

Section 43.43, Reports of Proposed Changes in Depreciation

3060-0168
September 2015

SUPPORTING STATEMENT

This collection is being submitted to the Office of Management and Budget (OMB) for an extension of this existing information collection.

A. Justification:

1. Section 220(b) of the Communications Act of 1934 (the Act), as amended, (47 U.S.C. Section 220 (b)), states that the Commission may prescribe depreciation charges for the subject carriers. Section 219 of the Act requires annual and other reports from the carriers. Section 43.43 of the Commission's Rules (47 CFR Section 43.43) establishes the reporting requirements for depreciation prescription purposes. Communication common carriers with annual operating revenues of \$150.2 million or more that the Commission has found to be dominant must file information specified in Section 43.43 before making any change in the depreciation rates applicable to their operating plant. Section 220 also allows the Commission, in its discretion, to prescribe the form of any and all accounts, records, and memoranda to be kept by carriers subject to the Act, including the accounts, records and memoranda of the movement of traffic, as well as receipts and expenditures of moneys.

In the *Report and Order* released in December 1999 (FCC 99-397), the Commission greatly streamlined the depreciation requirements for price cap incumbent local exchange carriers. The Commission adopted the following requirements in the *Report and Order* for price cap LECs proposing depreciation rate changes:

- Carriers are required to file four summary exhibits, along with the underlying data used to generate them, and must provide the depreciation factors (i.e., life, salvage, curve shape, depreciation reserve) required to verify the calculation of the carriers' depreciation reserve. This is the minimum amount of data needed to maintain oversight of carriers' depreciation expenses and rates.

- Mid-sized carriers are no longer required to file theoretical reserve studies.

- Certain price cap incumbent LECs in certain instances may request a waiver of the depreciation prescription process. A waiver may be approved when an incumbent LEC, voluntarily, in conjunction with its request for waiver: (1) adjusts the net book costs on its regulatory books to the level currently reflected in its financial books by a below-the-line write-off; (2) uses the same depreciation factors and rates for both regulatory and financial accounting purposes; (3) forgoes the opportunity to seek recovery of the write-off through a low-end adjustment, an exogenous adjustment, or an above-cap filing; and (4) agrees to submit information concerning its depreciation accounts, including forecast additions and retirements for major network accounts and replacement plans for digital central offices. The waiver request must comply with section 1.3 of the Commission's rules. The Commission will consider alternative proposals by carriers seeking a waiver of our depreciation requirements. Such alternative proposals, however, must provide the same protections to guard against adverse impacts on consumers and competition as the conditions adopted in the *Order* provides. Carriers who obtain a waiver of the depreciation process submit certain information about network retirement patterns and modernization plans related to their plant accounts so that we can maintain realistic ranges of depreciable life and salvage factors for each of the major plant accounts. The information that carriers will be required to submit includes: forecast additions and retirements for major network accounts; replacement plans for digital central offices; and information concerning relative investments in fiber and copper cable.

This information collection does not affect individuals or households; thus, there are no impacts under the Privacy Act.

The statutory authority for this collection is contained in: 47 C.F.R. § 43.43, Sections 1, 2, 4, 11, 201-205, and 218-220 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152, 154, 161, 201-205, and 218-220.

2. The information filed is used by the Commission to establish proper depreciation rates to be charged by the carriers, pursuant to Section 220(b) of the Act. The information serves as the basis for depreciation analyses made by the Wireline Competition Bureau in establishing the afore-mentioned rates. Without this information, the validity of the carriers' depreciation policies could not be ascertained.

3. The Commission requires the carriers to submit some of the required data on computer disks. Instructions for submitting data in this manner are contained in the Commission's Depreciation Study Guide.

4. There is no known duplication of effort. Also, there is no known information, already available, that would serve our regulatory purpose.

5. The information collection does not involve small business or other small entities as defined by the Regulatory Flexibility Act. The Commission's rules impose this requirement only on those carriers having annual operating revenues of \$150.2 million or more, including adjustments for inflation. Section 402(c) of the Telecommunications Act of 1996 requires that the Commission adjust the revenue thresholds for inflation.

6. The Commission is charged with the Federal program of establishing depreciation rates for communication common carriers. A subject LEC must make a depreciation filing when it seeks to change its depreciation rates. If the basic factors a price cap LEC proposes to use are within the depreciation ranges prescribed by the Commission, it need only file a streamlined submission. Non-price cap LECs, and any price cap LEC wishing to establish depreciation rates using factors outside the prescribed ranges, must file depreciation studies for its plant accounts. LECs must update all plant accounts when they propose any new factor for a plant account.

7. This information collection is not being conducted in any manner inconsistent with the guidelines of 5 C.F.R. Section 1320.5(d)(1).

8. A 60-day notice was published in the Federal Register pursuant to 5 CFR § 1320.8(d) on May 14, 2015 (80 FR 27684). No PRA comments were received.

9. The Commission does not anticipate providing any payment or gift to respondents.

10. Respondents are not being asked to submit confidential information to the Commission. If the Commission requests respondents to submit information which respondents believe is confidential, respondents may request confidential treatment of such information under Section 0.459 of the Commission's rules.

11. The information is not of a sensitive nature. Carriers submitting information that they deem proprietary are instructed to label the data as such and submit it separately.

12. The following represents the estimated hour burden of the information collection. The following represents our best estimate.

(1) Number of Respondents: Approximately 24.

(2) Frequency of Response: On occasion reporting requirement and recordkeeping requirement.

(3) Total number of responses annually:

24 respondents x 1 response on average per year = 24 responses annually.

(4) Annual hour burden per respondent: 250 hours x 24 = 6,000 hours.

(5) **Total annual hour burden: 6,000 hours.**

The Commission estimates that ILECs would make 1 filing per year, which would take approximately 250 hours to prepare.

24 respondents x 1 filing/year x 250 hours = 6,000 hours.

(6) Total estimate of “in-house” cost to respondents: \$270,000.

(7) Explanation of calculation:

The Commission estimates that the average in-house cost for respondents is approximately \$45 an hour.

6,000 hours/year x \$45 per hour = \$270,000.

13. Estimated cost to respondents:

(a) Total capital and start-up cost component (annualized over its expected useful life): \$0. The reporting requirement will not require the purchase of additional equipment.

(b) Total operation and maintenance and purchase of services component: \$0.

(c) Respondents are subject to a filing fee of \$38,315 per filing.

24 respondents x 1 filing per year: 24 x \$38,315 = \$919,560.

Total annualized cost to respondents: \$919,560.

14. Estimated cost to the Commission:

We used the following formula to estimate the cost to the government: number of staff years x the average grade plus overhead costs. Specifically, approximately four staff years are expended in the prescription process associated with these filings. Therefore, four staff years at the GS-13/5 level (\$102,932/year), plus 30 percent agency overhead approximates an annual cost to the government of \$535,246.

Total cost to the Federal Government: \$535,246.

15. There is no change to the hourly burden estimates. However, the Commission has made the following adjustments since our last submission to OMB:

- The filing fee has increased from \$35,465 to \$38,315 which increased the total annual cost from \$851,160 to \$919,560.
- We have adjusted the revenue threshold used for classifying carrier categories for accounting and reporting purposes from \$138 million to \$150.2 million, based on the Commission's current revenue thresholds.
- There are no program changes.

16. The Commission does not anticipate that it will publish any of the information proposed to be collected.

17. The Commission does not intend to seek approval not to display the expiration date for OMB approval of the information collection.

18. There are no exceptions to the certification statement.

B. Collections of Information Employing Statistical Methods:

The collection of information does not employ statistical methods.