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

In the Matter of	)	
	)	
Comprehensive Review of the Part 32	)	WC Docket No. 14-130
Uniform System of Accounts	)	

JOINT COMMENTS
of the
NTCA – THE RURAL BROADBAND ASSOCIATION;
WTA – ADVOCATES FOR RURAL BROADBAND;
EASTERN RURAL TELECOM ASSOCIATION;
and
NATIONAL EXCHANGE CARRIER ASSOCIATION, Inc.;

I. INTRODUCTION

NTCA – The Rural Broadband Association (NTCA), WTA – Advocates for Rural Broadband (WTA), Eastern Rural Telecom Association (ERTA), and the National Exchange Carrier Association, Inc. (NECA) (collectively referred to as "the Rural Associations")[1] hereby

[1] NTCA represents nearly 900 rural rate-of-return regulated telecommunications providers. All of NTCA's members are full service local exchange carriers and broadband providers, and many of its members provide wireless, cable, satellite, and long distance and other competitive services to their communities. WTA is a national trade association that represents more than 280 rural telecommunications carriers providing voice, broadband and video services. WTA members serve some of the most rural and hard-to-serve communities in the country and are providers of last resort to those communities. ERTA is a trade association representing rural community based telecommunications service companies operating in states east of the Mississippi River. NECA is responsible for preparation of interstate access tariffs and administration of related revenue pools, and collection of certain high-cost loop data. *See generally*, 47 C.F.R. §§ 69.600

submit these comments in response to the *Notice of Proposed Rulemaking (NPRM*)[2] released by the Commission on August 20, 2014, in the above-captioned proceeding, regarding review of the Part 32 Uniform System of Accounts (USOA).[3]

The *NPRM* seeks comment on a wide variety of issues related to the FCC's Uniform System of Accounts (USOA), and specifically proposes to consolidate the current system of Class A and Class B accounts such that all carriers subject to Part 32 would be required to keep only the streamlined Class B accounts.[4] The *NPRM* also asks whether the Commission should more fully align Part 32 USOA accounting methods with Generally Accepted Accounting Principles (GAAP),[5] and whether such changes should be limited to price cap carriers or apply to rate-of-return (RoR) carriers (RLECs) as well.[6]

The Rural Associations support reducing administrative burdens whenever possible and thus have no objection to the Commission's proposal to consolidate Class A and B accounting systems, or to more fully align the USOA with GAAP, for price cap carriers. They also welcome a continuing dialogue and periodic re-evaluation of accounting requirements and other obligations that may have outlived their utility or require modification to remain relevant. As discussed below, however, full adoption of GAAP for RLECs at the current time may result in

---

et seq.; *MTS and WATS Market Structure*, CC Docket No.78-72, Phase I, Third Report and Order, 93 FCC 2d 241 (1983).

[2] *Comprehensive Review of the Part 32 Uniform System of Accounts*, WC Docket No. 14-130, Notice of Proposed Rulemaking, 29 FCC Rcd. 10638 (2014) (*NPRM*).

[3] 47 C.F.R. § 32.1, et. seq.

[4] *NPRM* ¶¶ 10-13.

[5] *Id.* ¶¶ 14-29.

[6] *Id.* ¶ 30. The Commission has previously adopted GAAP for many purposes, including certain Part 32 rules. *See, e.g.*, 47 C.F.R § 32.1. The *NPRM* proposal would thus apply to areas in which GAAP and Part 32 methods differ. *See NPRM* ¶¶ 14-15.

unpredictable changes in RLECs' rates and Universal Service Fund (USF) high cost mechanisms. Considering that these mechanisms are currently in transition and themselves under evaluation, the Commission should take a holistic approach to both issues rather than addressing either in isolation.

II. THE COMMISSION SHOULD FULLY EVALUATE POTENTIAL RATE AND USF IMPACTS PRIOR TO REVISING THE USOA FOR RoR CARRIERS.

As the *NPRM* notes, the Commission had previously promised to conduct a comprehensive review of the USOA in a rulemaking proceeding with the aim of minimizing compliance burdens of while ensuring the Commissions' continued access to relevant financial information necessary to fulfill its duties.[7] Although the primary focus of the *NPRM* appears to be on burdens faced by larger "Class A" carriers, the Commission recognizes that changes proposed in the *NPRM* could also affect accounting data used by smaller RoR carriers.[8]

The Rural Associations concur with the premise that such obligations require periodic review, but believe the nature of potential effects on USF mechanisms and RLEC rates, including those for special access and digital subscriber line (DSL) services used to provide broadband services in rural areas, must be further assessed prior to mandating accounting reforms for RoR carriers.

---

[7] *See id.* ¶ 8, quoting *Petition of USTelecom for Forbearance Under 47 U.S.C. § 160(c) from Enforcement of Certain Legacy Telecommunications Regulations, et al.*, WC Docket No. 12-61, *et al.*, Memorandum Opinion and Order and Report and Order in WC Docket No. 10-132 and Further Notice of Proposed Rulemaking and Second Further Notice of Proposed Rulemaking, WC Docket No. 12-61, *et al.*, 28 FCC Rcd. 7627, 7665 (2013), ¶ 77 (*USTelecom Forbearance Order*), *rev. denied, Verizon and AT&T, Inc., v. FCC & USA*, No. 13-1220 (D.C. Cir. Oct. 31, 2014).

[8] *NPRM* ¶ 30.

Paramount in any such discussion and analysis is the reality that the fundamental basis for accounting in the United States is the authoritative body of literature embodied in GAAP. The highest level of this literature is the Accounting Standards Codification promulgated by the Financial Accounting Standards Board.[9] Any carrier subject to the Commission's rules that issues either public statements or non-public statements requiring an independent audit must issue those statements in accordance with GAAP. GAAP accommodates regulatory prescriptions of specific accounting treatment within its current codification, and provides guidance by which reconciliations and/or disclosures are presented in the event of material disparities between prescribed regulatory and GAAP treatments.[10] Nevertheless, the USOA is not now and never has been a substitute for the application of GAAP; rather it is merely a regulatory extension thereof.[11] Careful coordination with respect to managing a transition of this regulatory extension – including more holistic consideration and management of the collateral effects on those regulatory mechanisms that necessitated its creation – is both prudent and essential.

While specific impacts arising out of full alignment of the USOA with GAAP for RLECs are impossible to know at this juncture, it appears changes in some areas could be significant. Perhaps the most significant impact involves the matter of depreciation. The Commission notes that under GAAP carriers would no longer be required to adhere to straight-line depreciation methods required under Part 32, and would instead be permitted to use shorter lives, as well as

---

[9] *See e.g.*, Topic 105-Generally Accepted Accounting Principles, of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) (FASB 168). *See generally* http://www.fasb.org/facts/.

[10] *See, e.g.*, Topic 980- Accounting for the Effects of Certain Types of Regulation, of the FASB ASC (FASB 71).

[11] *See NPRM* ¶ 5.

accelerated depreciation methods, to compute depreciation expenses.[12] Of course, GAAP does not arbitrarily require straight-line depreciation. Rather, it requires that any method of depreciation accurately reflect the character of the associated asset and its useful life. In other words, if an accelerated method of depreciation is used, it must be because the asset's value declines more rapidly in its earlier life. Furthermore, under no circumstances should the treatment of depreciation methodology under GAAP be confused with the methodology used under tax accounting rules. Tax accounting rules generally have certain public policy connotations attached thereto and do not have, as a primary objective, the fair presentation of financial statements. An analysis of differences in these methods should not blur the lines between these two methodologies.

Although accelerated depreciation may permit carriers to recover costs more quickly and thus keep pace with rapid changes in technology, existing straight-line methods may help maintain stability and predictability for both rates and USF funding mechanisms.[13] Given the potential for Part 32 USOA revisions to affect RLECs' USF demand and rates, further analysis by the Commission is appropriate. Further, as noted above, existing high cost mechanisms are in transition. The Commission is currently considering new broadband-focused mechanisms and other USF updates for RLECs via several further notices of proposed rulemaking and public notices that could significantly change investment patterns and cost recovery mechanisms for RLECs.[14]

---

[12] *Id.* ¶ 19.

[13] *Id.* ("Depreciation expense under GAAP is also higher because early retirements and other losses are recognized under GAAP when they occur rather than being amortized over a longer period of time.")

[14] *See, e.g., Connect America Fund*, WC Docket No. 10-90, *Universal Service Reform – Mobility Fund*, WT Docket No. 10-208, *ETC Annual Reports and Certifications*, WC Docket No. 14-58,

In light of uncertainties surrounding potential effects of these changes on RLEC investments, operations, and costs, the Commission should defer efforts to mandate accounting reforms for RLECs until such shifting foundations are more settled. The Commission should instead move expeditiously towards resolving remaining reforms of existing high-cost USF mechanisms, in particular development of a broadband-focused mechanism for these carriers as previously proposed by the Rural Associations.[15] While the Rural Associations fully support modernization of accounting systems for RLECs, it would appear preferable for the Commission and the industry to focus first on putting revised USF rules in place for RLECs and then turn to implementing accounting reforms for these carriers based upon those changes.

In addition, to the extent RLECs are required to conform accounting systems to GAAP, the Commission should consider potential administrative burdens that might be imposed on some small RLECs as a result of revising accounting mechanisms at this time. Although, as noted above, many RLECs maintain their financials in accordance with GAAP for auditing purposes, some smaller firms do not. Moreover, as the *NPRM* acknowledges, some state commissions

---

Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, 29 FCC Rcd. 7051 (2014). *Wireline Competition Bureau Announces Posting of Broadband Data from Urban Rate Survey and Seeks Comment on Calculation of Reasonable Comparability Benchmark for Broadband Services*, Public Notice, WC Docket No. 10-90, 29 FCC Rcd. 7992 (2014). *Wireline Competition Bureau Seeks Comment on Options to Promote Rural Broadband in Rate-of-Return Areas*, Public Notice, 28 FCC Rcd. 7201 (2013).

[15] *See, e.g.*, Comments of the Rural Associations, WC Docket No. 10-90, *et al.* (filed Aug. 8, 2014); Reply Comments, WC Docket No. 10-90, *et al.* (filed Sept. 8, 2014). *See also* Initial Comments of NECA, NTCA, OPASTCO, and WTA, WC Docket No. 10-90, *et al.*, at 22-24 (filed Jan. 18, 2012); Letter from Michael R. Romano, NTCA, to Marlene H. Dortch, FCC, WC Docket No. 10-90, *et al.* (filed Feb. 22, 2013); Reply Comments of NECA, NTCA, ERTA, and WTA, WC Docket No. 10-90, *et al.*, at 3-9, Attach. (filed July 15, 2013).

continue to require USOA accounting data for use in performing their regulatory functions.[16] Since the Commission does not propose to preempt state regulation in this area,[17] some small carriers might be required to maintain multiple accounting records for different jurisdictions, increasing rather than decreasing administrative burdens.[18] Thoughtful, proactive coordination with state regulators should therefore be a critical component of any plan to reduce or streamline accounting requirements and other historical obligations.[19]

III. CONCLUSION

The Rural Associations recognize the benefits of GAAP and the reduction of unnecessary compliance burdens and associated expenses, and thus have no objection to proposals to combine Class A and B accounts or to take other proposed actions that would streamline accounting

---

[16] *NPRM* ¶ 51.

[17] *Id.*

[18] Absent special consideration by the Commission, high-cost fund recovery of any additional administrative expenses associated with conversion of accounts may be limited as a result of the cap on corporate operations expenses assignable to USF. *See Connect America Fund,* WC Docket No. 10-90*, A National Broadband Plan for Our Future,* GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers,* WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal- State Joint Board on Universal Service,* CC Docket No. 96-45, *Lifeline and Link-Up*, WC Docket No. 03-109, *Universal Service – Mobility Fund*, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd. 17663 (2011), ¶¶ 227-233. *See also* 47 C.F.R. § 54.1308(a)(4).

[19] The *NPRM* also asks whether there would be implications for the NECA pooling process associated with conforming Part 32 fully to GAAP. *Id.* ¶ 30. In addition to the potential rate impacts described herein, use of a broader array of accounting techniques might pose challenges for assuring consistency in data used by NECA for purposes of computing rates and pool settlements. These concerns could presumably be addressed, however, through publication of pool administration guidelines by NECA as the need arises.

responsibilities for price cap carriers. However, at this time the Commission should refrain from adopting rules fully aligning GAAP with the Part 32 USOA for RLECs until it can more holistically consider the impacts arising out of any such changes – both positive and negative – on carrier operations and existing (and potential new) regulatory cost recovery mechanisms.

Respectfully submitted,

NTCA – THE RURAL BROADBAND ASSOCIATION
By: /w/ Michael R. Romano
Michael R. Romano
Senior Vice President–Policy
4121 Wilson Boulevard, 10th Floor
Arlington, VA 22203
(703) 351-2000

EASTERN RURAL TELECOM ASSOCIATION
By: /s/ Jerry Weikle
Jerry Weikle
Regulatory Consultant
PO Box 6263
Raleigh, NC 27628
(919) 708-7464

NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.
By: /s/ Richard A. Askoff
Richard A. Askoff
Robert J. Deegan
Its Attorneys
Teresa Evert, Senior Regulatory Manager
80 South Jefferson Road
Whippany, NJ 07981
(973) 884-8000

WTA - ADVOCATES FOR RURAL BROADBAND
By: /s/ Derrick B. Owens
Derrick B. Owens
Vice President of Government Affairs
317 Massachusetts Avenue N.E.,
Ste. 300C
Washington, DC 20002
(202) 548-0202

By: /s/ Gerard J. Duffy
Gerard J. Duffy
Regulatory Counsel for
WTA-Advocates for Rural Broadband
Blooston, Mordkofsky, Dickens, Duffy &
Prendergast, LLP
2120 L Street NW
Suite 300
Washington, DC 20037
(202) 659-0830

November 14, 2014