of the Communications Act of 1934, as amended (Communications Act). Pursuant to that statute, the Commission, in every even-numbered year beginning in 1998, must review all regulations that

¹⁶ All these cost recovery mechanisms remain in place even under recent access charge reform measures. See *CALLS Report and Order*.

¹⁷ See Automated Reporting Requirements for Certain Class A and Tier 1 Telephone Companies (Parts 31, 43, 67, and 69 of the FCC's Rules), CC Docket No. 86-182, *Order*, 2 FCC Rcd 5770 (1987), *modified on recon.*, *Order on Reconsideration*, 3 FCC Rcd 6375 (1988). In 1990, the Commission modified and added reporting categories for service quality and infrastructure development. See Policy and Rules Concerning Rates for Dominant Carriers, *Second Report and Order*, CC Docket No. 87-313, 5 FCC Rcd 6786, 6827-30 (1990).

¹⁸ Supporting data for the ARMIS 43-03 Report is collected in Form 495A (Forecast of Investment Usage Report) and Form 495B (Actual Usage of Investment Report).

¹⁹ Over 1,200 incumbent LECs – the smaller carriers that do not exceed the indexed revenue threshold – do not file ARMIS reports today.

²⁰ This information was derived from the *Universal Service Fund 1999 Submission of 1998 Study Results by the National Exchange Carrier Association, Inc.*, dated October 1, 1999.

apply to the operations and activities of any provider of telecommunications service and “determine whether any such regulation is no longer necessary in the public interest as the result of meaningful economic competition between providers of such service.”²¹ Consistent with this directive, we undertook a biennial review of the Commission’s accounting and reporting requirements in 1998, which resulted in streamlining a number of accounting and ARMIS reporting requirements.²²

11. In 1999, we initiated this comprehensive review proceeding to examine further reform measures and announced a two-phased approach that would address immediate and long-term reform.²³ We adopted a number of immediate reform measures in our *Phase 1 Report and Order*.²⁴ We realize now that further immediate reform measures may be warranted at this time, as we consider long-range reform. Thus, in Phase 2, we seek comment on immediate accounting and reporting reform measures that are appropriate now, and in Phase 3, we seek comment on appropriate indicia for more significant deregulation in this area. Our actions to implement immediate reforms will not slow down our long-range plans for accounting and reporting deregulation. We envision that Phase 2 and Phase 3 will proceed concurrently. Accordingly, we seek comment on both immediate and long-term reform measures.

12. During this comprehensive review, we have worked closely with the National Association of Regulatory Utility Commissioners (NARUC), state commissions, and the industry. We are also working with the states to eliminate overlap of federal and state reporting requirements, as well as eliminating unnecessary reporting requirements. Under section 220(i) of the Communications Act, the Commission must notify the state commissions before modifying the chart of accounts and must allow the states a reasonable opportunity to present their views.²⁵ Even without this statutory requirement, we recognize the state commissions’ significant expertise with accounting and cost allocation issues and would invite their recommendations. Initially, we held a series of teleconferences with representatives of state commissions and the industry.²⁶ In addition, we held five public meetings or workshops that were attended, either in person or by conference call, by the industry (incumbent LECs and interexchange carriers), state

²¹ 47 U.S.C. § 161.

²² See 1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements, CC Docket No. 98-117, 14 FCC Rcd 11443 (1999) (*ARMIS Reductions Report and Order*); 1998 Biennial Regulatory Review – Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, 14 FCC Rcd 11396 (1999) (*Accounting Reductions Report and Order*).

²³ See *supra* note 1.

²⁴ See *supra* note 2.

²⁵ Section 220(i) provides that “[t]he Commission, before prescribing any requirements as to accounts, records, or memoranda, shall notify each State commission having jurisdiction with respect to any carrier involved, and shall give reasonable opportunity to each such commission to present its views, and shall receive and consider such views and recommendations.” 47 U.S.C. § 220(i).

²⁶ The first Phase 2 teleconference was held on December 8, 1999. Among the states participating in our meetings were Florida, Indiana, Maine, New York, Ohio, Oregon, Tennessee, Utah, Vermont, West Virginia, and Wisconsin.

commission staff, the General Services Administration, the Rural Utilities Services, and consumer advocates.²⁷

13. In the following sections, we set forth proposals for the second phase of our comprehensive review and seek comment on streamlining accounting rules and ARMIS reporting requirements for Class A carriers.²⁸ We also set forth a separate proposal for streamlining our accounting and reporting requirements specifically for mid-size carriers. In addition to commenting on these proposals, commenters are encouraged to propose any additional recommendations for action. In the third phase of our comprehensive review, we seek comment on specific issues and long-term proposals as we continue to move to a more deregulatory environment.

A. Part 32 Accounting Rules

14. In the *Phase I Report and Order*, we eliminated the expense matrix filing requirement; allowed carriers to reduce the cost allocation manual (CAM) audit requirement from an annual financial statement audit to a biennial attestation engagement;²⁹ relaxed our affiliate transactions requirements for services; eliminated the 15-day pre-filing requirement for certain CAM changes; eliminated the 30-day notification requirement for establishment of temporary or experimental accounts; allowed carriers to record contingent liabilities without our review; eliminated the reclassification requirement for certain property held for future use; and eliminated the reclassification requirement for certain plant under construction. In this Notice of Proposed Rulemaking, we seek comment on further revising our Part 32 chart of accounts, our affiliate transactions rules, and our expense limits rules.

1. Chart of Accounts

15. As explained above, incumbent LECs are required to maintain Part 32 accounts at either the Class A or Class B level. The largest carriers -- SBC Communications, Inc., Qwest, Verizon, and BellSouth Corporation -- are required to maintain Class A accounts, while the remaining incumbent LECs maintain their accounts at the Class B level.³⁰

16. In this Notice of Proposed Rulemaking, we seek comment on modifications to the Uniform System of Accounts to reduce burdens on Class A carriers. We propose retaining the current Class B account structure for the incumbent LECs currently reporting at the Class B level. We seek comment on specific proposals from both the industry and the states to streamline

²⁷ The first public workshop was held on April 11, 2000. See "Common Carrier Bureau Announces a Series of Workshops for Phase 2 of the Comprehensive Review of Accounting and Reporting Requirements," *Public Notice*, DA 00-754 (rel. Apr. 5, 2000).

²⁸ The adoption of accounts proposed herein would result in necessary amendments to our Part 36 jurisdictional separations rules. Pursuant to section 410(c) of the Communications Act, if we adopt our proposals in a subsequent Report and Order, we will refer any issues pertaining to jurisdictional separations to the Federal-State Joint Board on Separations established in CC Docket No. 80-286 for preparation of a recommended decision on these matters.

²⁹ Carriers may, at their option, continue to have an annual financial statement audit.

³⁰ See *supra* paragraph 5. The other Class A carriers, the mid-size carriers Alltel Corporation, Frontier Corporation, Citizens Telecom, Cincinnati Bell, C-TEC, and Sprint, report on a Class B level.

and modify the USOA. Specifically, USTA has requested that we uniformly adopt Class B accounting for all carriers.³¹ USTA contends that Class A accounting is not needed for jurisdictional separations, price caps, or universal service mechanisms. The states, in contrast, have asked us to add additional accounts to track information for various purposes.³² USTA also proposes that we eliminate several subaccounts³³ and Jurisdictional Difference Accounts³⁴ that Class B carriers currently must report.³⁵ USTA contends that carriers should not be required to maintain subaccounts or subsidiary records that are not necessary to meet business requirements. In addition, USTA contends that the Jurisdictional Difference Accounts are not needed because they are not used for federal regulatory oversight and the information in these accounts is also provided to the states. We seek comment on these proposals.

17. In considering USTA's request to use Class B accounts for all carriers, we have found many instances where Class B accounting would appear to meet the Commission's data needs. We agree with USTA that fewer prescribed accounts such as we now require for Class B carriers would reduce the carriers' regulatory reporting burdens. Therefore, we propose to eliminate approximately one-fourth of the current Class A accounts.³⁶ Based on our examination of the various accounts, we believe there is no continuing need for carriers to record their costs in these accounts. We have listed these Class A accounts in Appendix 3. We seek comment on whether eliminating these accounts would undermine our ability to meet our statutory mission.

18. We also seek comment on the remaining three-fourths of Class A accounting. These accounts are listed in Appendix 4. In particular, we seek comment on the impact of eliminating the Class A account structure for network plant and related asset and expense accounts,³⁷ and how that would affect our ongoing mission. We seek comment on whether using Class B accounting for all carriers would provide sufficient information for our purposes. Commenters should address the impact this rule modification would have on universal service mechanisms and anything else they deem relevant. For example, we note that there may be a continuing need for network plant and related accounts at the Class A level in order to maintain and use the universal service model we utilize in administering the universal service high cost fund for non-rural carriers.³⁸ For instance, Class A accounting requires that switching equipment

³¹ See June 9, 2000 letter from Linda Kent, United States Telecom Association, to JoAnn Lucanik and Tim Peterson, Accounting Safeguards Division, Common Carrier Bureau, FCC ("USTA Letter"), at Attachment A. A list of Class B accounts is set forth in Appendix 2.

³² Appendix 5 contains a list of the states' proposals.

³³ Specifically, subaccounts 1220.1, 1220.2, 1406.1, 1406.2, 2131.1, 2123.2, 2215.2, 2215.3, 2231.1, and 2231.2.

³⁴ Accounts 1500, 4370, and 7910.

³⁵ See USTA Letter at Attachment A.

³⁶ In Phase 1, we reduced the total number of Class A accounts and subaccounts by over 50 percent.

³⁷ Network and related asset accounts are comprised of Accounts 2111-2682 and the related accumulated depreciation and amortization accounts in the 3000 series. Related expense accounts are all plant specific and plant non-specific accounts included in Accounts 6111-6565.

³⁸ See, e.g., Federal-State Joint Board on Universal Service, Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket No. 97-160, *Tenth Report and Order*, FCC 99-304 (Nov. 2, 1999) (*USF 10th R&O*) at ¶ 83. In the universal service proceedings, the Commission acknowledged that

be accounted for by technology (*i.e.*, analog electronic switching, digital electronic switching, and electro-mechanical switching) whereas Class B combines all switching technologies in one account. The universal service high cost model currently determines the cost of providing digital switching equipment using Class A central office equipment accounts. We seek comment on how we could avoid serious distortions in the digital switching cost estimates if all types of switching equipment were combined as they are in Class B accounts.

19. In addition, Class A accounting data may be used by the states on a comparative basis in state UNE pricing proceedings. We seek comment on the prevalence and frequency of such state use. Commenters should also address whether states could find or develop alternative sources of data for this purpose. Part 32 organizes telecommunications costs in a manner that allows a logical mapping of these costs to telecommunications rate structures. Switching costs, for example, currently are tracked separately from transport costs under our Part 32 rules. This cost distinction permits the carriers' use of separate rate structures for switching and transport UNEs, thus facilitating the states' efforts to compare costs and rates for each UNE. Part 32 creates uniformity among telecommunication carriers, allowing state regulators to compare and benchmark the UNE costs and rates of carriers operating in various states. Such uniformity also benefits carriers operating in more than one jurisdiction. Part 32 provides the level of cost detail that is used in forward-looking cost studies. For example, estimates of operating costs for digital switches can be derived from Class A accounts in Part 32, thus enabling the states to evaluate forward-looking switching costs without the distortion that could result if all types and vintages of switches were combined into one account. Consequently, state and federal regulators may use uniform and detailed accounting data when setting rates, even when those rates are based on forward-looking costs. Commenters should discuss whether reporting at the Class B level would provide sufficient detail to identify costs for various rate elements and services such as collocation, UNEs, interconnection, and long term number portability.

20. In contrast to USTA's proposal, in our teleconferences and public workshops, state staff advocated adoption of new accounts to meet their data needs to implement the 1996 Act³⁹ and to keep pace with changes in technology and the regulatory environment.⁴⁰ They reason that new accounting information is needed to follow the rate of deployment and cost of new technologies, to evaluate prices for UNEs and resold services, to determine separated jurisdictional costs, to provide more details for state access revenues, and to provide insight into issues related to reciprocal compensation, state universal service support, and collocation.⁴¹ We

the costs of network plant vary considerably by type of facility and by type of construction. The Commission determined that, if the model is to derive reasonable cost estimates for the wide variety of exchanges that exist, it must use accurate cost data that contain the proper amount of detail. For example, for the outside plant portion of the network which represent the largest segment of loop costs, Class A accounting provides data for each major type of cable construction (*i.e.*, aerial, buried, and underground) as well as for the major type of cable (*i.e.*, fiber and copper). It also provides separate accounts for the major types of outside plant structures (*i.e.*, poles and underground conduit). From these building blocks the model is able to derive costs for the wide array of exchanges which the incumbent LECs serve. *See USF 10th R&O* at ¶¶ 341-376.

³⁹ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act). The 1996 Act amended the Communications Act of 1934 (Communications Act).

⁴⁰ As noted above, state commission staff from eleven states participated in our public workshops. *See supra* note 25.

⁴¹ Appendix 5 contains a list of the states' proposals.

seek comment on whether and, if so, specifically how we should amend Part 32 to add these new accounts. Commenters should discuss whether specific accounts are needed and provide detailed analysis as to what regulatory purpose the new information would serve. Commenters should also address and quantify, to the extent possible, the regulatory burdens associated with establishing and maintaining these new accounts. We also seek comment on whether these new accounts should be required for both Class A and Class B carriers.

2. Other Regulatory Relief

21. In the USTA petition and during our workshops, the carriers raised several other areas that would provide additional regulatory relief by generally loosening restrictions in our current rules. We seek comment on these areas, which are discussed in the following paragraphs. In addition, we seek comment on any other areas that may provide similar relief.

a. Inventories

22. Section 32.1220(h) of the Commission's rules,⁴² provides that inventories of material and supplies shall be taken during each calendar year and the adjustments to this account shall be charged or credited to Account 6512, Provisioning expense. Section 32.2311(f) of the Commission's rules requires an annual inventory of all station apparatus in stock included in this account.⁴³ In its petition for rulemaking, USTA proposes that GAAP requirements should be the basis for performing these inventories instead of the detailed inventory requirements in the rules and that companies should be able to perform inventories based on risk assessment and on existing controls.⁴⁴ We seek comment on whether we should adopt USTA's proposal to eliminate these inventory requirements.

b. Charges to Plant Accounts

23. Section 32.2003(b) of the Commission's rules allows carriers to charge directly to the appropriate plant accounts the cost of any construction project that is estimated to be completed and ready for service within two months from the date on which the project was begun.⁴⁵ In addition, this section allows carriers to charge directly to the plant accounts the cost of any construction project for which the gross additions to the plant are estimated to amount to less than \$100,000. The purpose of this rule is to allow carriers to record short-term and small-cost

⁴² 47 C.F.R. § 32.1220(h).

⁴³ Section 32.2311(f), 47 C.F.R. § 32.2311(f), provides: An annual inventory shall be taken of all station apparatus in stock that are included in this account. The number of such station apparatus item as determined by this inventory, together with the number of all other station apparatus items included in this account, shall be compared with the corresponding number of station apparatus items as shown by the respective control records. The original cost of any unreconciled differences thereby disclosed shall be adjusted through Account 3100, Accumulated Depreciation. Appropriate verifications shall be made at suitable intervals and necessary adjustment between this account and Account 3100 shall be made for all station apparatus included in this account.

⁴⁴ USTA Petition for Rulemaking – 2000 Biennial Regulatory Review (filed August 11, 1999) (“USTA Petition”) at 24 & Attachment at 2.

⁴⁵ 47 C.F.R. § 32.2003(b).

construction projects directly to the plant accounts without having to first record these costs in the Construction Work-in-Progress accounts.

24. In its petition for rulemaking, USTA contends that the cost of construction should be calculated using GAAP and that management judgment and materiality should form the basis of the criteria for determining the status of construction.⁴⁶ USTA argues that arbitrary thresholds, such as the two month/\$100,000 thresholds, are not appropriate for price cap LECs. We seek comment on whether we should eliminate the threshold requirements in section 32.2003(b), modify the thresholds, or keep the thresholds. Commenters are invited to propose alternative ways of satisfying the underlying goals of these requirements.

c. Contributions

25. In June 1993, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards No. 116 (SFAS-116), "Accounting for Contributions Received and Contributions Made." SFAS-116 requires companies to record in the current period a liability and related expense for unconditional pledges to make contributions in future years. Prior to adoption of SFAS-116, companies would record such pledges annually as they were made. The Common Carrier Bureau (Bureau) notified carriers, after BellSouth Telecommunications, Inc., filed a notice of intent to adopt SFAS-116,⁴⁷ that carriers should not adopt SFAS-116 for federal accounting purposes.⁴⁸ The Bureau was concerned that adoption of SFAS-116 for federal accounting purposes would allow carriers to increase reported costs and prices based on pledges rather than actual contributions.

26. We conclude that we should revisit this issue. Adopting SFAS-116 may make sense for financial accounting purposes because this accounting treatment better informs investors about the impact of a company's commitments on the financial condition of the company. We are concerned, however, that adoption of SFAS-116 could necessitate an exogenous price cap adjustment permitting carriers to recover the entire amount of pledged contributions as an exogenous cost in the year the accounting change is adopted. We seek comment on whether we should allow carriers to adopt SFAS-116 for federal accounting purposes.

d. Additional USTA proposals

27. USTA has presented several additional proposals to further streamline our accounting and reporting requirements.⁴⁹ USTA proposes that we eliminate the section 32.5280(c) subsidiary record requirement.⁵⁰ This rule section requires carriers to maintain separate subsidiary categories for nonregulated revenue recorded in Account 5280, Nonregulated

⁴⁶ USTA Petition, Attachment at 6.

⁴⁷ BellSouth wanted to adopt SFAS-116 in order to conform to GAAP.

⁴⁸ Notification of Intent to Adopt Statement of Financial Accounting Standards No. 116 (SFAS-116), "Accounting for Contributions Received and Contributions Made," AAD 94-156, *Order*, 10 FCC Red 1567 (1994).

⁴⁹ These proposals are set forth in the USTA Letter at Attachment A.

⁵⁰ See 47 C.F.R. § 32.5280(c).

operating revenue.⁵¹ USTA contends that this subsidiary record requirement is unnecessary. In addition, USTA requests that we simplify deferred tax accounting by allowing carriers to book the Account 1437, Deferred tax regulatory asset, net of Account 4361, Deferred tax regulatory liability. USTA requests that carriers be permitted to eliminate the requirement to calculate the gross up for the tax on tax effect. USTA contends that this would bring the regulatory books closer to the financial books. USTA proposes that we eliminate detailed requirements for property record additions, retirements, and recordkeeping. USTA contends that detailed property records do not impact the establishment of access rates and only serve to require LECs to maintain an extraordinary array of records. USTA also proposes that we eliminate the section 32.16 requirement for notification and approval to implement new accounting standards prescribed by the Financial Accounting Standards Board (FASB).⁵² USTA claims that the FASB provides a process through which proposed changes in GAAP are exposed for debate, discussion, and evaluation. Finally, USTA proposes that the Commission clarify that section 252(e) agreements are treated the same as tariffed services in Part 64 cost allocation rules. We seek comment on these proposals.

3. Affiliate Transactions

28. In 1987, the Commission adopted affiliate transactions rules to protect ratepayers of regulated telecommunications services from bearing the costs and risks associated with a carrier's nonregulated activities.⁵³ The affiliate transactions rules set forth the procedures that all incumbent LECs, other than average schedule companies, must use in recording transactions between regulated entities and nonregulated affiliates.⁵⁴ The risk of cost misallocation is increased when carriers engage in transactions with nonregulated affiliates. The affiliate transactions rules discourage such misallocation of costs by requiring carriers to reflect appropriate valuation techniques in recording the transfer of assets and the provision of services between regulated entities and their nonregulated affiliates. After Congress adopted the 1996 Act, the Commission revised its long-standing affiliate transactions rules in order to implement the numerous statutory provisions prohibiting cross-subsidization.⁵⁵

29. In the *Accounting Safeguards Order*, the Commission concluded that its revised affiliate transactions rules would promote competition by preventing LECs from using their market power in local exchange services to obtain an anti-competitive advantage in other markets.⁵⁶ The Commission amended the affiliate transactions rules for assets and services provided by a carrier to its affiliate and services received by a carrier from its affiliate. Under

⁵¹ Account 5280, Nonregulated operating revenue is an account maintained by Class A and Class B carriers.

⁵² This issue was discussed in our *Accounting Reductions Report and Order*, 14 FCC Rcd at 11413, ¶ 35.

⁵³ See *Joint Cost Order*, *supra* note 12.

⁵⁴ See 47 C.F.R. § 32.27.

⁵⁵ See *Accounting Safeguards* under the Telecommunications Act of 1996, CC Docket No. 96-150, *Report and Order*, 11 FCC Rcd 17539, 17638-39, ¶ 218 (1996) (*Accounting Safeguards Order*), *recon.*, *Order on Reconsideration in CC Docket No. 96-150*, 14 FCC Rcd 11396 (1999), *Second Order on Reconsideration*, 15 FCC Rcd 1161 (2000).

⁵⁶ *Accounting Safeguards Order*, 11 FCC Rcd at 17638-39, ¶ 218.

these rules, such transactions are to be valued at publicly available rates, if possible.⁵⁷ The publicly available rates, in order of precedence, are (1) an existing tariff rate, (2) (for services only) a publicly-filed agreement or statements of generally available agreements, or (3) a qualified prevailing price valuation.⁵⁸ To qualify for prevailing price treatment, at least 50 percent of sales of the subject asset or service must be to third parties.⁵⁹ USTA proposes that the Commission revise section 32.27(d) to decrease the threshold from 50 percent to 25 percent for use of prevailing price in valuing affiliate transactions.⁶⁰ USTA contends that this proposed change in threshold would be consistent with a more competitive environment. We seek comment on USTA's proposal.

30. Under our rules, if a transaction cannot be valued at publicly available rates, it must be valued based on a comparison of cost⁶¹ and fair market value. If a comparison is used, the carrier must make a good faith determination of fair market value.⁶² If the regulated company receives the asset or service from the nonregulated affiliate, the carrier must record the transaction at the lower of cost or market value.⁶³ On the other hand, if the carrier sells the asset or service to its nonregulated affiliate, it must record the transaction on its books at the higher of cost or market.⁶⁴ There is an exception to the estimated fair market value rule for services received by a carrier from its affiliate that exists solely to provide services to members of the carrier's corporate family. These services are recorded at fully distributed cost.⁶⁵ USTA proposes that we expand this exception to the estimated fair market value rule to include all centralized services, regardless of whether the services are from a separate affiliate.⁶⁶ USTA argues that this rule change would permit carriers to recognize the benefit of shared administrative services. We seek comment on this proposal.

⁵⁷ Services received by a carrier from its affiliate that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. 47 C.F.R. § 32.27(c).

⁵⁸ 47 C.F.R. § 32.27(c).

⁵⁹ 47 C.F.R. § 32.27(d).

⁶⁰ See USTA Letter at Attachment A.

⁶¹ Net book cost for assets and fully distributed cost for services. Net book cost is the original cost of an asset adjusted by the associated valuation reserves (*e.g.*, accumulated depreciation, deferred taxes). Fully distributed cost is the cost determined in a manner that complies with the standards and procedures for apportionment of joint and common costs between the regulated and nonregulated operations of the carrier. See 47 C.F.R. § 64.901(b).

⁶² Carriers may make good faith determinations based on "appraisals, catalogs listing similar items, competitive bids, replacement cost of an asset, and net realizable value of an asset." *Accounting Safeguards Order*, 11 FCC Rcd at 17610, ¶ 154.

⁶³ 47 C.F.R. § 32.27(b) – (c).

⁶⁴ *Id.*

⁶⁵ 47 C.F.R. § 32.27(c).

⁶⁶ See USTA Letter at Attachment A.

31. Commenters should discuss any other proposals to modify our affiliate transactions rules. We also seek comment on three modifications discussed below that would reduce the accounting burdens associated with our affiliate transactions rules. Two of these modifications would reduce the requirements related to the lower of cost or market value analysis for affiliate transactions, and the third would exempt transactions between a carrier's nonregulated activity and a nonregulated affiliate.

a. Eliminate requirement for fair market value comparison for asset transfers under \$500,000

32. As discussed above, our current rules require carriers to record the value of an asset according to a hierarchy. If there is no tariff price for the asset, and the transfer does not qualify for prevailing price treatment, the carrier must compare the asset's net book cost to its fair market value and value it at the higher of the two if the transfer is from the (regulated) carrier, and at the lower of the two if the transfer is to the (regulated) carrier.⁶⁷ Carriers must make a good faith determination of the asset's fair market value.⁶⁸

33. In the *Phase I Report and Order*, we eliminated the requirement that carriers make a good faith determination of fair market value for services where the total annual value of that service is less than \$500,000.⁶⁹ We noted that below that threshold the administrative cost and effort of making such a determination would outweigh the regulatory benefits of a good faith determination of fair market value. In such cases, the service should be recorded at fully distributed cost, and carriers should continue to report such transactions in their CAMs and ARMIS reports.⁷⁰

34. We seek comment on whether such an exemption for assets would be appropriate and whether the potentially burdensome cost analyses outweighs the benefits to ratepayers. We propose to extend the exemption to assets and no longer require carriers to perform the net book cost/fair market value comparison for asset transfers totaling less than \$500,000 per year.⁷¹ We seek comment on our proposal.⁷² Commenters should discuss specifically the burdens, financial or otherwise, of performing the comparison for assets and the potential harm, if any, to ratepayers.

b. Establish ceiling and floor for recording transactions

⁶⁷ 47 C.F.R. § 32.27(b).

⁶⁸ *Id.*

⁶⁹ *Phase I Report and Order*, 15 FCC Rcd at 8701, ¶ 20.

⁷⁰ *Id.*

⁷¹ The exemption would be applied on a product-by-product basis and would apply "going forward" so that the comparison would be required once the total amount of transfers for a given product line in a given year exceeds \$500,000.

⁷² Our proposal is limited to the situation where the (regulated) carrier sells or purchases the asset to or from the nonregulated affiliate and there is no discernable market price.

35. As discussed above, for certain transactions carriers must compare the cost of the service or asset to market value.⁷³ If the carrier is the recipient of the asset or service, it must be recorded on the carrier's books at the lower of cost or market. If the carrier is the provider, it must be recorded at the higher of cost or market. We seek comment on whether ratepayers would be harmed if carriers had flexibility to use the higher or lower of cost or market valuation as either a floor or ceiling. If ratepayers would be harmed if carriers had this flexibility, we seek comment on alternative methods for addressing such harm. We propose to give carriers flexibility in valuing these transactions by allowing the higher or lower of cost or market valuation to operate as either a floor or ceiling, depending on the direction of the transaction. If, for example, the transaction were from the carrier to the nonregulated affiliate, the higher of cost or market valuation would function as the floor amount, *i.e.*, the carrier could value the asset or service at that amount or higher. If the transaction were from the nonregulated affiliate to the carrier, the lower of cost or market valuation would function as the ceiling, *i.e.*, the carrier could value the asset or service at that amount or lower. Therefore, if a carrier purchased an asset from one of its nonregulated affiliates with a net book cost of \$750,000 and a fair market value of \$1,000,000 (and no tariff rate or prevailing price), our current rules would require the carrier to book the asset at \$750,000, which is the lower of cost or market. Our proposed rule, on the other hand, would allow the carrier to record the asset at a maximum of \$750,000. We seek comment on our proposal. Commenters should address any potentially anti-competitive effects if we implement ceilings and floors for transactional valuations, as well as any benefits that would result from this approach.

c. Exempt nonregulated to nonregulated transactions from affiliate transactions rules

36. Our affiliate transactions rules apply to all transactions between carriers and their nonregulated affiliates that affect the carrier's regulated books of account.⁷⁴ This means that many transactions involving nonregulated assets and services are subject to our affiliate transactions rules.⁷⁵ For example, when a carrier sells an asset used exclusively in its nonregulated operations to its nonregulated affiliate, the asset must be valued according to our affiliate transactions rules. The asset is subject to two separate levels of accounting safeguards against subsidization: first, when the carrier ensures, pursuant to Part 64, that the asset is recorded as a nonregulated cost, and second, when the asset is valued according to our affiliate transactions rules.

37. It is now the time to revisit this issue in light of the changes in the CAM audits process. In the *Phase I Report and Order*, we permitted the large incumbent LECs to obtain an attest examination every two years, covering the prior two-year period,⁷⁶ in lieu of an annual

⁷³ 47 C.F.R. § 32.27(b) – (c).

⁷⁴ 47 C.F.R. § 32.27(a). Nonregulated activities are recorded in the regulated books of account when they involve use of assets and resources also used in regulated activities. 47 C.F.R. § 32.23(c).

⁷⁵ See, e.g., Citizens Utilities Company Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, *Memorandum Opinion and Order*, 11 FCC Rcd 4676 (Com. Car. Bur. 1996).

⁷⁶ If the carrier chooses an attest engagement instead of a financial audit, we require that the attest engagement be an examination engagement and that it provide a written communication that expresses an opinion that the systems, processes, and procedures applied by the carrier to generate the results reported pursuant to 43.21(e)(2) comply with the *Joint Cost Orders* in CC Docket No. 86-111 and the *Accounting*

financial audit. Such attestations should be performed by independent auditing firms in accordance with the standards of the American Institutes of Certified Public Accountants and as further directed by the Chief, Common Carrier Bureau. As part of this attest examination, we required the independent auditor to provide the Commission with the CAM audit program at least 30 days prior to the commencement of the audit. We stated that in the event additional steps are necessary, we will communicate this to the independent auditor within 30 days and attempt to minimize the burden of any necessary changes. This review will permit the Commission's auditors to review the audit program and, if necessary, work with the independent auditors to eliminate potential problems in advance.

38. We propose that our affiliate transactions rules should not apply to nonregulated activities transferred from the carrier's nonregulated operations to its nonregulated affiliate.⁷⁷ We seek comment on whether the independent CAM attestation process or alternative measures can be relied upon to ensure that there is no ratepayer harm. We also seek comment on whether it matters how the carrier values its transaction to its nonregulated affiliate because our Part 64 rules ensure that the asset is recorded as nonregulated. We seek comment on our proposal. Commenters should discuss whether removing these transactions from our affiliate transactions rules could result in potential ratepayer harm.

4. Incidental activities

39. Section 32.4999(l) provides that revenues from minor nontariffed activities that are an outgrowth of the carrier's regulated activities may be recorded as regulated revenues under certain conditions. This provision obviates the need to make the detailed cost allocations that would otherwise be required to remove the costs of the nonregulated activity from regulated costs.⁷⁸ Essentially, the revenues from the activity are used to reduce the carrier's revenue requirement rather than removing the costs to reduce the carrier's revenue requirement. These activities, referred to as "incidental activities," must satisfy four criteria: (1) be an outgrowth of regulated operations; (2) have been treated traditionally as regulated; (3) be a non-line-of business activity; and (4) result in revenues that, in the aggregate, represent less than one percent of total revenues for three consecutive years.⁷⁹ Carriers must list their incidental activities in their CAM,⁸⁰ but may not add new incidental activities because of the second criterion above. Carriers filed their first CAMs over ten years ago.⁸¹ During this decade, the list of incidental activities has been

Safeguards Order in CC Docket No. 96-150 and the Commission's rules, including sections 32.23, 32.27, 64.901, and 64.903.

⁷⁷ Carriers must list their nonregulated activities in Section II of their CAMs. *See* Responsible Accounting Officer Letter 19, 6 FCC Rcd 7536 (1991).

⁷⁸ For example, in its CAM filed on December 31, 1993, Citizens Utilities Company (Citizens) listed six activities that it treated as incidental: land and building space rental, pole contact and conduit space rental, incidental custom work, operator services not covered by tariff, customer list sales for equal access, and scrap material. *See* Citizens Utilities Company Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, AAD 94-6, *Memorandum Opinion and Order*, 10 FCC Rcd 16, 17, ¶ 9 (1994).

⁷⁹ *See* 47 C.F.R. § 32.4999(l); *Joint Cost Order*, 2 FCC Rcd at 1308, ¶ 78.

⁸⁰ 47 C.F.R. § 64.903(a).

⁸¹ *See Joint Cost Order*, 2 FCC Rcd at 1328, ¶ 233.

static. We seek comment on whether eliminating the “treated traditionally” requirement would harm ratepayers. We note that the three remaining criteria provide safeguards that the incidental-activities exception will not be abused. We seek comment on whether we should modify the three remaining criteria. Commenters advocating modifications to these three criteria should address how such changes would provide adequate safeguards against abuse. We propose to relax the “treated traditionally” requirement to allow carriers the flexibility to add new incidental activities. Under this proposal, the three other criteria would remain unaffected. We seek comment on whether relaxing this criterion is appropriate. Commenters should describe any additional activities that would qualify as incidental under our proposed rule. In addition, commenters should address whether, under our proposal, carriers could classify a new nonregulated activity as incidental and subsequently reclassify it as nonregulated thereby forcing ratepayers to bear the risk of nascent nonregulated ventures.

5. Expense Limits

40. Section 32.2000(a)(4) of the Commission’s rules requires that the cost of individual items of equipment, classifiable to Account 2112, Motor vehicles; Account 2113, Aircraft; Account 2114, Tools and other work equipment; Account 2122, Furniture; Account 2123, Office equipment; and Account 2124, General purpose computers, costing \$2,000 or less or having a life of less than one year, shall be charged to the applicable expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of \$500 or less, are charged to the applicable Plant Specific Operations Expense accounts.⁸² Section 32.2000(a)(4) of the Commission’s rules⁸³ specifies an expense limit for most of the general support asset accounts.⁸⁴

41. The purpose of the expense limit is to reduce the cost of maintaining property records for the acquisition, depreciation, and retirement of a multitude of low-cost, high-volume assets. Increases in the expense limit are made periodically to recognize the effects of inflation, technological changes, and changes in the telecommunications regulatory environment. The expense limit in Part 32 has been increased several times.⁸⁵ In addition, Responsible Accounting

⁸² 47 C.F.R. § 32.2000(a)(4).

⁸³ 47 C.F.R. § 32.3000(a)(4).

⁸⁴ The general purpose support asset accounts are: Account 2110, Land; Account 2112, Motor vehicles; Account 2113, Aircraft; Account 2114, Tools and other work equipment; Account 2121, Buildings; Account 2122, Furniture; Account 2123, Office equipment; and Account 2124, General purpose computers. Section 32.2000(a)(4) applies to all but the Land and Building accounts.

⁸⁵ The limit was raised from \$25 to \$50 in 1974, *see* Amendment of Part 31 (Uniform System of Accounts for Class A and Class B Telephone Companies) to Increase the Monetary Limit Where Capitalization is Appropriate from \$25 to \$50, Docket No. 20110, *Report and Order*, 47 FCC 2d 1153 (1974), from \$50 to \$200 in 1981, *see* Amendment of the Uniform System of Accounts to Increase the Dollar Limit for Expensing Minor Items, CC Docket No. 81-273, *Report and Order*, 87 FCC 2d 1137 (1988), from \$200 to \$500 in 1988, *see* Revision to Amend Part 31, Uniform System of Accounts for Class A and Class B Telephone Companies as it Relates to the Treatment of Certain Individual Items of Furniture and Equipment Costing \$500 or Less, CC Docket No. 87-135, *Report and Order*, 3 FCC Rcd 4464 (1988), and from \$500 to \$2000, Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from \$500 to \$2000, CC Docket No. 95-60, *Report and Order*, 12 FCC Rcd 7566 (1997) (*Expense Limit Order*). In the *Expense Limit Order*, we specifically excluded from the \$2000 expense limit all personal computer components falling within Account 2124, General purpose computers. The cost of operating system software was

Officer Letter No. 6, increased from \$200 to \$500 the limit for expensing the tools and test equipment included in the central office plant accounts.⁸⁶

42. We seek comment on whether the expense limit rules should be modified again. Specifically, we seek comment on whether we should raise the expense limit from \$500 to \$2,000 for both Account 2124, General support computers, and the tools and test equipment included in the central office plant accounts. Alternatively, we could extend the expense limit to include all the plant asset accounts, not just selected general support assets. We note that the expense limit would have to be the same for all carriers to allow the Commission to compare costs across companies when determining appropriate levels of Universal Service support. Commenters should discuss positive or negative impacts on maintaining continuing property records related to central office plant accounts if the expense limit were raised. Commenters should also address how we should treat the embedded investment in these accounts if the expense limit were raised.

6. Additional Modifications to Cost Allocation Manual Requirements

43. Section 64.903 of the Commission's rules requires incumbent LECs with annual operating revenues from regulated telecommunications operations equal to or above a designated indexed revenue threshold, currently \$114 million,⁸⁷ to file CAMs annually setting forth the cost allocation procedures that they use to allocate costs between regulated and nonregulated services.⁸⁸ The companies with operating revenues that exceed the indexed threshold are SBC Communications, Qwest, Verizon, and BellSouth Corporation (all filing based on Class A accounts) and Alltel, Cincinnati Bell, Citizens Telecom, Frontier, Sprint, and C-TEC (mid-size carriers, filing based on Class B accounts). USTA proposes that the Commission allow all carriers the option to allocate Part 64 costs at a Class B level.⁸⁹ USTA contends that direct assignment of costs would not change if carriers moved from Class A to Class B accounting. We seek comment on this proposal and any alternative modifications to these requirements.⁹⁰ Commenters should discuss any concerns that may affect the states due to cost allocations at the Class B level and address the potential for cost allocation distortions. Commenters should also discuss the benefits of such an approach.

7. Classification of Companies

excluded from the \$500 expense limit for personal computers. *See Accounting Reductions Report and Order*, 14 FCC Rcd at 11420, ¶ 50.

⁸⁶ Responsible Accounting Officer Letter 6, Part 32, Uniform System of Accounts for Class A and Class B Carriers - Item Lists, 4 FCC Rcd 1965 (revised Feb. 13, 1989, rel. Feb 27, 1989).

⁸⁷ *See* "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 00-971 (rel. May 3, 2000) (adjusting annual indexed revenue threshold to \$114 million).

⁸⁸ 47 C.F.R. § 64.903.

⁸⁹ *See* USTA Letter at Attachment A.

⁹⁰ We are also seeking comment on additional CAM streamlining, for mid-sized carriers, in section III.C.

44. Section 32.11 of the Commission's rules divides companies into two categories for accounting purposes: Class A and Class B.⁹¹ Carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$114 million, are classified as Class A; those with annual revenues from regulated telecommunications operations that are below the threshold are classified as Class B.⁹² Currently, we apply these requirements to incumbent LECs only. We seek comment on whether section 32.11 should be amended so that its requirements explicitly pertain only to incumbent LECs, as defined in section 251(h) of the Communications Act, and any other companies that the Commission designates by order.

8. Cost Allocation Forecasts

45. Section 64.901(b)(4) of the Commission's rules requires that carriers allocate the costs of central office equipment and outside plant investment between regulated and nonregulated activities based on a forecast of the relative regulated and nonregulated usage during a three calendar year period beginning with the current calendar year.⁹³ The purpose of this rule is to avoid cost allocation distortions that could adversely affect regulated ratepayers. USTA has asserted that this rule is burdensome and unnecessary.⁹⁴ We seek comment on USTA's proposal, whether elimination of the rule would adversely affect ratepayers, and whether there are other alternative forecasting methodologies.

B. ARMIS Reporting Requirements

46. ARMIS provides the Commission with information to monitor industry developments and quantify the effects of proposed changes in policy and rules.⁹⁵ ARMIS integrates the financial data required under Parts 32 (USOA), 64 (Joint Cost), 36 (Jurisdictional Separations), and 69 (Access Charges) in a logical and consistent manner. Related operating and infrastructure data are also reported in ARMIS for each reporting period. By regularly reporting accounting results and operating statistics on a consistent and uniform basis, ARMIS provides policymakers with a database for monitoring activities associated with the provision of telecommunications services and the development of the telecommunications infrastructure without having to rely on ad hoc information requests.

47. The information reported in ARMIS has facilitated analysis on a variety of broad policy issues such as universal service support, consolidations and mergers, affiliate transactions, service quality, and infrastructure development, as well as focused areas of study such as network

⁹¹ 47 C.F.R. § 32.11.

⁹² See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 00-971 (rel. May 3, 2000) (adjusting annual indexed revenue threshold to \$114 million).

⁹³ 47 C.F.R. § 64.901(b)(4).

⁹⁴ See USTA Letter at Attachment A.

⁹⁵ ARMIS was developed to allow the Commission to administer accounting, cost allocation, jurisdictional separations, and access charge rules. The ARMIS data are used for various regulatory functions and also permit the Commission to determine whether joint costs incurred in providing regulated and nonregulated services are properly allocated, which is useful and necessary for monitoring the application of our joint cost rules. ARMIS data are relied upon by many state commissions and used by the public.

reliability, rate development, depreciation, rate of return, and industry trends. Recently, ARMIS data were used to analyze the benefits of the CALLS plan to support the Commission's recent adoption of an integrated access reform rate structure and universal service support mechanism.⁹⁶

48. Various parties, such as other government agencies, interexchange carriers, consumers, and state regulators also rely on ARMIS data. The Commission and states have actively engaged in coordinated and cooperative efforts in developing many aspects of the ARMIS reports in order to establish a data tool that is useful in both the state and interstate jurisdictions. The detail and uniformity of data reported in ARMIS provide a valuable tool for the many states that rely on the Commission's accounting system under Part 32. Such information is used in numerous state proceedings to support state policy decisions on issues such as cost allocations, pricing, and service quality.

49. ARMIS is provided to the Commission in eight reports. The level of reporting and the carriers required to file vary with each ARMIS report. Below is a chart summarizing (1) the name of the ARMIS Report; (2) the level of reporting required; and (3) the carriers required to file each report.

| ARMIS REPORT | 43-01 Annual Summary | 43-02 USOA Report | 43-03 Joint Cost Report | 43-04 Separation & Access | 43-05 Service Quality | 43-06 Customer Satisfaction | 43-07 Infra Structure | 43-08 Operating Data |
|--------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-------------------------|------------------------------|------------------------------|------------------------------------|
| Level of Reporting | Study Area | Operating Company | Study Area | Study Area | Holding Co./ Study Area | Holding Co./ Study Area | Holding Co./ Study Area | Operating Company |
| ILECs that File | All carriers at or above threshold | All carriers at or above threshold | All carriers at or above threshold | All carriers at or above threshold | All price cap carriers | Mandatory price cap carriers | Mandatory price cap carriers | All carriers at or above threshold |

50. Currently, of approximately 1,300 incumbent LECs, 52 have annual revenues exceeding the \$114 million threshold and, thus, must file financial ARMIS reports (*i.e.*, 43-01, 43-02, 43-03 and 43-04). Thirty of these incumbent LECs consist of the operating companies of Verizon, SBC Communications, Inc., BellSouth Corporation, and Qwest.⁹⁷ These 30 incumbent LECs report financial data on a Class A basis. The other 22 carriers are Cincinnati Bell and C-TEC, and affiliates of Sprint, Alltel Corporation, Frontier Corporation, and Citizens Telecom.⁹⁸ These 22 incumbent LECs file on a Class B basis.⁹⁹ The non-financial ARMIS reports are filed by carriers as follows: the 43-05 Service Quality report is filed by all price cap incumbent

⁹⁶ See *CALLS Report and Order*, Graph 1 – Total Access Revenue for Price Cap Carriers (Discounted Present Values), Graph 2 – Total Access Revenue for Price Cap Carriers, and Graph 3 – Toll Prices Per Minute for Residential Customers.

⁹⁷ The 30 incumbent LECs include Verizon (19 operating companies); SBC Communications, Inc. (9 operating companies); BellSouth Corporation; and Qwest.

⁹⁸ The 22 incumbent LECs include Cincinnati Bell, C-TEC, Sprint (13 operating companies), Alltel Corporation (5 operating companies), Frontier Corporation (1 operating company), and Citizens Telecom (1 operating company).

⁹⁹ See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 11.

LECs;¹⁰⁰ the 43-06 and 43-07 Reports are filed by mandatory price cap incumbent LECs;¹⁰¹ and the 43-08 Operating Data Report is filed by all carriers exceeding the annual revenue reporting threshold.¹⁰²

51. Since its inception in 1987, the Commission has made several changes to update and streamline ARMIS reporting requirements. Recent actions to implement provisions of the 1996 Act resulted in improved definitions, descriptions, and instructions for many of the ARMIS reports, and reduced reporting requirements for mid-sized carriers.¹⁰³ We also reduced ARMIS filing requirements for all carriers.¹⁰⁴ Most recently, in Phase 1 of this proceeding, we worked closely with NARUC and state commissions and further streamlined the ARMIS requirements.

52. Specifically, in Phase 1, we granted relief to all carriers by significantly reducing the reporting requirements of the ARMIS 43-02 USOA Report.¹⁰⁵ We noted that the ARMIS 43-02 Report was one of the most voluminous reports in ARMIS and that a significant reduction in the reporting burden imposed on carriers could be achieved through eliminating unnecessary requirements and simplifying the ARMIS 43-02 Report. Thus, in Phase 1, we revised Table C-3 of ARMIS 43-02 Report to include carrier's operating states; eliminated Tables C-1, C-2, and C-4 from the ARMIS 43-02 Report; eliminated nine of twelve reporting items from Table C-5 of ARMIS 43-02 Report and established new threshold levels for two reporting items; eliminated seven of fifteen reporting items from the Table B Series of ARMIS 43-02; and eliminated three of seven reporting items from the Table I Series of ARMIS 43-02, established new threshold reporting levels for items reported in Tables I-6 and I-7, and eliminated reporting requirements for Academia. We stated that we would fully consider broader and more extensive streamlining measures in Phase 2.¹⁰⁶

53. At the initial workshops to consider reform measures that could be considered in Phase 2, the large incumbent LECs presented proposals to delete or streamline various ARMIS requirements. In addition, the mid-sized carriers presented proposals on further measures that could be considered to specifically address requirements imposed on smaller and rural incumbent LECs. Interested parties, including other government agencies, interexchange carriers, and consumer groups along with Commission and state staff members participated in discussions with the industry about their proposals.

¹⁰⁰ There are 99 price cap carriers subject to service quality reporting requirements. They are Verizon (23 operating companies); SBC Communications, Inc. (9 operating companies); BellSouth Corporation; Qwest; Sprint (17 operating companies); Frontier (26 operating companies); Citizens (21 operating companies); and Cincinnati Bell.

¹⁰¹ There are 34 mandatory price cap incumbent LECs that are subject to customer satisfaction and infrastructure reporting requirements. They are Verizon (23 operating companies); SBC Communications, Inc. (9 operating companies); BellSouth Corporation; and Qwest.

¹⁰² These are the same 52 incumbent LECs that file the financial reports.

¹⁰³ See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶¶ 11-12.

¹⁰⁴ *Id.* at 11449-53, ¶¶ 11-17. For instance, we permitted Class A mid-sized incumbent LECs to use the more streamlined Class B accounts for reporting financial data in ARMIS. See *supra* note 98.

¹⁰⁵ *Phase I Report and Order*, 15 FCC Rcd at 8706-718, ¶¶ 32-57.

¹⁰⁶ *Id.* at 8707, ¶ 34.

54. Based on the discussions and concerns raised in these workshops, in this Notice we are proposing revisions to the following ARMIS Reports: 43-01 (Annual Summary Report); 43-02 (USOA Report); 43-03 (Joint Cost Report); 43-04 (Separations and Access Report); 43-07 (Infrastructure Report); and 43-08 (Operating Data Report).¹⁰⁷ As set forth below, our proposed recommendations seek to eliminate or substantially simplify the reporting requirements for both large incumbent LECs and mid-sized incumbent LECs. We seek comment on our proposed recommendations. We are also looking for ways to provide easier input and access to the ARMIS reports and invite comment on how we can best achieve a more user-friendly ARMIS system. In addition, we set forth a separate proposal addressing reporting requirements for mid-sized carriers. We seek comment on the separate proposal for mid-sized carriers and ask commenters to address whether the proposed abbreviated filing requirement is sufficient and whether different reporting requirements for large incumbent LECs and mid-sized incumbent LECs, as proposed, is justified. To the extent ARMIS reports are used by states and other parties, we seek comment on whether those parties can obtain enough information for their purposes from alternative sources. In particular, commenters should address whether state-imposed or other non-federal reporting can be used to generate sufficient data for these parties' purposes.

55. We have attached the proposal presented by the large incumbent LECs as Appendix 6 to this Notice and seek comment on the industry's proposal as it relates to the ARMIS 43-01, 43-02, 43-03, 43-04, 43-07, and 43-08 Reports.¹⁰⁸ USTA contends that this proposal would be less burdensome and addresses some of the concerns expressed by the Commission and the state staffs in the public meetings. We specifically seek comment from the states on how that industry's proposal, if implemented, would affect their ongoing activities.

1. ARMIS Reports 43-01, 43-02, 43-03, and 43-04

56. The ARMIS 43-01 Annual Summary Report consists of Table-I, a highly aggregated and comprehensive view of the carriers' financial and cost allocation data; and Table-II, a summary of demand in minutes of use and billable access lines. All carriers at or above the annual revenue reporting threshold¹⁰⁹ file the 43-01 Report on a study area basis. The report is filed on either a Class A or Class B level depending on the level of the carrier's aggregate annual revenues.¹¹⁰ Table-1 summarizes accounting, joint costs, jurisdictional separations, and access

¹⁰⁷ In this proceeding, we are not seeking comment on changes to the ARMIS 43-05 (Service Quality Report) or the ARMIS 43-06 (Customer Satisfaction Report). Through the ARMIS 43-05 Report, the Commission, state commissions, and the public monitor trends in the quality of service provided by price cap LECs. The ARMIS 43-06 Report reflects the results of customer satisfaction surveys conducted by carriers, capturing trends in service quality as measured by the perception of residential, small business, and large business customers. We intend to seek comment on issues relating to service quality reporting in an upcoming proceeding.

¹⁰⁸ These proposals were presented during the public workshops (*see* par. 12, *supra*) and in the USTA Letter.

¹⁰⁹ Carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$114 million, are classified as Class A; those with annual revenues from regulated telecommunications operations that are below the threshold are classified as Class B. All Class A companies are subject to ARMIS reporting requirements.

¹¹⁰ We streamlined the reporting requirements for mid-sized incumbent LECs where the incumbent LEC, together with its affiliates, has aggregate annual revenues of less than \$7 billion. These Class A

charges data. Generally, Table-I summarizes the carrier's costs and revenues as reported in the Part 32 accounts (43-02 USOA Report), and shows the allocation of costs between regulated and non-regulated activities (43-03 Joint Cost Report), the separation of regulated costs between state and interstate jurisdictions, and the interstate costs used to support access elements (43-04 Separations and Access Report). We seek comment on whether there are alternative sources for this data.

57. We propose to eliminate the requirement to file ARMIS 43-01, Table-I for all carriers filing at the Class A level.¹¹¹ We propose to generate this table from information provided in other financial ARMIS reports and to post the report electronically with the carrier's annual ARMIS filing. Under this proposal, carriers would be relieved from reporting information that can otherwise be derived from other financial ARMIS reports. At the same time, useful summary information would be made available to policy makers and interested parties. We seek comment on this proposal. We are also considering eliminating Table-II, from the ARMIS 43-01 requirements. We propose to eliminate the reporting of all Common Line Demand Minutes of Use (*i.e.*, premium and non-premium). We seek comment on retaining the sections for Switched Traffic Sensitive Demand Minutes of Use and Common Line Demand Billable Access Lines. This information about traffic on the carrier's network may be needed for decisions concerning jurisdictional separations, subscriber line charges, the deployment and cost of Lifeline service, and other universal service issues. The information we propose to retain would be added to the ARMIS 43-04 in conjunction with row 9010 (Total Billable Access Lines). We seek comment on this proposal and on any alternative proposals for achieving these purposes.

58. The ARMIS 43-02 Report (Part 32 – USOA Report) contains the financial operating results of the carriers' telecommunications operations for every account in Part 32. All carriers at or above the annual revenue reporting threshold file the 43-02 Report on an operating company basis. This report is filed on either a Class A or Class B level depending on the level of the carrier's aggregate annual revenues. This Report collects information about the carrier's ownership (Table C Series), balance sheet (Table B Series), and income statement accounts (Table I Series). Information collected in Tables B and I provide data about the carrier's financial accounts, including overall investment and expense levels, affiliate transactions, property valuations, and depreciation rates. In Phase I, we significantly reduced the reporting requirements for Tables C, B, and I. In this Notice, we seek comment on eliminating the filing of ARMIS 43-02, Table I-1 (Income Statement Accounts) for all carriers filing at the Class A level. Table I-1 collects data on the carrier's revenues, expenses, and net income for the reporting period. We propose to eliminate the requirement for carriers to file Table I-1 and to generate this table from information provided in the other financial ARMIS reports. As with our proposal for eliminating Table-I from the 43-01 Report, this proposal would provide relief to carriers from reporting information that can otherwise be derived from other ARMIS reports.

59. The ARMIS 43-03 Joint Cost Report contains the allocation of the carriers' revenues, expenses, and investments between regulated and nonregulated activities. All carriers at or above the annual revenue reporting threshold file the 43-03 Report on a study area basis.

carriers are eligible to file on a Class B level. *See ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 11.

¹¹¹ This recommendation would affect the 30 large incumbent LECs that file financial reports, *i.e.*, Verizon (19 operating companies); SBC Communications, Inc. (9 operating companies); BellSouth Corporation; and Qwest.

This report is filed on either a Class A or Class B level depending on the level of the carrier's aggregate annual revenues. We propose to reduce the number of columns currently reported on the 43-03 Report by eliminating the distinction between "SNFA and Intra-co. Adjustments" and "Other Adjustments." We propose to combine these columns into one column entitled "Adjustments." We seek comment on this proposal.

60. In order to implement our proposal to eliminate the requirement to file ARMIS 43-01, Table I and ARMIS 43-02, Table I-1, for the largest incumbent LECs, we note that collection of some additional data will be needed in the ARMIS 43-03 Reports. Therefore, we are proposing to include in ARMIS 43-03, the collection of data for Account 1402 (Investment in Non-Affiliate Companies); Account 1437 (Deferred Tax Regulatory Asset); Account 4341 (Net deferred tax liability adjustment); Account 4361 (Deferred tax regulatory liability); and the account series (7410 through 7450) for Account 7400 (Non-operating Taxes). In addition, we propose the addition of 4 rows for collecting information on the number of employees (rows 830, 840, 850, and 860). We note that these data are currently required in ARMIS 43-02, Table I-1, but not in any other ARMIS report. Without this information, summary reports could not be accurately generated, and we would lack data that we have historically used to meet our ongoing activities. For instance, this data would be used to evaluate price cap incumbent LECs' claims for cost recovery through low-end adjustments, above-cap filings, or other recovery claims.¹¹² The data we currently gather could be used to evaluate such cost recovery issues. We seek comment on this proposal and whether any additional data would be needed to meet our ongoing needs.

61. The ARMIS 43-04 Separations and Access Report contains data regarding the separation of carriers' regulated revenues and costs between the state and interstate jurisdictions and allocation of interstate amounts among the access charge categories. All carriers at or above the annual revenue reporting threshold file the 43-04 Report on a study area basis. One of the primary purposes of the separations process is to prevent incumbent LECs from recovering the same costs in both the interstate and intrastate jurisdictions. Due to statutory, technological, and market changes in the telecommunications industry, today's network architecture and service offerings differ from the network and services used to define the cost categories appearing in our current Part 36 separations process. We note that the Federal-State Joint Board has currently recommended an interim five-year freeze on separations activities as it continues to further consider more comprehensive separations reform.¹¹³ Until such time as the Commission takes action on the Joint Board's recommendation, we will not propose changes that would affect separations data.

62. We propose some revisions to the 43-04 Report, however, that we do not believe will affect the separations data. We propose to reduce the number of columns by eliminating the column for "BFP" (*i.e.*, the base factor portion) and collecting this data in the existing column entitled "Total Common Line." We seek comment on this proposal. As noted above, our proposal to eliminate Table-II, from the ARMIS 43-01 requirements entails that we retain data collection of Switched Traffic Sensitive Demand Minutes of Use and Common Line Demand Billable Access Lines. In the event we decide, after reviewing the comments, to retain this data, we propose to add this information to the ARMIS 43-04 Report in conjunction with row 9010

¹¹² Under the recent access reform measures we took in the *CALLS Report and Order*, price cap incumbent LECs retain the right to recover costs through low-end adjustments, above-cap filings, or other recovery mechanisms.

¹¹³ See *supra* note 14.

(Total Billable Access Lines). We seek comment on this proposal. We also propose that the carriers be required to identify the cost and revenue associated with their excluded services¹¹⁴ separately from the remainder of their access element data. This would enable us to review claims for low-end adjustments, above cap price filings, and other cost recovery claims that require evaluation of rate of return data.¹¹⁵ This could be accomplished either by adding a new column for excluded services or by adding the excluded services cost and revenue data to the billing and collection data in a renamed column. We seek comment on these proposals. Commenters also may propose alternative approaches that do not require carriers to identify the cost and revenue associated with their excluded services separately from the remainder of the access element data.

63. Finally, we note that Part 32 requires metallic and non-metallic subsidiary record categories for each of the cable investment and expense accounts. These subsidiary record categories are not reported to the Commission, but the data contained therein are used to calculate universal service support for non-rural carriers, and also are useful in other forward-looking cost studies. We propose to add rows to ARMIS 43-02 and 43-04 Reports to allow for the reporting of metallic and non-metallic cable investment and expense information. We seek comment on this proposal.

2. ARMIS 43-07 and 43-08 Reports

64. The ARMIS 43-07 Infrastructure Report and 43-08 Operating Data Report collects data about the physical and operating characteristics of the local exchange carriers' telephone network. ARMIS 43-07 collects data about the carrier's switching and transmission equipment, call set up time, and cost of total plant in service. ARMIS 43-08 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. Together, these reports provide information about the make-up and operating capability of nearly 95 percent of the country's public local exchange telephone network.¹¹⁶ This information has been useful to policymakers at federal, state, and local levels, and provides critical data not available through other public sources.¹¹⁷ We seek comment on the continued need to collect this data at the federal level, or whether state-level collection or other sources would be sufficient. As reported in ARMIS, approximately 480 million telephone calls were carried over the public network in 1991. By 1999, calls over the public telephone network reached almost 660 million, an increase of almost 40 percent in traffic. This growth shows the increasing use of, and reliance on, the public network for communications throughout the country. We seek comment on whether such reliance should be considered when deciding whether to retain these reporting requirements.

¹¹⁴ See 47 C.F.R. § 61.42(f).

¹¹⁵ See 47 C.F.R. § 65.600.

¹¹⁶ See Table 2.3 of *Statistics of Communications Common Carriers* at p. 20.

¹¹⁷ The ARMIS 43-07 and 43-08 Reports are data sources for a number of Commission publications. On an annual basis, the Commission publishes the *Statistics of Communications Common Carriers and Quality of Service Reports*. The Commission also publishes on a biannual basis, *Monitoring Reports on Universal Service*. The Monitoring Reports are unique in that they include information on every local telephone company in the nation. They are generated from publicly available data, including data reported in carriers annual AMRIS submissions.

65. Our monitoring through ARMIS has provided us with information to assess the condition of the country's network infrastructure and has permitted us to make informed decisions to protect against degradations and outmoded network capabilities. While the ARMIS 43-07 and 43-08 Reports were designed to achieve this purpose, our review reveals that many of the reporting requirements may have outlived their usefulness. We believe that significant revisions to these reports are in order. We seek comment on the elimination of obsolete data and also the collection of data related to new technologies. We note that the Commission currently has underway an effort to collect data concerning broadband deployment.¹¹⁸ The information collected through the *Local Competition and Broadband Data Gathering Program*, however, is not a substitute for the information collected in the ARMIS 43-07 and 43-08 Reports and was designed to be complementary to other Commission data gathering efforts, including ARMIS.¹¹⁹ The *Local Competition and Broadband Data Gathering Program* will provide the Commission with information on local competition and the deployment of advanced services in the United States; in contrast, the information collected in ARMIS provides the Commission with basic information about the infrastructure, capacity, and operating characteristics of the nation's network. We seek comment on whether this distinction is meaningful and on the extent to which ARMIS data is needed in light of our newer broadband data gathering efforts.

66. The reductions proposed in the following sections would eliminate approximately half of the reporting requirements that are currently imposed on carriers by the ARMIS 43-07 and 43-08 Reports. We seek comment on whether gathering information about the deployment of newer technologies would assist us in carrying out our mission of ensuring a competitive environment, while ensuring universal service. We seek comment on whether we should collect data on newer technologies to assist us in achieving our stated objectives of ensuring that incumbent LECs maintain and upgrade their network infrastructure for all consumers. We recognize that additional collections must be carefully designed to balance our need for information with the need to reduce burdens imposed on carriers. We seek comment on how burdensome the requirements we consider would be if imposed. Commenters should discuss whether the additional information concerning these newer technologies are appropriate indicators of the carriers' efforts to upgrade and invest in technologies that provide improved service to their customers and promote efficiencies and cost savings.

67. Finally, we seek comment on ways to improve reporting requirements for infrastructure and operating data in ARMIS. We seek comment on whether the ARMIS 43-07 and 43-08 Reports could be made more efficient in terms of use and reporting by combining some or all requirements. We note, however, that although there is a close relationship between these reports, there are some notable differences. Generally, the 43-07 Report collects information on measure of capacity while the 43-08 Report collects information on what is in-service. Further, the 43-07 Report is only filed by mandatory price cap incumbent LECs and is reported at the

¹¹⁸ See Local Competition and Broadband Reporting, CC Docket No. 99-301, *Report and Order*, 15 FCC Rcd 7717 (2000) (*Local Competition and Broadband Data Gathering Program*).

¹¹⁹ *Id.* While the data gathering efforts in the *Local Competition and Broadband Data Gathering Program* cover a broader range of providers than ARMIS (e.g., large and small providers, and entities other than incumbent local exchange carriers), it collects only a very limited amount of information from each reporting firm and no data at all on such subjects as revenues and service quality. In contrast, ARMIS collects much more detailed data from each reporting carrier but only from the small number of incumbent LECs that are regulated as possessing substantial market power. As noted, the Local Competition and Broadband Data Gathering Program was designed as a complementary, and non-duplicative, data gathering effort.

study area (jurisdiction) and holding company levels.¹²⁰ The 43-08 Report is filed by all carriers at or above the revenue reporting threshold and is reported at the operating company level.¹²¹ We ask commenters to make specific recommendations as to the nature of any proposed changes in format and collection of data. We seek comment on whether and how ARMIS should be modified to enable us to perform trend analysis, provide rate and tariff analysis, make relevant comparisons among companies, and monitor the effects of company mergers and acquisitions, and whether the purposes of such analyses could be achieved through alternative means.

a. ARMIS 43-07 – Infrastructure Report

68. In ARMIS 43-07 Infrastructure Report we propose to eliminate the collection of outdated information and propose to collect information on newer technologies. Our intent is to collect basic relevant facts about the deployment of new technologies, not to expand significantly our monitoring program. In Table I (Switching Equipment), we propose to eliminate all reporting requirements for electromechanical switches (rows 130-141). We further propose to eliminate reporting requirements for analog stored-program-control and digital stored-program-control switches except for the total number of switches and lines served (retain rows 150, 160, 170 and 180; eliminate rows 151-155, 161, 171-175, and 181). We also propose to eliminate all reporting requirements related to equal access and touch tone capabilities (rows 190-221). We seek comment on these proposals. We also propose to eliminate reporting of information related to SS7 and ISDN capabilities except to retain information concerning total switches, lines, local switches, and tandems equipped with SS7 and ISDN capabilities (eliminate rows 231, 233, 235, 237, 241, 247, 251, 257, 271, 281, 291, and 301). We seek comment on this proposal.

69. To the extent commenters conclude that our broadband data gathering program is inadequate for this purpose, we seek comment on whether our monitoring program should include information on new technologies that indicate the degree that carriers are upgrading the network. We seek comment on including information for switches capable of transmitting the ATM protocol in Table I, and on the characteristics of ATM that carriers should provide in this report. Switched multi-megabit data service (“SMDS”), internet routers, and frame relay service are high-speed data telecommunications services built upon packet-switching technology. These services are widely offered to business customers for high-volume usage. We seek comment on whether carriers should report data on SMDS, internet routers, and frame relay services in Table I and on which characteristics of switches used to provide SMDS, internet routers, and frame relay services carriers should report.

70. Table II (Transmission Facilities) 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 total operating area of the carrier, and does not distinguish between urban and rural areas. The deployment of new technologies and new services in rural areas has been a matter of particular concern for the Commission.¹²² Transmission facilities, are perhaps, the most critical component in the provisioning of new

¹²⁰ There are 34 mandatory price cap incumbent LECs that are subject to the infrastructure reporting requirements.

¹²¹ There are 52 incumbent LECs that have annual revenues exceeding the \$114 million threshold.

¹²² See, e.g., Inquiry Concerning the Deployment of Advanced Telecommunications Capability to all Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, CC Docket No. 98-146, *Notice of Inquiry*, FCC 00-57 (rel. Feb. 18, 2000).

services to rural areas. However, because the reporting carriers do not distinguish between rural and urban transmission facilities, the Commission cannot compare rural and urban infrastructure development based on the current reported information. Therefore, we seek comment on modifying Table II to require carriers to report data by Metropolitan Statistical Areas (MSA) and non-MSA.¹²³ We seek comment on whether this distinction will assist the Commission and other interested parties in measuring the deployment of advanced telecommunications infrastructure in rural areas. We also seek comment on whether this or alternative proposals would be best considered in the context of the broadband data gathering proceeding.

71. 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. We seek comment on changing 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.

72. In the second section of Table II, "Interoffice Working Facilities," total circuit links are reported for baseband, analog carrier, and digital carrier. We seek comment on whether we should eliminate the reporting requirements that further distinguish baseband, analog, and digital (rows 331, 332, 333, 350, 351, 352, 360, 361, 362, 363). We believe we can simplify the reporting requirements and obtain relevant information by requiring only the total circuit links for copper, radio, and fiber. We also note that optical carrier facilities, such as synchronous optical networks (SONET) are currently being deployed by the incumbent LECs. This technology will increasingly play a role in improving the transmission capacity of the network. We seek comment on whether we should include categories for optical carrier facilities and non-optical carrier facilities. Commenters should address definitional and other characteristics that would be useful if collection of data on this technology is implemented. We also seek comment on whether this or alternative proposals would be best considered in the context of the broadband data gathering proceeding.

73. 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). We seek comment on whether we should eliminate the reporting of six subcategories of equipped channels, and retain only the total of equipped channels. We seek comment on whether data about new technologies used in the local loop that provide high-capacity transmission facilities closer to subscribers would assist the Commission and the states in monitoring the deployment of new services and how that technology affects the development of competition. Commenters should discuss which categories of data would provide an accurate picture of deployment without placing an undue administrative burden on the reporting incumbent LECs. We also seek comment on whether this or alternative proposals would be best considered in the context of the broadband data gathering proceeding.

74. In the fourth section of Table II, "Other Transmission Facility Data," we propose to eliminate reporting of information that is no longer useful (fiber strands terminated at the customer premises at the DS-0 rate; and fiber strands terminated at the customer premises at the

¹²³ While the *Local Competition and Broadband Data Gathering Program* collects data on a zip code basis, showing where the broadband is being deployed to at least one customer, the information does not provide a distinction between rural and non-rural areas.

DS-2 rate). We seek comment on including 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 data could provide a meaningful indication of carrier's efforts to upgrade the network. Commenters should discuss any other specifics that may provide a better indicator of this aspect of the network. We also seek comment on whether this or alternative proposals would be best considered in the context of the broadband data gathering proceeding.

75. In Table III (LEC Set-up Time Reporting), 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. We note that the need for this data was largely driven by problems arising from the change from a multi-frequency to the SS7 protocol. Our review of the data shows that most of these problems have been solved. Thus, we propose to eliminate this table. We seek comment on this proposal.

76. In Table IV (Additions and Book Costs), carriers report data concerning total access lines in service, access line gain, and total gross capital expenditures. This information provides data as it relates to carriers' actions to maintain and upgrade the network. We seek comment on whether there is continued need to collect this information by the federal government, as opposed to states or other entities. We seek comment on whether the information collected in this table is available from other data reported in ARMIS, and if so, whether there is a need for duplication. Specifically, we ask commenters to comment on whether the information on number of access lines is the same information reported in the 43-08 Report and whether the data on gross capital expenditures is the same information reported in the 43-02 Report, Table B-1.

b. ARMIS 43-08 – Operating Data Report

77. 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. We seek comment on the continued importance of such assessments and on whether there are alternative methods for achieving the goals underlying these assessments. We believe there are a number of areas in the ARMIS 43-08 Report where unnecessary data can be eliminated and where necessary data can be collected more efficiently. We seek comment on whether we can 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). We note that some carriers have suggested that we use information on relative sheath miles in aerial, underground, and buried cable as a basis for determining the relative amount of these types of facilities used in the forward looking model for calculating universal service support for non-rural carriers.¹²⁴ In Table 1.B (Outside Plant Statistics – Other), we propose to eliminate the reporting of information on satellite channels and video circuits for carriers' radio relay and microwave systems (columns be, bj, bm). We believe that data collected in these areas may no longer provide important information relevant to our policy analysis. We seek comment on these proposals. We ask commenters proposing to retain this information to discuss at what point would collection of data no longer be necessary. For instance, radio relay systems, except in 11 states, are 100 percent digital. We seek

¹²⁴ See, e.g., *USF 10th R&O* at ¶¶ 231-235.

comment on whether some threshold level of deployment would provide a basis for eliminating the need for information, and if so, what an appropriate threshold level would be.

78. In Table II (Switched Access Lines in Service by Technology), we propose 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). Our experience reveals that, while the data derived from these columns provide us with important information, the information may be more useful and collected more efficiently if provided on a total basis. We seek comment on these proposals and on the continued importance of collecting switched access line data generally.

79. In Table III (Access Lines in Service by Customer), we propose 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). We believe that the level of detail required in this table may not be necessary and that collection on a total basis may be sufficient for us to meet our responsibilities. We propose to collect data on private lines providing intrastate service. We note that this information is used to calculate forward-looking costs for universal service purposes.¹²⁵ We seek comment on whether this information is available from any other public source. We also seek comment on whether Special Access Lines (Analog and Digital) (columns dk and dl) provide accurate information about the carriers' provision of special access lines. Specifically, we seek comment on whether there is a need for clarification of this reporting requirement. For instance, would redefining this collection as Customer Private Line Terminations (Broadband and Narrowband) or some other designation result in more accurate reporting by carriers? We note that there has been much controversy over the use of the term "Special Access Lines," resulting in inconsistent reporting by carriers. We seek comment on the use of this term and whether a more meaningful definition or term would be appropriate. We also ask commenters to discuss whether the use of terms in other ARMIS reports should be revised or clarified in order to be consistent with any change made in this report.

C. Relief for Mid-Sized Carriers

80. In various proceedings, we have recognized the different needs of the mid-sized carriers. For example, in the *ARMIS Reductions Report and Order*, we reduced ARMIS filing requirements for mid-sized carriers. We noted that staff analysis and usage of the data provided in the ARMIS tables had mostly been limited to the largest incumbent LECs because they have the greatest opportunities and incentives for shifting costs between services.¹²⁶ Similarly, in the *Accounting Reductions Report and Order*, we allowed mid-size incumbent LECs to submit CAMs based on the Class B system of accounts and an attestation every two years.¹²⁷ We

¹²⁵ See Federal-State Joint Board on Universal Service, *Report and Order*, 12 FCC Rcd 8776 (1997) at ¶ 250.

¹²⁶ See *ARMIS Reductions Report and Order*, 14 FCC Rcd at 11449, ¶ 12. We also denied a petition for forbearance filed by the Independent Telephone and Telecommunications Alliance (ITTA), on the grounds that ITTA had not demonstrated that the three requirements of section 10 of the Communications Act had been satisfied. *Id.* at 11459 - 465, ¶¶ 29 - 39. As a result, the mid-size carriers are not totally free of reporting requirements as they had sought; instead, they are subject to reduced reporting requirements.

¹²⁷ See *Accounting Reductions Report and Order*, 14 FCC Rcd at 11406 - 07, ¶¶ 21 - 22. We also denied a petition for forbearance filed by ITTA, on the grounds that ITTA had not demonstrated that the three requirements of section 10 of the Communications Act had been satisfied. *Id.* at 11407 - 410, ¶¶ 23 -

concluded, based on our experience with mid-sized LECs, that we could maintain the necessary degree of oversight and monitoring to protect consumers' interests while imposing the less administratively burdensome requirements on such carriers.¹²⁸ In this Notice of Proposed Rulemaking, we propose more significant reductions for mid-sized carriers than we have proposed for large incumbent LECs as described above. In our public meeting with the mid-sized carriers, they suggested that we treat mid-sized Class A carriers as Class B carriers. This would eliminate all CAM requirements and ARMIS filings for such carriers. We seek comment on this proposal. As an alternative, we propose to eliminate mandatory annual CAM filings and biennial CAM audits for these carriers. Instead, the mid-sized carriers would file only an annual certification with the Commission. We also propose raising the indexed revenue threshold from \$114 million to \$200 million. The net effect for mid-sized carriers would be that several carriers will be classified as Class B carriers, and therefore not subject to any reporting requirements, and the balance of the mid-sized carriers will be subject only to very minimal reporting requirements. We also propose eliminating all financial reporting for mid-sized carriers except the 43-01 (Summary Report). We seek comment on adoption of these proposals for mid-sized carriers.

1. Reduced Cost Allocation Manual Procedures

81. Section 64.903 of the Commission's rules requires incumbent LECs with annual operating revenues from regulated telecommunications operations equal to or above a designated indexed revenue threshold, currently \$114 million,¹²⁹ to file CAMs annually setting forth the cost allocation procedures that they use to allocate costs between regulated and nonregulated services.¹³⁰ The companies with operating revenues that exceed the indexed threshold are SBC Communications, Qwest, Verizon, and BellSouth Corporation (all filing based on Class A accounts) and Alltel, Cincinnati Bell, Citizens Telecom, Frontier, Sprint, and C-TEC (mid-size carriers, filing based on Class B accounts). Roseville and Century Telephone now have annual revenues that exceed the indexed revenue threshold but under our current rules would not be required to file until 2001. Carriers required to file CAMs are also required to engage independent auditors to perform an audit.¹³¹ In the *Accounting Reductions Report and Order*, we revised the audit requirement from an annual financial audit to an attest engagement every two years.¹³² Thus, carriers with aggregate revenues below \$7 billion¹³³ but equal to or above the indexed revenue threshold (currently \$114 million) are currently required to file CAMs annually based on Class B accounts and obtain an attest audit every two years, covering the prior two-year

29. As a result, the mid-size carriers are not totally free of our accounting and audit requirements as they had sought; instead, they are subject to reduced requirements.

¹²⁸ *Id.* at 11406 - 407, ¶¶ 21 - 22.

¹²⁹ See "Annual Adjustment of Revenue Threshold," *Public Notice*, DA 00-971 (rel. May 3, 2000) (adjusting annual indexed revenue threshold to \$114 million).

¹³⁰ 47 C.F.R. § 64.903.

¹³¹ 47 C.F.R. § 64.904.

¹³² *Accounting Reductions Report and Order*, 14 FCC Rcd at 11406 - 07, ¶ 21.

¹³³ The \$7 billion threshold is not indexed for inflation annually, but is a fixed threshold that the Commission monitors on a regular basis.

period. Carriers with operating revenues below the indexed revenue threshold are not required to file a CAM or conduct CAM audits.

82. We seek comment on ways to further reduce regulatory burdens on mid-sized incumbent LECs. We propose to eliminate the requirement that mid-sized incumbent LECs file their CAMs on an annual basis. We seek comment on whether these carriers should be required to maintain cost allocation manuals in the format set forth in section 64.903 of our rules,¹³⁴ even if they do not file those CAMs with the Commission. Commenters should quantify the costs of maintaining a CAM in accordance with the requirements of section 64.903, and suggest any modifications to that rule they deem appropriate. As an alternative, the mid-sized carriers could file a certification with the Commission stating that they are complying with section 64.901 of the Commission's rules. Under this proposal, the certification would be signed, under oath, by an officer of the incumbent LEC, and filed with the Commission on an annual basis. In addition, we propose to eliminate the requirement for an attestation engagement every two years. The Common Carrier Bureau would have the authority to request further information or order an audit of the carrier's books to ensure they are in compliance with our cost allocation requirements. We seek comment on these proposals.

83. We further seek comment on whether our definition of mid-sized incumbent LECs should be re-examined. We note that a few carriers have recently crossed the indexed revenue threshold, although they are significantly smaller than the majority of mid-sized LECs. We propose to increase the indexed revenue threshold from \$114 million to \$200 million.¹³⁵ Under this proposal, carriers with operating revenues below \$200 million would not be required to maintain a CAM or file a certification. We seek comment on our proposal. Carriers should discuss whether, alternatively, the threshold should be based on holding company revenues instead of operating company revenues, with a corresponding change in threshold.

2. Streamlined ARMIS Requirements

84. We propose to eliminate the ARMIS 43-02, 43-03, and 43-04 reporting requirements for mid-sized carriers. We recognize that mid-sized carriers often have limited resources and have financial transactions that are generally smaller and fewer in number than the larger incumbent LECs. The cost of regulatory compliance may disproportionately impact the mid-sized carriers filing the more detailed ARMIS 43-02, 43-03, and 43-03 reports.

85. We seek comment on retaining the reporting requirement that mid-sized carriers report ARMIS 43-01 (Summary Report), which presents information in a highly aggregated form. We ask commenters to specifically address the costs and benefits of requiring certain mid-size carriers to file the ARMIS 43-01 Summary Report, particularly in light of the previous proposal to eliminate ARMIS 43-02, 43-03, and 43-04. To the extent we find obvious errors or inconsistencies, we have the ability to request further information from the carrier that will clarify and address such issues. We also seek comment on the costs and benefits of retaining the requirement that carriers at or above the threshold continue to file operating data in the ARMIS 43-08 Report.

¹³⁴ 47 C.F.R. § 64.903.

¹³⁵ The revenue threshold would continue to be indexed and adjusted on an annual basis.

86. We further propose to reduce the requirements in ARMIS 43-01 by eliminating the distinction between “SNFA and Intra-co. Adjustments” and “Other Adjustments.” We propose to combine these columns into one column entitled “Adjustments.” We propose to reduce the number of columns by eliminating the column for “BFP” and collecting this data in the existing column entitled “Total Common Line.” Finally, we propose to either add a new column for ‘excluded services’ or add excluded services cost and revenue data to the billing and collection data in a renamed column. This would enable us to reconcile their rate of return filings¹³⁶ with their accounting data. We seek comment on these proposals, and on whether it would be appropriate to extend all or part of this relief to larger carriers.

IV. PHASE 3 - LONG TERM TRANSITION TO DEREGULATION

87. The 1996 Act directed the Commission to “provide for a pro-competitive, deregulatory, national policy framework.”¹³⁷ As regulatory, technological, and market conditions continue to change, the Commission must consider more drastic changes to existing accounting and reporting requirements. We thus seek to undertake a broader examination of Part 32 and ARMIS requirements with the goal of determining what additional changes can be made as competition develops, and assessing ultimately what, if any, specific accounting and reporting requirements are necessary when local exchange markets become sufficiently competitive.

88. Our accounting and reporting safeguards were largely implemented to support Commission policies intended to prevent dominant carriers from taking unfair advantage of their monopolistic control over loop facilities and access to the local exchange network. As the local exchange industry becomes more competitive, we expect that our needs for accounting and reporting information will diminish. At the same time, we must be careful not to eliminate requirements that are necessary to promote universal service, foster efficient competition, and protect consumers before significant market changes occur.¹³⁸

89. In this section, we seek comment on what roadmap we should follow for accounting and reporting deregulation. Specifically, we seek comment on whether there are certain triggers that will allow the Commission to significantly modify or relieve certain accounting and reporting requirements that currently apply to incumbent LECs. Is there a point at which the Commission should completely eliminate its accounting and reporting requirements? Is that point when all local exchange carriers become non-dominant?¹³⁹ Alternatively, should individual carriers be relieved of accounting and reporting requirements as they individually become non-dominant? How would this Commission make such a finding of non-dominance? How should the Commission proceed if an incumbent remains dominant for certain services, but not others? How should deregulation occur if some carriers are deemed non-dominant, but other

¹³⁶ See 47 C.F.R. § 65.600.

¹³⁷ Joint Statement of Managers, S. Conf. Rep. No. 104-230, 104th Cong., 2nd Sess. 1 (1996).

¹³⁸ In 1998, incumbent LECs had 96.5 percent of the local service revenues. Competitive access providers and CLECs had a combined 2.4 percent share of the revenues in this market. Resellers and other carriers had the remaining 1.1 percent. See Trends in Telephone Service, Table 9.1, March 2000 (Industry Analysis Division, Common Carrier Bureau).

¹³⁹ We note that when we declared AT&T non-dominant, it no longer was required to file several ARMIS-like reports. See Motion of AT&T to be Reclassified as Non-Dominant, *Order*, 11 FCC Rcd 3271 (1995).

carriers, such as rural carriers, remain dominant? Is there a basis for eliminating or modifying our accounting and reporting requirements on an industry wide basis, even if some carriers retain market power?

90. We also ask commenters to address the effect of BOCs receiving section 271 authorizations to provide in-region interLATA services. We seek 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 if so, which specific requirements should be eliminated. Would it be administratively practical for accounting and reporting requirements to be reduced or eliminated on a state-by-state basis?

91. We seek comment on whether achieving pricing flexibility¹⁴⁰ should be a trigger for relaxing accounting and reporting requirements and if it would be administratively practical because pricing flexibility is granted on a market by market basis. If so, which specific requirements should be modified or eliminated?

92. We note that other carriers, such as competitive LECs (CLECs), interexchange carriers, cable companies providing telephony, and wireless carriers, are not subject to our accounting and reporting requirements.¹⁴¹ We seek comment on whether this asymmetric regulation makes sense as we move to a more competitive environment. What is the policy rationale for subjecting one type of carrier to accounting and reporting requirements when other carriers are not subject to such requirements? Do the current accounting and reporting requirements imposed on incumbent LECs impede their ability to compete with other market participants? Commenters should quantify any monetary or other impact of our current requirements.

93. We note that a number of incumbents, both large and small, have begun to compete as CLECs outside of their traditional service areas.¹⁴² Moreover, a number of incumbents are offering bundled packages of offerings – such as voice, Internet access, wireless, and long distance – in competition with other carriers. How should our accounting and reporting requirements evolve as carriers no longer remain in their historical line of business?

94. The requirements under consideration in this proceeding fall into two general areas. First, our accounting rules largely prescribe how incumbent LECs record and allocate costs. Second, our ARMIS reporting rules require that certain carriers report to the Commission on an annual basis various information, both financial and nonfinancial. We seek comment on

¹⁴⁰ See, e.g., Access Charge Reform, CC Docket No. 96-262, *Fifth Report and Order and Further Notice of Proposed Rulemaking*, 14 FCC Rcd 14221 (1999).

¹⁴¹ Section 32.11 is not expressly limited to incumbent LECs, but the Commission applies these requirements to incumbent LECs only.

¹⁴² Both SBC and Ameritech, and Bell Atlantic and GTE made commitments to compete out-of-region that the Commission relied on in granting approval to their respective applications for transfer of control. See, e.g., Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules, CC Docket No. 98-141, *Memorandum Opinion and Order*, FCC 99-279, (rel. Oct. 8, 1999); Application of GTE Corporation and Bell Atlantic Corporation, CC Docket No. 98-184, *Memorandum Opinion and Order*, FCC 00-221 (rel. June 16, 2000).

whether it makes sense to relieve carriers from reporting requirements, while maintaining our existing accounting requirements. Compliance with certain requirements may be critical to protecting ratepayers from subsidizing nonregulated services, but the Commission may not need information on an annual basis on how specific carriers are complying with such requirements. How would the Commission's mission be affected if it were to gather information on a less frequent, or more ad hoc, basis?

95. Our accounting and reporting requirements already recognize that the burdens of compliance may outweigh the benefits for small and mid-size incumbent LECs. The vast majority of incumbents with fewer than two percent of the nation's access lines are not required to file in ARMIS today, even though they have historically been dominant in their relevant markets. In the 1996 Act, Congress explicitly recognized that smaller and rural carriers might face unique circumstances warranting lesser regulatory requirements.¹⁴³ Regardless of what actions we take with respect to the larger carriers, should deregulation proceed in a different fashion, for companies with fewer than two percent of access lines? Commenters should address with specificity what deregulatory measures are appropriate for smaller carriers and what safeguards are necessary to ensure that consumers' interests are protected.

96. We note that our accounting and reporting rules were designed to provide uniform accounting data to be used to support tariffed prices, to provide information concerning the financial condition of incumbent local exchange carriers, and to serve as an efficient system for both management and federal and state regulators. As carriers were allowed to provide nonregulated services without the need for structural separations, the accounting and reporting rules served the additional public policy goal of ensuring that the ratepayers of regulated services did not bear the costs and risks of nonregulated activities. As our universal service system developed, the accounting and reporting rules also served the policy of ensuring proper cost data on which to base a system of sufficient universal service support. Comments addressing triggers for accounting and reporting deregulation should also discuss these policy underpinnings, how these policies have changed over time, and how these policies can be maintained when more drastic deregulation of accounting and reporting occur.

97. Section 220 of the Communications Act states that the Commission shall prescribe a uniform system of accounts for use by telephone companies.¹⁴⁴ Sections 260 and 271 through 276 of the Communications Act require a certain amount of accounting safeguards in place to either ensure that transactions between Bell operating companies (BOCs) and their affiliates or nonregulated activities are accomplished without cost misallocations and that these transactions are performed on an arm's length basis.¹⁴⁵ Section 254(k) specifically states that the Commission, with respect to interstate services, and the states, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable

¹⁴³ See, e.g., 47 U.S.C. § 251(f)(2).

¹⁴⁴ 47 U.S.C. § 220.

¹⁴⁵ 47 U.S.C. §§ 260, 271 - 276. Section 274 has already sunset, 47 U.S.C. § 274(g)(2). Section 275 sunsets next year (*i.e.*, five years from the date of enactment of the 1996 Act), 47 U.S.C. § 275(a)(1). Section 272(a)(2)(A), (B) sunsets on a state-by-state basis three years after the date such Bell operating company or affiliate is authorized to provide interLATA services in a particular state under section 271(d), unless the Commission extends the three-year period by rule or order, 47 U.S.C. § 272(f)(1).

allocation of joint and common costs of facilities used to provide these services.¹⁴⁶ These legislative accounting safeguards were mandated to ensure that the pro-competitive goals of the Communications Act could be realized. Moreover, section 1 of the Communications Act established as one purpose to ensure “a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities and reasonable charges.”¹⁴⁷ We seek comment on how we can best achieve these mandates keeping in mind the ultimate goal of a deregulatory national telecommunications policy framework.

98. We ask commenters to discuss whether and how the Commission and the states can carry out their respective statutory mandates without uniform and accurate accounting and reporting information. Specifically, commenters should address how jurisdictional separations could be implemented without Part 32 accounting data. Commenters should also discuss how any system of universal service support could be implemented without the Commission receiving uniform accounting data. Commenters should address how this Commission could assess the state of the network without ARMIS information. Finally, we ask commenters to discuss how the Commission and states could address cost issues in various proceedings such as long-term number portability, interconnection, pole attachments, and collocation without uniform and accurate accounting data.

V. PROCEDURAL ISSUES

A. Ex Parte Presentations

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

B. Initial Regulatory Flexibility Analysis

100. As required by the Regulatory Flexibility Act (RFA),¹⁴⁸ the Commission has prepared an Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities by the policies and rules proposed in this Notice. The IRFA is set forth as Appendix 7. 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 Notice 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 Notice, including the IRFA, to the Chief Counsel for Advocacy of the Small Business Administration.¹⁴⁹ In addition, the Notice and IRFA (or summaries thereof) will be published in the Federal Register.¹⁵⁰

¹⁴⁶ 47 U.S.C. § 254(k).

¹⁴⁷ 47 U.S.C. § 151.

¹⁴⁸ *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).

¹⁴⁹ *See* 5 U.S.C. § 603(a).

¹⁵⁰ *Id.*

C. Paperwork Reduction Act

101. As part of our continuing effort to reduce paperwork burdens, we invite the general public to take this opportunity to comment on information collections contained in this Notice of Proposed Rulemaking, as required by the Paperwork Reduction Act of 1995, Pub. L. No. 104-13. Public and agency comments are due at the same time as other comments on this Notice of Proposed Rulemaking. Comments should address: (a) whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (b) the accuracy of the Commission's burden estimates; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on the respondents, including the use of automated collection techniques or other forms of information technology.

D. Comment Filing Procedures

102. 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 Phase 2 on or before December 21, 2000, and reply comments on or before January 30, 2001. For Phase 3, interested parties may file comments on or before January 30, 2001, and reply comments on or before February 28, 2001. Comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies.¹⁵¹

103. 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, 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.

104. 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.

105. 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

¹⁵¹ See Electronic Filing of Documents in Rulemaking Proceedings, 63 Fed. Reg. 24,121 (1998).

docket number, in this case CC Docket No. 00-199, 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, International Transcription Service, Inc., 1231 20th Street, N.W., Washington, D.C. 20037.

106. 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 and to Edward Springer, OMB Desk Officer, 10236 NEOB, 725 - 17th Street, N.W., Washington, D.C. 20503.

VI. ORDERING CLAUSES

107. Accordingly, IT IS 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. §§ 154(i), 154(j), 161, 201(b), 303(r), and 403, this Notice of Proposed Rulemaking IS ADOPTED.

108. IT IS FURTHER ORDERED that the Commission's Consumer Information Bureau, Reference Information Center, SHALL SEND a copy of this Notice of Proposed Rulemaking, including the Initial Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration.

FEDERAL COMMUNICATIONS COMMISSION

Magalie Roman Salas
Secretary

APPENDIX 1

PART 32 CLASS A ACCOUNTS

| | |
|---|--|
| 1130 Cash | Company communications equipment |
| 1140 Special cash deposits | 2124 General purpose computers |
| 1150 Working cash advances | 2211 Analog electronic switching |
| 1160 Temporary investments | 2212 Digital electronic switching |
| 1180 Telecommunications accounts receivable | 2215 Electro-mechanical switching |
| 1181 Accounts receivable allowance-telecommunications | Step-by-step switching |
| 1190 Other accounts receivable | Crossbar switching |
| 1191 Accounts receivable allowance-other | Other electro-mechanical switching |
| 1200 Notes receivable | 2220 Operator system |
| 1201 Notes receivable allowance | 2231 Radio system |
| 1210 Interest and dividends receivable | Satellite and earth station facilities |
| 1220 Inventories | Other radio facilities |
| Materials and supplies | 2232 Circuit equipment |
| Property held for sale or lease | 2311 Station apparatus |
| 1290 Prepaid rents | 2321 Customer premises wiring |
| 1300 Prepaid taxes | 2341 Large private branch exchanges |
| 1310 Prepaid insurance | 2351 Public telephone terminal equipment |
| 1320 Prepaid directory expenses | 2362 Other terminal equipment |
| 1330 Other prepayments | 2411 Poles |
| 1350 Other current assets | 2421 Aerial cable |
| 1401 Investments in affiliated companies | Nonmetallic cable |
| 1402 Investments in nonaffiliated companies | Metallic cable |
| 1406 Nonregulated investments | 2422 Underground cable |
| Permanent investment | Nonmetallic cable |
| Receivable/payable | Metallic cable |
| Current net income or loss | 2423 Buried cable |
| 1407 Unamortized debt issuance expense | Nonmetallic cable |
| 1408 Sinking funds | Metallic cable |
| 1410 Other noncurrent assets | 2424 Submarine cable |
| 1437 Deferred tax regulatory asset | Nonmetallic cable |
| 1438 Deferred maintenance & retirements | Metallic cable |
| 1439 Deferred charges | 2425 Deep sea cable |
| 1500 Other jurisdictional assets-net | Nonmetallic cable |
| 2001 Telecommunications plant in service | Metallic cable |
| 2002 Property held for future telecommunications use | 2426 Intrabuilding network cable |
| 2003 Telecommunications plant under construction | Nonmetallic cable |
| 2005 Telecommunications plant adjustment | Metallic cable |
| 2006 Nonoperating plant | 2431 Aerial wire |
| 2007 Goodwill | 2441 Conduit systems |
| 2111 Land | 2681 Capital leases |
| 2112 Motor vehicles | 2682 Leasehold improvements |
| 2113 Aircraft | 2690 Intangibles |
| 2114 Tools and other work equipment | 3100 Accumulated depreciation |
| 2121 Buildings | 3200 Accumulated depreciation-held for future telecommunications use |
| 2122 Furniture | 3300 Accumulated depreciation-nonoperating |
| 2123 Office equipment | 3410 Accumulated amortization-capitalized leases |
| Office support equipment | 3420 Accumulated amortization-leasehold improvements |

| | |
|--|---|
| 3500 Accumulated amortization-intangible | 5100 Long distance message revenue |
| 3600 Accumulated amortization-other | 5110 Unidirectional long distance revenue |
| 4010 Accounts payable | 5111 Long distance inward-only revenue |
| 4020 Notes payable | 5112 Long distance outward-only revenue |
| 4030 Advance billing & payments | 5120 Long distance private network revenue |
| 4040 Customers' deposits | 5121 Subvoice grade long distance private network revenue |
| 4050 Current maturities-long-term debt | 5122 Voice grade long distance private network revenue |
| 4060 Current maturities-capital leases | 5123 Audio program grade long distance private network revenue |
| 4070 Income taxes-accrued | 5124 Video program grade long distance private network revenue |
| 4080 Other taxes-accrued | 5125 Digital transmission long distance private network revenue |
| 4100 Net current deferred operating income taxes | 5126 Long distance private network switching Revenue |
| 4110 Net current deferred nonoperating income taxes | 5128 Other long distance private network revenue |
| 4120 Other accrued liabilities | 5129 Other long distance private network revenue settlements |
| 4130 Other current liabilities | 5160 Other long distance revenue |
| 4210 Funded debt | 5169 Other long distance revenue settlements |
| 4220 Premium on long-term debt | 5230 Directory revenue |
| 4230 Discount on long-term debt | 5240 Rent revenue |
| 4240 Reacquired debt | 5250 Corporate operations revenue |
| 4250 Obligations under capital leases | 5260 Miscellaneous revenue |
| 4260 Advances from affiliated companies | 5261 Special billing arrangements revenue |
| 4270 Other long-term debt | 5262 Customer operations revenue |
| 4310 Other long-term liabilities | 5263 Plant operations revenue |
| 4320 Unamortized operating investment tax credits-net | 5264 Other incidental regulated revenue |
| 4330 Unamortized nonoperating investment tax credits-net | 5269 Other revenue settlements |
| 4340 Net noncurrent deferred operating income taxes | 5270 Carrier billing and collection revenue |
| 4341 Net deferred tax liability adjustments | 5280 Nonregulated operating revenue |
| 4350 Net noncurrent deferred nonoperating income taxes | 5300 Uncollectible revenue |
| 4360 Other deferred credits | 5301 Uncollectible revenue-telecommunications |
| 4361 Deferred tax regulatory liability | 5302 Uncollectible revenue-other |
| 4370 Other jurisdictional liabilities & deferred credits-net | 6110 Network support expenses |
| 4510 Capital stock | 6112 Motor vehicle expense |
| 4520 Additional paid-in-capital | 6113 Aircraft expense |
| 4530 Treasury stock | 6114 Tools and other work equipment expense |
| 4540 Other capital | 6120 General support expenses |
| 4550 Retained earnings | 6121 Land & building expense |
| 5000 Basic local service revenue | 6122 Furniture & artworks expense |
| 5001 Basic area revenue | 6123 Office equipment expense |
| 5002 Optional extended area revenue | 6124 General purpose computers expense |
| 5003 Cellular mobile revenue | 6210 Central office switching expenses |
| 5004 Other mobile services revenue | 6211 Analog electronic expense |
| 5040 Local private line revenue | 6212 Digital electronic expense |
| 5050 Customer premises revenue | 6215 Electro-mechanical expense |
| 5060 Other local exchange revenue | Step-by-step switching |
| 5069 Other local exchange revenue settlements | Crossbar switching |
| 5080 Network access revenue | Other electro-mechanical switching |
| 5081 End user revenue | 6220 Operator systems expense |
| 5082 Switched access revenue | 6230 Central office transmission expense |
| 5083 Special access revenue | 6231 Radio systems expense |
| 5084 State access revenue | |

| | |
|---|---|
| Satellite and earth station facilities | 6620 Services |
| Other radio facilities | 6621 Call completion services |
| 6232 Circuit equipment expense | 6622 Number services |
| 6310 Information origination/termination expenses | 6623 Customer services |
| 6311 Station apparatus expense | 6710 Executive and planning |
| 6341 Large private branch exchange expense | 6711 Executive |
| 6351 Public telephone terminal equipment expense | 6712 Planning |
| 6362 Other terminal equipment expense | 6720 General and administrative |
| 6410 Cable & wire facilities expense | 6721 Accounting and finance |
| 6411 Poles expense | 6722 External relations |
| 6421 Aerial cable expense | 6723 Human resources |
| Nonmetallic cable | 6724 Information management |
| Metallic cable | 6725 Legal |
| 6422 Underground cable expense | 6726 Procurement |
| Nonmetallic cable | 6727 Research and development |
| Metallic cable | 6728 Other general and administrative |
| 6423 Buried cable expense | 6790 Provision for uncollectible notes receivable |
| Nonmetallic cable | 7100 Other operating income & expenses |
| Metallic cable | 7110 Income from custom work |
| 6424 Submarine cable expense | 7130 Return from nonregulated use of regulated facilities |
| Nonmetallic cable | 7140 Gains & losses from foreign exchange |
| Metallic cable | 7150 Gains & losses from the disposition of land & artworks |
| 6425 Deep sea cable expense | 7160 Other operating gains & losses |
| Nonmetallic cable | 7200 Operating taxes |
| Metallic cable | 7210 Operating investment tax credits-net |
| 6426 Intrabuilding network cable expense | 7220 Operating Federal income taxes |
| Nonmetallic cable | 7230 Operating state & local income taxes |
| Metallic cable | 7240 Operating other taxes |
| 6431 Aerial wire expense | 7250 Provision for deferred operating income taxes-net |
| 6441 Conduit systems expense | 7300 Nonoperating income & expense |
| 6510 Other property, plant & equipment expense | 7310 Dividend income |
| 6511 Property held for future telecommunications use expense | 7320 Interest income |
| 6512 Provisioning expense | 7330 Income from sinking & other funds |
| 6530 Network operations expenses | 7340 Allowance for funds used during construction |
| 6531 Power expense | 7350 Gains or losses from the disposition of certain property |
| 6532 Network administration expense | 7360 Other nonoperating income |
| 6533 Testing expense | 7370 Special charges |
| 6534 Plant operations administration expense | 7400 Nonoperating taxes |
| 6535 Engineering expense | 7410 Nonoperating investment tax credits-net |
| 6540 Access expense | 7420 Nonoperating Federal income taxes |
| 6560 Depreciation & amortization expenses | 7430 Nonoperating state & local income taxes |
| 6561 Depreciation expense-telecommunications plant in service | 7440 Nonoperating other taxes |
| 6562 Depreciation expense-property held for future telecommunications | 7450 Provision for deferred nonoperating income taxes-net |
| 6563 Amortization expense-tangible | 7500 Interest and related items |
| 6564 Amortization expense-intangible | 7510 Interest on funded debt |
| 6565 Amortization expense-other | 7520 Interest expense-capital leases |
| 6610 Marketing | 7530 Amortization of debt issuance expense |
| 6611 Product management | 7540 Other interest deductions |
| 6612 Sales | 7600 Extraordinary items |
| 6613 Product advertising | 7610 Extraordinary income credits |
| | 7620 Extraordinary income charges |

7630 Current income tax effect of extraordinary
items-net
7640 Provision for deferred income tax effect of
extraordinary items-net

7910 Income effect of jurisdictional ratemaking
differences-net
7990 Nonregulated net income

Account Total 296

APPENDIX 2

PART 32 CLASS B ACCOUNTS

| | |
|--|--|
| 1120 Cash and equivalents | 4020 Notes payable |
| 1180 Telecommunications accounts receivable | 4030 Advance billing and payments |
| 1181 Accounts receivable allowance-- telecommunications | 4040 Customer's deposits |
| 1190 Other accounts receivable | 4050 Current maturities--long-term debt |
| 1191 Accounts receivable allowance--other | 4060 Current maturities--capital leases |
| 1200 Notes receivable | 4070 Income taxes--accrued |
| 1201 Notes receivable allowance | 4080 Other taxes--accrued |
| 1210 Interest and dividends receivable | 4100 Net Current Deferred Operating Income Taxes |
| 1220 Inventories | 4110 Net Current Deferred Nonoperating Income Taxes |
| Materials and supplies | 4120 Other accrued liabilities |
| Property held for sale or lease | 4130 Other current liabilities |
| 1280 Prepayments | 4210 Funded debt |
| 1350 Other current assets | 4220 Premium on long-term debt |
| 1401 Investment in affiliated companies | 4230 Discount on long-term debt |
| 1402 Investments in nonaffiliated companies | 4240 Reacquired debt |
| 1406 Nonregulated investments | 4250 Obligations under capital leases |
| Permanent investment | 4260 Advances from affiliated companies |
| Receivable/payable | 4270 Other long-term debt |
| Current net income or loss | 4310 Other long-term liabilities |
| 1407 Unamortized debt issuance expense | 4320 Unamortized operating investment tax credits-- net |
| 1408 Sinking funds | 4330 Unamortized nonoperating investment tax credits--net |
| 1410 Other noncurrent assets | 4340 Net noncurrent deferred operating income taxes |
| 1437 Deferred tax regulatory asset | 4341 Net deferred tax liability adjustments |
| 1438 Deferred maintenance and retirements | 4350 Net noncurrent deferred nonoperating income taxes |
| 1439 Deferred charges | 4360 Other deferred credits |
| 1500 Other jurisdictional assets--net | 4361 Deferred tax regulatory liability |
| 2001 Telecommunications plant in service | 4370 Other jurisdictional liabilities and deferred credits--net |
| 2002 Property held for future telecommunications use | 4510 Capital stock |
| 2003 Telecommunications plant under construction | 4520 Additional paid-in-capital |
| 2005 Telecommunications plant adjustment | 4530 Treasury stock |
| 2006 Nonoperating plant | 4540 Other capital |
| 2007 Goodwill | 4550 Retained earnings |
| 2110 Land and support assets | 5000 Basic local service revenue |
| 2210 Central Office--Switching | 5080 Network access revenue |
| 2220 Operator systems | 5081 End user revenue |
| 2230 Central office--Transmission | 5082 Switched access revenue |
| 2310 Information origination/termination | 5083 Special access revenue |
| 2410 Cable and wire facilities | 5084 State access revenue |
| 2680 Amortizable tangible assets | 5100 Long distance message revenue |
| 2690 Intangibles | 5200 Miscellaneous revenue |
| 3100 Accumulated depreciation | 5280 Nonregulated operating revenue |
| 3200 Accumulated depreciation--Held for future telecommunications use | 5300 Uncollectible revenue |
| 3300 Accumulated depreciation--nonoperating | 6110 Network support expense |
| 3400 Accumulated amortization--tangible | 6120 General support expenses |
| 3500 Accumulated amortization--intangible | |
| 3600 Accumulated amortization--other | |
| 4010 Accounts payable | |

6210 Central office switching expense
6220 Operator system expense
6230 Central office transmission expenses
6310 Information origination/termination
expense
6410 Cable and wire facilities expenses
6510 Other property, plant and equipment
expenses
6530 Network operations expenses
6540 Access expense
6560 Depreciation and amortization expenses
6610 Marketing
6620 Services

6710 Executive and planning
6720 General and administrative
6790 Provision for uncollectible notes receivable
7100 Other operating income and expense
7200 Operating taxes
7300 Nonoperating income and expense
7400 Nonoperating taxes
7500 Interest and related items
7600 Extraordinary items
7910 Income effect of jurisdictional ratemaking
difference--net
7990 Nonregulated net income

Account Total 113

APPENDIX 3

CLASS A ACCOUNTS WE PROPOSE TO ELIMINATE

| | |
|--|--|
| 1130 Cash | 5264 Other incidental regulated revenue |
| 1140 Special cash deposits | 5269 Other revenue settlements |
| 1150 Working cash advances | 5270 Carrier billing and collection revenue |
| 1160 Temporary investments | 5301 Uncollectible revenue— telecommunications |
| 1290 Prepaid rents | 5302 Uncollectible revenue--other |
| 1300 Prepaid taxes | 6611 Product management |
| 1310 Prepaid insurance | 6612 Sales |
| 1320 Prepaid directory expenses | 6613 Product advertising |
| 1330 Other prepayments | 6621 Call completion services |
| 5001 Basic area revenue | 6622 Number services |
| 5002 Optional extended area revenue | 6623 Customer services |
| 5003 Cellular mobile revenue | 6711 Executive |
| 5004 Other mobile services revenue | 6712 Planning |
| 5040 Local private line revenue | 6721 Accounting and finance |
| 5050 Customer premises revenue | 6722 External relations |
| 5060 Other local exchange revenue | 6723 Human resources |
| 5069 Other local exchange revenue settlements | 6724 Information management |
| 5110 Unidirectional long distance revenue | 6725 Legal |
| 5111 Long distance inward-only revenue | 6726 Procurement |
| 5112 Long distance outward-only revenue | 6727 Research and development |
| 5120 Long distance private network revenue | 6728 Other general and administrative |
| 5121 Subvoice grade long distance private network revenue | 7110 Income from custom work |
| 5122 Voice grade long distance private network revenue | 7130 Return from nonregulated use of regulated facilities |
| 5123 Audio program grade long distance private network revenue | 7140 Gains and losses from foreign exchange |
| 5124 Video program grade long distance private network revenue | 7150 Gains and losses from land and artwork |
| 5125 Digital transmission long distance private network revenue | 7160 Other operating gains and losses |
| 5126 Long distance private network switching revenue | 7310 Dividend income |
| 5128 Other long distance private network revenue | 7320 Interest income |
| 5129 Other long distance private network revenue settlements | 7330 Income from sinking and other funds |
| 5160 Other long distance revenue | 7350 Gains or losses from the disposition of certain property |
| 5169 Other long distance revenue settlements | 7410 Nonoperating investment tax credit--net |
| 5230 Directory revenue | 7420 Nonoperating Federal income taxes |
| 5240 Rent revenue | 7430 Nonoperating state and local income taxes |
| 5250 Corporate operations revenue | 7440 Nonoperating other taxes |
| 5260 Miscellaneous revenue | 7450 Provision for deferred nonoperating income taxes--net |
| 5261 Special billing arrangements revenue | 7610 Extraordinary income credits |
| 5262 Customer operations revenue | 7620 Extraordinary income charges |
| 5263 Plant operations revenue | 7630 Current income tax effect of extraordinary items--net |
| | 7640 Provision for deferred income tax effect of extraordinary items--net |

Account Total 77

APPENDIX 4

CLASS A ACCOUNTS ON WHICH WE SEEK COMMENT

| | |
|---|--|
| 2111 Land | improvements |
| 2112 Motor vehicles | 6112 Motor vehicle expense |
| 2113 Aircraft | 6113 Aircraft expense |
| 2114 Tools and other work equipment | 6114 Tools and other work equipment expense |
| 2121 Buildings | 6121 Land and building expense |
| 2122 Furniture | 6122 Furniture and artworks expense |
| 2123 Office equipment | 6123 Office equipment expense |
| Office support equipment | 6124 General purpose computers expense |
| Company communications equipment | 6211 Analog electronic expense |
| 2124 General purpose computers | 6212 Digital electronic expense |
| 2211 Analog electronic switching | 6215 Electro-mechanical expense |
| 2212 Digital electronic switching | Step-by-step switching |
| 2215 Electro-mechanical switching | Crossbar switching |
| Step-by-step switching | Other electro-mechanical switching |
| Crossbar switching | 6231 Radio systems expense |
| Other electro-mechanical switching | Satellite and earth station facilities |
| 2231 Radio systems | Other radio facilities |
| Satellite and earth station facilities | 6232 Circuit equipment expense |
| Other radio facilities | 6311 Station apparatus expense |
| 2232 Circuit equipment | 6341 Large private branch exchange expense |
| 2311 Station apparatus | 6351 Public telephone terminal equipment |
| 2321 Customer premises wiring | expense |
| 2341 Large private branch exchanges | 6362 Other terminal equipment expense |
| 2351 Public telephone terminal equipment | 6411 Poles expense |
| 2362 Other terminal equipment | 6421 Aerial cable expense |
| 2411 Poles | Nonmetallic cable |
| 2421 Aerial cable | Metallic cable |
| Nonmetallic cable | 6422 Underground cable expense |
| Metallic cable | Nonmetallic cable |
| 2422 Underground cable | Metallic cable |
| Nonmetallic cable | 6423 Buried cable expense |
| Metallic cable | Nonmetallic cable |
| 2423 Buried cable | Metallic cable |
| Nonmetallic cable | 6424 Submarine cable expense |
| Metallic cable | Nonmetallic cable |
| 2424 Submarine cable | Metallic cable |
| Nonmetallic cable | 6425 Deep sea cable expense |
| Metallic cable | Nonmetallic cable |
| 2425 Deep sea cable | Metallic cable |
| Nonmetallic cable | 6426 Intrabuilding network cable expense |
| Metallic cable | Nonmetallic cable |
| 2426 Intrabuilding network cable | Metallic cable |
| Nonmetallic cable | 6431 Aerial wire expense |
| Metallic cable | 6441 Conduit systems expense |
| 2431 Aerial wire | 6511 Property held for future |
| 2441 Conduit systems | telecommunications use expense |
| 2681 Capital leases | 6512 Provisioning expense |
| 2682 Leasehold improvements | 6531 Power expense |
| 3410 Accumulated amortization-capitalized | 6532 Network administration expense |
| leases | 6533 Testing expense |
| 3420 Accumulated amortization-leasehold | 6534 Plant operations administration expense |

| | | | |
|------|--|------|---|
| 6535 | Engineering expense | 7250 | Provision for deferred operating income taxes-net |
| 6561 | Depreciation expense-telecommunications plant in service | 7340 | Allowance for funds used during construction |
| 6562 | Depreciation expense-property held for future telecommunications | 7370 | Special charges |
| 6563 | Amortization expense-tangible | 7360 | Other nonoperating income |
| 6564 | Amortization expense-intangible | 7510 | Interest on funded debt |
| 6565 | Amortization expense-other | 7520 | Interest expense-capital leases |
| 7210 | Operating investment tax credits-net | 7530 | Amortization of debt issuance expense |
| 7220 | Operating Federal income taxes | 7540 | Other interest deductions |
| 7230 | Operating state and local income taxes | | |
| 7240 | Operating other taxes | | |

Account Total: 116

APPENDIX 5**States' Proposed New Part 32 Accounts to Meet Changing Regulatory Needs**

Add subaccounts to the digital electronic switching account for:

- Packet switches
- Asynchronous transfer mode switches

Add a subaccount to the intangible asset account for:

- Switching software

Add subaccounts to central office transmission, cable and wire facilities, and information origination/termination accounts for:

- Loop
- Interoffice transport

Add a subaccount to the end user revenue account for:

- Subscriber line charges

Add subaccounts to the switched access revenue account for:

- Access revenue received from calls originating and terminating from the carrier's network

Add subaccounts to the state access revenue account for:

- Switched access
- Special access
- Subscriber line charges

Add subaccounts to customer operations expense for:

- Wholesale
- Retail

Add subaccounts to deferred operating income taxes for:

- Federal
- State and Local

Add new revenue and expense accounts for:

- Reciprocal compensation
- Federal universal service fund support
- State universal service fund support
- Resale
- Wholesale
- Collocation

APPENDIX 6**USTA'S ARMIS Reporting Proposals**

USTA proposes streamlining the following items:

1. Combine ARMIS 43-01, 02 [B1, I1], 03 and 04 (See USTA June 9 letter); allow reporting at OTC level (Operating Telephone Company) for majority of data (Proposed Table III, Separations and Access would be by study area).
2. Eliminate ARMIS 43-02 Schedules B4 and I2. (Note: USTA also proposed elimination of B12, which was eliminated in Phase 1.)
3. Modify required nonregulated adjustment threshold from \$1 million per holding company to > \$1 million or 2% nonregulated expense; require aggregation of only material dollars rather than every dollar.
4. Eliminate ARMIS 43-07, Infrastructure Report
5. Streamline ARMIS 43-08, Operating Data Report – Eliminate tables of access lines (2) and traffic data (see USTA Letter).
6. Eliminate ARMIS 495/A and 495/B Reports.
7. One definition for “access lines” should be used. (Billable Access lines currently in ARMIS 43-01).

APPENDIX 7

INITIAL REGULATORY FLEXIBILITY ANALYSIS

As required by the Regulatory Flexibility Act (RFA),¹⁵² the Commission has prepared this Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on small entities by the policies and rules proposed in this Notice of Proposed Rulemaking. Written public comments are requested on this IRFA. Comments must be identified as responses to the IRFA and must be filed by the deadlines for comments on the Notice of Proposed Rulemaking provided above in section V.D. The Commission will send a copy of the Notice of Proposed Rulemaking, including this IRFA, to the Chief Counsel for Advocacy of the Small Business Administration (SBA).¹⁵³ In addition, the Notice of Proposed Rulemaking and IRFA (or summaries thereof) will be published in the Federal Register.¹⁵⁴

A. Need for, and Objectives of, the Proposed Rules

The Commission has initiated this proceeding to determine whether it should streamline or modify the current accounting and reporting requirements. This Notice of Proposed Rulemaking consists of Phase 2 and Phase 3 of the Commission's comprehensive review of the accounting and reporting requirements. This Notice of Proposed Rulemaking seeks to reduce accounting and reporting requirements, while furthering the Commission's goals of promoting universal service, fostering efficient competition, and protecting consumers.

B. Legal Basis

The legal basis for the action as proposed for this rulemaking is 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. §§ 154(i), 154(j), 161, 201(b), 303(r), and 403.

C. Description and Estimate of the Number of Small Entities to which the Proposed Rules May Apply

The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted.¹⁵⁵ The RFA generally defines "small entity" as having the same meaning as the term "small business," "small organization," and "small governmental jurisdiction."¹⁵⁶ In addition, the term "small business" has the same meaning as the term "small business concern" under the Small Business Act, unless the Commission has developed one or more definitions that are appropriate to its activities.¹⁵⁷ Under the Small Business Act, a "small

¹⁵² 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).

¹⁵³ See 5 U.S.C. § 603(a).

¹⁵⁴ See *id.*

¹⁵⁵ 5 U.S.C. § 603(b)(3).

¹⁵⁶ 5 U.S.C. § 601(6).

¹⁵⁷ 5 U.S.C. § 601(3) (incorporating by reference the definition of "small business concern" in 5 U.S.C. § 632). Pursuant to 5 U.S.C. § 601(3), the statutory definition of a small business applies "unless an agency after

business concern" is one that: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) meets any additional criteria established by the SBA.¹⁵⁸

We have included small incumbent local exchange carriers (LECs) in this present RFA analysis. As noted above, a "small business" under the RFA is one that, *inter alia*, meets the pertinent small business size standard (*e.g.*, a telephone communications business having 1,500 or fewer employees), and "is not dominant in its field of operation."¹⁵⁹ The SBA's Office of Advocacy contends that, for RFA purposes, small incumbent LECs are not dominant in their field of operation because any such dominance is not "national" in scope.¹⁶⁰ We have therefore included small incumbent LECs in this RFA analysis, although we emphasize that this RFA action has no effect on the Commission's analyses and determinations in other, non-RFA contexts.

The SBA has developed a definition of small entities for telephone communications companies other than radiotelephone companies. The SBA has defined a small business for Standard Industrial Classification (SIC) categories 4812 (Radiotelephone Communications) and 4813 (Telephone Communications, Except Radiotelephone) to be small entities when they have no more than 1,500 employees.¹⁶¹ The Census Bureau reports that, there were 2,321 such telephone companies in operation for at least one year at the end of 1992.¹⁶² All but 26 of the 2,321 non-radiotelephone companies listed by the Census Bureau were reported to have fewer than 1,000 employees. Thus, even if all 26 of those companies had more than 1,500 employees, there would still be 2,295 non-radiotelephone companies that might qualify as small entities or small incumbent LECs. It seems certain that some of these carriers are not independently owned and operated, but we are unable at this time to estimate with greater precision the number of wireline carriers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that fewer than 2,295 small telephone communications companies other than radiotelephone companies are small entities or small incumbent LECs that may be affected by the proposed rules, if adopted.

More specifically, the proposed changes to the accounting and reporting requirements in sections III.A.1, III.A.6, and III.B would only affect Class A companies, *i.e.*, companies with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$144 million. Presently, these companies are SBC Communications, Quest, Verizon, BellSouth

consultation with the Office of Advocacy of the Small Business Administration and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition in the Federal Register."

¹⁵⁸ 15 U.S.C. § 632.

¹⁵⁹ 5 U.S.C. § 601(3).

¹⁶⁰ See letter from Jere W. Glover, Chief Counsel for Advocacy, SBA, to William E. Kennard, Chairman, FCC (May 27, 1999). The Small Business Act contains a definition of "small business concern," which the RFA incorporates into its own definition of "small business." See U.S.C. § 632(a) (Small Business Act); 5 U.S.C. § 601(3) (RFA). SBA regulations interpret "small business concern" to include the concept of dominance on a national basis. 13 C.F.R. § 121.102(b). Since 1996, out of an abundance of caution, the Commission has included small incumbent LECs in its regulatory flexibility analyses. See, *e.g.*, *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket, 96-98, First Report and Order, 11 FCC Rcd 15499, 16144-45 (1996).

¹⁶¹ 13 C.F.R. § 121.201, SIC Code 4813.

¹⁶² 1992 Census at Firm Size 1-123.

Corporation, Cincinnati Bell, C-TEC, Sprint, Alltel Corporation, Frontier Corporation, and Citizens Telecom. These companies would not be considered “small entities” under the SBA definition. Therefore, it is extremely unlikely that any of the 2,295 small entity telephone companies would be affected by the proposals in section III.A.1, III.A.6, and III.B.

The proposals discussed in section III.A.2, 3, 4, 5, 7, and 8 could affect all local exchange carriers. Some of these companies may be considered “small entities” under the SBA definition. Therefore, it is possible that some of the 2,295 small entity telephone companies may be affected by the proposals in section III.A.2, 3, 4, 5, 7, and 8.

The proposals discussed in section III.C would affect only mid-sized carriers, *i.e.*, Class A carriers with aggregate revenues below \$7 billion but equal to or above the indexed revenue threshold (currently \$144 million). These companies would not be considered “small entities” under the SBA definition. Therefore, it is extremely unlikely that any of the 2,295 small entity telephone companies would be affected by the proposals in section III.C.

The proposals discussed in section IV could affect all local exchange carriers. Some of these companies may be considered “small entities” under the SBA definition. Therefore, it is possible that some of the 2,295 small entity telephone companies may be affected by the proposals in section IV.

D. Description of Proposed Reporting, Recordkeeping, and Other Compliance Requirements

This Notice of Proposed Rulemaking seeks to further reduce accounting and reporting requirements for Class A companies. In this Notice of Proposed Rulemaking, the Commission seeks comment on eliminating one-fourth of the Class A accounts from the Part 32 chart of accounts, reducing ARMIS reporting requirements, and streamlining other accounting rules. These proposals, if adopted, would result in fewer accounting requirements and reduced ARMIS reporting requirements for Class A companies. In some instances, the Commission seeks comment on whether additional accounts should be added to the Part 32 Chart of Accounts, to reflect changes in technology and new requirements under the Telecommunications Act of 1996.¹⁶³ None of these proposals apply to small entities because they are not subject to these reporting requirements. As mentioned in section C, above, Class A companies are not small businesses, so these reporting and record-keeping requirements will not affect small entities.

In addition, in section III.A.2, 3, 4, 5, 7, and 8, the Notice of Proposed Rulemaking seeks comment on: streamlining inventory requirements in sections 32.1220(h) and 32.2311(f); changing the threshold requirements in section 32.2003(b); adopting SFAS-116 for federal accounting purposes; and modifying the affiliate transactions rules, the definition of “incidental activities,” our expense limit rules, and cost allocation manual requirements. These proposals, if adopted, could affect both Class A and Class B companies, including small entities. If adopted, these proposals could significantly reduce the federal regulatory accounting requirements and costs associated with these requirements for the affected companies, including the small entities.

In section III.C, the Notice of Proposed Rulemaking also seeks comment on simplifying reporting requirements and eliminating cost allocation manual filing requirements for mid-sized carriers, including any small entities. This proposal, if adopted, would greatly reduce the reporting requirements and costs associated with these requirements for these companies, including any small entities.

¹⁶³ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (1996 Act). The 1996 Act amended the Communications Act of 1934 (Communications Act).

In section IV, the Notice of Proposed Rulemaking seeks comment on triggers for more significant deregulation of accounting and reporting requirements for all carriers in a competitive marketplace, including small entities. Once the marketplace is competitive, regulatory accounting and reporting requirements and costs associated with these requirements for all carriers, including small entities may be greatly diminished, if not eliminated.

E. Steps Taken to Minimize Significant Economic Impact on Small Entities, and Significant Alternatives Considered

The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): (1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance or reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities.¹⁶⁴

The rule changes proposed in this Notice of Proposed Rulemaking are reductions in our accounting requirements and ARMIS reporting requirements for Class A companies (*i.e.*, carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently \$144 million). These rule changes, as discussed in sections III.A.1, III.A.6, III.B, and III.C, only affect Class A companies and would not have a significant economic impact on small entities because the Class A companies, as identified in section C above, are not small entities. The remaining rule changes proposed in the Notice of Proposed Rulemaking may affect all LECs. Our proposals, if adopted, would streamline the accounting and reporting rules and would significantly lessen regulatory requirements for all carriers, including small entities. This should produce a significant economic benefit to small entities. Alternatives considered for small entities subject to our accounting and reporting requirements, were to maintain our current rules or to consider changes proposed in this Notice of Proposed Rulemaking on a case-by-case basis in ongoing proceedings where related accounting changes may properly be considered within the scope of such proceedings. We believe that streamlining our current rules, however, would reduce regulatory burdens on carriers, including small entities. In section IV of the Notice of Proposed Rulemaking, we discuss eliminating accounting rules and reporting requirements as the local exchange market becomes competitive. This would result in a further reduction in the regulatory burden on small entities.

F. Federal Rules that May Duplicate, Overlap, or Conflict With the Proposed Rule

None.

¹⁶⁴ 5 U.S.C. § 603(c).