FEDERAL COMMUNICATIONS COMMISSION

47 CFR Parts 32, 43, 51, 54, 64, 65, and 69

[CC Docket Nos. 00–199, 97–212, and 80–286; FCC 01–305]

2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this document, the Commission consolidates and streamlines Class A accounting requirements; relaxes certain aspects of the affiliate transactions rules; significantly reduces the accounting and reporting rules for mid-sized carriers; and reduces the ARMIS reporting requirements for both large and mid-sized incumbent local exchange carriers (LECs). The Commission anticipates that the rule changes adopted in the Report and Order will reduce regulatory burdens on incumbent LECs.

DATES: Effective August 6, 2002. The Commission will, however, permit carriers to implement accounting changes as of January 1, 2002.

Written comment by the public on the new and/or modified information collections are due March 8, 2002.

ADDRESSES: Federal Communications Commission, 445 12th Street, TW–A325, Washington, DC 20554.

In addition to filing comments with the Office of the Secretary, a copy of any comments on the information collections contained herein should be submitted to Judy Boley, Federal Communications Commission, Room 1–C804, 445 12th Street, SW, Washington, DC 20554, or via the Internet to *jboley@fcc.gov.*

FOR FURTHER INFORMATION CONTACT: Tim Peterson, Deputy Division Chief, Accounting Safeguards Division, Common Carrier Bureau, at (202) 418–1575 or Mika Savir, Accounting Safeguards Division, Common Carrier Bureau, Legal Branch, at (202) 418–0384. For additional information concerning the information collections in this document, contact Judy Boley at (202) 418–0214, or via the Internet at *jboley@fcc.gov.*

SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Report and Order adopted October 11, 2001 and released November 5, 2001. The full text of this document is available for public inspection and copying during regular business hours at the FCC Reference Information Center, Portals II, 445 12th Street, SW., Room CY–A257, Washington, DC 20554. This document may also be purchased from the Commission's duplicating contractor, Qualex International, Portals II, 445 12th Street, SW., Room CY–B402, Washington, DC 20554, telephone 202–863–2893, facsimile 202–863–2898, or via e-mail *qualexint@aol.com.*

This Report and Order contains new or modified information collections subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 10413. It will be submitted to the Office of Management and Budget (OMB) for review under section 3507(d) of the PRA. OMB, the general public, and other Federal agencies are invited to comment on the new or modified information collections contained in this proceeding.

Paperwork Reduction Act: This Report and Order contains either a new or modified information collection subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104–13. It will be submitted to the Office of Management and Budget (OMB) for review under section 3507(d) of the PRA. OMB, the general public, and other Federal agencies are invited to comment on the new or modified information collections contained in this proceeding.

Paperwork Reduction Act

This Report and Order contains either a new or modified information collection(s). The Commission, as part of its continuing effort to reduce paperwork burdens, invites the general public to comment on the information collection(s) contained in this Report and Order as required by the Paperwork Reduction Act of 1995, Public Law 104–13. Public and agency comments are due March 8, 2002. Comments should address: (a) Whether the new or modified collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (b) the accuracy of the Commission's burden estimates; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on the respondents, including the use of automated collection techniques or other forms of information technology.

Type of Review: Revision of currently approved collections.

Respondents: Business or other for-profit.

OMB Control No.	Title	Number of respondents	Est. time per respondent	Total annual resposnes	Cost to respondents
3060–0370	Part 32	239	6,123.4	1,463,496	$0
3060–0384	Sections 64.904 & 64.905	12	107	1,285	1,200,000
3060–0470	Sections 64.901–64.903	10	200	2,000	0
3060–0511	ARMIS Access Report (43–04)	121	157.2	19,031	0
3060–0512	ARMIS Annual Summary Report (43–01)	121	96.5	11,680	0
3060–0734	Affiliates Transactions	20	24	480	0

Needs and Uses: In the Report and Order, the Commission is completing the second phase of its Comprehensive Accounting and ARMIS review. In the Report and Order, the Commission, among other things, reduces the number of Class A accounts in 47 CFR part 32 by 45%; reduces the current Class B accounts by 27%; revises the affiliate transaction rules; simplifies the preparation of cost allocation manuals for Class A carriers; modifies several ARMIS reporting for the large incumbent LECs; significantly streamlines ARMIS Report 43–04; significantly simplifies the reporting requirements for mid-sized incumbent LECs by eliminating the requirement that they file certain ARMIS reports; and eliminates the cost allocation manual filing requirements and the biennial attestation requirement for mid-sized LECs.

The information provides the necessary detail to enable the Commission to fulfill its regulatory responsibilities.

Summary of Report and Order

I. Accounting Rules

A. Chart of Accounts

The Commission concludes that the number of Class A accounts can be reduced from 296 accounts to 164 accounts, and adopts the proposal in 2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket No. 00–199, *Notice of Proposed Rulemaking*, 65 FR 67675 (11–13–2000) (*NPRM*), with the following modifications: Instead of consolidating the buried cable, submarine cable, and deep sea cable accounts, the Commission is consolidating the deep sea cable and submarine cable accounts and is retaining the buried cable accounts. In addition, the Commission is not consolidating Account 4040, Customer's deposits, with the other current liabilities accounts. The Commission is also modifying the proposal in the *NPRM* regarding the consolidation of the local network services revenues accounts. Instead of consolidating these accounts (Accounts 5001 through 5069) into Account 5000, Basic local service revenue, the Commission is combining these accounts into three accounts. Finally, the Commission retains Account 6790, Provision for uncollectible notes receivable and Account 6613, Product advertising, and consolidates the remaining customer operations expense and corporate operations expense accounts as proposed.

The Commission adopts several of the new Class A accounts proposed in the *NPRM:* circuit and packet switching subaccounts to the digital switching accounts; electronic and optical circuit equipment subaccounts to the circuit equipment accounts; and wholesale and resale subaccounts to Account 6620, Services. The Commission is not adopting the remaining proposed Class A accounts. Appendix C of the Report and Order contains the revised list of Class A accounts.

The Commission also streamlines the Class B accounts, as proposed in the *NPRM*. Appendix D of the Report and Order contains the revised list of Class B accounts.

B. Other Accounting Rule Changes

1. *Inventories.* Rule 32.1220(h) of the Commission's rules, 47 CFR 32.1220(h), requires that inventories of material and supplies be taken during each calendar year and that adjustments to this account be charged or credited to Account 6512, Provisioning expense. Section 32.2311(f) of the Commission's rules, 47 CFR 32.2311(f), requires an annual inventory of all station apparatus in stock included in this account. In the *NPRM*, the Commission sought comment on the United States Telecom Association's (USTA's) proposal to eliminate the detailed inventory requirements in the rules and instead permit companies to perform inventories based on risk assessment and on existing controls. The Commission concludes that companies should have the latitude to determine the appropriate inventory validation methodology based on risk assessment. Surrogate measures such as inventory cycle counts and statistical sampling measures may be more cost effective for a carrier than a complete physical inventory. The Commission therefore revises §§ 32.1220(h) and 32.2311(f) to eliminate the annual inventory requirement.

2. *Contributions.* In the *NPRM*, the Commission sought comment on adopting, for federal accounting purposes, Statement of Financial Accounting Standards No. 116 (SFAS–116), "Accounting for Contributions Received and Contributions Made." SFAS–116 requires companies to record in the current period a liability and related expense for unconditional pledges to make contributions in future years. Prior to adoption of SFAS–116, companies would record such pledges annually when the contributions were made. In 1994, shortly after FASB adopted SFAS–116, the Common Carrier Bureau (Bureau) informed carriers not to adopt SFAS–116 for federal accounting purposes. The Commission's primary concern was the effect such a rule could have on the carriers' rates. The adoption of SFAS–116 would allow carriers to record increased expenses in a given year to reflect contributions pledged for future years. Adopting SFAS–116 would establish an accounting rule that would be consistent with generally accepted accounting principles (GAAP). The Commission's rules require financial records to be kept in accordance with GAAP, to the extent permitted by the system of accounts. The Commission adopts SFAS–116 for federal accounting purposes and directs the Bureau to monitor the carriers' accounting treatment of contributions to determine whether implementation of SFAS–116 has a significant impact on rates.

3. *Section 252(e) Agreements.* In the *NPRM,* the Commission sought comment on USTA's proposal that the Commission clarify that section 252(e) agreements are treated the same as tariffed services in part 64 cost allocation rules. The Commission adopts the proposal. Accordingly, to the extent a carrier provides a non-tariffed service to its nonregulated operations pursuant to a section 252(e) agreement, that service will be recorded to nonregulated operations at the amount of that service as set forth in an interconnection agreement approved by a state commission pursuant to section 252(e).

4. *Affiliate Transactions Rules.* In Implementation of the Telecommunications Act of 1996: Accounting Safeguards under the Telecommunications Act of 1996, CC Docket No. 96–150, *Report and Order*, 62 FR 02918 (1–21–1997) (*Accounting Safeguards Order*), the Commission modified the affiliate transactions rules to provide greater protection against subsidization of competitive activities by subscribers to regulated telecommunication activities. The Commission amended the affiliate transactions rules for assets and services provided by a carrier to its affiliate and services received by a carrier from its affiliate. Under these rules, such transactions are to be valued at publicly available rates, if possible. The publicly available rates, in order of precedence, are (1) an existing tariff rate, (2) (for services only) a publicly filed agreement or statements of generally available agreements, or (3) a qualified prevailing price valuation. If there is no tariff price for the asset, and the transfer does not qualify for prevailing price treatment, the carrier must compare the asset's net book cost to its fair market value and value it at the higher of the two if the transfer is from the (regulated) carrier, and at the lower of the two if the transfer is to the (regulated) carrier. Carriers must make a good faith determination of the asset's fair market value.

The Commission revises the affiliate transactions rules to eliminate the requirement that carriers make a fair market value comparison for assets when the total annual value of that asset is less than $500,000. In Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1, CC Docket No. 99–253, *Report and Order*, 65 FR 16328 (3–28–2000) (*Phase 1 Report and Order*), the Commission eliminated the requirement that carriers make a good faith determination of fair market value for services when the total annual value of that service is less than $500,000. Below that threshold, the administrative cost and effort of making such a determination would outweigh the regulatory benefits of a good faith determination of fair market value. In such cases, the service should be recorded at fully distributed cost.

In the *NPRM*, the Commission proposed a conforming exemption for assets. Under the Commission's proposal, carriers would not be required to perform the net book cost/fair market value comparison for asset transfers totaling less than $500,000 per year. For assets within this exception, carriers would use net book cost instead of fair market value. This exception would be on a product-by-product basis similar to the services-by-services basis adopted in the *Phase 1 Report and Order*. The exception applies ''going forward,'' so that the net book cost/fair market value comparison would be required once the total amount of transfers (i.e., total net book cost) for a given product line in a given year exceeds $500,000. The threshold will be applied to the aggregate transactions, for a given affiliate. Carriers, therefore, will not be required to perform the net book cost/fair market value comparison for the first $500,000 of asset transfers, on a product-by-product basis, per year, per affiliate. In such cases, the asset should be recorded at net book cost. Carriers (except average schedule companies) will reflect these transactions in their cost allocation manuals (CAMs) as well as ARMIS reports, if ARMIS filing is required.

In the *NPRM*, the Commission sought comment on giving carriers the flexibility to use the higher or lower of cost or market valuation as either a floor or ceiling. For certain transactions carriers must compare the cost of the service or asset to market value. If the carrier is the recipient of the asset or service, it must be recorded on the carrier's books at the lower of cost or market. If the carrier is the provider, it must be recorded at the higher of cost or market. The Commission proposed giving carriers flexibility in valuing these transactions by allowing the higher or lower of cost or market valuation to operate as either a floor or ceiling, depending on the direction of the transaction. This proposal would permit the regulated carrier to either pay less or charge more to the nonregulated affiliate for the service or asset. The Commission recognizes that adopting a ceiling and floor for recording affiliate transactions could potentially have an anti-competitive effect. The Commission observes that it would be unlikely that a transaction would have such an effect, particularly if the transaction is *de minimis* and is *not* priced below incremental cost. The Commission therefore adopts the proposal in the *NPRM* and allows the higher or lower of cost or market valuation to operate as either a floor or ceiling, depending on the direction of the transaction. Such transaction must comply with the Communications Act, Commission rules and orders, and must not be otherwise anti-competitive.

In the *NPRM*, the Commission sought comment on USTA's proposal to revise the prevailing price definition. The prevailing price describes a price at which a company offers an asset or service to the general public. To qualify for prevailing price treatment, greater than 50 percent of sales of the subject asset or service must be to third parties. USTA proposed that the Commission revise § 32.27(d) to decrease the threshold from greater than 50 percent to 25 percent for use of prevailing price in valuing affiliate transactions. The Commission concludes that a lower threshold would be consistent with a more competitive environment, and adopts the proposal.

In the *NPRM*, the Commission sought comment on USTA's proposal to expand the current exception to the estimated fair market value rule to include ''all services provided by a carrier or its affiliate(s) where the service is provided solely to members of the carrier's corporate family.'' Under the Commission's current affiliate transactions rules, if a transaction cannot be valued at publicly available rates, it must be valued based on a comparison of cost and fair market value. If a comparison is used, the carrier must make a good faith determination of fair market value. If the regulated company purchases the asset or service from a nonregulated affiliate, the carrier must record the transaction at the lower of cost or market value. On the other hand, if the carrier sells the asset or service to a nonregulated affiliate, the carrier must record the transaction at the higher of cost or market. The Commission adopted this valuation rule in the *Accounting Safeguards Order* to ensure that the transactions between the carriers and their nonregulated affiliates take place on an ''arm's length'' basis, guarding against cross-subsidization of competitive services by subscribers to regulated services.

The exception USTA seeks to expand provides that when an incumbent carrier purchases services from an affiliate that exists solely to provide services to members of the carrier's corporate family, the carrier may record the services at fully distributed cost rather than applying the cost or market rule. When the Commission adopted this exception in the *Accounting Safeguards Order*, it explained that the narrow exception to the general rule was justified because an affiliate that provides services solely to the incumbent carrier's corporate family is established to take advantage of economies of scale and scope. The benefits of such economies of scale and scope are reflected in the affiliate's costs and are ultimately transferred to ratepayers through transactions with the incumbent carrier for such services valued at fully distributed costs. Requiring incumbent carriers to perform fair market valuations for such transactions would increase the cost to ratepayers while providing limited benefit.

The Commission does not adopt the proposal to expand the scope of the exception to the valuation rule. If the exception is applied based on an individual service being offered solely to the corporate family, while other services of the affiliate are subject to market valuation studies because they are offered to third parties, the risk of improper cross-subsidization increases. This risk of cost shifting between third party services and the incumbent carrier's services does not exist when the exception applies only to affiliates offering service within the corporate family.

5. *Section 32.5280(c) Subsidiary Record Requirement*. In the *NPRM*, the Commission sought comment on USTA's proposal to eliminate the § 32.5280(c) subsidiary record requirement. This rule requires carriers to maintain subsidiary record categories for each nonregulated revenue item recorded in Account 5280, Nonregulated operating revenue. The Commission simplifies the manner in which incumbent LECs record their nonregulated revenues, but does not eliminate § 32.5280(c) altogether. The Commission concludes that incumbent LECs do not need to break out each nonregulated revenue item; instead they may group their nonregulated revenues into two groups: 1 subsidiary record for all the revenues from regulated services treated as nonregulated for federal accounting purposes pursuant to Commission order and the second for all other nonregulated revenues.

6. *Accounts 1437 and 4361*. In the *NPRM*, the Commission sought comment on USTA's proposal to simplify deferred tax accounting by allowing carriers to book Account 1437, Deferred tax regulatory asset net of Account 4361, Deferred tax regulatory liability. The Commission concludes that netting Accounts 1437 and 4361 would simplify deferred tax accounting.

The Commission revises §§ 32.1437 and 32.4361 accordingly to reflect this change. The Commission retains the tax on tax gross up requirement in Part 32.

7. *Expense Limits*. Section 32.2000(a)(4) of the Commission's rules, 47 CFR 32.2000(a)(4), requires that the cost of individual items of equipment with a cost of $2000 or less or having a life of less than one year, classifiable in specified accounts, shall be charged to the applicable expense accounts rather than capitalized. The expense limit reduces the cost of maintaining property records for the acquisition, depreciation, and retirement of a multitude of low-cost, high-volume assets. This expense limit applies to equipment classifiable in Account 2112, Motor vehicles; Account 2113, Aircraft; Account 2114, Tools and other work equipment; Account 2122, Furniture; Account 2123, Office equipment; and Account 2124, General purpose computers, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of $500 or less, are charged to the applicable Plant Specific Operations Expense accounts.

The Commission concludes that the tools and test equipment located in the central office should be included in the $2000 limit because these assets are virtually the same as the tools and test equipment located in the general support function. Moreover, tools and test equipment are generally individual units rather than components of a larger unit. The Commission revises the expense limit rules to include the central office tools and test equipment.

The Commission concludes that it should not increase the expense limit to $2000 for personal computers. Personal computers should be subject to a special limit because of the nature of these assets. Individual personal computers are made up of relatively low cost components, such as the monitor, keyboard, and CPU, that should be looked at as a single unit for purposes of applying the expense limit. Moreover, although relatively low cost individually, personal computers are part of larger networks within each company and represent substantial investments. These investments should be capitalized. Accordingly, the Commission does not revise the rules regarding personal computers.

8. *Incidental Activities*. The Commission adopts the proposal in the *NPRM* to eliminate the ''treated traditionally'' requirement from incidental activities. Under § 32.4999(l) of the Commission's rules, 47 CFR 32.4999(l), revenues from minor nontariffed activities that are an outgrowth of the carrier's regulated activities may be recorded as regulated revenues under certain conditions. These activities, known as ''incidental activities,'' must: (1) Be an outgrowth of regulated operations; (2) have been treated traditionally as regulated; (3) be a non-line-of business activity; and (4) result in revenues that, in the aggregate, represent less than one percent of total revenues for three consecutive years. Accounting for incidental activities as regulated revenues obviates the need to make detailed cost allocations to remove the costs of the nonregulated activity from regulated costs. Carriers must list their incidental activities in their CAM. They may not add new incidental activities because of the ''treated traditionally'' criterion. Eliminating the ''treated traditionally'' criterion would permit carriers to add to their incidental activities, provided that the remaining three criteria were satisfied. The Commission finds that the three remaining criteria provide sufficient safeguards to prevent misuse of the incidental activities exception.

9. *Allocation of Costs at Class B Level*. Section 64.903 of the Commission's rules, 47 CFR 64.903, requires incumbent LECs with annual operating revenues from regulated telecommunications operations equal to or above a designated indexed revenue threshold, to file cost allocation manuals annually setting forth the procedures that they use to allocate costs between regulated and nonregulated services. In the *NPRM*, the Commission sought comment on USTA's proposal that all carriers have the option to allocate part 64 costs at a Class B level. The Commission does not adopt the proposal and concludes that it is necessary to continue to require Class A carriers to allocate costs at the Class A level for the Class A accounts needed for the administration of the universal service high-cost support mechanism, listed in Appendix E of the Report and Order.

10. *Section 32.16 Requirement for Implementing New Accounting Standards.* In the *NPRM*, the Commission sought comment on USTA's proposal to eliminate the § 32.16 requirement for notification and approval to implement new accounting standards prescribed by the Financial Accounting Standards Board (FASB). Section 32.16 of the Commission's rules, 47 CFR 32.16, requires carriers to revise their records and accounts to reflect new accounting standards prescribed by FASB. This section provides that Commission approval of a change in an accounting standard shall automatically take effect 90 days after a carrier notifies the Commission of its intention to follow a new standard and files a revenue requirement study for the current year analyzing the effects of the accounting standards changes. The Commission concludes that accounting standard changes often raise questions regarding exogenous treatment under price cap rules and that when they do, cost data must be available to resolve such issues. Additionally, mere compliance with GAAP does not ensure compliance with the Commission's rules. The Commission finds that the prior review period ensures uniformity in LEC accounting practices and allows the Commission to assess the implications of GAAP changes for LEC revenue requirements. The Commission retains the requirement for carriers to notify the Commission of their intentions to adopt a FASB change and how the carrier intends to implement this change. The Commission eliminates, however, the requirement to provide a revenue requirement study.

11. *Charges to Plant Accounts.* Section 32.2003(b) of the Commission's rules, 47 CFR 32.2003(b), is an exception to the general rule that construction costs are recorded in Construction Work-in-Progress accounts until the construction project is completed. It allows carriers to charge directly to the appropriate plant accounts the cost of any construction project that is estimated to be completed and ready for service within two months from the date on which the project was begun. In addition, this section allows carriers to charge directly to the plant accounts the cost of any construction project for which the gross additions to the plant are estimated to amount to less than $100,000. The purpose of this exception is to allow carriers to record short-term and small-cost construction projects directly to the plant accounts without having to first record these costs in the Construction Work-in-Progress accounts. In the *NPRM,* the Commission sought comment on USTA's proposal to permit carriers to record construction projects in the relevant account rather than a work-in-progress account. The Commission does not adopt USTA's proposal. Allowing carriers to set their own materiality levels for deciding when construction costs and assets should be capitalized would give carriers an incentive to capitalize large dollar amounts of uncompleted construction. The Commission's current rules ensure that carriers have an opportunity to earn the authorized rate of return on the interstate portion of all investment they

make in the telephone network, while reducing the amount recovered from ratepayers for assets under construction during the period in which they are under construction. The revenue requirement offset method effectively limits the amount that current ratepayers pay for assets prior to their placement into service. Moreover, allowing carriers to establish their own materiality level for capitalizing plant work in progress accounting, as proposed, would eliminate the uniformity and consistency in reporting that Part 32 strives to achieve. Consistency and uniformity in carriers' books of accounts should be maintained so that the Commission can readily compare their regulatory operating results.

12. *Continuing Property Records.* In the *NPRM*, the Commission sought comment on USTA's proposal to eliminate detailed requirements for property record additions, retirements, and recordkeeping. The property records consist of continuing property records (CPR) and all supplemental records necessary to provide the property record details required by the Commission. CPR records provide data for cost allocations studies used in state regulatory proceedings. In addition, these records provide material-only costs for accounting for transfers, reallocations, and adjustments of plant. State regulators rely heavily on the CPR records in their local ratemaking processes. For these reasons, the Commission does not adopt USTA's proposal.

13. *Cost Allocation Forecasts.* The Commission's cost allocation rules require that costs be allocated between regulated and nonregulated activities. Carriers are required to assign costs directly to regulated and nonregulated activities, whenever possible. Costs that cannot be directly assigned are known as ''shared'' or ''common costs'' and are allocated between regulated and nonregulated use based on a hierarchy of principles. Section 64.901(b)(4) of the Commission's rules, 47 CFR 64.901(b)(4), requires that carriers allocate the costs of central office equipment and outside plant investment between regulated and nonregulated activities based on a forecast of the relative regulated and nonregulated usage during a three calendar year period beginning with the current calendar year. The policy consideration underlying this rule recognizes that investment decisions are made in anticipation of future use. In the *NPRM*, the Commission sought comment on USTA's proposal to eliminate the forecast use rule. The Commission concludes that eliminating the forecast use rule for allocating joint investments between the carrier's regulated operations and nonregulated ''start up'' operations could result in the over-allocation of nonregulated costs to the LECs' regulated activities. Moreover, to the extent there is an overallocation of costs to the regulated books, that overallocation will flow through to the states through separations. As a consequence, ratepayers would be bearing a portion of the costs of deploying networks used to provide nonregulated activities in the future. The Commission finds that the three-year peak forecast method is a reasonable approach to allocating joint and common costs.

14. *Classification of Companies.* Section 32.11 of the Commission's rules, 47 CFR 32.11, divides companies into Class A and Class B for accounting purposes. This rule does not state that the accounting rules apply only to incumbent LECs. Currently, the Commission applies these requirements to incumbent LECs only, because they are the dominant carriers in their markets. In the *NPRM*, the Commission sought comment on whether § 32.11 should be amended so that its requirements explicitly pertain only to incumbent LECs. The Commission adopts the proposal and amends § 32.11 to specifically apply to incumbent LECs and any other companies that the Commission designates by order. Now that new carriers have entered the local exchange market, the Commission is conforming the rules to today's marketplace and replacing the term ''companies'' with ''incumbent LEC.''

II. ARMIS Reporting Requirements

A. *Consolidating ARMIS Reports.* In the *NPRM*, the Commission sought comment on USTA's proposal to eliminate most of ARMIS reporting. In particular, USTA proposed to combine the ARMIS 43–01, 43–02, 43–03, and 43–04 into one report, and have carriers report only at the aggregated operating company level. The Commission concludes that eliminating state-by-state ARMIS information would destroy the utility of ARMIS to states that wish to compare cost information of the incumbent LEC in their state to that incumbent LEC's costs in other states. The Commission does not adopt USTA's proposal.

B. *ARMIS Report 43–01 (Annual Summary Report).* The ARMIS 43–01 Annual Summary Report summarizes the carriers' accounting and cost allocation data prescribed in parts 32, 36, 64, 65, and 69 of the Commission's rules. It consists of Table I, an aggregated and comprehensive view of the carriers' financial and cost allocation data and Table II, a summary of demand in minutes of use and billable access lines. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43–01 Report on a study area basis.

Table I summarizes the carrier's costs and revenues as reported in the part 32 accounts (43–02 USOA Report), and shows the allocation of costs between regulated and nonregulated activities (43–03 Joint Cost Report), the separation of regulated costs between state and interstate jurisdictions, and the interstate costs used to support access elements (43–04 Separations and Access Report). The Commission does not adopt the proposal in the *NPRM* to eliminate the filing of Tables I and II. With respect to Table II, the Commission adopts the proposal to eliminate the Common Line Minutes of Use (rows 2010, 2020, 2030, and 2040). The remaining eight rows (2050, 2060, 2090, 2100, 2110, 2120, 2140, and 2150) will remain in Table II. Rows 2100, Residence Lifeline Access Lines and 2110, Residence Non-Lifeline Access Lines are needed by the Commission to track support amounts the Universal Service Administrative Company (USAC) pays to qualifying companies. In addition, all of these eight rows are needed by the Commission to verify data received in tariff filings.

C. *ARMIS Report 43–02 (USOA Report).* The ARMIS 43–02 Report provides the annual operating results of the carriers' telecommunications operations for every account in Part 32. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43–02 Report on an operating company basis. The 43–02 Report collects information about the carrier's ownership (Table C Series), balance sheet (Table B Series), and income statement accounts (Table I Series). Information collected in Tables B and I provides data about the carrier's financial accounts, including overall investment and expense levels, affiliate transactions, property valuations, and depreciation rates. The Commission does not adopt the proposal in the *NPRM* to automatically generate Table I–1 of the ARMIS 43–02 Report. In addition, the Commission does not adopt the proposal in the *NPRM* to add rows to ARMIS Report 43–02, tables for the reporting of metallic and non-metallic cable investment and expense.

D. *ARMIS Report 43–03 (Joint Cost Report).* The ARMIS 43–03 Report contains the allocation of the carriers' revenues, expenses, and investments between regulated and nonregulated activities. All incumbent LECs with annual operating revenues for the preceding year equal to or above the indexed revenue threshold file the 43–03 Report on a study area basis. In the *NPRM*, the Commission proposed to reduce the number of columns currently reported on the 43–03 Report by eliminating the distinction between ''SNFA and Intra-co. Adjustments'' and ''Other Adjustments'' and combining these columns into one column entitled ''Adjustments.'' The Commission finds no significant regulatory need to retain the ''SNFA and Intra-co. Adjustments'' column and therefore adopts the proposal. The Commission also makes a conforming change to the 43–01 Report.

E. *ARMIS Report 43–04 (Separations and Access Report).* The Commission revises the ARMIS 43–04 (Separations and Access) Report to reduce the data required to be reported during the interim freeze of certain jurisdictional cost categories and allocation factors prescribed in part 36 of the Commission's rules. Carriers will file this revised ARMIS 43–04 Report on April 1, 2002, and on an annual basis thereafter for the duration of the freeze. The Commission adopts the streamlined ARMIS 43–04 Table I–Separations and Access Table, attached as Appendix G of the Report and Order. This revised ARMIS 43–04 will be filed on April 1, 2002, and on an annual basis thereafter, for the duration of the separations freeze.

F. *ARMIS 43–07 (Infrastructure Report).* The ARMIS 43–07 Report collects data about the carrier's switching and transmission equipment, call set up time, and cost of total plant in service. This report is prescribed for every mandatory price cap carrier. The report is filed on a study area and holding company level. The report captures trends in telephone industry infrastructure development under price cap regulation. Policymakers at the federal and state levels use this information, which is critical data not available through other public sources. The information collected in ARMIS 43–07 provides the Commission with information about the infrastructure—capacity, and operating characteristics of the vast majority of the nation's wireline network—basic infrastructure information on carriers that provide service to 93 percent of the Nation's customers.

Table I—Switching Equipment. In the *NPRM*, the Commission proposed to eliminate the collection of outdated information and to collect information on newer technologies. In Table I (Switching Equipment), the Commission proposed to eliminate all reporting requirements for electromechanical switches (rows 0130–0141). For the year 2000, the total for all reporting companies of electromechanical switches was zero. The Commission concludes that there is little value in requiring carriers to continue to report that they have no electromechanical switches. Therefore, the Commission adopts the proposal in the *NPRM* and eliminates all reporting requirements for electromechanical switches (rows 0130–0141).

The Commission also proposed to eliminate reporting requirements for analog stored-program-control (ASPC) and digital stored-program-control (DSPC) switches except for the total number of switches and lines served (retain rows 0150, 0160, 0170 and 0180; eliminate rows 0151–0155, 0161, 0171–0175, and 0181). The Commission finds that there is no regulatory need for carriers to report percentages and eliminates rows 0151, 0153, 0155, 0161, 0171, 0173, 0175, and 0181. For the year 2000, the total reported in row 154 (ASPC Tandems) was two. The Commission finds that there is little value in requiring carriers to continue to report such a minimal quantity, and therefore eliminates row 0154. The Commission also concludes that there is also no need to require carriers to report row 0152 (ASPC Local Switches), which is substantially the same as the Total ASPC switches in row 0150; and therefore eliminates row 0152. Similarly, because row 0170 is substantially the sum of row 0172 plus row 0174, the Commission eliminates rows 0172 and 0174.

The Commission notes that for the year 2000 virtually all the reporting carriers' access lines had equal access and touch-tone capability. The Commission concludes that there is little value in continuing to require these carriers to report the data regarding touch-tone capability and equal access, and eliminates all such reporting requirements (rows 0190–0221).

With respect to reporting of information related to Signaling System 7 (SS7) and integrated services digital network (ISDN) capabilities, the Commission concludes that there is no need for carriers to report percentages, as any interested party can easily calculate them. Therefore, the Commission is eliminating rows 0231, 0233, 0235, 0237, 0241, 0247, 0251, 0257, 0271, 0281, 0291, and 0301.

In addition, the Commission notes that most switches equipped with SS7–394 capability are also equipped with SS7–317 capability; therefore, the data reported in the interLATA and intraLATA rows for switches and tandems in this section are almost identical. Having carriers report information in both the row for SS7–394 capability and the row for SS7–317 capability appears to be superfluous. Therefore, the Commission is eliminating rows 0234, 0236, 0246, and 0256. The Commission is renaming row 0230 ''Total switches equipped with SS7.'' The Commission is renaming row 0240 ''Local switches equipped with SS7'' and row 0250 ''Tandems equipped with SS7.'' The Commission concludes that there is no need to continue reporting the number of lines with SS7 service because that is essentially the same as row 0120 and eliminates row 0232.

Table II—Transmission Facilities. In the first section of Table II, ''Sheath Kilometers,'' carriers report data on transmission facilities within their operating areas. Carriers use either analog or digital technology on copper wire, coaxial cable, fiber, radio, and other media. In the *NPRM*, the Commission proposed to change the title ''Sheath Kilometers'' to ''Loop Sheath Kilometers'' and to narrow the collection of data to only local loop facilities connecting customers to their serving offices. The Commission concludes that this information would be more useful for policymakers and interested parties if it were narrowed to local loop facilities connecting customers to their service offices. Therefore, the Commission changes the title to ''Loop Sheath Kilometers'' and limits the collection of data to local loop facilities.

In the second section of Table II, ''Interoffice Working Facilities,'' total circuit links are reported for baseband, analog carrier, and digital carrier. The Commission sought comment on whether to eliminate the reporting requirements that further distinguish baseband, analog, and digital (rows 0331, 0332, 0333, 0350, 0351, 0352, 0360, 0361, 0362, 0363). The Commission concludes that these data are often reported in an inconsistent manner by the carriers, and therefore are not reliable for benchmarking purposes. The Commission eliminates these rows.

In the *NPRM*, the Commission proposed to eliminate reporting of fiber strands terminated at the customer premises at the DS–0 rate (row 0481) and fiber strands terminated at the customer premises at the DS–2 rate (row 0483) from the fourth section of Table II, ''Other Transmission Facility Data.'' The Commission concludes that virtually no incumbent LEC reports the termination of DS–2 level services at the customer premises, and therefore row 0483 does not provide useful information and should be eliminated. The Commission also eliminates row 0481 (DS–0 rate) because DS–0 level services are generally bundled into DS–1 size packages, and by capturing the required information at the DS–1 level, the Commission does not need to collect the information at the DS–0 level. Row 0482 (DS–1) will be renamed, because fiber is terminated at customer premises at the DS–3 level or greater, and referring to fiber terminations at the DS–1 level is inaccurate.

The Commission also sought comment on adding information on hybrid fiber-copper loop interface locations, number of customers served from these interface locations, xDSL customer terminations associated with hybrid fiber-copper loops, and xDSL customer terminations associated with non-hybrid loops. Such information is not presently collected through any federal reporting program. The Commission finds that the addition of these rows to ARMIS would help satisfy an immediate and pressing need to assess the penetration of fiber in the local loop and gauge the development of broadband infrastructure. Hybrid architectures will likely become increasingly important in providing broadband services and are directly relevant to current criticisms by new entrants that the new architectures are systematically diminishing their ability to provide competing DSL service to end-user retail customers. The Commission concludes that there is a present federal regulatory need, at least for the near term, to collect such data to evaluate the effects of our public policy decisions and to consider whether more market-oriented approaches are appropriate. Therefore, the Commission is adding the following rows to ARMIS: ''Hybrid Fiber/Metallic Loop Interface Locations,'' ''Switched Access Lines Served from Interface Locations,'' ''Total xDSL Terminated at Customer Premises,'' and ''xDSL Terminated at Customer Premises via Hybrid Fiber/Metallic Interface Locations.''

Table III—ILEC Call Set-up Time. In Table III, information is provided about incumbent LEC call set-up time for calls delivered by the incumbent LEC to interexchange carriers. The Commission concludes that this information was important when carriers used different signaling systems, but now that SS7 is predominant, there is little difference among LECs. Therefore, the Commission eliminates Table III.

Table IV—Additions and Book Costs. In Table IV, carriers report data concerning total access lines in service, access line gain, and total gross capital expenditures. This information provides data on carriers' actions to maintain and upgrade the network. The data in this table are at the study-area level. Similar data in the ARMIS 43–02 Report are available at either the operating-company or company-study-area (state) level, but are not directly comparable to these data. The Commission eliminates the filing of this table because similar data are available in other ARMIS reports or can be generated by reference to other ARMIS reports.

G. *ARMIS 43–08 (Operating Data Report).* The ARMIS 43–08 Report collects data about the carrier's outside plant, access lines in service by technology and by customer, number of telephone calls, and billed access minutes.

Table I.A—Outside Plant Statistics—Cable and Wire Facilities. The Commission sought comment on whether to eliminate the reporting requirements in Table 1.A (Outside Plant Statistics—Cable and Wire Facilities), that distinguish among aerial, underground, buried, submarine, deep sea, and intrabuilding cable plant (columns d–o). The Commission concludes that columns d through i, n, and o are useful and should not be eliminated. Columns j, k, l, and m, however, can be eliminated because little, if any, data are reported for these categories. Therefore, the Commission is eliminating columns j, k, l, and m.

Table I.B—Outside Plant Statistics—Other. The Commission proposed to eliminate the reporting of information on satellite channels and video circuits for carriers' radio relay and microwave systems (columns be, bj, bm). Due to changes in technology, data collected in these areas no longer are relevant to the Commission's policy analysis on various issues. Therefore, the Commission is eliminating these three columns.

Table II—Switched Access Lines in Service by Technology. The Commission proposed to eliminate the distinction between analog and digital lines, and require carriers to report the total of main access lines, PBX and Centrex units, and Centrex extensions (retain columns cc, cd, and ce on a total basis; and eliminate columns cf, cg, and ch). The Commission concludes that this information would be more useful if provided on a total basis, instead of disaggregated by analog and digital. Due to changes in technology, data collected in some of these areas no longer provides relevant information. Therefore, the Commission is adopting the proposal in the *NPRM*, and eliminating the distinction between analog and digital by eliminating columns cf, cg, and ch.

Table III—Access Lines in Service by Customer. The Commission proposed to narrow the information collection to total number of Business Access Lines (Single-Line and Multi-Line) and Residential Access Lines (Lifeline/Non-Lifeline and Primary/Non-Primary). The Commission also sought comment on whether Special Access Lines (Analog and Digital) (columns dk and dl) provide accurate information about the carriers' provision of special access lines and whether there is a need for clarification of this reporting requirement. The Commission concludes that extensive structural changes to Table III are warranted. The Commission eliminates the column for Mobile Access Lines, because little, if any, data are reported for this category. The revised table will also contain new columns matching the revised data requirements. Columns ''Single Line Business Access Lines'' and ''Multiline Business Access Lines'' will be under the ''Business Switched Access Lines'' heading. Columns ''Lifeline Access Lines,'' ''Non-Lifeline Primary Access Lines,'' and ''Non-Lifeline Non-Primary Access Lines'' will be under the ''Residential Switched Access Lines'' heading. A column ''Local Private Lines'' is added. Finally, the Commission concludes that the instructions and definitions for columns dk and dl are sufficiently clear and that there is no need to revise or clarify them.

III. Relief for Mid-Sized Carriers

A mid-sized carrier is defined as a carrier whose operating revenue equals or exceeds the indexed revenue threshold, and whose revenue when aggregated with the revenues of any LEC that it controls, is controlled by, or with which it is under common control is less than $7 billion. Previously, the Commission permitted mid-sized carriers to file financial ARMIS reports at a Class B level of detail and allowed these LECs to submit CAMs based on Class B accounts and to obtain an attestation every two years in lieu of an annual financial audit. *See* 1998 Biennial Regulatory Review—Review of Accounting and Cost Allocation Requirements, *Report and Order in CC Docket 98–81, Order on Reconsideration in CC Docket No. 96–150, and Fourth Memorandum Opinion and Order in AAD File No. 98–43*, 64 FR 50002 (9–15–1999). In the *NPRM*, the Commission proposed to eliminate mandatory annual CAM filings and biennial CAM attestation engagements for mid-sized carriers. The Commission adopts this proposal. Mid-sized carriers no longer will be required to annually file a CAM, they, like all other carriers, must be prepared to produce documentation of how they separate regulated from nonregulated costs to the Common Carrier Bureau, upon request. The Commission also adopts the proposal in the *NPRM* to eliminate the requirement that CAMs of mid-sized carriers be subject to an attest audit every two years. Instead of requiring mid-sized carriers to incur the expense of a biennial attestation engagement, they will file a certification with the Commission stating that they are complying with § 64.901 of the Commission's rules. The certification must be signed, under oath, by an officer of the incumbent LEC, and filed with the Commission on an annual basis.

In the *NPRM*, the Commission proposed eliminating the ARMIS 43–02, 43–03, and 43–04 reporting requirements for mid-sized carriers. The Commission adopts this proposal. The Commission concludes that the mid-sized carriers will not be required to file the ARMIS 43–02, 43–03, or 43–04 Reports, for 2002 data. Mid-sized carriers will, however, file these ARMIS reports on April 1, 2002, for 2001 data.

The mid-sized carriers will continue to file the ARMIS 43–01 and 43–08 Reports. The Commission notes that in addition to information contained in ARMIS Reports 43–01 and 43–08, other accounting information from mid-sized carriers is used to develop inputs for the universal service model. While mid-sized carriers no longer are required to report certain information in ARMIS, the Commission expects those companies will maintain sufficient information to be able to produce the data, listed in Appendix E of the Report and Order, upon request. In addition, mid-sized incumbent LECs should continue to maintain subsidiary record categories to provide the data currently provided in the Class A accounts, which are necessary to calculate just and reasonable pole, duct, conduit, and right-of-way attachment rates pursuant to section 224 of the Communications Act. These carriers must report this information, necessary for the Commission and interested parties to calculate and verify attachment rates, in ARMIS, so that the information is publicly available and verifiable.

The Commission indexes the $7 billion threshold that divides the mid-sized carriers and the larger Class A carriers. The Commission concludes it would be analytically consistent with § 402(c) to henceforth index for inflation the revenue threshold that separates the larger Class A carriers and the mid-sized carriers.

Waivers for Roseville and CenturyTel. Due to the significant changes adopted in this Report and Order to the Chart of Accounts and the reporting requirements for mid-sized carriers, the Commission is waiving the ARMIS reporting requirements and CAM attestation requirements for Roseville and CenturyTel for the years 2000 and 2001. These two mid-sized companies have yet to file ARMIS reports for 2000. Without a waiver, these companies would be required to prepare ARMIS reports for the years 2000 and 2001 based on the old chart of accounts. The ARMIS reports filed on April 1, 2003 (i.e., for year 2002) will be based on the new chart of accounts adopted in this report and order. Similarly, the Commission is also waiving the requirements for a CAM attestation for these mid-sized incumbent LECs. The attestation cannot take place until the ARMIS reports are prepared. The Commission cannot, therefore, require a CAM attestation until after the ARMIS reports are filed and a CAM attestation will no longer be required of mid-sized companies under the rules adopted in the Report and Order.

Regulatory Flexibility Analysis

Final Regulatory Flexibility Analysis

As required by the Regulatory Flexibility Act (RFA), an Initial Regulatory Flexibility Analysis (IRFA) was incorporated in 2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3, CC Docket No. 00–199, *Notice of Proposed Rulemaking* 65 FR 67675 (11–13–2000) (*NPRM*) and ''Commission Seeks Further Comment in Phase 2 of the Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers,'' *Public Notice*, 66 FR 33938 (6–26–2001) (*June 8 Public Notice*) seeking further comment in this proceeding. The Commission has prepared this Final Regulatory Flexibility Analysis (FRFA) of any possible significant economic impact on small entities by the adoption of rules in the *Report and Order*.

Need for, and Objectives of, this Report and Order. Under our rules, there are two classes of incumbent LECs for accounting purposes: Class A and Class B. Carriers with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold, currently $117 million, are classified as Class A; those falling below that threshold are considered Class B. Class A carriers (operating companies of SBC, Qwest, Verizon, and BellSouth) have been required to maintain 296 Class A accounts, which provide more detailed records of investment, expense, and revenue than the 113 Class B accounts that Class B carriers are required to maintain. The more generalized level of accounting required under Class B was established to accommodate smaller carriers. In the *Report and Order*, the Commission streamlines the Class A and Class B accounts and ARMIS reporting requirements for incumbent LECs, and further reduces the accounting and reporting requirements for mid-sized incumbent LECs. In addition, this *Report and Order* eliminates the certain inventory requirements; allows carriers to adopt SFAS–116 for federal accounting purposes; eliminates the requirement for a fair market value comparison for asset transfers under $500,000; eliminates the ''treated traditionally'' requirement from ''incidental activities'; modifies the expense limit rules to include central office tools and test equipment in the expense limit; and amends section 32.11 of the Commission's rules to expressly limit the rule to incumbent LECs. Finally, the Commission modifies the ARMIS reporting requirements to eliminate out-of-date requirements and to add reporting for new technologies. These rule changes generally reduce the accounting and reporting requirements for all incumbent LECs.

Summary of Significant Issues Raised by Commenters. No comments were received in response to the IRFA in the *NPRM* or the IRFA in the *June 8 Public Notice*. Several commenters, in the initial comments in this proceeding, suggested completely eliminating ARMIS reporting for mid-sized LECs.

Description and Estimate of the Number of Small Entities to which the Rules Will Apply. The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted. To estimate the number of small entities that may be affected by the proposed rules, the Commission first considers the statutory definition of ''small entity'' under the RFA. The RFA generally defines ''small entity'' as having the same meaning as the term ''small business,'' ''small organization,'' and ''small governmental jurisdiction.'' In addition, the term ''small business'' has the same meaning as the term ''small business concern'' under the Small Business Act, unless the Commission has developed one or more definitions that are appropriate to its activities. Under the Small Business Act, a ''small business concern'' is one that: (1) Is independently owned and operated; (2) is not dominant in its field of operation; and (3) meets any additional criteria established by the Small Business Administration (SBA).

The Commission has included small incumbent LECs in this present RFA analysis. A ''small business'' under the RFA is one that, inter alia, meets the pertinent small business size standard (e.g., a telephone communications business having 1,500 or fewer employees), and ''is not dominant in its field of operation.'' The SBA's Office of Advocacy contends that, for RFA purposes, small incumbent LECs are not dominant in their field of operation because any such dominance is not ''national'' in scope. The Commission has therefore included small incumbent LECs in this RFA analysis, although we emphasize that this RFA action has no effect on Commission analyses and determinations in other, non-RFA contexts.

Wireline carriers (incumbent LECs). According to Trends in Telephone Service, there were 1,335 incumbent local exchange carriers filing the FCC Form 499-A on April 1, 2000. Of these carriers, 1,037 had, in combination with affiliates, 1,500 or fewer employees and 298 had, in combination with affiliates, more than 1,500 employees. Some of these carriers may not be independently owned or operated, but we are unable at this time to estimate with greater precision the number of wireline carriers that would qualify as small business concerns under SBA's definition. Consequently, we estimate that there are fewer than 1,037 wireline small entities that may be affected by the rules adopted in the *Report and Order.*

The changes to the accounting and reporting requirements in this *Report and Order*, are for the most part, reductions in the Commission's accounting and reporting requirements. These rule changes could affect all incumbent local exchange carriers. Some of these companies may be considered ''small entities'' under the SBA definition. Therefore, it is possible that some of the 1,037 small entity telephone companies may be affected by the rule changes. The increased ARMIS reporting requirements will only affect the Bell Operating Companies, none of which are small entities. There are several new subaccounts adopted in this *Report and Order* for Class A carriers, although the total number of accounts is substantially reduced. These new subaccounts are Class A subaccounts, and will be maintained by the Bell Operating Companies only.

Description of Projected Reporting, Recordkeeping, and Other Compliance Requirements. This *Report and Order* generally reduces accounting and reporting requirements for all incumbent local exchange companies. These rule changes will result in fewer accounting and reporting requirements for all incumbent local exchange carriers, including small entities. This *Report and Order* has several new accounting and ARMIS reporting requirements that apply to the Bell Operating Companies only. For instance, the *Report and Order* adds several Class A subaccounts; however, these will be maintained by the largest incumbent LECs (i.e., Bell Operating Companies) only. Small entities will not have any additional accounting or ARMIS reporting requirements.

Steps Taken to Minimize Significant Economic Impact on Small Entities, and Significant Alternatives Considered. The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): (1) The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance or reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities.

This *Report and Order* significantly reduces accounting and reporting requirements for the smaller (i.e., ''mid-sized'') incumbent LECs, which may include small entities. Specifically, the *Report and Order* eliminates the cost allocation manual filing requirements and biennial attestation requirement for mid-sized LECs. In addition, the *Report and Order* eliminates the requirement that mid-sized LECs file ARMIS 43–02, 43–03, and 43–04 Reports. Generally, the rule changes adopted herein result in fewer accounting and reporting requirements for all incumbent LECs (except for several new accounting and ARMIS reporting requirements that apply to the Bell Operating Companies only). Several commenters suggested completely eliminating ARMIS reporting for mid-sized carriers. The Commission rejected that alternative primarily due to the need to obtain information used to compute non-rural carrier universal service high-cost support. The Commission retains the requirement that mid-sized carriers file the ARMIS 43–01and 43–08 Reports. Data in these reports are used to develop inputs to the high cost model for universal service purposes and develop inputs to models used to determine forward-looking economic costs in UNE ratemaking proceedings.

Report to Congress. The Commission's Consumer Information Bureau, Reference Information Center shall include a copy of this *Report and Order* and Final Regulatory Flexibility Analysis in a report to be sent to Congress pursuant to the Congressional Review Act. In addition, the Commission will send a copy of the *Report and Order,* including the Final Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration. A copy of the *Report and Order,* including the Final Regulatory Flexibility Analysis (or summaries thereof) will also be published in the **Federal Register**.

Ordering Clauses

Pursuant to sections 1, 4, 201–205, 215, and 218–220 of the Communications Act of 1934, as amended, 47 U.S.C. sections 151, 154, 201–205, 215, and 218–220, parts 32, 43, 51, 54, 64, 65, and 69 of the Commission's rules, 47 CFR Parts 32, 43, 51, 54, 64, 65, and 69, are amended as described previously.

Pursuant to section 220(g) of the Communications Act of 1934, as amended, 47 U.S.C. 220)(g), changes to part 32, System of Accounts, adopted in the Report and Order shall take effect August 6, 2002, following OMB approval, unless a notice is published in the **Federal Register** stating otherwise. Carriers may implement part 32 accounting changes as of January 1, 2002.

The proceeding in CC Docket No. 97–212 is terminated.

Pursuant to the authority contained in sections 1, 4(i), 4(j), 201–205, 215, and 218–220 of the Communications Act of 1934, as amended, 47 U.S.C. 151, 154(i), 154(j), 201–205, 215, and 218–220, that FCC Report 43–04, the Separations and Access Report is revised, as set forth in the rule changes, for filings due April 1, 2002.

Pursuant to the authority contained in sections 1, 4(i), 4(j), 201–205, 215, and 218–220 of the Communications Act of 1934, as amended, 47 U.S.C. 151, 154(i), 154(j), 201–205, 215, and 218–220, that revisions to FCC Report 43–01, the Annual Summary Report; FCC Report 43–02, the USOA Report; FCC Report

43–03, the Joint Cost Report; FCC Report 43–07, the Infrastructure Report; and 43–08, the Operating Data Report as set forth in the Report and Order, shall be for filings due April 1, 2003.

Pursuant to the authority contained in § 0.291 of the Commission's rules, 47 CFR 0.291, that the Common Carrier Bureau is delegated authority to implement all changes to ARMIS reporting as set forth.

The Commission's Consumer Information Bureau, Reference Information Center, shall send a copy of this Report and Order, including the two Regulatory Flexibility Analyses, to the Chief Counsel for Advocacy of the Small Business Administration.

List of Subjects in 47 CFR Parts 32, 43, 51, 54, 64, 65, and 69

Communications Common Carriers, Reporting and recordkeeping requirements, Telephone.

Federal Communications Commission.

William F. Caton,

Deputy Secretary.

Rules Changes

For the reasons discussed in the preamble, the Federal Communications Commission amends parts 32, 43, 51, 54, 64, 65, and 69 of title 47 of the CFR as follows:

PART 32—UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES

1. The authority citation for part 32 continues to read as follows:

Authority: 47 U.S.C. 154(i), and 154(j) and 220 as amended, unless otherwise noted.

2.–3. Section 32.11 is revised to read as follows:

§ 32.11 Classification of companies.

(a) For purposes of this section, the term ''company'' or ''companies'' means incumbent local exchange carrier(s) as defined in section 251(h) of the Communications Act, and any other carriers that the Commission designates by Order.

(b) For accounting purposes, companies are divided into classes as follows:

(1) *Class A.* Companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.

(2) *Class B.* Companies having annual revenues from regulated telecommunications operations that are less than the indexed revenue threshold.

(c) Class A companies, except mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all the accounts of this system of accounts which are applicable to their affairs and are designated as Class A accounts. Class A companies, which include mid-sized incumbent local exchange carriers, shall keep Basic Property Records in compliance with the requirements of §§ 32.2000(e) and (f).

(d) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000, shall keep all accounts of this system of accounts which are applicable to their affairs and are designated as Class B accounts. Mid-sized incumbent local exchange carriers shall also maintain subsidiary record categories necessary to provide the pole attachment data currently provided in the Class A accounts. Class B companies shall keep Continuing Property Records in compliance with the requirements of §§ 32.2000(e)(7)(i)(A) and 32.2000(f).

(e) Class B companies and mid-sized incumbent local exchange carriers, as defined by § 32.9000 of this part, that desire more detailed accounting may adopt the accounts prescribed for Class A companies upon the submission of a written notification to the Commission.

(f) The classification of a company shall be determined at the start of the calendar year following the first time its annual operating revenue from regulated telecommunications operations equals, exceeds, or falls below the indexed revenue threshold.

§ 32.13 [Amended]

4. Section 32.13 is amended by removing paragraph (a)(1) and redesignating paragraphs (a)(2) and (a)(3) as (a)(1) and (a)(2).

5. Section 32.14 is amended by revising paragraph (e) to read as follows:

§ 32.14 Regulated accounts.

* * * * *

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telephone companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in Account 5200, Miscellaneous revenue.

* * * * *

6. Section 32.16 is amended by revising paragraph (a) to read as follows:

§ 32.16 Changes in accounting standard.

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. The change in an accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Any change adopted shall be disclosed in annual reports required by § 43.21(f) of this chapter in the year of adoption.

* * * * *

7. Section 32.24 is amended by revising paragraph (b) to read as follows:

§ 32.24 Compensated absences.

* * * * *

(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this part, the liability shall be recorded in Account 4130. Other current liabilities, with a corresponding entry to Account 1438, Deferred maintenance, retirements and other deferred charges. This deferred charge shall be amortized on a straight-line basis over a period of ten years.

* * * * *

8. Section 32.27 is revised to read as follows:

§ 32.27 Transactions with affiliates.

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at no less than the higher of fair market value and net book cost. For all other assets sold by or transferred to a carrier from its affiliate, the assets shall be recorded at no more than the lower of fair market value and net book cost.

(1) *Floor.* When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules on a going-forward basis. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services sold by or transferred from a carrier to its affiliate, the services shall be recorded at no less than the higher of fair market value and fully distributed cost. For all other services sold by or transferred to a carrier from its affiliate, the services shall be recorded at no more than the lower of fair market value and fully distributed cost.

(1) *Floor.* When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(2) *Ceiling.* When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

(3) *Threshold.* For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 25 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 25 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product-line or service-line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

9. Section 32.101 is revised to read as follows:

§ 32.101 Structure of the balance sheet accounts.

The Balance Sheet accounts shall be maintained as follows:

(a) Account 1120, Cash and equivalents, through Account 1500, Other jurisdictional assets—net, shall include assets other than regulated-fixed assets.

(b) Account 2001, Telecommunications plant in service, through Account 2007, Goodwill, shall include the regulated-fixed assets.

(c) Account 3100, Accumulated depreciation through Account 3410, Accumulated amortization—capitalized leases, shall include the asset reserves except that reserves related to certain asset accounts will be included in the asset account. (See §§ 32.2005, 32.2682 and 32.2690.)

(d) Account 4000, Current accounts and notes payable, through Account 4550, Retained earnings, shall include all liabilities and stockholders equity.

10. Section 32.103 is revised as follows:

§ 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.

Balance sheet accounts to be maintained by Class A and Class B telephone companies for other than regulated-fixed assets are indicated as follows:

BALANCE SHEET ACCOUNTS

Account title	Class A account	Class B account
Current assets		
Cash and equivalents	1120	1120
Receivables	1170	1170
Allowance for doubtful accounts	1171	1171
Supplies:		
Material and supplies	1220	1220
Prepayments	1280	1280
Other current assets	1350	1350
Noncurrent assets		
Investments:		
Nonregulated investments	1406	1406
Other noncurrent assets	1410	1410
Deferred charges:		
Deferred maintenance, retirements and other deferred charges	1438	1438
Other:		
Other jurisdictional assets-net	1500	1500

11. Section 32.1120 is revised to read as follows:

§ 32.1120 Cash and equivalents.

(a) This account shall include the amount of current funds available for use on demand in the hands of financial officers and agents, deposited in banks or other financial institutions and also funds in transit for which agents have received credit.

(b) This account shall include the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due one year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within one year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished.

(c) Cash on special deposit to be held for more than one year from the date of deposit shall be included in Account 1410, Other noncurrent assets.

(d) This account shall include the amount of cash advanced to officers, agents, employees, and others as petty cash or working funds from which expenditures are to be made and accounted for.

(e) This account shall include the cost of current securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character.

(f) Accumulated changes in the net unrealized losses of current marketable equity securities shall be included in the determination of net income in the period in which they occur in Account 7300, Other Nonoperating Income and Expense.

(g) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts of temporary investments that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

§§ 32.1130, 32.1140, 32.1150, and 32.1160 [Removed]

12. Sections 32.1130 32.1140, 32.1150, and 32.1160 are removed.

13. Section 32.1170 is added to read as follows:

§ 32.1170 Receivables.

(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis:

(1) Amounts due from customers who are receiving telecommunications service.

(2) Amounts due from customers who are not receiving service and whose accounts are in process of collection.

(b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded.

(c) Cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue.

(d) Amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned.

(e) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds.

(f) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investment.

(g) This account shall include all amounts currently due, and not provided for in (a) through (g) of this section such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts. If any of these items are not to be paid currently, they shall be transferred to Account 1410, Other noncurrent assets.

(h) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

14. Section 32.1171 is added to read as follows:

§ 32.1171 Allowance for doubtful accounts.

(a) This account shall be credited with amounts charged to Accounts 5300, Uncollectible revenue, and 6790, Provision for uncollectible notes receivable to provide for uncollectible amounts related to accounts receivable and notes receivable included in Account 1170, Receivables. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1170. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 5300, Uncollectible revenue or directly to Account 6790, Provision for uncollectible notes receivable, as appropriate.

(c) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

§§ 32.1180, 32.1181, 32.1190, 32.1200, 32.1201, and 32.1210 [Removed]

15. Sections 32.1180 32.1181, 32.1190, 32.1200, 32.1201, and 32.1210 are removed.

16. Section 32.1220 is amended by revising paragraphs (g) and (h) to read as follows:

§ 32.1220 Inventories.

* * * * *

(g) Interest paid on material bills, the payments of which are delayed, shall be charged to Account 7500, Interest and related items.

(h) Inventories of material and supplies shall be taken periodically or frequently enough for reporting purposes, as appropriate, in accordance with generally accepted accounting principles. The adjustments to this account shall be charged or credited to Account 6512, Provisioning expense.

* * * * *

17. Section 32.1280 is revised to read as follows:

§ 32.1280 Prepayments.

This account shall include:

(a) The amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the rents are paid, this account shall be credited monthly and the appropriate account charged.

(b) The balance of all taxes, other than amounts chargeable to telecommunication plant under construction and minor amounts which may be charged to the final accounts, paid in advance and which are chargeable to income within one year. As the term expires for which the taxes are paid, this account shall be credited monthly and the appropriate account charged.

(c) The amount of insurance premiums paid in advance of the period in which they are chargeable to income, except premiums chargeable to telecommunications plant under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the premiums are paid, this account shall be credited monthly and the appropriate account charged.

(d) The cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged directly to Account 6620, Services. Amounts in this account shall be cleared to Account 6620 by monthly charges representing that portion of the expenses applicable to each month.

(e) Other prepayments not included in paragraphs (a) through (d) of this section except for minor amounts which may be charged directly to the final accounts. As the term expires for which the payments apply, this account shall be credited monthly and the appropriate account charged.

§§ 32.1290, 32.1300, 32.1310, 32.1320, and 32.1330 [Removed]

18. Sections 32.1290 32.1300, 32.1310, 32.1320, and 32.1330 are removed.

19. Section 32.1350 is revised to read as follows:

§ 32.1350 Other current assets.

This account shall include the amount of all current assets which are not includable in Accounts 1120 through 1280.

§§ 32.1401 and 32.1402 [Removed]

20. Sections 32.1401 and 32.1402 are removed.

§ 32.1406 [Amended].

21. Section 32.1406 is amended by removing paragraph (b) and designating paragraph (a) as an undesignated paragraph.

§§ 32.1407 and 1408 [Removed]

22. Sections 32.1407 and 32.1408 are removed.

23. Section 32.1410 is revised to read as follows:

§ 32.1410 Other noncurrent assets.

(a) This account shall include the acquisition cost of the company's investment in equity or other securities issued or assumed by affiliated companies, including securities held in special funds (sinking funds). The carrying value of the investment (securities) accounted for on the equity method shall be adjusted to recognize the company's share of the earnings or losses and dividends received or receivable of the affiliated company from the date of acquisition. (Note also Account 1170, Receivables, and Account 7300, Nonoperating income and expense.)

(b) This account shall include the acquisition cost of the Company's investment in securities issued or assumed by nonaffiliated companies and individuals, and also its investment advances to such parties and special deposits of cash for more than one year from date of deposit.

(c) Declines in value of investments, including those accounted for under the cost method, shall be charged to Account 4540, Other capital, if temporary and as a current period loss if permanent. Detail records shall be maintained to reflect unrealized losses for each investment.

(d) This account shall also include advances represented by book accounts only with respect to which it is agreed or intended that they shall be either settled by issuance of capital stock or debt; or shall not be subject to current cost settlement.

(e) Amounts due from affiliated and nonaffiliated companies which are subject to current settlement shall be included in Account 1170, Receivables.

(f) This account shall include the total unamortized balance of debt issuance expense for all classes of outstanding long-term debt. Amounts included in this account shall be amortized monthly and charged to account 7500, Interest and related items.

(g) Debt Issuance expense includes all expenses in connection with the issuance and sale of evidence of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; costs of engraving and printing bonds, certificates of indebtedness, and other commercial paper; fees paid trustees;

specific costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen; fees and expenses of listing on exchanges, and other like costs. A subsidiary record shall be kept of each issue outstanding.

(h) This account shall include the amount of cash and other assets which are held by trustees or by the company's treasurer in a distinct fund, for the purpose of redeeming outstanding obligations. Interest or other income arising from funds carried in this account shall generally be charged to this account. A subsidiary record shall be kept for each sinking fund which shall designate the obligation in support of which the fund was created.

(i) This account shall include the amount of all noncurrent assets which are not includable in paragraphs (a) through (h) of this section.

(j) A subsidiary record shall be kept identifying separately common stocks, preferred stocks, long-term debt, advances to affiliates, and investment advances. A subsidiary record shall also be kept identifying special deposits of cash for more than one year from the date of deposit. Further, the company's record shall identify the securities pledged as collateral for any of the company's long-term debt or short-term loans or to secure performance of contracts.

(k) Subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to the equity method and the cost method. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

§ 32.1437 [Removed]

24. Section 32.1437 is removed.

25. Section 32.1438 is amended by revising paragraph (a) to read as follows:

§ 32.1438 Deferred maintenance, retirements and other deferred charges.

(a) This account shall include such items as:

(1) The unprovided-for loss in service value of telecommunications plant for extraordinary nonrecurring retirement not considered in depreciation and the cost of extensive replacements of plant normally chargeable to the current period Plant Specific Operations Expense accounts. These charges shall be included in this account only upon direction or approval from this Commission. However, the company's application to this Commission for such approval shall give full particulars concerning the property retired, the extensive replacements, the amount chargeable to operating expenses and the period over which in its judgment the amount of such charges should be distributed.

(2) Unaudited amounts and other debit balances in suspense that cannot be cleared and disposed of until additional information is received; the amount, pending determination of loss, of funds on deposit with banks which have failed; revenue, expense, and income items held in suspense; amounts paid for options pending final disposition.

(3) Cost of preliminary surveys, plans, investigation, etc., made for construction projects under contemplation. If the projects are carried out, the preliminary costs shall be included in the cost of the plant constructed. If the projects are abandoned, the preliminary costs shall be charged to Account 7300, Nonoperating income and expense.

(4) Cost of evaluations, inventories, and appraisals taken in connection with the acquisition or sale of property. If the property is subsequently acquired, the preliminary costs shall be accounted for as a part of the cost of acquisition, or if it is sold, such costs shall be deducted from the sale price in accounting for the property sold. If purchases or sales are abandoned, the preliminary costs included herein (including options paid, if any) shall be charged to Account 7300.

* * * * *

§ 32.1439 [Removed]

26. Section 32.1439 is removed.

27. Section 32.2000 is amended by revising paragraphs (a)(2), (a)(4), (b)(2)(i), (b)(2)(iii), (b)(2)(iv), (c)(2)(x), (c)(2)(xiii), (d)(2)(i), (d)(4), (d)(5), (f)(3)(i), (g)(3), (g)(5), (h)(3), and (j) as follows:

§ 32.2000 Instructions for telecommunications plant accounts.

(a) * * *

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4300, Other long-term liabilities and deferred credits; when final determination has been made as to the amount to be returned, any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7100, Other operating income and expense.)

* * * * *

(4) The cost of the individual items of equipment, classifiable to Accounts 2112, Motor vehicles; 2113, Aircraft; 2114, Tools and other work equipment; 2122, Furniture; 2123, Office equipment; 2124, General purpose computers, costing $2,000 or less or having a life of less than one year shall be charged to the applicable expense accounts, except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components of $500 or less, shall be charged to the applicable Plant Specific Operations Expense accounts. The cost of tools and test equipment located in the central office, classifiable to central office asset accounts 2210–2232 costing $2,000 or less or having a life of less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable material and supplies account until items are used.

(b) * * *

(2) * * *

(i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in connection the acquisition) shall be charged to Account 1438, Deferred maintenance, retirements, and other deferred charges.

* * * * *

(iii) Accumulated Depreciation and amortization balances related to plant acquired shall be credited to Account 3100, Accumulated depreciation, or Account 3200, Accumulated depreciation—held for future telecommunications use, or Account 3410, Accumulated amortization—capitalized leases and debited to Account 1438. Accumulated amortization balances related to plant acquired which ultimately is recorded in Accounts 2005, Telecommunications plant adjustment, Account 2682, Leasehold improvements, or Account 2690, Intangibles shall be credited to these asset accounts, and debited to Account 1438.

(iv) Any amount remaining in Account 1438, applicable to the plant acquired, shall, upon completion of the entries provided in paragraphs (b)(2)(i) through (b)(2)(iii) of this section, be debited or credited, as applicable, to Account 2007, Goodwill, or to Account 2005, Telecommunications plant adjustment, as appropriate.

* * * * *

(c) * * *

(2) * * *

(x) Allowance for funds used during construction (''AFUDC'') provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications plant under construction, and credited to Account 7300, Nonoperating income and expense. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be the weighted average of the rates applicable to other borrowings of the enterprise. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

* * * * *

(xiii) ''Indirect construction costs'' shall include indirect costs such as general engineering, supervision and support. Such costs, in addition to direct supervision, shall include indirect plant operations and engineering supervision up to, but not including, supervision by executive officers whose pay and expenses are chargeable to Account 6720, General and administrative. The records supporting the entries for indirect construction costs shall be kept so as to show the nature of the expenditures, the individual jobs and accounts charged, and the bases of the distribution. The amounts charged to each plant account for indirect costs shall be readily determinable. The instructions contained herein shall not be interpreted as permitting the addition to plant of amounts to cover indirect costs based on arbitrary allocations.

* * * * *

(d) * * *

(2) * * *

(i) *Retirement units:* This group includes major items of property, a representative list of which shall be prescribed by this Commission. In lieu of the retirement units prescribed with respect to a particular account, a company may, after obtaining specific approval by this Commission, establish and maintain its own list of retirement units for a portion or all of the plant in any such account. For items included on the retirement units list, the original cost of any such items retired shall be credited to the plant account and charged to Account 3100 Accumulated Depreciation, whether or not replaced. The original cost of retirement units installed in place of property retired shall be charged to the applicable telecommunications plant account.

* * * * *

(4) The accounting for the retirement of property, plant and equipment shall be as provided above except that amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7100, Other operating income and expense, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating plant.

(5) When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any, between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7300, Nonoperating income and expense. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c).

* * * * *

(f) * * *

(3) * * *

(i) *Unit identification.* Cost shall be identified and maintained by specific location for property record units contained within certain regulated plant accounts or account groupings such as Land, Buildings, Central Office Assets, Motor Vehicles, garage work equipment included in Account 2114, Tools and other work equipment, and Furniture. In addition, units involved in any unusual or special type of construction shall be recorded by their specific location costs (note also § 32.2000(f)(3)(ii)(B)).

* * * * *

(g) * * *

(3) *Acquired depreciable plant.* When acquired depreciable plant carried in Account 1438, Deferred maintenance, retirements and other deferred charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1438.

* * * * *

(5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated depreciation, and charge Account 1438, Deferred maintenance, retirements and other deferred charges, with the unprovided-for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6560, Depreciation and amortization expense over such period as this Commission may direct or approve.

(h) * * *

(3) Amortization charges shall be made monthly to the appropriate amortization expense accounts and corresponding credits shall be made to accounts 2005, 2682, 2690, and 3410, as appropriate. Monthly charges shall be computed by the application of one-twelfth to the annual amortization amount.

* * * * *

(j) Plant Accounts to be Maintained by Class A and Class B telephone companies as indicated:

Account title	Class A account	Class B account
Regulated plant		
Property, plant and equipment:		
Telecommunications plant in service	[1] 2001	[1] 2001
Property held for future telecommunications use	2002	2002

Account title	Class A account	Class B account
Telecommunications plant under construction-short term	2003	2003
Telecommunications plant adjustment	2005	2005
Nonoperating plant	2006	2006
Goodwill	2007	2007
Telecommunications plant in service (TPIS)		
TPIS—General support assets:		
Land and support assets	....	2110
Land	2111	....
Motor vehicles	2112	....
Aircraft	2113	....
Tools and other work equipment	2114	....
Buildings	2121	....
Furniture	2122	....
Office equipment	2123	....
General purpose computers	2124	....
TPIS—Central Office assets:		
Central Office—switching	....	2210
Non-digital switching	2211	....
Digital electronic switching	2212	....
Operator systems	2220	2220
Central Office—transmission	....	2230
Radio systems	2231	....
Circuit equipment	2232	....
TPIS—Information origination/termination assets:	....	....
Information origination termination	....	2310
Station apparatus	2311	....
Customer premises wiring	2321	....
Large private branch exchanges	2341	....
Public telephone terminal equipment	2351	....
Other terminal equipment	2362	....
TPIS—Cable and wire facilities assets:		
Cable and wire facilities	....	2410
Poles	2411	....
Aerial cable	2421	....
Underground cable	2422	....
Buried cable	2423	....
Submarine and deep sea cable	2424	....
Intrabuilding network cable	2426	....
Aerial wire	2431	....
Conduit systems	2441	....
TPIS—Amortizable assets:		
Amortizable tangible assets	....	2680
Capital leases	2681	....
Leasehold improvements	2682	....
Intangibles	2690	2690

[1] Balance sheet summary account only.

28. Section 32.2003 is amended by revising paragraph (c) to read as follows:

§ 32.2003 Telecommunications plant under construction.

* * * * *

(c) If a construction project has been suspended for six months or more, the cost of the project included in this account may remain in this account so long as the carrier excludes the original cost and associated depreciation from its ratebase and ratemaking considerations and reports those amounts in reports filed with the Commission pursuant to §§ 43.21(e)(1) and 43.21(e)(2) of this chapter. If a project is abandoned, the cost included in this account shall be charged to Account 7300, Nonoperating income and expense.

* * * * *

29. Section 32.2005 is amended by revising paragraph (b) to read as follows:

§ 32.2005 Telecommunications plant adjustment.

* * * * *

(b) The amounts recorded in this account with respect to each property acquisition (except land and artworks) shall be disposed of, written off, or provision shall be made for the amortization thereof, as follows:

(1) Debit amounts may be charged in whole or in part, or amortized over a reasonable period through charges to Account 7300, Nonoperating income and expense, without further direction or approval by this Commission. When specifically approved by this Commission, or when the provisions of paragraph (b)(3) of this section apply, debit amounts shall be amortized to Account 6560, Depreciation and amortization expense.

(2) Credit amounts shall be disposed of in such manner as this Commission may approve or direct, except for credit amounts referred to in paragraph (b)(4) of this section.

(3) The amortization associated with the costs recorded in the Telecommunications plant adjustment account will be charged or credited, as appropriate, directly to this asset account, leaving a balance representing the unamortized cost.

(4) Within one year from the date of inclusion in this account of a debit or credit amount with respect to a current

acquisition, the company may dispose of the total amount from an acquisition of telephone plant by a lump-sum charge or credit, as appropriate, to Account 6560 without further approval of this Commission, provided that such amount does not exceed $100,000 and that the plant was not acquired from an affiliated company.

30. Section 32.2007 is amended by revising paragraph (a) to read as follows:

§ 32.2007 Goodwill.

(a) This account shall include any portion of the plant purchase price that cannot be assigned to specifically identifiable property acquired and such amount should be identified as ''goodwill''. Such amounts included in this account shall be amortized to Account 7300, Nonoperating income and expense, on a straight line basis over the remaining life of the acquired plant, not to exceed 40 years.

* * * * *

31. Section 32.2111 is amended by revising paragraphs (f) and (g) to read as follows:

§ 32.2111 Land.

* * * * *

(f) Installments of assessments for public improvement, including interest, if any, which are deferred without option to the company shall be included in this account only as they become due and payable. Interest on assessments which are not paid when due shall be included in Account 7500, Interest and related items.

(g) When land is purchased for immediate use in a construction project, its cost shall be included in Account 2003, Telecommunications plant under construction, until such time as the project involved is completed and ready for service.

* * * * *

§ 32.2123 [Amended]

32. Section 32.2123 is amended by removing paragraph (b) and designating paragraph (a) as an undesignated paragraph.

33. Section 32.2210 is revised to read as follows:

§ 32.2210 Central office—switching.

This account shall be used by Class B companies to record the original cost of switching assets of the type and character required of Class A companies in Accounts 2211 through 2212.

34. Section 32.2211 is amended by revising the section heading and paragraph (a) to read as follows:

§ 32.2211 Non-digital switching.

(a) This account shall include:

(1) Original cost of stored program control analog circuit-switching and associated equipment.

(2) Cost of remote analog electronic circuit switches.

(3) Original cost of non-electronic circuit-switching equipment such as Step-by-Step, Crossbar, and Other Electro-Mechanical Switching.

* * * * *

35. Section 32.2212 is amended by revising paragraph (a), redesignating paragraph (b) as paragraph (e), and adding new paragraphs (b), (c), and (d) to read as follows:

§ 32.2212 Digital electronic switching.

(a) This account shall include the original cost of stored program control digital switches and their associated equipment. Included in this account are digital switches which utilize either dedicated or non-dedicated circuits. This account shall also include the cost of remote digital electronic switches. The investment in digital electronic switching equipment shall be maintained in the following subaccounts: 2212.1 Circuit and 2212.2 Packet.

(b) This subaccount 2212.1 Circuit shall include the original cost of digital electronic switching equipment used to provide circuit switching. Circuit switching is a method of routing traffic through a switching center, from local users or from other switching centers, whereby a connection is established between the calling and called stations until the connection is released by the called or calling station.

(c) This subaccount 2212.2 Packet shall include the original cost of digital electronic switching equipment used to provide packet switching. Packet switching is the process of routing and transferring information by means of addressed packets so that a channel is occupied during the transmission of the packet only, and upon completion of the transmission the channel is made available for the transfer of other traffic.

(d) Digital electronic switching equipment used to provide both circuit and packet switching shall be recorded in the subaccounts 2212.1 Circuit and 2212.2 Packet based upon its predominant use.

* * * * *

§ 32.2215 [Removed]

36. Section 32.2215 is removed.

37. Section 32.2231 is revised to read as follows:

§ 32.2231 Radio systems.

(a) This account shall include the original cost of ownership of radio transmitters and receivers. This account shall include the original cost of ownership interest in satellites (including land-side spares), other spare parts, material and supplies. It shall include launch insurance and other satellite launch costs. This account shall also include the original cost of earth stations and spare parts, material or supplies therefor.

(b) This account shall also include the original cost of radio equipment used to provide radio communication channels. Radio equipment is that equipment which is used for the generation, amplification, propagation, reception, modulation, and demodulation of radio waves in free space over which communication channels can be provided. This account shall also include the associated carrier and auxiliary equipment and patch bay equipment which is an integral part of the radio equipment. Such equipment may be located in central office building, terminal room, or repeater stations or may be mounted on towers, masts, or other supports.

38. Section 32.2232 is amended by revising paragraphs (a) and (b), redesignating paragraphs (b) and (c) as (e) and (f), and adding new paragraphs (b), (c), and (d) to read as follows:

§ 32.2232 Circuit equipment.

(a) This account shall include the original cost of equipment which is used to reduce the number of physical pairs otherwise required to serve a given number of subscribers by utilizing carrier systems, concentration stages or combinations of both. It shall include equipment that provides for simultaneous use of a number of interoffice channels on a single transmission path. This account shall also include equipment which is used for the amplification, modulation, regeneration, circuit patching, balancing or control of signals transmitted over interoffice communications transmission channels. This account shall include equipment which utilizes the message path to carry signaling information or which utilizes separate channels between switching offices to transmit signaling information independent of the subscribers' communication paths or transmission channels. This account shall also include the original cost of associated material used in the construction of such plant. Circuit equipment may be located in central offices, in manholes, on poles, in cabinets or huts, or at other company locations. The investment in circuit equipment shall be maintained in the following subaccounts: 2232.1 Electronic and 2232.2 Optical.

(b) This subaccount 2232.1 Electronic shall include the original cost of electronic circuit equipment.

(c) This subaccount 2232.2 Optical shall include the original cost of optical circuit equipment.

(d) Circuit equipment that converts electronic signals to optical signals or optical signals to electronic signals shall be categorized as electronic.

* * * * *

39. Section 32.2311 is amended by revising paragraph (f) to read as follows:

§ 32.2311 Station apparatus.

* * * * *

(f) Periodic asset verification, as prescribed by generally accepted accounting principles, shall be taken of all station apparatus in stock that are included in this account. The number of such station apparatus items as determined by this verification together with the number of all other station apparatus items included in this account, shall be compared with the corresponding number of station apparatus items as shown by the respective control records. The original cost of any unreconciled differences thereby disclosed shall be adjusted through Account 3100, Accumulated Depreciation. Appropriate verifications shall be made at suitable intervals and necessary adjustments between this account and Account 3100 shall be made for all station apparatus included in this account.

* * * * *

40. Section 32.2424 is amended by revising the section heading and paragraph (a) introductory text to read as follows:

§ 32.2424 Submarine & deep sea cable.

(a) This account shall include the original cost of submarine cable and deep sea cable and other material used in the construction of such plant. Subsidiary record categories, as defined below, are to be maintained for nonmetallic submarine and deep sea cable and metallic submarine and deep sea cable.

* * * * *

§ 32.2425 [Removed]

41. Section 32.2425 is removed.

42. Section 32.2682 is amended by revising paragraph (c) to read as follows:

§ 32.2682 Leasehold improvements.

* * * * *

(c) Amounts contained in this account shall be amortized over the term of the related lease. The amortization associated with the costs recorded in the Leasehold improvement account will be credited directly to this asset account, leaving a balance representing the unamortized cost.

43. Section 32.2690 is revised to read as follows:

§ 32.2690 Intangibles.

(a) This account shall include the cost of organizing and incorporating the company, the original cost of government franchises, the original cost of patent rights, and other intangible property having a life of more than one year and used in connection with the company's telecommunications operations.

(b) Class A companies, except mid-sized incumbent local exchange carriers, shall maintain subsidiary records for general purpose computer software and for network software. Subsidiary records for this account shall also include a description of each class of all other tangible property.

(c) The cost of other intangible assets, not including software, having a life of one year or less shall be charged directly to Account 6560, Depreciation and Amortization Expense. Such intangibles acquired at small cost may also be charged to Account 6560, irrespective of their term of life. The cost of software having a life of one year or less shall be charged directly to the applicable expense account with which the software is associated.

(d) The amortization associated with the costs recorded in the Intangibles account will be credited directly to this asset account, leaving a balance representing the unamortized cost.

(e) This account shall not include any discounts on securities issued, nor shall it include costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance, sale or resale of capital stock.

(f) When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, amounts previously included in this account on the books of the various companies concerned shall not be carried over.

(g) Franchise taxes payable annually or more frequently shall be charged to Account 7240, Operating other taxes.

(h) This account shall not include the cost of plant, material and supplies, or equipment furnished to municipalities or other governmental authorities when given other than as initial consideration for franchises or similar rights. (Note also Account 6720, General & administrative).

(i) This account shall not include the original cost of easements, rights of way, and similar rights in land having a term of more than one year. Such amounts shall be recorded in Account 2111, Land, or in the appropriate outside plant account (see Accounts 2411 through 2441), or in the appropriate central office account (see Accounts 2211 through 2232).

44. Section 32.3000 is amended by revising paragraphs (a)(2) and (b) to read as follows:

§ 32.3000 Instructions for balance sheet accounts—Depreciation and amortization.

(a) * * *

(2) Subsidiary records shall be maintained for Accounts 2005, 2682, 2690, and 3410 in accordance with § 32.2000(h)(4).

(b) Depreciation and Amortization Accounts to be Maintained by Class A and Class B telephone companies, as indicated:

Account title	Class A account	Class B account
Depreciation and amortization:		
Accumulated depreciation	3100	3100
Accumulated depreciation—Held for future telecommunications use	3200	3200
Accumulated depreciation—Nonoperating	3300	3300
Accumulated amortization—Capitalized leases	3410	3410

45. Section 32.3100 is amended by revising paragraphs (b) and (d) to read as follows:

§ 32.3100 Accumulated depreciation.

* * * * *

(b) This account shall be credited with depreciation amounts concurrently charged to Account 6560, Depreciation and amortization expenses. (Note also Account 3300, Accumulated Depreciation—Nonoperating.)

* * * * *

(d) This account shall be credited with amounts charged to Account 1438, Deferred maintenance, retirements, and other deferred charges, as provided in § 32.2000(g)(4). This account shall be credited with amounts charged to Account 6560 with respect to other than relatively minor losses in service values suffered through terminations of service when charges for such terminations are made to recover the losses.

46. Section 32.3200 is amended by revising paragraph (b) to read as follows:

§ 32.3200 Accumulated depreciation—held for future telecommunications use.

* * * * *

(b) This account shall be credited with amounts concurrently charged to Account 6560, Depreciation and amortization expenses.

47. Section 32.3300 is amended by revising paragraph (b) and (c) to read as follows:

§ 32.3300 Accumulated depreciation—nonoperating.

* * * * *

(b) This account shall be credited with amortization and depreciation amounts concurrently charged to Account 7300, Nonoperating income and expense.

(c) When nonoperating plant not previously used in telecommunications service is disposed of, this account shall be charged with the amount previously credited hereto with respect to such property and the book cost of the property so retired less the amount chargeable to this account and less the value of the salvage recovered or the proceeds from the sale of the property shall be included in Account 7300, Nonoperating income and expense. In case the property had been used in telecommunications service previous to its inclusion in Account 2006, Nonoperating Plant, the amount accrued for depreciation thereon after its retirement from telecommunications service shall be charged to this account and credited to Account 3100, Accumulated depreciation, and the accounting for its retirement from Account 2006 shall be in accordance with that applicable to telecommunications plant retired.

§ 32.3400 [Removed]

48. Section 32.3400 is removed.

49. Section 32.3410 is amended by revising paragraph (b) and (c) to read as follows:

§ 32.3410 Accumulated amortization—capital leases.

* * * * *

(b) This account shall be credited with amounts for the amortization of capital leases concurrently charged to Account 6560, Depreciation and amortization expenses. (Note also Account 3300, Accumulated Depreciation— Nonoperating.)

(c) When any item carried in Account 2681 is sold, is relinquished, or is otherwise retired from service, this account shall be charged with the cost of the retired item. Remaining amounts associated with the item shall be debited to Account 7100, Other operating income and expenses, or Account 7300, Nonoperating income and expense, as appropriate.

§§ 32.3420, 32.3500 and 32.3600 [Removed]

50. Sections 32.3420, 32.3500 and 32.3600 are removed.

51. Section 32.4000 is redesignated as § 32.3999 and redesignated § 32.3999 is revised to read as follows:

§ 32.3999 Instructions for balance sheet accounts—liabilities and stockholders' equity.

LIABILITIES AND STOCKHOLDERS' EQUITY ACCOUNTS TO BE MAINTAINED BY CLASS A AND CLASS B TELEPHONE COMPANIES

Account title	Class A account	Class B account
Current liabilities:		
Current accounts and notes payable	4000	4000
Customer's Deposits	4040	4040
Income taxes—accrued	4070	4070
Other taxes—accrued	4080	4080
Net Current Deferred Nonoperating Income Taxes	4100	4100
Net Current Deferred Nonoperating Income Taxes	4110	4110
Other current liabilities	4130	4130
Long-term debt:		
Long Term debt and Funded debt	4200	4200
Other liabilities and deferred credits:		
Other liabilities and deferred credits	4300	4300
Unamortized operating investment tax credits—net	4320	4320
Unamortized nonoperating investment tax credits—net	4330	4330
Net noncurrent deferred operating income taxes	4340	4340
Net deferred tax liability adjustments	4341	4341
Net noncurrent deferred nonoperating income taxes	4350	4350
Deferred tax regulatory adjustments—net	4361	4361
Other jurisdictional liabilities and deferred credits—net	4370	4370
Stockholder's equity:		
Capital stock	4510	4510
Additional paid-in capital	4520	4520
Treasury stock	4530	4530
Other capital	4540	4540
Retained earnings	4550	4550

52. Section 32.4000 is added to read as follows:

§ 32.4000 Current accounts and notes payable.

(a) This account shall include:(1) All amounts currently due to others for recurring trade obligations, and not provided for in other accounts, such as those for traffic settlements, material and supplies, repairs to telecommunications plant, matured rents, and interest payable under monthly settlements on short-term loans, advances, and open accounts. It shall also include amounts of taxes payable that have been withheld from employees' salaries.

(2) Accounts payable arising from sharing of revenues.

(3) The face amount of notes, drafts, and other evidences of indebtedness issued or assumed by the company (except interest coupons) which are payable on demand or not more than one year or less from date of issue.

(b) If any part of an obligation, otherwise includable in this account matures more than one year from date of issue, it shall be included in Account 4200, Long term debt and funded debt, or other appropriate account.

(c) The records supporting the entries to this account shall be kept so that the company can furnish complete details as to each note, when it is issued, the consideration received, and when it is payable.

(d) Subsidiary record categories shall be maintained for this account in order that the company may separately report the amounts contained herein that relate to nonaffiliates and affiliates. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

§§ 32.4010, 32.4020, and 32.4030 [Removed]

53. Sections 32.4010, 32.4020, and 32.4030 are removed.

54. In § 32.4040, paragraph (b) is revised to read as follows:

§ 32.4040 Customer's deposits.

* * * * *

(b) Advance payments made by prospective customers prior to the establishment of service shall be credited to Account 4130, Other current liabilities.

§§ 32.4050 and 32.4060 [Removed]

55. Sections 32.4050 and 32.4060 are removed.

56. Section 32.4070 is revised to read as follows:

§ 32.4070 Income taxes—accrued.

(a) This account shall be credited or charged and the following accounts shall be charged or credited with the offsetting amount of current year income taxes (Federal, state and local) accrued during the period or adjustments to prior accruals: 7220 Operating Federal Income Taxes, 7230 Operating State and Local Income Taxes, 7400 Nonoperating Taxes, 7600 Extraordinary Items.

(b) If significant, current year income taxes paid in advance shall be reclassified to Account 1280, Prepayments.

57. Section 32.4080 is revised to read as follows:

§ 32.4080 Other taxes—accrued.

(a) This account shall be credited or charged and Account 7240, Operating Other Taxes, or 7400, Nonoperating Taxes, or, for payroll related costs, the appropriate expense accounts shall be charged or credited for all taxes, other than Federal, State and local income taxes, accrued or adjusted for previous accruals during the period. Among the taxes includable in this account are property, gross receipts, franchise, capital stock, social security and unemployment taxes.

(b) Taxes paid in advance of the period in which they are chargeable to income shall be included in the prepaid taxes Account 1280, Prepayments, or 1410, Other Noncurrent Assets, as appropriate.

58. Section 32.4110 is amended by revising paragraphs (c) and (f) to read as follows:

§ 32.4110 Net current deferred nonoperating income taxes.

* * * * *

(c) This account shall be debited or credited with the amount being credited or debited to Account 7400, Nonoperating taxes, in accordance with that account's description and § 32.22.

* * * * *

(f) This account shall be debited or credited with the amount being credited and debited to Account 7600, Extraordinary Items.

* * * * *

§ 32.4120 [Removed]

59. Section 32.4120 is removed.

60. Section 32.4130 is revised to read as follows:

§ 32.4130 Other current liabilities.

This account shall include:

(a) The amount of advance billing creditable to revenue accounts in future months; also advance payments made by prospective customers prior to the establishment of service. Amounts included in this account shall be credited to the appropriate revenue accounts in the months in which the service is rendered or cleared from this account as refunds are made.

(b) The amount (including any obligations for premiums) of long-term debt matured and unpaid without any specific agreement for extension of maturity, including unpresented bonds drawn for redemption through the operation of sinking and redemption fund agreements.

(c) The current portion of obligations applicable to property obtained under capital leases.

(d) The amount of wages, compensated absences, interest on indebtedness of the company, dividends on capital stock, and rents accrued to the date for which the balance sheet is made, but not payable until after that date. Accruals shall be maintained so as to show separately the amount and nature of the items accrued to the date of the balance sheet.

(e) Matured rents, dividends, interest payable under monthly settlements on short-term loans, advances, and open accounts shall be included in Account 4000.

(f) All other liabilities of current character which are not included in Account 4000 through 4110.

61. Section 32.4200 is added to read as follows:

§ 32.4200 Long term debt and funded debt.

(a) This account shall include:

(1) The total face amount of unmatured debt maturing more than one year from date of issue, issued by the company and not retired, and the total face amount of similar unmatured debt of other companies, the payment of which has been assumed by the company, including funded debt the maturity of which has been extended by specific agreement. This account shall also include such items as mortgage bonds, collateral trust bonds, income bonds, convertible debt, debt securities with detachable warrants and other similar obligations maturing more than one year from date of issue.

(2) The premium associated with all classes of long-term debt. Premium, as applied to securities issued or assumed by the company, means the excess of the current money value received at their sale over the sum of their book or face amount and interest or dividends accrued at the date of the sale.

(3) The discount associated with all classes of long-term debt. Discount, as applied to securities issued or assumed by the company, means the excess of the book or face amount of the securities plus interest or dividends accrued at the date of the sale over the current money value of the consideration received at their sale.

(4) The face amount of debt reacquired prior to maturity that has not been retired. Gain or loss shall be recognized at the time of reacquisition by credits or charges to Account 7300, Nonoperating income and expense, except that material gains or losses shall be treated as extraordinary. (See Account 7600, Extraordinary items.)

(5) The noncurrent portion of obligations applicable to property obtained under capital leases. Amounts subject to current settlement shall be included in Account 4130, Other current liabilities.

(6) The amount of advance from affiliated companies. Amounts due affiliated companies which are subject to current settlement shall be included in Account 4000.

(7) Investment advances, including those represented by notes.

(8) Long-term debt not provided for elsewhere.

(b) Subsidiary records shall be maintained for each issue. The subsidiary records shall identify the premium or discount attributable to each issue.

(c) Premiums and discounts on long-term debt recorded in this account shall be amortized monthly by the interest method and charged or credited, as appropriate, to Account 7500, Interest and related items.

(d) Debt securities with detachable warrants shall be accounted for in accordance with generally accepted accounting principles.

(e) Securities maturing in one year or less, including securities maturing serially, shall be included in Account 4130, Other current liabilities.

§§ 32.4210, 32.4220, 32.4230, 32.4240, 32.4250, 32.4260, and 32.4270 [Removed]

62. Sections 32.4210, 32.4230, 32.4240, 32.4250, 32.4260, and 32.4270 are removed.

63. Section 32.4300 is added to read as follows:

§ 32.4300 Other long-term liabilities and deferred credits.

(a) This account shall include amounts accrued to provide for such items as unfunded pensions (if actuarially determined), death benefits, deferred compensation costs and other long-term liabilities not provided for elsewhere. Subsidiary records shall be maintained to identify the nature of these items.

(b) This account shall include the amount of all deferred credits not provided for elsewhere, such as amounts awaiting adjustment between accounts; and revenue, expense, and income items in suspense.

§ 32.4310 [Removed]

64. Section 32.4310 is removed.

65. Section 32.4330 is revised to read as follows:

§ 32.4330 Unamortized nonoperating investment tax credits—net.

(a) This account shall be credited and Account 7400, Nonoperating Taxes, shall be debited with investment tax credits generated from qualified expenditures related to other operations which the company has elected to defer rather than recognize currently in income.

(b) This account shall be debited and Account 7400 credited with a proportionate amount determined in relation to the useful book life of the property to which the tax credit relates.

66. Section 32.4341 is amended by revising paragraphs (a) and (b)(2) to read as follows:

§ 32.4341 Net deferred tax liability adjustments.

(a) This account shall include the portion of deferred income tax charges and credits pertaining to Account 32.4361, Deferred tax regulatory adjustments—net.

(b) * * *

(2) Reclassification attributable to changes in tax rates (Federal, state and local). As tax rates increase or decrease, the offsetting debit or credit will be recorded in Account 4361 as required by paragraph (a) of this section.

* * * * *

67. Section 32.4350 is amended by revising paragraphs (b) and (e) to read as follows:

§ 32.4350 Net noncurrent deferred nonoperating income taxes.

* * * * *

(b) This account shall be credited or debited, as appropriate, and Account 7400, Nonoperating Taxes, shall reflect the offset for the tax effect of revenues from other operations and extraordinary items and nonoperating expenses which have been included in the determination of taxable income, but which will not be included in the determination of book income or for the tax effect of nonoperating expenses and extraordinary items and nonoperating income which have been included in the determination of book income prior to the inclusion in the determination of taxable income.

* * * * *

(e) This account shall be charged or credited with the contra amount recorded to Account 7600, Extraordinary items, in accordance with § 32.22.

* * * * *

§ 32.4360 [Removed]

68. Section 32.4360 is removed.

69. Section 32.4361 is revised to read as follows:

§ 32.4361 Deferred tax regulatory adjustments—net.

(a) This account shall include amounts of probable future revenue for the recovery of future increases in taxes payable and amounts of probable future revenue reductions attributable to future decreases in taxes payable. As reductions or reversals occur, amounts recorded in this account shall be reduced or increased, with a contra entry being made to Account 4341, Net deferred tax liability adjustments.

(b) This account shall also be adjusted for the impact of prospective tax rate changes on the deferred tax liability for those temporary differences underlying its existing balance.

70. Section 32.4540 is revised to read as follows:

§ 32.4540 Other capital.

This account shall include amounts which are credits arising from the donation by stockholders of the company's capital stock, capital recorded upon the reorganization or recapitalization of the company and temporary declines in the value of marketable securities held for investment purposes. (See also Account 1410, Other noncurrent assets).

71. Section 32.4999 is amended by revising paragraphs (c), (d), (e), (g)(2), (h), (i)(1), and (n), removing paragraphs (f)(2) and (g)(3), redesignating paragraph (f)(1) as (f), and by redesignating paragraph (g)(4) as (g)(3) to read as follows:

§ 32.4999 General.

* * * * *

(c) *Commissions.* Commissions paid to others or employees in place of compensation or salaries for services rendered, such as public telephone commissions, shall be charged to Account 6620 Services, and not to the revenue accounts. Other commissions shall be charged to the appropriate expense accounts.

(d) *Revenue recognition.* Credits shall be made to the appropriate revenue accounts when such revenue is actually earned. When the billing cycle encompasses more than one accounting period, adjustments are necessary to properly recognize the revenue applicable to the current accounting period under report. Revenues recorded under the terms of two-tier contracts or other variable payment plans should be deferred, if necessary, and recognized ratably with expenses over the terms of the related contract. Any amounts deferred shall be credited to Account 4300, Other long-term liabilities and deferred credits.

(e) *Contractual arrangements.* Charges and credits resulting from activities associated with the provisions of regulated telecommunications services shall be recorded in a manner consistent with the nature of the underlying contractual arrangements. The charges and credits resulting from expense sharing or apportionment arrangements associated with the provision of regulated telecommunications services shall be recorded in the detailed regulated accounts. Charges and credits resulting from revenue settlement agreements or other revenue pooling arrangements associated with the provision of regulated telecommunications services shall be included in the appropriate revenue accounts. Those charges and credits resulting from contractual revenue pooling and/or sharing agreements shall be recorded in each prescribed revenue account and prescribed subsidiary record categories thereof to the extent that each is separately identifiable in the settlement process. It is not intended that settlement amounts be allocated or generally spread to the individual revenue accounts where they are not separately identifiable in the settlement process. When the settlement amounts are not identifiable by a revenue account they shall be recorded in Account 5060, Other basic area revenue, 5105, Long distance message revenue, or 5200, Miscellaneous revenue, as appropriate.

* * * * *

(g) * * *

(2) The revenue section of this system of accounts shall be comprised of six major groups—Local Network Services Revenues, Network Access Services Revenues, Long Distance Network Services Revenues, Miscellaneous Revenues, Nonregulated revenues, and Uncollectible Revenues, which shall be considered as a revenue group for the purposes of the construction of the system.

* * * * *

(h) *Local Network Services revenues.* Local Network Services revenues (Accounts 5001 through 5060) shall include revenues derived from the provision of service and equipment entirely within the basic service area. That area is defined as the normal boundaries for local calling plus Extended Area Service (EAS) boundaries as they apply to that service. It includes revenues derived from both local private network service and local public network services as well as from customer premises facilities services. Local revenues include associated charges such as one-time service connection or termination charges and secondary features such as call waiting.

(i) *Network Access revenues.* (1) Network Access revenues (Accounts 5081–5083) shall include revenues derived from the provision of exchange access services to an interexchange carrier or to an end user of telecommunications services beyond the exchange carrier's network.

* * * * *

(n) Revenue accounts to be maintained.

Account title	Class A account	Class B account
Local network services revenues:		
Basic local service revenue	....	5000
Basic area revenue	5001	....
Private line revenue	5040	....
Other basic area revenue	5060	....
Network access service revenues:		
End user revenue	5081	5081
Switched access revenue	5082	5082
Special access revenue	5083	5083
Long distance network services revenues:		
Long distance message revenue	5105	5105
Miscellaneous revenues:		
Miscellaneous revenue	5200	5200
Nonregulated revenues:		
Nonregulated operating revenue	5280	5280
Uncollectible revenues:		
Uncollectible revenue	5300	5300

72. Section 32.5000 is revised to read as follows:

§ 32.5000 Basic local service revenue.

Class B telephone companies shall use this account for revenues of the type and character required of Class A companies in Accounts 5001 through 5060.

73. Section 32.5001 is revised to read as follows:

§ 32.5001 Basic area revenue.

(a) This account shall include revenue derived from the provision of the following:

(1) Basic area message services such as flat rate services and measured services. Included is revenue derived from non-optional extended area services. Also included is revenue derived from the billed or guaranteed portion of semi-public services.

(2) Optional extended area service.

(3) Cellular mobile telecommunications systems connected to the public switched network placed between mobile units and other stations within the mobile service area.

(4) General radio telecommunications systems connected to the public switched network placed between mobile units and other stations within the mobile service area, as well as revenue from mobile radio paging, mobile dispatching, and signaling services.

(b) Revenue derived from charges for nonpublished number or additional and boldfaced listings in the alphabetical section of the company's telephone directories shall be included in Account 5200, Miscellaneous revenue.

(c) Revenue from private mobile telephone services which do not have access to the public switched network shall be included in Account 5200, Miscellaneous revenue.

§ 32.5004 [Removed]

74. Section 32.5004 is removed.

75. Section 32.5040 is amended by revising the section heading to read as follows:

§ 32.5040 Private line revenue.

* * * * *

§ 32.5050 [Removed]

76. Section 32.5050 is removed.

77. Section 32.5060 is revised to read as follows:

§ 32.5060 Other basic area revenue.

This account shall include:

(a) Revenue from the provision of secondary features which are integrated with the telecommunications network such as call forwarding, call waiting and touch-tone line service. Also included is revenue derived from the provision of public announcement and other record message services, directory assistance and other call completion services (excluding operator assisted basic long distance calls), as well as revenue derived from central office related service connection and termination charges, and other non-premise customer specific charges associated with public network services. This account shall also include local revenue not provided for in other accounts.

(b) Charges and credits resulting from contractual revenue pooling and/or sharing agreements for tariffed local network services only when they are not separately identifiable by local network services revenue accounts in the settlement process. (See also § 32.4999(e)). To the extent that the charges and credits resulting from a settlement process can be identified by Local Network Services Revenue account they shall be recorded in the applicable account.

(c) Revenue derived from tariffed information origination/termination plant. Included is revenue derived from the provision under leasing arrangements of tariffed customer premises equipment (CPE), terminal equipment, station apparatus and large private branch exchanges as well as tariffed nonrecurring charges related solely to station apparatus. Also included are all tariffed charges for customer premises activities and facilities not related solely to station apparatus.

§§ 32.5069 and 32.5080 [Removed]

78. Sections 32.5069 and 32.5080 are removed.

79. Section 32.5081 is revised to read as follows:

§ 32.5081 End user revenue.

(a) This account shall contain federally and state tariffed monthly flat rate charge assessed upon end users.

(b) Subsidiary record categories shall be maintained in order that the company may separately report amounts related to federal and state tariffed charges.

80. Section 32.5082 is revised to read as follows:

§ 32.5082 Switched access revenue.

(a) This account shall consist of federally and state tariffed charges assessed to interexchange carriers for access to local exchange facilities.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to limited pay telephone, carrier common line, line termination, local switching, intercept, information, common transport and dedicated transport. The subsidiary records shall also separately show the federal and state tariffed charges. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

81. Section 32.5083 is revised to read as follows:

§ 32.5083 Special access revenue.

(a) This account shall include all federally and state tariffed charges assessed for other than end user or switched access charges referred to in Account 5081, End user revenue, and Account 5082, Switched access revenue.

(b) Subsidiary record categories shall be maintained in order that the company may separately report the amounts contained herein that relate to recurring charges, nonrecurring charges and surcharges. The subsidiary records shall also separately show the federal and state tariffed charges. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

§ 32.5084 [Removed]

82. Section 32.5084 is removed.

83. Section 32.5100 is revised to read as follows:

§ 32.5100 Long distance message revenue.

This account shall include revenue derived from message services that terminate beyond the basic service area of the originating wire center and are individually priced. This includes those message services which utilize the public long distance switching network and the basic subscriber access line. It also includes those long distance calls placed from mobile and public telephones, as well as any charges for operator assistance or special billing directly related to the completion of a specific call. This account shall also include revenue derived from individually priced message services offered under calling plans (discounted long distance) which do not utilize dedicated access lines, as well as those priced at the basic long distance rates where a discounted toll charge is on a per message basis. Any revenue derived from monthly or one-time charges for obtaining calling plan services shall be included in this account. This account includes revenue derived from the following services:

(a) Long distance services which permit unidirectional calls to a subscriber from specified services areas (multipoint-to-point service). These calls require the use of dedicated access lines connecting a subscriber's premises and a designated central office. These dedicated access lines are generally separate from those required for the subscriber to place outward calls. The call is billed to the subscriber even though it is generally initiated by the subscriber's customer or correspondent.

(b) Long distance services which permit the subscriber to place telephone calls from one location to other specified service areas (point-to-multipoint service). These calls are completed without operator assistance and require the use of a dedicated access line. The dedicated access line is generally separate from those required for inward message services and cannot be used to place calls within the basic service area or calls outside the selected service areas. Outward calls are screened and blocked to determine whether the calls are within an authorized service area.

(c) Services extending beyond the basic service area that involve dedicated circuits, private switching arrangements, and/or predefined transmission paths, whether virtual or physical, which provide communications between specific locations (e.g., point-to-point communications). Service connection charges, termination charges, rearrangements and changes, etc., shall be included in this account. Revenue derived from associated administrative and operational support services shall also be included in this account.

(1) Narrow-band analog private network circuits and facilities furnished exclusively for record forms of communications, such as teletypewriter, teletypesetter, telewriter, ticker, Morse, signaling, remote metering, and supervisory services.

(2) Private network circuits and facilities (including multipurpose wide-band) which provide voice grade services for the transmission of analog signals. It includes revenue from services such as voice, data and telephoto communication, as well as remote metering, supervisory control, miscellaneous signaling and channels furnished for the purpose of extending customer—provided communications systems. It includes revenue from the provision of facilities between customer premises and a serving office, a carrier distribution point, or an extension distribution channel.

(3) Private network circuits and facilities furnished for audio program transmission purposes, such as radio broadcasting, sound recording (wired music) and loud speaker services. It includes revenue from the provision of facilities for the transmission of analog signals between customer premises and a serving office, a carrier distribution point, or an extension distribution channel furnished in connection with such services. It also includes revenue from facilities furnished to carry the audio portion of a television program if furnished under separate audio rates. If the rate for television program services includes both the picture and sound portion of the transmission, the revenue shall also be included in this account.

(4) Private network circuits and facilities furnished for television program transmission purposes, such as commercial broadcast and educational or private television services. It includes revenue from the provision of facilities for the transmission of analog signals between customer premises and a serving office, a carrier distribution point, or an extension distribution channel furnished in connection with such services. It also includes revenue from both the picture and sound portions of transmission for television program service when provided under a combined rate schedule.

(5) The provision of circuits and facilities for the transmission of digital signals only.

(6) The provision of common user channels and switching capabilities used for the transmission of telecommunication signals between three (3) or more points in the network. Also included is revenue derived from the provision of basic switching and transfer arrangements used to connect private line channels.

(7) Charges and credits resulting from contractual revenue pooling and/or sharing agreements for tariffed long distance public network services and for tariffed long distance private network services.

§§ 32.5110 through, 32.5112, 32.5120 through 32.5126, 32.5128 and 32.5129, 32.5160, and 32.5169 [Removed]

84. Sections 32.5110 through 32.5112, 32.5120 through 32.5126, 32.5128 and 32.5129, 32.5160, and 32.5169 are removed.

85. Section 32.5200 is revised to read as follows:

§ 32.5200 Miscellaneous revenue.

This account shall include revenue derived from the following:

(a) Alphabetical and classified sections of directories including fees paid by other entities for the right to publish the company's directories. It includes the classified section of the directories, the sale of new telephone directories whether they are the company's own directories or directories purchased from others. It also includes revenue from the sale of specially bound telephone directories and special telephone directory covers; amounts charged for additional and boldface listings, marginal displays, inserts, and other advertisements in the alphabetical of the company's telephone directories; and charges for unlisted and non-published telephone numbers.

(b) Rental or subrental to others of telecommunications plant furnished apart from telecommunications services rendered by the company (This revenue includes taxes when borne by the lessee). It includes revenue from the rent of such items as space in conduit, pole line space for attachments, and any allowance for return on property used in joint operations and shared facilities agreements. The expense of maintaining and operating the rented property, including depreciation and insurance, shall be included in the appropriate operating expense accounts. Taxes applicable to the rented property shall be included by the owner of the rented property in appropriate tax accounts. When land or buildings are rented on an incidental basis for non-telecommunications use, the rental and expenses are included in Account 7300, Nonoperating income and expense.

(c) Services rendered to other companies under a license agreement, general services contract, or other arrangement providing for the furnishing of general accounting, financial, legal, patent, and other general services associated with the provision of regulated telecommunications services.

(d) The provision, either under tariff or through contractual arrangements, of special billing information to customers in the form of magnetic tapes, cards or statements. Special billing information provides detail in a format and/or at a level of detail not normally provided in the standard billing rendered for the regulated telephone services utilized by the customer.

(e) The performance of customer operations services for others incident to the company's regulated telecommunications operations which are not provided for elsewhere. (See also §§ 32.14(e) and 32.4999(e)).

(f) Contract services (plant maintenance) performed for others incident to the company's regulated telecommunications operations. This includes revenue from the incidental performance of nontariffed operating and maintenance activities for others which are similar in nature to those activities which are performed by the company in operating and maintaining its own telecommunications plant facilities. The records supporting the entries in this account shall be maintained with sufficient particularity to identify the revenue and associated Plant Specific Operations Expenses related to each undertaking. This account does not include revenue related to the performance of operation or maintenance activities under a joint operating agreement.

(g) The provision of billing and collection services to other telecommunications companies. This includes amounts charged for services such as message recording, billing, collection, billing analysis, and billing information services, whether rendered under tariff or contractual arrangements.

(h) Charges and credits resulting from contractual revenue pooling and/or sharing agreements for activities included in the miscellaneous revenue accounts only when they are not identifiable by miscellaneous revenue account in the settlement process. (See also § 32.4999(e)). The extent that the charges and credits resulting from a settlement process can be identified by miscellaneous revenue accounts they shall be recorded in the applicable account.

(i) The provision of transport and termination of local telecommunications traffic pursuant to section 251(c) and part 51 of this chapter.

(k) The provision of unbundled network elements pursuant to section 251(c) of the Communications Act and part 51 of this chapter.

(l) This account shall also include other incidental regulated revenue such as:

(1) Collection overages (collection shortages shall be charged to Account 6620, Services.)

(2) Unclaimed refunds for telecommunications services when not subject to escheats;

(3) Charges (penalties) imposed by the company for customer checks returned for non-payment;

(4) Discounts allowed customers for prompt payment;

(5) Late-payment charges;

(6) Revenue from private mobile telephone services which do not have access to the public switched network; and

(7) Other incidental revenue not provided for elsewhere in other Revenue accounts.

(m) Any definitely known amounts of losses of revenue collections due to fire or theft, at customers' coin-box stations, at public or semipublic telephone stations, in the possession of collectors en route to collection offices, on hand at collection offices, and between collection offices and banks shall be charged to Account 6720, General and Administrative.

§§ 32.5230, 32.5240, 32.5250, 32.5260 through 32.5264, 32.5269, and 32.5270 [Removed]

86. Sections 32.5230, 32.5240, 32.5250, 32.5260 through 32.6264, 32.5269, and 32.5270 are removed.

87. Section 32.5280 is amended by revising paragraph (c) to read as follows:

§ 32.5280 Nonregulated operating revenue.

* * * * *

(c) Separate subsidiary record categories shall be maintained for two groups of nonregulated revenue as follows: one subsidiary record for all revenues derived from regulated services treated as nonregulated for federal accounting purposes pursuant to Commission order and the second for all other revenues derived from a nonregulated activity as set forth in paragraph (a) of this section.

88. Section 32.5300 is revised to read as follows:

§ 32.5300 Uncollectible revenue.

This account shall be charged with amounts concurrently credited to Account 1170, Receivables.

§§ 32.5301 and 32.5302 [Removed]

89. Sections 32.5301 and 32.5302 are removed.

90. Section 32.5999 is amended by removing paragraph (a)(3), redesignating (a)(4) as (a)(3), and revising paragraphs (b)(4), (c), and (g) as follows:

§ 32.5999 General.

* * * * *

(b) * * *

(4) In addition to the activities specified in paragraph (b)(3) of this section, the appropriate Plant Specific Operations Expense accounts shall include the cost of personnel whose principal job is the operation of plant equipment, such as general purpose computer operators, aircraft pilots, chauffeurs and shuttle bus drivers. However, when the operation of equipment is performed as part of other identifiable functions (such as the use of office equipment, capital tools or motor vehicles) the operators' cost shall be charged to accounts appropriate for those functions. (For costs of operator services personnel, see Account 6620, Services, and for costs of test board personnel see Account 6533.)

(c) *Plant nonspecific operations expense*. The Plant Nonspecific Operations Expense accounts shall include expenses related to property held for future telecommunications use, provisioning expenses, network operations expenses, and depreciation and amortization expenses. Accounts in this group (except for Account 6540, Access expense, and Account 6560, Depreciation and amortization expense) shall include the costs of performing activities described in narratives for individual accounts. These costs shall also include the costs of supervision and office support of these activities.

* * * * *

(g) Expense accounts to be maintained.

Account title	Class A account	Class B account
Income statement accounts		
Plant specific operations expense:		
Network support expense	....	6110
Motor vehicle expense	6112	....
Aircraft expense	6113	....
Tools and other work equipment expense	6114	....
General support expenses	....	6120
Land and building expenses	6121	....
Furniture and artworks expense	6122	....
Office equipment expense	6123	....
General purpose computers expense	6124	....
Central office switching expense	....	6210
Non-digital switching expense	6211	....
Digital electronic switching expense	6212	....
Operators system expense	6220	6220
Central office transmission expenses	....	6230
Radio systems expense	6231	....
Circuit equipment expense	6232	....
Information origination/termination expense	....	6310
Station apparatus expense	6311	....
Large private branch exchange expense	6341	....
Public telephone terminal equipment expense	6351	....
Other terminal equipment expense	6362	....
Cable and wire facilities expenses	....	6410
Poles expense	6411	....
Aerial cable expense	6421	....
Underground cable expense	6422	....
Buried cable expense	6423	....
Submarine and deep sea cable expense	6424	....
Intrabuilding network cable expense	6426	....
Aerial wire expense	6431	....
Conduit systems expense	6441	....
Plant nonspecific operations expense:		
Other property plant and equipment expenses	....	6510
Property held for future Telecommunications use expense	6511	....
Provisioning expense	6512	....
Network operations expenses	....	6530
Power expense	6531	....
Network administration expense	6532	....

Account title	Class A account	Class B account
Testing expense	6533	....
Plant operations administration expense	6534	....
Engineering expense	6535	....
Access expense	6540	6540
Depreciation and amortization expenses	6560	6560
Customer operations expense:		
Marketing	....	6610
Product management and sales	6611	
Product advertising	6613	
Services	6620	6620
Corporate operations expense:		
General and administrative	6720	6720
Provision for uncollectible notes receivable	6790	6790

91. Section 32.6110 is revised to read as follows:

§ 32.6110 Network support expenses.

(a) Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6112 through 6114.

(b) Credits shall be made to this account by Class B companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

92. Section 32.6112 is amended by revising paragraph (b) to read as follows:

§ 32.6112 Motor vehicle expense.

* * * * *

(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

93. Section 32.6113 is amended by revising paragraph (b) to read as follows:

§ 32.6113 Aircraft expense.

* * * * *

(b) Credits shall be made to this account for amounts transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

94. Section 32.6114 is amended by revising paragraph (b) to read as follows:

§ 32.6114 Tools and other work equipment expense.

* * * * *

(b) Credits shall be made to this account for amounts related to special purpose vehicles and other work equipment transferred to Construction and/or to other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

95. Section 32.6120 is revised to read as follows:

§ 32.6120 General support expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6121 through 6124.

96. Section 32.6124 is revised to read as follows:

§ 32.6124 General purpose computers expense.

This account shall include the costs of personnel whose principal job is the physical operation of general purpose computers and the maintenance of operating systems. This excludes the cost of preparation of input data or the use of outputs which are chargeable to the accounts appropriate for the activities being performed. Also excluded are costs incurred in planning and maintaining application systems and databases for general purpose computers. (See also § 32.6720, General and administrative.) Separately metered electricity for general purpose computers shall also be included in this account.

97. Section 32.6210 is revised to read as follows:

§ 32.6210 Central office switching expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6211 through 6212.

98. Section 32.6211 is revised to read as follows:

§ 32.6211 Non-digital switching expense.

This account shall include expenses associated with non-digital electronic switching and electro-mechanical switching.

99. Section 32.6212 is revised to read as follows:

§ 32.6212 Digital electronic switching expense.

(a) This account shall include expenses associated with digital electronic switching. Digital electronic switching expenses shall be maintained in the following subaccounts: 6212.1 Circuit, 6212.2 Packet.

(b) This subaccount 6212.1 Circuit shall include expenses associated with digital electronic switching equipment used to provide circuit switching.

(c) This subaccount 6212.2 Packet shall include expenses associated with digital electronic switching equipment used to provide packet switching.

§ 32.6215 [Removed]

100. Section 32.6215 is removed.

101. Section 32.6230 is revised to read as follows:

§ 32.6230 Central office transmission expense.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6231 and 6232.

§ 32.6231 [Amended]

102. Section 32.6231 is amended by removing paragraph (b) and designating paragraph (a) as an undesignated paragraph.

103. Section 32.6232 is revised to read as follows:

§ 32.6232 Circuit equipment expense.

(a) This account shall include expenses associated with circuit equipment. Circuit equipment expenses shall be maintained in the following subaccounts: 6232.1 Electronic, 6232.2 Optical.

(b) This subaccount 6232.1 Electronic shall include expenses associated with electronic circuit equipment.

(c) This subaccount 6232.2 Optical shall include expenses associated with optical circuit equipment.

104. Section 32.6310 is revised to read as follows:

§ 32.6310 Information origination/termination expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A telephone companies in Accounts 6311 through 6362.

105. Section 32.6410 is revised to read as follows:

§ 32.6410 Cable and wire facilities expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6411 through 6441.

106. Section 32.6424 is revised to read as follows:

§ 32.6424 Submarine and deep sea cable expense.

(a) This account shall include expenses associated with submarine and deep sea cable.

(b) Subsidiary record categories shall be maintained as provided in § 32.2424.

§ 32.6425 [Removed]

107. Section 32.6425 is removed.

108. Section 32.6510 is revised to read as follows:

§ 32.6510 Other property, plant and equipment expenses.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6511 and 6512.

109. Section 32.6512 is revised to read as follows:

§ 32.6512 Provisioning expense.

(a) This account shall include costs incurred in provisioning material and supplies, including office supplies. This includes receiving and stocking, filling requisitions from stock, monitoring and replenishing stock levels, delivery of material, storage, loading or unloading and administering the reuse or refurbishment of material. Also included are adjustments resulting from the periodic inventory of material and supplies.

(b) Credits shall be made to this account for amounts transferred to construction and/or to Plant Specific Operations Expense. These costs are to be cleared by adding to the cost of material and supplies a suitable loading charge.

110. Section 32.6530 is revised to read as follows:

§ 32.6530 Network operations expense.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6531 through 6535.

111. Section 32.6560 is revised to read as follows:

§ 32.6560 Depreciation and amortization expenses.

(a) This account shall include: (1) The depreciation expense of capitalized costs in Accounts 2112 through 2441, inclusive.

(2) The depreciation expense of capitalized costs included in Account 2002, Property held for future telecommunications use.

(3) The amortization of costs included in Accounts 2681, Capital leases, 2682, Leasehold improvements, and Account 2690, Intangibles.

(4) The amortization of costs included in Account 2005, Telecommunications plant adjustment, and lump-sum write-offs of amounts of plant acquisition adjustment as provided for in § 32.2005(b)(4).

(b) Subsidiary records shall be maintained so as to show that character of the amounts related to plant acquisition adjustments.

§§ 32.6561 through 32.6565 [Removed]

112. Sections 32.6561 through 32.6565 are removed.

113. Section 32.6610 is revised to read as follows:

§ 32.6610 Marketing.

Class B telephone companies shall use this account for expenses of the type and character required of Class A companies in Accounts 6611 through 6613.

114. Section 32.6611 is revised to read as follows:

§ 32.6611 Product management and sales.

This account shall include:

(a) Costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels.

(b) Costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.

§ 32.6612 [Removed]

115. Section 32.6612 is removed.

116. Section 32.6620 is revised to read as follows:

§ 32.6620 Services.

(a) This account shall include:

(1) Costs incurred in helping customers place and complete calls, except directory assistance. This includes handling and recording; intercept; quoting rates, time and charges; and all other activities involved in the manual handling of calls.

(2) Costs incurred in providing customer number and classified listings. This includes preparing or purchasing, compiling, and disseminating those listings through directory assistance or other means.

(3) Costs incurred in establishing and servicing customer accounts. This includes:

(i) Initiating customer service orders and records;

(ii) Maintaining and billing customer accounts;

(iii) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills;

(iv) Collecting and reporting pay station receipts; and

(v) Instructing customers in the use of products and services.

(b) This account shall also include amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services. Subsidiary record categories shall be maintained in order that the entity may separately report interstate and intrastate amounts. Such subsidiary record categories shall be reported as required by Part 43 of this chapter.

(c) Class A companies, except mid-sized incumbent local exchange carriers, shall maintain the following subaccounts for expenses recorded in this account: 6620.1 Wholesale, 6620.2 Retail.

(1) *6620.1 Wholesale.* This subaccount shall include costs associated with telecommunications services provided for resale to other telecommunications carriers.

(2) *6620.2 Retail.* This subaccount shall include costs associated with telecommunications services provided to subscribers who are not telecommunications carriers.

§§ 32.6621, 32.6623, and 32.6710 through 32.6712 [Removed]

117. Sections 32.6621, 32.6623, and 32.6710 through 32.6712 are removed.

118. Section 32.6720 is revised to read as follows:

§ 32.6720 General and administrative.

This account shall include costs incurred in the provision of general and administrative services as follows:

(a) Formulating corporate policy and in providing overall administration and management. Included are the pay, fees and expenses of boards of directors or similar policy boards and all board-designated officers of the company and their office staffs, e.g., secretaries and staff assistants.

(b) Developing and evaluating long-term courses of action for the future operations of the company. This includes performing corporate organization and integrated long-range planning, including management studies, options and contingency plans, and economic strategic analysis.

(c) Providing accounting and financial services. Accounting services include payroll and disbursements, property accounting, capital recovery, regulatory accounting (revenue requirements, separations, settlements and corollary cost accounting), non-customer billing, tax accounting, internal and external auditing, capital and operating budget analysis and control, and general accounting (accounting principles and procedures and journals, ledgers, and financial reports). Financial services include banking operations, cash management, benefit investment fund management (including actuarial services), securities management, debt trust administration, corporate financial planning and analysis, and internal cashier services.

(d) Maintaining relations with government, regulators, other companies and the general public. This includes:

(1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses);

(2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits;

(3) Performing public relations and non-product-related corporate image advertising activities;

(4) Administering relations, including negotiating contracts, with telecommunications companies and other utilities, businesses, and industries. This excludes sales contracts (see also Account 6611, Product management and sales); and

(5) Administering investor relations.

(e) Performing personnel administration activities. This includes:

(1) Equal Employment Opportunity and Affirmative Action Programs;

(2) Employee data for forecasting, planning and reporting;

(3) General employment services;

(4) Occupational medical services;

(5) Job analysis and salary programs;

(6) Labor relations activities;

(7) Personnel development and staffing services, including counseling, career planning, promotion and transfer programs;

(8) Personnel policy development;

(9) Employee communications;

(10) Benefit administration;

(11) Employee activity programs;

(12) Employee safety programs; and

(13) Nontechnical training course development and presentation.

(f) Planning and maintaining application systems and databases for general purpose computers.

(g) Providing legal services: This includes conducting and coordinating litigation, providing guidance on regulatory and labor matters, preparing, reviewing and filing patents and contracts and interpreting legislation. Also included are court costs, filing fees, and the costs of outside counsel, depositions, transcripts and witnesses.

(h) Procuring material and supplies, including office supplies. This includes analyzing and evaluating suppliers' products, selecting appropriate suppliers, negotiating supply contracts, placing purchase orders, expediting and controlling orders placed for material, developing standards for material purchased and administering vendor or user claims.

(i) Making planned search or critical investigation aimed at discovery of new knowledge. It also includes translating research findings into a plan or design for a new product or process or for a significant improvement to an existing product or process, whether intended for sale or use. This excludes making routine alterations to existing products, processes, and other ongoing operations even though those alterations may represent improvements.

(j) Performing general administrative activities not directly charged to the user, and not provided in paragraphs (a) through (i) of this section. This includes providing general reference libraries, food services (e.g., cafeterias, lunch rooms and vending facilities), archives, general security investigation services, operating official private branch exchanges in the conduct of the business, and telecommunications and mail services. Also included are payments in settlement of accident and damage claims, insurance premiums for protection against losses and damages, direct benefit payments to or on behalf of retired and separated employees, accident and sickness disability payments, supplemental payments to employees while in governmental service, death payments, and other miscellaneous costs of a corporate nature. This account excludes the cost of office services, which are to be included in the accounts appropriate for the activities supported.

§§ 32.6721 through 32.6728 [Removed]

119. Sections 32.6721 through 32.6728 are removed.

120. Section 32.6790 is revised to read as follows:

§ 32.6790 Provision for uncollectible notes receivable.

This account shall be charged with amounts concurrently credited to Account 1170, Receivables.

121. Section 32.6999 is revised to read as follows:

§ 32.6999 General.

(a) *Structure of the other income accounts.* The Other Income Accounts are designed to reflect both operating and nonoperating income items including taxes, extraordinary items and other income and expense items not properly included elsewhere.

(b) *Other income accounts listing.*

Account title	Class A account	Class B account
Other operating income and expense:		
Other operating income and expense	7100	7100
Operating taxes:		
Operating taxes		7200
Operating investment tax credits-net	7210	....
Operating Federal income taxes	7220	....
Operating state and local income taxes	7230	....
Operating other taxes	7240	....
Provision for deferred operating income taxes—net	7250	....
Nonoperating income and expense:		
Nonoperating income and expense	7300	7300

Account title	Class A account	Class B account
Nonoperating taxes:		
Nonoperating taxes	7400	7400
Interest and related items:		
Interest and related items	7500	7500
Extraordinary items	7600	7600
Jurisdictional differences and non-regulated income items:		
Income effect of jurisdictional ratemaking difference—net	7910	7910
Nonregulated net income	7990	7990

§ 32.7099 [Removed]

122. Section 32.7099 is removed.

123. Section 32.7100 is revised to read as follows:

§ 32.7100 Other operating income and expenses.

This account shall be used to record the results of transactions, events or circumstances during the periods which are incidental or peripheral to the major or central operations of the company. It shall be used to record all items of an operating nature such as incidental work performed for others not provided for elsewhere. Whenever practicable the inflows and outflows associated with a transaction, event or circumstances shall be matched and the result shown as a net gain or loss. This account shall include the following:

(a) Profits realized from custom work (plant construction) performed for others incident to the company's regulated telecommunications operations. This includes profits from the incidental performance of nontariffed construction activities (including associated engineering and design) for others which are similar in nature to those activities which are performed by the company in constructing its own telecommunications plant facilities. The records supporting the entries in this account for income and custom work shall be maintained with sufficient particularity to identify separately the revenue and costs associated with each undertaking.

(b) Return on investment for the use of regulated property plant and equipment to provide nonregulated products and services.

(c) All gains and losses resulting from the exchange of foreign currency. Transaction (realized) gains or losses shall be measured based on the exchange rate in effect on the transaction date. Unrealized gains or losses shall be measured based on the exchange rate in effect at the balance sheet date.

(d) Gains or losses resulting from the disposition of land or artworks.

(e) Charges or credits, as appropriate, to record the results of transactions, events or circumstances which are of an operational nature, but occur irregularly or are peripheral to the major or central operations of the company and not provided for elsewhere.

§§ 32.7110, 32.7130, 32.7140, 32.7150, and 32.7160. [Removed]

124. Sections 32.7110, 32.7130, 32.7140, 32.7150, and 32.7160 are removed.

125. Section 32.7200 is revised to read as follows:

§ 32.7200 Operating taxes.

Class B telephone companies shall use this account for operating taxes of the type and character required of Class A companies in Accounts 7210 through 7250.

126. Section 32.7210 is amended by revising paragraph (b) to read as follows:

§ 32.7210 Operating investment tax credits—net.

* * * * *

(b) This account shall be credited and Account 4320 shall be charged ratably with the amortization of each year's investment tax credits included in Account 4320 for investment services for ratemaking purposes. Such amortization shall be determined in relation to the period of time used for computing book depreciation on the property with respect to which the tax credits relate.

127. Section 32.7240 is amended by revising paragraphs (d), (e), and (g) to read as follows:

§ 32.7240 Operating other taxes.

* * * * *

(d) Interest on tax assessments which are not paid when due shall be included in Account 7500, Interest and related items.

(e) Taxes paid by the company under tax-free covenants on indebtedness shall be charged to Account 7300, Nonoperating income and expense.

* * * * *

(g) Taxes on rented telecommunications plant which are borne by the lessee shall be credited by the owner to Account 5200, Miscellaneous revenue, and shall be charged by the lessee to the appropriate Plant Specific Operations Expense account.

§ 32.7299 [Removed]

128. Section 32.7299 is removed.

129. Section 32.7300 is revised to read as follows:

§ 32.7300 Nonoperating income and expense.

This account shall be used to record the results of transactions, events and circumstances affecting the company during a period and which are not operational in nature. This account shall include such items as nonoperating taxes, dividend income and interest income. Whenever practicable, the inflows and outflows associated with a transaction or event shall be matched and the result shown as a net gain or loss. This account shall include the following:

(a) Dividends on investments in common and preferred stock, which is the property of the company, whether such stock is owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled.

(b) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1410, Other noncurrent assets, as a reduction of the carrying value of the investments.

(c) Interest on securities, including notes and other evidences of indebtedness, which are the property of the company, whether such securities are owned by the company and held in its treasury, or deposited in trust including sinking or other funds, or otherwise controlled. It shall also include interest on cash bank balances, certificates of deposits, open accounts, and other analogous items.

(d) For each month the applicable amount requisite to extinguish, during the interval between the date of acquisition and date of maturity, the difference between the purchase price and the par value of securities owned or held in sinking or other funds, the income from which is includable in this account. Amounts thus credited or charged shall be concurrently included in the accounts in which the securities are carried.

(e) Amounts charged to the telecommunications plant under construction account related to allowance for funds used during construction. (See § 32.2000(c)(2)(x).)

(f) Gains or losses resulting from:

(1) The disposition of land or artworks;

(2) The disposition of plant with traffic;

(3) The disposition of nonoperating telecommunications plant not previously used in the provision of telecommunications services.

(g) All other items of income and gains or losses from activities not specifically provided for elsewhere, including representative items such as:

(1) Fees collected in connection with the exchange of coupon bonds for registered bonds;

(2) Gains or losses realized on the sale of temporary cash investments or marketable equity securities;

(3) Net unrealized losses on investments in current marketable equity securities;

(4) Write-downs or write-offs of the book costs of investment in equity securities due to permanent impairment;

(5) Gains or losses of nonoperating nature arising from foreign currency exchange or translation;

(6) Gains or losses from the extinguishment of debt made to satisfy sinking fund requirements;

(7) Amortization of goodwill;

(8) Company's share of the earnings or losses of affiliated companies accounted for on the equity method; and

(9) The net balance of the revenue from and the expenses (including depreciation, amortization and insurance) of property, plant, and equipment, the cost of which is includable in Account 2006, Nonoperating plant.

(h) Costs that are typically given special regulatory scrutiny for ratemaking purposes. Unless specific justification to the contrary is given, such costs are presumed to be excluded from the costs of service in setting rates.

(1) Lobbying includes expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances, or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises, or for the purpose of influencing the decisions of public officials. This also includes advertising, gifts, honoraria, and political contributions. This does not include such expenditures which are directly related to communications with and appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations;

(2) Contributions for charitable, social or community welfare purposes;

(3) Membership fees and dues in social, service and recreational or athletic clubs and organizations;

(4) Penalties and fines paid on account of violations of statutes. This account shall also include penalties and fines paid on account of violations of U.S. antitrust statutes, including judgements and payments in settlement of civil and criminal suits alleging such violations; and

(5) Abandoned construction projects.

(i) Cash discounts on bills for material purchased shall not be included in this account.

§§ 32.7310, 32.7320, 32.7330, 32.7340, 32.7350, 32.7360, 32.7370, and 32.7399 [Removed].

130. Sections 32.7310, 32.7320, 32.7330, 32.7340, 32.7350, 32.7360, 32.7370, and 32.7399 are removed.

131. Section 32.7400 is revised to read as follows:

§ 32.7400 Nonoperating taxes.

This account shall include taxes arising from activities which are not a part of the central operations of the entity.

(a) This account shall be charged and Account 4330, Unamortized nonoperating investment tax credits—net, shall be credited with investment tax credits generated from qualified expenditures related to other operations which the company has elected to defer rather than recognize currently in income.

(b) This account shall be credited and Account 4330 shall be charged with the amortization of each year's investment tax credits included in such accounts relating to amortization of previously deferred investment tax credits of other property or regulated property, the amortization of which does not serve to reduce costs of service (but the unamortized balance does reduce rate base) for ratemaking purposes. Such amortization shall be determined with reference to the period of time used for computing book depreciation on the property with respect to which the tax credits relate.

(c) This account shall be charged and Account 4070, Income taxes—accrued, shall be credited for the amount of nonoperating Federal income taxes and state and local income taxes for the current period. This account shall also reflect subsequent adjustments to amounts previously charged.

(d) Taxes shall be accrued each month on an estimated basis and adjustments made as more current data becomes available.

(e) Companies that adopt the flow-through method of accounting for investment tax credits shall reduce the calculated provision in this account by the entire amount of the credit realized during the year. Tax credits, other than investment tax credits, if normalized, shall be recorded consistent with the accounting for investment tax credits.

(f) No entries shall be made to this account to reflect interperiod tax allocation.

(g) Taxes (both Federal and state) shall be accrued each month on an estimated basis and adjustments made as later data becomes available.

(h) This account shall be charged and Account 4080, Other taxes—accrued, shall be credited for all nonoperating taxes, other than Federal, state and local income taxes, and payroll related taxes for the current period. Among the items includable in this account are property, gross receipts, franchise and capital stock taxes. This account shall also reflect subsequent adjustments to amounts previously charged.

(i) This account shall be charged or credited, as appropriate, with contra entries recorded to the following accounts for nonoperating tax expenses that has been deferred in accordance with § 32.22: 4110 Net Current Deferred Nonoperating Income Taxes, 4350 Net Noncurrent Deferred Nonoperating Income Taxes.

(j) Subsidiary record categories shall be maintained to distinguish between property and nonproperty related deferrals and so that the company may separately report the amounts contained herein that relate to Federal, state and local income taxes. Such subsidiary record categories shall be reported as required by part 43 of this chapter.

§§ 32.7410, 32.7420, 32.7430, 32.7440, 32.7450, and 32.7499 [Removed].

132. Sections 32.7410 32.7420, 32.7430, 32.7440, 32.7450, and 32.7499 are removed.

133. Section 32.7500 is revised to read as follows:

§ 32.7500 Interest and related items.

(a) This account shall include the current accruals of interest on all classes of funded debt the principal of which is includable in Account 4200, Long term debt and funded debt. It shall also include the interest on funded debt the maturity of which has been extended by specific agreement. This account shall be kept so that the interest on each class of funded debt may be shown separately in the annual reports to this Commission.

(b) These accounts shall not include charges for interest on funded debt issued or assumed by the company and held by or for it, whether pledged as collateral or held in its treasury, in special deposits or in sinking or other funds.

(c) Interest expressly provided for and included in the face amount of securities issued shall be charged at the time of issuance to Account 1280, Prepayments, and cleared to this account as the term expires to which the interest applies.

(d) This account shall also include monthly amortization of balances in Account 4200, Long-term debt and funded debt.

(e) This account shall include the interest portion of each capital lease payment.

(f) This account shall include the monthly amortization of the balances in Account 1410, Other noncurrent assets.

(g) This account shall include all interest deductions not provided for elsewhere, e.g., discount, premium, and expense on notes maturing one year or less from date of issue.

(h) A list of representative items of indebtedness, the interest on which is chargeable to this account, follows:

(1) Advances from affiliated companies;

(2) Advances from nonaffiliated companies and other liabilities;

(3) Assessments for public improvements past due;

(4) Bond coupons, matured and unpaid;

(5) Claims and judgments;

(6) Customers' deposits;

(7) Funded debt mature, with respect to which a definite agreement as to extension has not been made;

(8) Notes payable on demand or maturing one year or less from date of issue;

(9) Open accounts;

(10) Tax assessments, past due; and

(11) Discount, premium, and issuance expense of notes maturing one year or less from date of issue.

§§ 32.7510, 32.7520, 32.7530, 32.7540, and 32.7599 [Removed].

134. Sections 32.7510, 32.7520, 32.7530, 32.7540, and 32.7599 are removed.

135. Section 32.7600 is revised to read as follows:

§ 32.7600 Extraordinary items.

(a) This account is intended to segregate the effects of events or transactions that are extraordinary. Extraordinary events and transactions are distinguished by both their unusual nature and by the infrequency of their occurrence, taking into account the environment in which the company operates. This account shall also include the related income tax effect of the extraordinary items.

(b) This account shall be credited and/or charged with nontypical, noncustomary and infrequently recurring gains and/or losses which would significantly distort the current year's income computed before such extraordinary items, if reported other than as extraordinary items.

(c) This account shall be charged or credited and Account 4070, Income taxes—accrued, shall be credited or charged for all current income tax effects (Federal, state and local) of extraordinary items.

(d) This account shall also be charged or credited, as appropriate, with a contra amount recorded to Account 4350, Net noncurrent deferred nonoperating income taxes or Account 4110, Net current deferred nonoperating income taxes for the income tax effects (Federal, state and local) of extraordinary items that have been deferred in accordance with § 32.22.

§§ 32.7610, 32.7620, 32.7630, and 32.7640 [Removed].

136. Sections 32.7610, 32.7620, 32.7630, and 32.7640 are removed.

137. Section 32.9000 is amended by revising the definition of *Mid-sized incumbent local exchange carrier* to read as follows:

§ 32.9000 Glossary of terms.

* * * * *

Mid-sized incumbent local exchange carrier is a carrier whose annual revenue from regulated telecommunications operations equals or exceeds the indexed revenue threshold and whose revenue when aggregated with the revenues of any local exchange carrier that it controls, is controlled by, or with which it is under common control is less than $7 billion (indexed for inflation as measured by the Department of Commerce Gross Domestic Product Chain-type Price Index (GDP–CPI)).

* * * * *

PART 43—REPORTS OF COMMUNICATION COMMON CARRIERS AND CERTAIN AFFILIATES

1. The authority citation for part 43 continues to read as follows:

Authority: 47 U.S.C. 154; Telecommunications Act of 1996, Pub. L. 104–104, secs. 402(b)(2)(B), (c), 110 Stat. 56 (1996) as amended unless otherwise noted. 47 U.S.C. 211, 219, 220 as amended.

139. Section 43.21 is amended by revising paragraph (e) introductory text and by revising references to ''Each local exchange carrier'' in paragraphs (f) through (j) to read ''Each incumbent local exchange carrier'' each place it appears.

§ 43.21 Annual reports of carriers and certain affiliates.

* * * * *

(e) Each incumbent local exchange carrier, except mid-sized incumbent local exchange carriers, as defined by § 32.9000 with annual operating revenues equal to or above the indexed revenue threshold shall file, no later than April 1 of each year:

* * * * *

PART 51—INTERCONNECTION

140. The authority citation for Part 51 continues to read as follows:

Authority: Sections 1–5, 7, 210–05, 207–09, 218, 225–27, 251–54, 271, 332, 48 Stat. as amended, 1077; 47 U.S.C. §§ 151–55, 157, 201–05, 207–09, 218, 225–27, 251–54, 271, 332, unless otherwise noted.

141. Section 51.609 is amended by revising paragraphs (c)(1),(c)(2), (c)(3), and (d) to read as follows:

§ 51.609 Determination of avoided retail costs.

* * * * *

(c) * * *

(1) Include, as direct costs, the costs recorded in USOA accounts 6611(product management and sales), 6613 (product advertising) and 6620 (Services) (Secs. 32.6611, 32.6613 and 32.6620 of this chapter);

(2) Include, as indirect costs, a portion of the costs recorded in USOA accounts 6121–6124 (general support expenses), 6720 (corporate operations expenses), and uncollectible telecommunications revenue included in 5300 (uncollectible revenue) (Secs. 32.6121 through 32.6124, 32.6720 and 32.5300 of this chapter); and

(3) Not include plant-specific expenses and plant non-specific expenses, other than general support expenses (Secs. 32.6112 through 32.6114, 32.6211 through 32.6560 of this chapter).

(d) Costs included in accounts 6611, 6613 and 6620 described in paragraph (c) of this section (§§ 32.6611, 32.6613 and 32.6620 of this chapter) may be included in wholesale rates only to the extent that the incumbent LEC proves to a state commission that specific costs in these accounts will be incurred and are not avoidable with respect to services sold at wholesale, or that specific costs in these accounts are not included in the retail prices of resold services. Costs included in accounts 6112 through 6114 and 6211 through 6560 described in paragraph (c) of this section (§§ 32.6112 through 32.6114, 32.6211 through 32.6560 of this chapter) may be treated as avoided retail costs, and excluded from wholesale rates, only to the extent that a party proves to a state commission that specific costs in these accounts can reasonably be avoided when an incumbent LEC provides a telecommunications service for resale to a requesting carrier.

* * * * *

PART 54—UNIVERSAL SERVICE

142. The authority citation for part 54 continues to read as follows:

Authority: 47 U.S.C. 1, 4(i) 201, 205, 214, and 254 unless otherwise noted.

Subpart D—Universal Service Support for High Cost Areas

143. Section 54.301 is amended by revising the table in paragraph (b), and paragraphs (c)(2), (c)(5), and (d)(4) to read as follows:

§ 54.301 Local switching support.

* * * * *

(b) * * *

I	
Telecommunications Plant in Service (TPIS)	Account 2001
Telecommunications Plant—Other	Accounts 2002, 2003, 2005
General Support Assets	Account 2110
Central Office Assets	Accounts 2210, 2220, 2230
Central Office-switching, Category 3 (local switching)	Account 2210, Category 3
Information Origination/termination Assets	Account 2310
Cable and Wire Facilities Assets	Account 2410
Amortizable Tangible Assets	Account 2680
Intangibles	Account 2690
II	
Rural Telephone Bank (RTB) Stock	Included in Account 1410
Materials and Supplies	Account 1220.1
Cash Working Capital	Defined in 47 CFR 65.820(d)
III	
Accumulated Depreciation	Account 3100
Accumulated Amortization	Included in Accounts 2005, 2680, 2690, 3410
Net Deferred Operating Income Taxes	Accounts 4100, 4340
Network Support Expenses	Account 6110
General Support Expenses	Account 6120
Central Office Switching, Operator Systems, and Central Office Transmission Expenses.	Accounts 6210, 6220, 6230
Information Origination/Termination Expenses	Account 6310
Cable and Wire Facilities Expenses	Account 6410
Other Property, Plant and Equipment Expenses	Account 6510
Network Operations Expenses	Account 6530
Access Expense	Account 6540
Depreciation and Amortization Expense	Account 6560
Marketing Expense	Account 6610
Services Expense	Account 6620
Corporate Operations Expense	Account 6720
Operating Taxes	Accounts 7230, 7240
Federal Investment Tax Credits	Account 7210
Provision for Deferred Operating Income Taxes-Net	Account 7250
Allowance for Funds Used During Construction	Included in Account 7300
Charitable Contributions	Included in Account 7300
Interest and Related Items	Account 7500
IV	
Other Non-Current Assets	Included in Account 1410
Deferred Maintenance and Retirements	Included in Account 1438
Deferred Charges	Included in Account 1438
Other Jurisdictional Assets and Liabilities	Accounts 1500, 4370
Customers' Deposits	Account 4040
Other Long-Term Liabilities	Included in Account 4300

(c) * * *

(2) Telecommunications Plant—Other (Accounts 2002, 2003, 2005); Rural Telephone Bank (RTB) Stock (included in Account 1410); Materials and Supplies (Account 1220.1); Cash Working Capital (Sec. 65.820(d) of this chapter); Accumulated Amortization (Included in Accounts 2005, 2680, 2690, 3410); Net Deferred Operating Income Taxes (Accounts 4100, 4340); Network Support Expenses (Account 6110); Other Property, Plant and Equipment Expenses (Account 6510); Network Operations Expenses (Account 6530); Marketing Expense (Account 6610); Services Expense (Account 6620); Operating Taxes (Accounts 7230, 7240); Federal Investment Tax Credits (Accounts 7210); Provision for Deferred Operating Income Taxes—Net (Account 7250); Interest and Related Items (Account 7500); Allowance for Funds Used During Construction (Included in Account 7300); Charitable Contributions (included in Account 7300); Other Non-current Assets (Included in Account 1410); Other Jurisdictional Assets and Liabilities (Accounts 1500, 4370); Customer Deposits (Account 4040); Other Long-term Liabilities (Included in Account 4300); and Deferred Maintenance and Retirements (Included in Account 1438) shall be allocated according to the following factor:

Account 2210 Category 3 Account 2001.

* * * * *

(5) Corporate Operations Expenses (Account 6720) shall be allocated according to the following factor:

[[Account 2210 Category 3 (Account 2210 + Account 2220 + Account 2230)]] × (Account 6210 + Account 6220 + Account 6230)] + [(Account 6530 + Account 6610 + Account 6620) × (Account 2210 Category 3 Account 2001)] (Account 6210 + Account 6220 + Account 6230 + Account 6310 + Account 6410 + Account 6530 + Account 6610 + Account 6620).

* * * * *

(d) * * *

(4) Federal income tax attributable to COE Category 3 shall be calculated using the following formula; the accounts listed shall be allocated pursuant to paragraph (c) of this section:

[Return on Investment attributable to COE Category 3—Included in Account 7300—Account 7500–Account 7210)] × [Federal Income Tax Rate (1—Federal Income Tax Rate)].

* * * * *

PART 64—MISCELLANEOUS RULES RELATING TO COMMON CARRIERS

144. The authority citation for Part 64 continues to read as follows:

Authority: 47 U.S.C. 151, 154, 201, 202, 205, 218–220, 225, 251(e)(1), 254, 302, 303, and 337 unless otherwise noted.

145. Section 64.901 is amended by revising paragraph (b)(1) to read as follows:

§ 64.901 Allocation of costs.

* * * * *

(b) * * *

(1) Tariffed services provided to a nonregulated activity will be charged to the nonregulated activity at the tariffed rates and credited to the regulated revenue account for that service. Nontariffed services, offered pursuant to a section 252(e) agreement, provided to a nonregulated activity will be charged to the nonregulated activity at the amount set forth in the applicable interconnection agreement approved by a state commission pursuant to section 252(e) and credited to the regulated revenue account for that service.

* * * * *

146. Section 64.903 is amended by revising paragraph (a) introductory text to read as follows:

§ 64.903 Cost allocation manuals.

(a) Each incumbent local exchange carrier having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold (as defined in § 32.9000 of this chapter) except mid-sized incumbent local exchange carriers is required to file a cost allocation manual describing how it separates regulated from nonregulated costs. The manual shall contain the following information regarding the carrier's allocation of costs between regulated and nonregulated activities:

* * * * *

147. Section 64.904 is revised to read as follows:

§ 64.904 Independent audits.

(a) Each carrier required to file a cost allocation manual shall elect to either have an attest engagement performed by an independent auditor every two years, covering the prior two year period, or have a financial audit performed by an independent auditor every two years, covering the prior two year period. In either case, the initial engagement shall be performed in the calendar year after the carrier is first required to file a cost allocation manual.

(b) The attest engagement shall be an examination engagement and shall provide a written communication that expresses an opinion that the systems, processes, and procedures applied by the carrier to generate the results reported pursuant to § 43.21(e)(2) of this chapter comply with the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86–111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96–150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, § 64.901, and § 64.903 in force as of the date of the auditor's report. At least 30 days prior to beginning the attestation engagement, the independent auditors shall provide the Commission with the audit program. The attest engagement shall be conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, except as otherwise directed by the Chief, Common Carrier Bureau.

(c) The biennial financial audit shall provide a positive opinion on whether the applicable data shown in the carrier's annual report required by § 43.21(e)(2) of this chapter present fairly, in all material respects, the information of the Commission's Joint Cost Orders issued in conjunction with CC Docket No. 86–111, the Commission's Accounting Safeguards proceeding in CC Docket No. 96–150, and the Commission's rules and regulations including §§ 32.23 and 32.27 of this chapter, and § 64.901, and § 64.903 in force as of the date of the auditor's report. The audit shall be conducted in accordance with generally accepted auditing standards, except as otherwise directed by the Chief, Common Carrier Bureau. The report of the independent auditor shall be filed at the time that the carrier files the annual reports required by § 43.21(e)(2) of this chapter.

148. Section 64.905 is added to read as follows:

§ 64.905 Annual certification.

A mid-sized incumbent local exchange carrier, as defined in § 32.9000 of this chapter, shall file a certification with the Commission stating that it is complying with § 64.901. The certification must be signed, under oath, by an officer of the mid-sized incumbent LEC, and filed with the Commission on an annual basis at the time that the mid-sized incumbent LEC files the annual reports required by § 43.21(e)(2) of this chapter.

PART 65—INTERSTATE RATE OF RETURN PRESCRIPTION PROCEDURES AND METHODOLOGIES

149. The authority citation for part 65 continues to read as follows:

Authority: Secs. 4, 201, 202, 203, 205, 218, 403, 48 Stat., 1066, 1072, 1077, 1094, as amended, 47 U.S.C. 151, 154, 201, 202, 203, 204, 205, 218, 219, 220, 403.

§ 65.300 [Amended]

150. In § 65.300(a) remove the words ''in excess of 100 million'' and add, in their place, the words ''equal to or above the indexed revenue threshold as defined in § 32.9000'' wherever it exists.

§§ 65.302 through 65.304 [Amended]

151. In §§ 65.302, 65.303, 65.304, remove the words ''of 100 million or more'' and add, in their place, the words ''equal to or above the indexed revenue threshold as defined in § 32.9000'' wherever they appear.

152. Section 65.450 is amended by revising paragraphs (a), (b)(1), (b)(2) and (d) to read as follows:

§ 65.450 Net income.

(a) Net income shall consist of all revenues derived from the provision of interstate telecommunications services regulated by this Commission less expenses recognized by the Commission as necessary to the provision of these services. The calculation of expenses entering into the determination of net income shall include the interstate portion of plant specific operations (Accounts 6110 through 6441), plant nonspecific operations (Accounts 6510 through 6560), customer operations (Accounts 6610 through 6620), corporate operations (Accounts 6720 through 6790), other operating income and expense (Account 7100), and operating taxes (Accounts 7200 through 7250), except to the extent this Commission specifically provides to the contrary.

(b) * * *

(1) Gains related to property sold to others and leased back under capital leases for use in telecommunications services shall be recorded in Account 4300 (Other long-term liabilities and deferred credits) and credited to Account 6560 (Depreciation and Amortization Expense) over the amortization period established for the capital lease;

(2) Gains or losses related to the disposition of land and other nondepreciable items recorded in Account 7100 (Other operating income and expense) shall be included in net income for ratemaking purposes, but adjusted to reflect the relative amount of time such property was used in regulated operations and included in the rate base; and

* * * * *

(d) Except for the allowance for funds used during construction, reasonable charitable deductions and interest related to customer deposits, the amounts recorded as nonoperating income and expenses and taxes (Accounts 7300 and 7400) and interest and related items (Account 7500) and extraordinary items (Account 7600) shall not be included unless this Commission specifically determines that particular items recorded in those accounts shall be included.

153. Section 65.820 is amended by revising paragraphs (a) and (c) to read as follows:

§ 65.820 Included items.

(a) Telecommunications Plant. The interstate portion of all assets summarized in Account 2001 (Telecommunications Plant in Service) and Account 2002 (Property Held for Future Use), net of accumulated depreciation and amortization, and Account 2003 (Telecommunications Plant Under Construction), and, to the extent such inclusions are allowed by this Commission, Account 2005 (Telecommunications Plant Adjustment). Any interest cost for funds used during construction capitalized on assets recorded in these accounts shall be computed in accordance with the procedures in Sec. 32.2000(c)(2)(x) of this chapter.

* * * * *

(c) *Noncurrent assets.* The interstate portion of Class B Rural Telephone Bank stock contained in Account 1410 and the interstate portion of assets summarized in Account 1410 (Other Noncurrent Assets) and Account 1438 (Deferred Maintenance, Retirements and Deferred Charges), only to the extent that they have been specifically approved by this Commission for inclusion (Note: The interstate portion of assets summarized in Account 1410 should not include any amounts related to investments, sinking funds or unamortized debt issuance expense). Except as noted above, no amounts from accounts 1406 through 1500 shall be included.

* * * * *

154. Section 65.830 is amended by revising paragraphs (a)(3), (a)(4), and (c) to read as follows:

§ 65.830 Deducted items.

(a) * * *

(3) The interstate portion of other long-term liabilities in (Account 4300 Other long-term liabilities and deferred credits) that were derived from the expenses specified in Sec. 65.450(a).

(4) The interstate portion of other deferred credits in (Account 4300 Other long-term liabilities and deferred credits) to the extent they arise from the provision of regulated telecommunications services. This shall include deferred gains related to sale-leaseback arrangements.

(c) The interstate portion of other long-term liabilities included in (Account 4300 Other long-term liabilities and deferred credits) shall bear the same proportionate relationships as the interstate/intrastate expenses which gave rise to the liability.

PART 69—ACCESS CHARGES

155. The authority citation for Part 69 continues to read as follows:

Authority: 47 U.S.C. 154, 201, 202, 203, 205, 218, 220, 254, 403.

156. Section 69.2 is amended by revising paragraphs (j) and (z) to read as follows:

§ 69.2 Definitions.

* * * * *

(j) *Corporate Operations Expenses* are included in General and Administrative Expenses (Account 6720);

* * * * *

(z) *Net Investment* means allowable original cost investment in Accounts 2001 through 2003, 1220 and the investments in nonaffiliated companies included in Account 1410, that has been apportioned to interstate and foreign services pursuant to the Separations Manual from which depreciation, amortization and other reserves attributable to such investment that has been apportioned to interstate and foreign services pursuant to the Separations Manual have been subtracted and to which working capital that is attributable to interstate and foreign services has been added;

* * * * *

157. Section 69.302 is amended by revising paragraph (a) to read as follows:

§ 69.302 Net investment.

(a) Investment in Accounts 2001, 1220 and Class B Rural Telephone Bank Stock booked in Account 1410 shall be apportioned among the interexchange category, billing and collection category and appropriate access elements as provided in §§ 69.303 through 69.309.

* * * * *

158. Section 69.409 is amended by revising the section heading to read as follows:

§ 69.409 Corporate operations expenses (included in Account 6720).

* * * * *

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