February 14, 2017

Ex Parte
Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: Comprehensive Review of the Part 32 Uniform System of Accounts
WC Docket No. 14-130

Dear Ms. Dortch:

USTelecom and its member companies submit this ex parte filing to respond to the flawed comments submitted recently by NCTA – The Internet and Television Association about the overdue phase-out of Part 32 accounting obligations for price cap carriers.[1]

The Commission's rules compel price cap carriers to continue maintaining detailed accounting books developed using the Commission's Part 32 Uniform System of Accounts. These carriers thus must maintain this expensive accounting regime for their many operating companies, separate and apart from the detailed accounting records developed under Generally Accepted Accounting Principles (GAAP) that apply to modern, publicly traded companies.[2] Part 32 accounting is a relic of rate of return regulation, and continuing these costly accounting requirements makes no sense for America's price cap carriers.

USTelecom and its member companies have long supported the removal of the outdated Part 32 requirements for price cap carriers. These duplicate accounting requirements impose real costs, needlessly tying up resources that these carriers otherwise could devote to more productive uses.

At the same time, USTelecom and its members have understood that there are concerns about how allowing price carriers to utilize their GAAP accounting could affect rates applied to cable companies and other carriers attaching on price cap-owned poles. Commission staff has been sensitive to the potential for increases in those rates. Accordingly, USTelecom and its members worked diligently to develop a reasonable transition mechanism for the calculation of pole attachment rates once price cap carriers are no longer required to maintain accounting records derived under Part 32.[3]

[1] Letter from Steven S. Morris, NCTA, to Marlene H. Dortch, WC Docket No. 14-130 (Feb. 8, 2017).
[2] *Comprehensive Review of the Part 32 Uniform System of Accounts*, Notice of Proposed Rulemaking, 29 FCC Rcd 10638 (2014) (*NCTA Letter*).
[3] Letter from Timothy Boucher, CenturyLink, to Marlene H. Dortch, WC Docket No. 14-130 (Jan. 26, 2017)

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The major differences between Part 32 rules and GAAP arise primarily from the timing of certain costs, such as the different treatment of asset lives under GAAP and Part 32 and the costs of removing or taking down a pole. Pole depreciation is somewhat different under the two accounting systems. Also, under Part 32 rules, the cost of removal is taken into account over time, while under GAAP it is calculated at the end of the life of the pole. The proposal developed by AT&T, CenturyLink, and Verizon takes into account these and any other differences between the two methodologies. It cancels the effects of the move from Part 32 to GAAP by providing a transition that accounts for these costs on a going-forward basis. It provides a simple and transparent method for addressing any difference between the results derived under the two methodologies and ensures a 12-year transition that is unquestionably fair to attachers.

NCTA, in contrast, proposes that the Commission permanently freeze current attachment rates. However, freezing rates derived from a single year's costs makes no sense. A freeze fails to incorporate on an annual basis the statutorily relevant expenses and costs that vary significantly from year to year. NCTA's approach thus fails to meet the statutory goals of the Act and cannot be a realistic alternative to a reasonable, long-term transition from one accounting methodology to another for price cap pole attachments. The AT&T/CenturyLink/Verizon proposal, on the other hand, is an appropriate long-term solution that relies on annual, auditable accounting data while at the same neutralizing any impact of the transition from Part 32 to GAAP on pole attachment rates. The carriers' approach is a conservative system – presented in good faith - to transition price cap pole attachments from one accounting methodology to another. The proposal is not an effort to increase pole attachment rates; any suggestion otherwise is conflating an argument about problems with the formula used to define rates with a procedural accounting issue.

NCTA mistakenly claims that there is no evidence that moving from Part 32 accounting to GAAP accounting would ensure that rates remain reasonable and that the proposal does not provide an estimate of the magnitude of the rate change that attaching parties would be expected to experience. Actually, these three largest price cap carriers have provided confidential data to the Commission that can be used to determine how the pole attachment rates would be affected by the proposal. The impact of changing from Part 32 to GAAP will vary among and even within price cap carriers, but these three leading carriers have a wide variety of operating companies across nearly all states, offering an ample supporting record. And contrary to NCTA's assumption that attachment rates would always increase as a result of moving away from Part 32, rates would, in many cases, go down or not be significantly affected by the long-overdue accounting transition. Additionally, under the carriers' proposal, price cap carriers would continue to provide the cost report used to calculate the pole rates, using GAAP.

The carriers' proposal is not an attempt to do some other rate- or cost-shifting. After all, GAAP accounting is widely used – including by NCTA members - and the data are subject to audit. The transition plan is, by any reasonable assessment, considerate and even generous to attachers. It neutralizes the impact of the accounting change through a significant transition period based on the accounting life of poles. It adopts a simple and sensible formula that provides transparency and predictability throughout the transition. Of course, to the extent any

party believes "the rate, term, or condition is unjust or unreasonable" the Commission provides a comprehensive complaint process.[4]

NCTA's letter also misconstrues how companies will derive pole attachment accounting information, asserting that maintenance expenses will somehow be "over 1000 percent higher."[5] This error reflects a misunderstanding of both the record and the reported numbers it uses. Verizon did state in the record that it would derive pole maintenance expenses in a manner similar to its current practice – and as any company would – by using the direct labor specifically attributable to pole maintenance.[6] NCTA purportedly "test[s] this approach" by making a comparison of apples and oranges and then argues that the disparate results are cause for concern.[7] NCTA compares Verizon's pole maintenance expense figures reported to the Commission to a wholly made-up allocation of operating expense using total plant investment and other operating expense and employment figures reported to the New York Public Service Commission. But these figures bear no resemblance whatsoever to any proposal made by Verizon. Instead, as AT&T, CenturyLink and Verizon have explained in the record, the companies' plan to use the same or very similar ways to derive pole attachment rate inputs as they do today.

Part 32 accounting rules are certainly outdated for price cap carriers, and maintaining them is a needless regulatory burden and expense. Imposing a rate freeze, as NCTA asks, would be arbitrary and contrary to the statute. Continuing to maintain outdated Part 32 accounting solely to develop pole attachment rates is both utterly impractical and plainly unwarranted. AT&T, CenturyLink, Verizon and USTelecom have developed and presented a fair, comparatively simple, and transparent plan for deriving pole attachment rates during an extended transition from Part 32 to GAAP without disrupting the Commission's pole attachment regime. By adopting the plan, the Commission can remove incremental regulatory burdens that consume resources that distract companies from other priorities, such as investing in the broadband network.

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[4] *See* 47 CFR §1.1404
[5] *NCTA Letter* at 4, Attachment.
[6] Letter from Ian Dillner, Verizon, to Marlene H. Dortch, WC Docket No. 14-130 (Jan. 21, 2016).
[7] *NCTA Letter* at 4, Attachment.

Please contact the undersigned should you have any questions.

Respectfully submitted,

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