

December 2017

This submission is being made pursuant to 44 U.S.C. § 3507 of the Paperwork Reduction Act of 1995 to obtain approval from the Office of Management and Budget (OMB) for a new information collection.

SUPPORTING STATEMENT

A. Justification:

Circumstances that make the collection necessary:

1. Section 220 of the Communications Act of 1934, as amended (Act), requires the Commission (FCC) to prescribe a uniform system of accounts (USOA) for use by telephone companies.¹ Part 32 of the Commission's rules implements the requirements of section 220.² The USOA is an historical financial accounting system that, among other things, prescribes a chart of accounts and directs telephone companies how to record certain transactions in their books of account.³ While the USOA employs generally accepted accounting principles (GAAP) for many accounting entries,⁴ it requires telephone companies to maintain a chart of accounts and to comply with specific accounting requirements for certain regulatory purposes. This has required incumbent telephone companies to maintain separate financial and regulatory books.

On February 24, 2017, the Commission released the *Part 32 Order* that minimizes the compliance burdens imposed by the USOA on price cap and rate-of-return telephone companies, while ensuring that the FCC retains access to the information it needs to fulfill its regulatory duties.⁵

The Commission consolidated Class A and Class B accounts by eliminating the current classification of carriers, which divides incumbent LECs into two classes for accounting purposes based on annual revenues.⁶ Carriers subject to Part 32's USOA will now only be required to keep Class B accounts.

Price cap carriers may elect to use GAAP for all regulatory accounting purposes if they:

- (a) establish an "Implementation Rate Difference," which is the difference between pole attachment rates calculated under Part 32 and under GAAP as of the last full year preceding

¹ See 47 U.S.C. § 220.

² See 47 CFR Part 32; *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, para. 2 (1986).

³ The USOA also establishes rules for a carrier's affiliate transactions and prescribes the accounting treatment for depreciation expenses. In addition, the USOA requires carriers to maintain property records of all telecommunications plant in service.

⁴ GAAP is that common set of accounting concepts, standards, procedures and conventions which are recognized by the accounting profession as a whole and upon which most nonregulated enterprises base their external financial statements and reports.

⁵ *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 Order*).

⁶ See 47 CFR § 32.11(b). Rate-of-return carriers do not currently qualify as Class A carriers and thus are not required to keep Class A accounts.

the carrier's initial opting out of Part 32 accounting requirements; and

- (b) adjust their annually-computed GAAP-based pole attachment rates by the Implementation Rate Difference for a period of 12 years after the election.

Alternatively, price cap carriers may elect to use GAAP accounting for all purposes other than those associated with pole attachment rates and continue to use the Part 32 accounts and procedures applicable to pole attachment rates for up to 12 years. Price cap carriers would move to setting pole attachment rates under GAAP for the remaining portion of the 12 years after choosing to move to GAAP accounting,⁷ using the Implementation Rate Difference approach.

A price cap carrier may be required to submit pole attachment accounting data to the Commission for three years following the effective date of the rule permitting a price cap carrier to elect GAAP accounting. If a pole attacher informs the Commission of a suspected problem with pole attachment rates, the Commission will require the price cap carrier to file its pole attachment data for the state in question. This requirement may be extended for an additional three years, if necessary.

The Commission reduced the accounting requirements for telephone companies with a continuing obligation to comply with Part 32 in the following areas:

- Telephone companies may carry an asset at its purchase price when it was acquired, even if its value has increased or declined when it goes into regulated service.
- Telephone companies may reprice an asset at market value after a merger or acquisition consistent with GAAP.
- Telephone companies may use GAAP principles to determine Allowance-for-Funds-Used-During-Construction; and
- Telephone companies may employ the GAAP standard of materiality. Rate-of-return carriers receiving cost-based support must determine materiality consistent with the general materiality guidelines promulgated by the Auditing Standards Board.
- Price cap carriers with a continuing Part 32 accounting obligation must maintain continuing property records necessary to track substantial assets and investments in an accurate, auditable manner. Price cap carriers must make such property information available to the Commission upon request.

Carriers with a continuing Part 32 obligation must continue to comply with the USOA's depreciation procedures and its rules for cost of removal-and-salvage accounting.

Once the Commission receives OMB approval for this new information collection, we will discontinue the current Part 32 collection, 3060-0370. The current collection focuses on a limited number of accounting changes and the burden hours do not reflect all of the compliance burdens imposed by the USOA.

As set forth above, the Commission's *Part 32 Order* minimized the burdens on these carriers by, among other things, consolidating Class A and Class B accounts. Because 3060-0370 does not reflect all

⁷ See Part 32 Order, 32 FCC Rd 1747, para. 39.

of the burden hours associated with Part 32, the new collection shows an increase in burden hours. This number belies the fact that the *Part 32 Order* significantly reduces carriers' compliance burdens. Once we discontinue 3060-0370, the Commission's Part 32 information collection will reflect all of the burden hours associated with Part 32 as revised by the *Part 32 Order*.

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

Statutory authority for this information collection is contained in sections 10, 201, 219-220, 224, and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 160, 201, 219-220, 224, and 403.

2. The information collection requirements set forth below ensure that the Commission has access to the information it needs to fulfill its regulatory duties while minimizing the burden on carriers.

3. The Commission believes that the respondents use automation and advanced information technology systems in complying with these information requirements. Carriers should file their information electronically.

4. There is no other existing information that would serve our regulatory purposes.

5. This collection has been carefully designed to minimize the burden on all carriers, regardless of size.

6. Without this information, the Commission would be unable to fulfill its regulatory responsibilities under the Act.

7. No other special circumstances will apply to these information requirements.

8. The Commission published a 60-day Notice in the Federal Register seeking public comment on July 11, 2017 (82 FR 31969). Comments were received from only one party, NCTA – The Internet & Television Association (NCTA).

NCTA argues that the Commission has not taken into account the potential burden both on companies that attach facilities to poles owned by price cap carriers and the Commission itself in the Paperwork Reduction Act (PRA) information collection related to the *Part 32 Order*. NCTA claims that the Order “did not clearly provide for continued public access to the necessary data, thereby shifting disproportionate costs and burdens” to attachers that “will now need to request from pole owners information that previously had been publicly available” to ensure that carriers do not use the transition to GAAP [Generally Accepted Accounting Principles] accounting “as a mechanism for unwarranted rate increases.”⁸ NCTA further argues that the Commission faces an increased burden since attachers “also will need to pursue relief from the Commission when that information is not provided by the pole owner.”⁹ In addition, NCTA asserts that the collection lacks “practical utility” because “[a]s explained by NCTA in its Petition for Reconsideration filings, the GAAP and IRD [Implementation Rate Difference] information sought by this collection [from price cap carriers] is inherently less accurate and reliable than the Part 32 information previously collected.”¹⁰

⁸ Comments of NTCA – the Internet & Television Association, WC Docket No. 14-130 et al., (filed Sept. 11, 2017) at 5 (NCTA Comments).

⁹ NCTA Comments at 5.

¹⁰ NCTA Comments at 7.

Response. Upon review of its comments, we find that NCTA fails to raise any valid PRA issues. NCTA's complaints regarding the shifting of burdens onto pole attachers misuse the term "burden." The definition of burden under the PRA is "the total time, effort, or financial resources expended by persons to generate, maintain, retain, or disclose or provide information to or for a Federal agency."¹¹ The revised rules do not obligate pole attachers to generate, maintain, retain, or disclose or provide information to the Commission. Rather, NCTA's arguments focus on the potential need for pole attachers to gather information from a pole owner to verify an attachment rate. Such a request would be purely voluntary on the part of a pole attacher and independent of any requirements imposed by the Commission's information collection. Because such a request would not involve information to or for a Federal agency, it is not a "burden" as that term is recognized under the PRA.

The issues raised by NCTA in its comments, including issues related to the usefulness of GAAP and IRD information, are not PRA concerns but rather issues with the Commission's underlying substantive decision concerning access to pole attachment rate information and other policy decisions made by the Commission. NCTA raised similar arguments in its pending petition for reconsideration of the revised rules.¹² Indeed, NCTA repeatedly references its petition for reconsideration in its PRA comments to support its assertions. For instance, NCTA contends that "the best way for the Commission to address this problem is to revise its Part 32 Order as requested by NCTA in its pending Petition for Reconsideration."¹³ In sum, NCTA has raised substantive rulemaking – not PRA – issues that are central to the Commission's decision in the Part 32 Order. The proper avenue for the Commission to consider those issues is not in the context of PRA comments, but rather in the Petition for Reconsideration proceeding.

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

10. If respondents submit information that they believe is confidential, they may request confidential treatment of such information pursuant to section 0.459 of the Commission's rules, 47 C.F.R. § 0.459.

11. There are no questions of a sensitive nature with respect to this information collection.

12. The following represents the estimated number of burden hours for this information collection, reflecting the additional costs imposed by Part 32 above those associated with GAAP. We note that the hourly burden imposed by the requirement is very difficult to quantify. The following represents our best estimate.

The information collection requirements are as follows:

A. Recordkeeping Requirements for price cap LECs electing GAAP with an Incremental Rate Difference (IRD):

- (1) Number of respondents: **11 ILECs.**
- (2) Frequency of response: **One-time reporting requirement.**

Each respondent will calculate an IRD for each state in which it operates where state

¹¹ 5 CFR § 1320.3(b)(1).

¹² See NCTA – the Internet & Television Association, Petition for Reconsideration, WC Docket No. 14-130 et al. (filed June 5, 2017).

¹³ NCTA Comments at 3.

commissions do not regulate pole attachment rates.

- (3) Total number of responses: **Approximately 60.**

There are approximately 30 states that do not regulate pole attachment rates. The Commission estimates that an average of 2 LECs will be affected in each state.

- (4) Estimated time per response: **Approximately 30 hours.**

- (5) Total annual burden: **19,800 hours.**

11 respondents x 30 hours x approximately 60 responses = 19,800 hours.

- (6) Total estimate of “in-house” cost to respondents: **\$857,142.**

- (7) Explanation of calculation:

The Commission estimates that respondents will use personnel comparable in pay to a GS-12/Step 5 employee earning \$43.29 per hour. Thus:

$19,800 \text{ hours} \times \$43.29 = \$857,142.$

B. Reporting Requirement for IRD for Pole Attachments:

- (1) Number of respondents: **11 ILECs.**

- (2) Frequency of response: **On occasion reporting requirement.**

- (3) Total number of responses annually: **Approximately 60.**

- (4) Estimated time per response: **20 hours.**

- (5) Total annual burden: **13,200 hours.**

11 Respondents x 20 hours x approximately 60 responses per year = 13,200 hours.

- (6) Total estimate of “in-house” cost to respondents: **\$571,428.**

- (7) Explanation of calculation:

The Commission estimates that respondents will use personnel comparable in pay to a GS 12/ Step 5 employee earning \$43.29 per hour. Thus:

$13,200 \text{ hours} \times \$43.29 = \$571,428.$

C. Recordkeeping Requirements for Price Cap LECs electing GAAP with Part 32 For Pole Attachments:

- (1) Number of respondents: **1 ILEC.**

- (2) Frequency of response: **Annual reporting requirement.**

The respondent will calculate its pole attachment rates using Part 32 requirements for each state in which it operates where state commissions do not regulate pole attachment rates.

- (3) Total number of responses: **Approximately 10.**

The Commission estimates that the respondent operates in approximately 10 states.

- (4) Estimated time per response: **Approximately 40 hours.**

- (5) Total annual burden: **400 hours.**

1 respondent x 40 hours x approximately 10 responses = 400 hours.

- (6) Total estimate of “in-house” cost to respondents: **\$17,316.**

- (7) Explanation of calculation:

The Commission estimates that respondents will use personnel comparable in pay to a GS 12/Step 5 employee earning \$43.29 per hour. Thus:

400 hours x \$43.29 = \$17,316.

D. Recordkeeping Requirement for Additional Burdens of Part 32 Over GAAP-- Depreciation, Cost of Removal and Salvage, etc.:

- (1) Number of respondents: **1,164 ILECs.**

- (2) Frequency of response: **On occasion and annual reporting requirements.**

Carriers must continue to comply with the Part 32 requirements applicable to depreciation, cost of removal, and salvage accounting.

- (3) Total number of responses annually: **Approximately 1,164.**

- (4) Estimated time per response: **Approximately 30 hours on average.**

- (5) Total annual burden: **34,920 hours.**

1,164 respondents x 30 hours x approximately 1 response per year = 34,920 hours.

- (6) Total estimate of “in-house” cost to respondents: **\$1,511,686.80.**

- (7) Explanation of calculation:

The Commission estimates that respondents will use personnel comparable in pay to a GS 12/Step 5 employee earning \$43.29 per hour. Thus:

34,920 hours x \$43.29 = \$1,511,686.80.

E. Rate-of-Return Carrier Continuing Property Records Recordkeeping Requirement:

(1) Number of respondents: **1,164 ILECs.**

(2) Frequency of response: **On occasion and annual reporting requirements.**

The Commission estimates that 1,164 respondents will be required to maintain property records necessary to track substantial assets and investments, to make such property information available to the Commission upon request, and to ensure the maintenance of such data.

(3) Total number of responses annually: **Approximately 1,164.**

(4) Estimated time per response: **Approximately 30 hours on average.**

(5) Total annual burden: **34,920 hours.**

1,164 respondents x 30 hours per response x 1 response per year = 34,920 hours.

(6) Total estimate of "in house" costs to respondents: **\$1,511,686.80.**

(7) Explanation of calculation:

The Commission estimates that respondents will use personnel comparable in pay to a GS 12/Step 5 employee earning \$43.29 per hour. Thus:

34,920 hours x \$43.29/hour = \$1,511,686.80.

Summary:

Total Number of Respondents: 1,176.

Total Number of Responses Annually: 60 + 60 + 10 + 1,164 + 1,164 = 2,458.

Total Annual Burden Hours: 19,800 + 13,200 + 400 + 34,920 + 34,920 = 103,240 hours.

Total "In-House" Costs: \$857,142 + \$571,428 + \$17,316 + \$1,511,686.80 + \$1,511,686.80 = \$4,469,259.60.

13. The following represents the Commission's estimate of the annual cost burden for respondents resulting from the information collection:

(a) Total capital and start-up cost component (annualized over its expected useful life): **\$0.**

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

14. There will be no cost to the federal government.

15. This is a new information collection resulting in a program change/increase of 1,176 respondents, 2,458 responses and 103,240 annual burden hours. These estimates will be added to OMB's Active Inventory.

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

17. The Commission does not 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:

1. This information collection does not employ any statistical methods.