

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

In the Matter of )
Comprehensive Review of the ) WC Docket No. 14-130
Part 32 Uniform System of Accounts )
Jurisdictional Separations and Referral ) CC Docket No. 80-286
to the Federal-State Joint Board )

RECOMMENDED DECISION

Adopted: October 26, 2017

Released: October 27, 2017

By the Federal-State Joint Board on Jurisdictional Separations:

I. INTRODUCTION

1. In this Recommended Decision, the Federal-State Joint Board on Jurisdictional Separations (Joint Board) responds to the Federal Communications Commission’s request for recommendations on the manner in which the Commission’s jurisdictional separations rules should be modified to be consistent with the Commission’s recently-adopted revisions to its Part 32 regulations. The modifications we recommend, which are set forth in the Appendix, are largely ministerial in nature, as suggested by commenters in response to the Joint Board’s April 24, 2017 public notice.

II. BACKGROUND

2. Jurisdictional separations is the third step in a four-step regulatory process that begins with a carrier’s accounting system and ends with the establishment of tariffed rates for the incumbent local exchange carrier’s (incumbent LEC’s) interstate and intrastate regulated services. First, carriers record their costs into various accounts in accordance with the Uniform System of Accounts for Telecommunications Companies (USOA) prescribed by Part 32 of the Commission’s rules. Second, carriers divide the costs in these accounts between regulated and nonregulated activities in accordance with Part 64 of the Commission’s rules. This division ensures that the costs of nonregulated activities

1 Comprehensive Review of the Part 32 Uniform System of Accounts, Jurisdictional Separations and Referral to the Federal-State Joint Board, Report and Order, 32 FCC Rcd 1735 (2017) (Part 32 Reform Order), pet. for recon. pending.

2 The Appendix to this Recommended Decision reproduces Part 36 of the Commission’s rules in its entirety, with recommended modifications noted.

3 Federal-State Joint Board on Separations Seeks Comment on Referral for Recommendations of Rule Changes to Part 36 as a Result of Commission Revisions to Part 32 Account Rules, Public Notice, WC Docket No. 14-130, CC Docket No. 80-286, 32 FCC Rcd 3236 (2017). See NTCA-The Rural Broadband Association Comments at 12; CenturyLink Comments at 8 (recommending minimal, if any, revisions).

4 47 CFR Part 32. The Part 32 USOA specifies the accounts that incumbent LECs must use to record their costs.

5 The Part 64 cost allocation rules are codified at 47 CFR §§ 64.901-904. Nonregulated activities generally consist of activities that have never been subject to regulation under Title II; activities formerly subject to Title II regulation that we have preemptively deregulated; and activities formerly subject to Title II regulation that have been deregulated at the interstate level, but not preemptively deregulated, that we decide should be classified as nonregulated activities for Title II accounting purposes. See 47 CFR § 32.23(a). Some regulated activities are

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will not be recovered in regulated interstate service rates. Third, carriers separate the regulated costs between the intrastate and interstate jurisdictions in accordance with the Commission's Part 36 separations rules.<sup>6</sup> In certain instances, costs are further disaggregated among service categories.<sup>7</sup> Finally, carriers apportion the interstate regulated costs among the interexchange services and rate elements that form the cost basis for their exchange access tariffs. For carriers subject to rate-of-return regulation, this apportionment is performed in accordance with Part 69 of the Commission's rules.<sup>8</sup>

3. Historically, Part 32 divided incumbent LECs into two classes for accounting purposes based on an incumbent LEC's annual regulated revenues: Class A incumbent LECs (those with regulated annual revenues equal to or above \$157 million) and Class B incumbent LECs (those with less than \$157 million in annual regulated revenues).<sup>9</sup> Class A carriers were required to create and maintain substantially more accounts than smaller Class B carriers.<sup>10</sup> In all but one case, all accounts that Class A carriers were required to keep can be grouped into sets that are represented by single accounts kept by Class B carriers – that is, such Class A accounts “roll up” into Class B accounts.<sup>11</sup>

4. In the *Part 32 Reform Order*, the Commission eliminated, effective January 1, 2018,<sup>12</sup> the classification of carriers, so that all carriers subject to Part 32 will be required to keep only the streamlined Class B accounts and will otherwise be treated as Class B carriers for Part 32 purposes.<sup>13</sup> Recognizing that “eliminating the distinctions between Class A and Class B accounts and allowing all carriers to utilize the more streamlined requirements of Class B accounts has implications for the

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treated as nonregulated activities for purposes of Part 64 cost allocation. *See Accounting Safeguards Under the Telecommunications Act of 1996*, Report and Order, CC Docket No. 96-150, 11 FCC Rcd 17539 (1996).

<sup>6</sup> 47 CFR Part 36. Because some costs are directly assigned to a jurisdictionally pure service category, *i.e.*, a category used exclusively for either intrastate or interstate communications, both steps are often effectively performed simultaneously. For example, the cost of private line service that is wholly intrastate in nature is assigned directly to the intrastate jurisdiction. *See* 47 CFR § 36.154(a).

<sup>7</sup> For purposes of the Part 36 rules, categories are “group[s] of items of property or expense to facilitate the apportionment of their costs among the operations and to which, ordinarily, a common measure of use is applicable.” 47 CFR Part 36, App. For example, central office equipment (COE) Category 1 is Operator Systems Equipment, Account 2220. The Operator Systems Equipment account is further disaggregated or classified according to the following arrangements: (i) separate toll boards; (ii) separate local manual boards; (iii) combined local manual boards; (iv) combined toll and DSA boards; (v) separate DSA and DSB boards; (vi) service observing boards; (vii) auxiliary service boards; and (viii) traffic service positions. *See* 47 CFR § 36.123.

<sup>8</sup> 47 CFR Part 69.

<sup>9</sup> *See* 47 CFR § 32.11(b); *Wireline Competition Bureau Announces Annual Adjustment of Revenue Thresholds*, Public Notice, DA 17-1034 (WCB Oct. 19, 2017).

<sup>10</sup> *See* 47 CFR § 32.11(c), (d). The differences in the two account structures are set forth in tables contained in sections 32.103 (balance sheet accounts), 32.2000 (telecommunications plant accounts), 32.3000 (balance sheet accounts—depreciation and amortization), 32.3999 (balance sheet accounts—liabilities and stockholders' equity), 32.4999 (revenue accounts), 32.5999 (expense accounts), and 32.6999 (other income accounts) of the Commission's rules. 47 CFR §§ 32.103, 32.2000, 32.3000, 32.3999, 32.4999, 32.5999, 32.6999.

<sup>11</sup> For example, Accounts 6211 (non-digital switching expense) and 6212 (digital electronic switching expense) are Class A-only accounts, while Account 6210 (central office switching expense) is a Class B account. *See* 47 CFR §§ 32.6211, 32.6212, 32.6210. Account 6210, however, is defined as solely representing “expenses of the type and character required of Class A companies in Accounts 6211 through 6212.” 47 CFR § 32.6210.

<sup>12</sup> *See Comprehensive Review of the Uniform System of Accounts, Jurisdictional Separations and Referral to the Federal-State Joint Board*, 82 Fed. Reg. 20833 (May 4, 2017).

<sup>13</sup> *Part 32 Reform Order*, 32 FCC Rcd at 1740-42. The pending petition for reconsideration does not concern this aspect of the *Part 32 Reform Order*. *See* NCTA – The Internet & Television Association, Petition for Reconsideration, WC Docket No. 14-130, CC Docket No. 80-286 (filed June 5, 2017).

Commission's jurisdictional separations rules pursuant to Part 36,<sup>14</sup> the Commission referred to the Joint Board consideration of how and when the Commission's jurisdictional separations rules should be modified.<sup>15</sup>

### III. DISCUSSION

5. As the Commission observed in the *Part 32 Reform Order*, Part 36 of the Commission's rules is replete with references to accounts that carriers will not be required to keep after the effective date of the newly adopted Part 32 rules. The vast majority of these references to Class A accounts falls into one of two groups, which the Joint Board recommends resolving as follows:

- In many instances, references to Class A accounts for the application of Part 36 to Class A carriers are made in parallel with references to the Class B accounts into which they roll up.<sup>16</sup> In those instances, we recommend that the Commission simply delete the references to the Class A accounts, and delete the phrase "Class B accounts" because there will no longer be a distinction between carriers.<sup>17</sup>
  - For example, section 36.321(a) includes a table listing several central office equipment expense accounts. We recommend making the following changes to the table:

Central Office Switching Expense	<del>Account 6210 (Class B telephone companies); Accounts 6211 and 6212 (Class A telephone companies); Account 6210.</del>
Operator Systems Expense	Account 6220.
Central Office Transmission Expense	<del>Account 6230 (Class B telephone companies); Accounts 6231 and 6232 (Class A telephone companies); Account 6230.</del>

- There are several other specific rules that list both Class A and Class B accounts, using identical language to refer to account balances for the current year as well as to account balances for calendar year 2000.<sup>18</sup> Because a formerly-Class A carrier will no longer be required to keep Class A accounts starting January 1, 2018, we recommend that the references to current-year account balances be deleted. With regard to the references to

<sup>14</sup> *Part 32 Reform Order*, 32 FCC Rcd at 1749, para. 46.

<sup>15</sup> *Id.* Separately, consistent with Commission expectations, we plan to provide the Commission with our recommendations for comprehensive separations reform by the end of April 2018. See *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order, 32 FCC Rcd 4219, 4222, para. 8 (2017); see also *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Further Notice of Proposed Rulemaking, 32 FCC Rcd 2291, 2295, para. 10 (2017) ("We expect to receive the Joint Board's recommendations for comprehensive separations reform . . . in April 2018.").

<sup>16</sup> For example, in describing the apportioning of central office expenses among various operations and referencing central office switching expense, section 36.321 refers to Account 6210 (central office switching expense) with respect to Class B carriers and to Accounts 6211 (non-digital switching expense) and 6212 (digital electronic switching expense) for Class A carriers. 47 CFR § 36.321.

<sup>17</sup> See, e.g., Appendix at 37-38 (recommended revised section 36.321).

<sup>18</sup> See, e.g., 47 CFR § 36.124(c). These references relate to the freeze of jurisdictional separations category relationships and, as applicable, cost allocation factors, which has been in effect since July 1, 2001. See *Jurisdictional Separations and Referral to the Federal-State Joint Board*, Report and Order, 16 FCC Rcd 11382 (2001).

account balances for calendar year 2000, however, we recommend maintaining the references to Class A accounts, but modifying the reference to Class A carriers so that it explicitly pertains solely to carriers that were Class A carriers for calendar year 2000.<sup>19</sup> This will best reflect the manner in which such carriers were complying with the Commission's rules for calendar year 2000 and provide maximum clarity.

- For example, we recommend making the following changes to section 36.124(c):

Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balances of Accounts 2210, ~~2211, and 2212~~ to Category 2, Tandem Switching Equipment based on the relative percentage assignment of the average balances of Account 2210; (or, if Accounts 2211, 2212, were required to be maintained at the applicable time, Accounts 2211 and 2212) and 2215 to Category 2, Tandem Switching Equipment during the twelve-month period ending December 31, 2000.

6. There are a limited number of other provisions that require modification in light of the Commission's *Part 32 Reform Order*. Sections 36.501 and 36.505 make parallel references to Account 3400, a Class B Account, and Account 3410, a Class A account.<sup>20</sup> Account 3410 is the sole instance in the Commission's Part 32 rules in which a Class A account does not formally roll up into a Class B account, although the accounts are partially similar.<sup>21</sup> Because Account 3410 will no longer be kept by Class A carriers, we recommend deleting the reference to the Class A account in both sections 36.501 and 36.505.

7. Further, section 36.112, concerning the apportionment among operations of general support facilities on a category-by-category basis, is the sole instance in which Part 36 procedures differ for Class A and Class B carriers.<sup>22</sup> For both types of carriers, accounts representing general support facilities are allocated among operations using factors based on the already-determined operation allocations for the sum of a certain set of accounts.<sup>23</sup> While Class B carriers use a set of investment accounts, Class A carriers use a set of expense accounts which primarily, but not entirely, pertains to the same subject matter.<sup>24</sup>

8. As the Commission observed in the *Part 32 Reform Order*, collapsing the classes of carriers into a single class (Class B) "ensur[es] a more uniform treatment of accounts for carriers subject to the USOA, simplifying both compliance for carriers and oversight by the Commission."<sup>25</sup> With this goal and these anticipated benefits in mind, we have identified two reasonable methods of amending section 36.112(a). The first method would require Class A carriers to use the Class B method as currently described in section 36.112(b), which would result in uniform treatment. However, this approach would impose a compliance burden on current Class A carriers because they would have to change their well-

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<sup>19</sup> See, e.g., Appendix at 12-13 (recommended revised section 36.124).

<sup>20</sup> 47 CFR §§ 36.501, 36.505.

<sup>21</sup> See 47 CFR §§ 32.3410, 32.3400.

<sup>22</sup> 47 CFR § 36.112. General support facilities are land, buildings, motor vehicles, aircraft, special purpose vehicles, garage work equipment, other work equipment, furniture, office equipment, and general purpose computers. 47 CFR § 36.111. The separations rules define the term "operations" as "the general classifications of services rendered to the public for which separate tariffs are filed, namely exchange, state toll and interstate toll." 47 CFR Part 36, App.

<sup>23</sup> 47 CFR § 36.112.

<sup>24</sup> *Id.*

<sup>25</sup> *Part 32 Reform Order*, 32 FCC Red at 1741, para. 16.

established manner of allocating general support expense, and that change could also complicate Commission oversight.

9. On the other hand, it is possible to realize many of the benefits of uniform treatment, while simplifying both compliance for carriers and oversight by the Commission by permitting Class A carriers to use the method described in section 36.112(a), but with references to Class A accounts replaced by references to the Class B accounts into which they roll up. Given the existing list of Class A accounts in section 36.112(a), this revision would have no effect on separations results.<sup>26</sup> It also would make it unnecessary for current Class A carriers to change how they allocate general support expenses, thus minimizing compliance burdens. In light of the reasonableness of both methods, we recommend providing current Class A carriers with both options for allocating general support expenses.<sup>27</sup>

10. In addition to recommending the above revisions relating to the Commission's streamlining of accounts, we recommend making certain stylistic and typographical corrections to the rules contained in Part 36 as set forth in the Appendix. We recommend no other changes to Part 36 as a result of the Commission's referral in the *Part 32 Reform Order*.<sup>28</sup> For administrative simplicity, we recommend that the revisions proposed in the Appendix become effective as soon as practicable after January 1, 2018, the effective date of the *Part 32 Reform Order*.

#### IV. RECOMMENDATION CLAUSE

11. For the reasons discussed herein, the Federal-State Joint Board on Jurisdictional Separations, pursuant to section 410(c) of the Communications Act of 1934, as amended,<sup>29</sup> RECOMMENDS that the Commission adopt the recommendations set forth herein concerning modifications to the Commission's jurisdictional separations rules.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch  
Secretary

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<sup>26</sup> There are no incomplete "sets" of Class A account references in section 36.112 – that is, whenever one of the accounts that rolls up into a particular Class B account is listed, *all other* Class A accounts that roll-up into such Class B account are also listed. Thus, the Class B account references are completely substitutable. For example, the Class A Accounts 6211 and 6212 roll up into Account 6210. 47 CFR § 32.6210. Section 36.112 lists *both* of these accounts. Thus, once formerly-Class A carriers are keeping Class B accounts, Account 6210 is completely substitutable for the no-longer applicable Class A Accounts 6211 and 6212.

<sup>27</sup> See Appendix at 6-7 (recommended revised section 36.112). Because Class A carriers will no longer be defined in Part 32 as of January 1, 2018, the effective date of the amendment to section 32.11 eliminating the definition of Class A carriers, we recommend reproducing the currently-effective definitions of Class A and Class B carriers in section 36.112, using the applicable revenue threshold for calendar year 2017. See *id.*

<sup>28</sup> Nothing in this Recommended Decision precludes a state or regulatory agency, or another party as part of a contractual requirement, from requiring a carrier to maintain the Class A accounts or otherwise maintain the USOA. See, e.g., 7 CFR § 1770.11(b) (requiring certain Rural Utility Service borrowers to maintain Class A accounts); see also *Part 32 Reform Order*, 32 FCC Rcd at 1741, para. 16 & note 51.

<sup>29</sup> 47 USC § 410(c).