BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

In the Matter of Qwest Corporation dba CenturyLink QC's Petition for Authority to Convert to GAAP Accounting	**Docket No. ________________**

QWEST CORPORATION DBA CENTURYLINK QC'S PETITION FOR AUTHORITY TO CONVERT TO GAAP ACCOUNTING

In 2017, the FCC eliminated its requirements that price cap carriers such as CenturyLink maintain accounts pursuant to Part 32, allowing carriers to maintain books pursuant to generally accepted accounting principles (GAAP):

> We now conclude that, in light of the Commission's actions in areas of price cap regulation, universal service reform, and intercarrier compensation reform, as well as the advancement of robust intermodal competition in the market for telephone services, the duty to maintain two sets of accounts is generally not necessary for price cap carriers. Moreover, with respect to all carriers, we streamline and eliminate outdated accounting rules no longer needed to fulfill our statutory or regulatory duties. By reducing the costly burden of outdated regulatory requirements placed upon carriers, today's reforms give carriers the ability to better allocate scarce resources toward expanding modern networks which are critical to bringing economic opportunity, job creation, and civic engagement to all Americans.[1]

Well before this change in FCC requirements, the South Dakota Commission established rules allowing a company to convert from Part 32 to GAAP:

> 20:10:27:04. Uniform system of accounts used for classification -- Petition to use generally accepted accounting principles. Each carrier's carrier shall classify its accounts of telecommunications property, revenues, and expenses as set forth in chapters 20:10:27 to 20:10:29, inclusive, by the method prescribed by the federal communications commission's uniform system of accounts for telecommunications companies in 47 C.F.R. Part 32 (October 1, 1991), except as provided in §§ 20:10:27:11 to 20:10:27:13, inclusive.
>
> A carrier's carrier may petition the commission to use generally accepted accounting principles instead of the uniform system of accounts. The commission shall grant the

[1] *In the Matter of Comprehensive Review of the Part 32 Uniform System of Accounts Jurisdictional Separations and Referral to the Federal-State Joint Board, Report and Order* (rel. Feb. 24, 2017), ¶ 2 (Part 32 Order).

> petition if the carrier's carrier demonstrates that its use of the uniform system of accounts is unduly burdensome and that it is able to map its accounts to substantially reproduce the process and end result produced by the uniform system of accounts.

CenturyLink would like to move forward with converting to GAAP accounting in South Dakota. As the FCC has recognized, maintaining an outdated set of accounting records imposes an unreasonable burden without any benefit to the state. CenturyLink submits this petition for authority to convert to GAAP Accounting.

I. Part 32 Accounting Imposes an Unreasonable[2] Burden.

The first portion of the test set forth in ARSD 20:10:27:04 requires that the carrier "demonstrate[] that its use of the uniform system of accounts is unduly burdensome . . ." The FCC addressed the burden of such systems on price cap carriers such as CenturyLink in its Order:

> The Commission adopted the USOA "at a time when regulators were required or inclined to organize telecommunications costs in a manner that allowed a logical mapping of these costs to telecommunications rate structures." Accordingly, the USOA was designed to complement rate-of return regulation and the system of tariffed interstate access charges that incumbent LECs were required to follow at that time. Part 32 required carriers to record their assets, expenses, and revenues in prescribed accounts. Part 64's cost assignment rules apportioned the investment, expenses, and revenues between regulated and nonregulated activities. Part 36 prescribed rules for separating regulated investment, expenses, and revenues between the interstate and intrastate jurisdictions. Part 69 then specified how carriers were to apportion costs assigned to the interstate jurisdiction among the interexchange service category and the access categories and rate elements. In other words, the access rates carriers charged were directly tied to the costs of the carriers, and thus the accurate recording of such costs in the USOA.[3]

In 1991-1999, the FCC adopted a series of changes to the way it calculates access charges, which had the effect of severing the link between such rates and the accounting system

[2] Part 32 Order, ¶ 30.
[3] Part 32 Order, ¶ 5.

mandated by Part 32.[4] In light of those changes, the FCC concluded that imposing Part 32 accounting rules imposed an unreasonable burden on Price Cap Carriers such as CenturyLink:

> Indeed, all evidence in the record demonstrates that continued application of the USOA to price cap carriers is a substantial and unjustifiable burden. ACS, for example, "incurs substantial and ongoing costs maintaining an entire second set of account books that meet the requirements of the USOA. The information they contain has no bearing on ACS's corporate planning, financial results, or service rates." CenturyLink appends to its comments an appendix of the separate accounting entries it must maintain to comply with USOA and notes the "over 400 GAAP specific account codes" it must document so that its accountants can translate entries from one set of books to the other. And AT&T explains how it must pay software engineers up to $24 million a year to "bolt on" changes to vendor general ledger packages and to maintain the USOA on top of its existing GAAP-compliant accounts.

Maintaining Part 32 accounts for South Dakota regulatory purposes imposes a similar burden in that it requires CenturyLink to incur costs associated with educating and training accountants and upgrading and maintaining software and hardware systems to record transactions in compliance with USOA Part 32 requirements. Given the limited reporting that is required in South Dakota, continuing to maintain such an antiquated system has limited economic or reporting benefit if any. Allowing the company to maintain its books of records on a GAAP basis only would allow for efficiencies and resources to be directed to more useful purposes.

II. Because South Dakota Does Not Use Part 32 Accounting for Setting CenturyLink Rates, CenturyLink can Produce Equivalent Information.

The second requirement under South Dakota rules is "that it is able to map its accounts to substantially reproduce the process and end result produced by the uniform

[4] Part 32 Order, ¶ 8.

system of accounts."[5] CenturyLink has met with staff and has been unable to identify any proceeding that would require it to produce results under Part 32. Commission rules require switched access cost rate studies every three years but the Commission issued an order waiving this requirement "until the commission orders otherwise."[6] In light of the changes in FCC requirements, it seems very unlikely that the Commission will require a Part 32 cost study any time soon.

Thus, CenturyLink believes it meets the second criteria necessary for the Commission to grant a petition to convert accounting systems under ARSD 20:10:27:04.

CONCLUSION

For the foregoing reasons, CenturyLink respectfully requests that the Commission issue an order granting this petition to use generally accepted accounting principles under ARSD 20:10:27:04.

Dated this 1st day of February, 2021.

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[5] ARSD 20:10:27:04.
[6] Order Granting Waiver and Directing Review of Switched Access Rules, Docket TC20-001 (Mar. 23, 2020).