

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

In the Matter of)
Jurisdictional Separations and Referral to the) CC Docket No. 80-286
Federal-State Joint Board)

REPORT AND ORDER

Adopted: May 15, 2017

Released: May 15, 2017

By the Commission:

I. INTRODUCTION

1. This Report and Order (Order) extends through December 31, 2018 the existing freeze of the rules regarding jurisdictional separations. Specifically, we extend the existing freeze of Part 36 category relationships and jurisdictional cost allocation factors while we continue to work with the Federal-State Joint Board on Jurisdictional Separations (Joint Board) to overhaul our separations rules.

II. BACKGROUND

2. Historically, incumbent LECs (ILECs) were subject to rate-of-return rate regulation at both the federal and state levels. After the adoption of the 1996 Telecommunications Act (1996 Act), the Commission initiated a proceeding to comprehensively reform the Part 36 separations procedures to ensure compliance with the objectives of the 1996 Act, and to address statutory, technological, and market changes in the telecommunications industry.

3. Jurisdictional separations is the third step in a four-step regulatory process that begins with a carrier's accounting system and ends with the establishment of tariffed rates for the ILEC's interstate and intrastate regulated services. First, carriers record their costs into various accounts in accordance with the Uniform System of Accounts for Telecommunications Companies (USOA)

1 See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Order and Further Notice of Proposed Rulemaking, 21 FCC Rcd 5516, 5517, 5523, paras. 1, 16 (2006) (2006 Separations Freeze Extension and Further Notice) (extending for three years the initial separations freeze, which was scheduled to expire June 30, 2006); Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Report and Order, 24 FCC Rcd 6162 (2009) (2009 Separations Freeze Extension Order) (extending the separations freeze through June 30, 2010); Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Report and Order, 25 FCC Rcd 6046 (2010) (2010 Separations Freeze Extension Order) (extending the separations freeze through June 30, 2011); Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Report and Order, 26 FCC Rcd 7133 (2011) (2011 Separations Freeze Extension Order) (extending the separations freeze through June 30, 2012); Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Report and Order, 27 FCC Rcd 5593 (2012) (2012 Separations Freeze Extension Order) (extending the separations freeze through June 30, 2014); Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Report and Order, 29 FCC Rcd 6470 (2014) (2014 Separations Freeze Report and Order) (extending the separations freeze through June 30, 2017).

2 Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Notice of Proposed Rulemaking, 12 FCC Rcd 22120, 22126, para. 9 (1997) (1997 Separations Notice).

prescribed by Part 32 of our rules.³ Second, carriers divide the costs in these accounts between regulated and nonregulated activities in accordance with Part 64 of our rules.⁴ This division ensures that the costs of nonregulated activities will not be recovered in regulated interstate service rates. Third, carriers separate the regulated costs between the intrastate and interstate jurisdictions in accordance with our Part 36 separations rules.⁵ In certain instances, costs are further disaggregated among service categories.⁶ Finally, carriers apportion the interstate regulated costs among the interexchange services and rate elements that form the cost basis for their exchange access tariffs. For carriers subject to rate-of-return regulation, this apportionment is performed in accordance with Part 69 of our rules.⁷

4. In 1997, the Commission initiated a proceeding seeking comment on the extent to which legislative, technological, and market changes warranted comprehensive reform of the separations process.⁸ In the *2001 Separations Freeze Order*, the Commission froze, on an interim basis, the Part 36 jurisdictional separation rules for a five-year period beginning July 1, 2001, or until the Commission completed comprehensive separations reform, whichever came first.⁹ Specifically, the Commission adopted a freeze of all Part 36 category relationships and allocation factors for price cap carriers, and a freeze of all allocation factors for rate-of-return carriers.¹⁰ The Commission concluded that several issues, including the separations treatment of Internet traffic, should be addressed in the context of comprehensive separations reform.¹¹ The Commission further concluded that the freeze would provide stability and regulatory certainty for ILECs by minimizing any impacts on separations results that might occur due to circumstances not contemplated by the Commission's Part 36 rules, such as growth in local competition and new technologies.¹² The Commission also found that a freeze of the separations process

³ 47 CFR Part 32. The Part 32 USOA specifies the accounts that incumbent LECs must use to record their costs.

⁴ The Part 64 cost allocation rules are codified at 47 CFR §§ 64.901-904. Nonregulated activities generally consist of activities that have never been subject to regulation under Title II; activities formerly subject to Title II regulation that we have preemptively deregulated; and activities formerly subject to Title II regulation that have been deregulated at the interstate level, but not preemptively deregulated, that we decide should be classified as nonregulated activities for Title II accounting purposes. See 47 CFR § 32.23(a). Some regulated activities are treated as nonregulated activities for purposes of Part 64 cost allocation. See *Accounting Safeguards Under the Telecommunications Act of 1996*, Report and Order, CC Docket No. 96-150, 11 FCC Rcd 17539 (1996).

⁵ 47 CFR Part 36. Because some costs are directly assigned to a jurisdictionally pure service category, *i.e.*, a category used exclusively for either intrastate or interstate communications, both steps are often effectively performed simultaneously. For example, the cost of private line service that is wholly intrastate in nature is assigned directly to the intrastate jurisdiction. See 47 CFR § 36.154(a).

⁶ For example, central office equipment (COE) Category 1 is Operator Systems Equipment, Account 2220. The Operator Systems Equipment account is further disaggregated or classified according to the following arrangements: (i) separate toll boards; (ii) separate local manual boards; (iii) combined local manual boards; (iv) combined toll and DSA boards; (v) separate DSA and DSB boards; (vi) service observing boards; (vii) auxiliary service boards; and (viii) traffic service positions. See 47 CFR § 36.123.

⁷ 47 CFR Part 69.

⁸ *1997 Separations Notice*, 12 FCC Rcd 22120, 22126, para. 9.

⁹ *Jurisdictional Separations and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order, 16 FCC Rcd 11382, 11393-408, paras. 18-55 (*2001 Separations Freeze Order*) (describing the components of the freeze in detail).

¹⁰ *2001 Separations Freeze Order*, 16 FCC Rcd at 11383, para. 2.

¹¹ *2001 Separations Freeze Order*, 16 FCC Rcd at 11383, para. 2.

¹² *2001 Separations Freeze Order*, 16 FCC Rcd at 11389-90, para. 12.

would reduce regulatory burdens on ILECs during the transition from a regulated monopoly to a deregulated, competitive environment in the local telecommunications marketplace.¹³

5. Price cap carriers have since received conditional forbearance from the Part 36 jurisdictional separations rules.¹⁴ As a result, the freeze primarily impacts rate-of-return carriers who were only required to freeze their allocation factors, but were given the option of also freezing their category relationships at the outset of the freeze.¹⁵ Those that have chosen to freeze relationships calculate: (1) the relationships between categories of investment and expenses within Part 32 accounts; and (2) the jurisdictional allocation factors, as of a specific point in time, and then lock or “freeze” those category relationships and allocation factors in place for a set period of time. The carriers use the “frozen” category relationships and allocation factors for their calculations of separations results and therefore are not required to conduct separations studies for the duration of the freeze.

6. Over time, the Commission has repeatedly extended the freeze, which is currently set to expire on June 30, 2017.¹⁶ The Commission has consistently consulted with the Joint Board about separations reform, pursuant to the Act’s requirement that the Commission refer to the Joint Board proceedings regarding “the jurisdictional separations of common carrier property and expenses between interstate and intrastate operations.”¹⁷ The Joint Board recommended the initial freeze and has made a number of recommendations to the Commission about how best to proceed with reform of the separations rules.¹⁸ The state members of the Joint Board made their most recent recommendations in 2011.¹⁹

¹³ Although ILECs were required under the Part 36 rules to perform separations studies, competitive carriers had no similar requirements. The Commission found that a freeze would further the Commission’s goal of achieving greater competitive neutrality during the transition to a competitive marketplace by simplifying the separations process for those carriers subject to Part 36. *2001 Separations Freeze Order*, 16 FCC Rcd at 11390, para. 13.

¹⁴ In 2008 the Commission conditionally granted petitions for forbearance from the Part 36 jurisdictional separations rules to AT&T, BellSouth, Verizon, and Qwest. *See* Petition of AT&T Inc. for Forbearance under 47 U.S.C. § 160 from Enforcement of Certain of the Commission’s Cost Assignment Rules; Petition of BellSouth Telecommunications, Inc. for Forbearance under 47 U.S.C. § 160 from Enforcement of Certain of the Commission’s Cost Assignment Rules, WC Docket Nos. 07-21 et al, Memorandum Opinion and Order, 23 FCC Rcd 7302, 7307, para. 12 (2008); *Service Quality, Customer Satisfaction, Infrastructure and Operating Data Gathering*, WC Docket No. 08-190 et al., Memorandum Opinion and Order and Notice of Proposed Rulemaking, 23 FCC Rcd 13647, 13662-63, para. 27 (2008). In 2013 the Commission extended the conditional forbearance grant to the remaining price cap ILECs. *Petition of USTelecom for Forbearance Under 47 U.S.C. § 160(c) from Enforcement of Certain Legacy Telecommunications Regulations*, WC Docket No. 12-61, Memorandum Opinion and Order, 28 FCC Rcd 7627, 7646-54, paras. 31-51 (2013) (*USTelecom Forbearance Long Order*), *pet. for rev. denied sub nom. Verizon v. FCC*, 770 F.3d 961 (D.C. Cir. 2014).

¹⁵ *2001 Separations Freeze Order*, 16 FCC Rcd at 11388–89, para. 11.

¹⁶ *2006 Separations Freeze Extension and Further Notice*, 21 FCC Rcd 5516, 5517, 5523, paras. 1, 16; *2009 Separations Freeze Extension Order*, 24 FCC Rcd 6162; *2010 Separations Freeze Extension Order*, 25 FCC Rcd 6046; *2011 Separations Freeze Extension Order*, 26 FCC Rcd 7133; *2012 Separations Freeze Extension Order*, 27 FCC Rcd 5593; *2014 Separations Freeze Extension Order*, 29 FCC Rcd at 6470, para. 1.

¹⁷ 47 U.S.C. § 410(c); *see also Amendment of Part 67 of the Commission’s Rules and Establishment of a Joint Board*, CC Docket No. 80-339, Notice of Proposed Rulemaking and Order Establishing a Joint Board, 78 FCC 2d 837, 838, para. 2 (1980).

¹⁸ *Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 0-286, Recommended Decision, 15 FCC Rcd 13160 (Fed-State Jt. Bd. 2000) (2000 Separations Recommended Decision); *Federal-State Joint Board on Separations Seeks Comment on Proposal for Interim Adjustments to Jurisdictional Separations Allocation Factors and Category Relationships Pending Comprehensive Reform and Seeks Comment on Comprehensive Reform*, CC Docket No. 80-286, Public Notice, 25 FCC Rcd 3336 (Fed.-State Jt. Bd. 2010); *Federal-State Joint Board on Jurisdictional Separations Announces September 24, 2010 Meeting and Roundtable Discussion of Jurisdictional Separations Reform*, CC Docket No. 80-286, Public Notice, 25 FCC Rcd 13245 (2010).

7. Since the Joint Board's recommendations, the Commission comprehensively reformed its universal service and intercarrier compensation systems²⁰ and proposed additional reforms.²¹ On March 30, 2016, the Commission adopted the *Rate-of-Return Reform Order*, which instituted significant reforms to the rules governing the provision of universal service support to rate-of-return LECs.²² On February 23, 2017, we completed our review of the Part 32 Uniform System of Accounts (USOA) rules and streamlined various accounting requirements for all carriers and eliminated certain accounting requirements for large carriers.²³

8. On March 20, 2017, in a Further Notice of Proposed Rulemaking (*2017 FNPRM*), we proposed and sought comment on a further eighteen month extension of the separations freeze while we continue to work with the Joint Board.²⁴ Comments were received from eight parties.²⁵ On April 24, 2017, the Joint Board signaled its intent to move forward by releasing two public notices seeking comment on issues related to comprehensive permanent separations reform,²⁶ and separations reform in light of recent reforms to Part 32 rules.²⁷ As we explained in the *2017 FNPRM*, we anticipate that the Joint Board will meet in July 2017 to consider reform of the separations process and we expect to receive the Joint Board's recommendations for comprehensive separations reform within nine months thereafter.²⁸

III. DISCUSSION

9. To allow us to move forward with orderly reform of the separations rules, based on the record before us, we extend through December 31, 2018, the freeze on Part 36 category relationships and jurisdictional cost allocation factors that the Commission adopted in the *2001 Separations Freeze Order*.

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¹⁹ Federal-State Joint Board on Separations Comments at 1-2, CC Docket No. 80-286 (Mar. 18, 2011).

²⁰ See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (*USF/ICC Transformation Order*), *pets. for review denied sub nom. In re FCC 11-161*, 753 F.3d 1015 (10th Cir. 2014).

²¹ *USF/ICC Transformation Order*, 26 FCC Rcd at 18047-149, paras. 1028–1403.

²² See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087 (2016) (*Rate-of-Return Reform Order*). In this Order, the Commission adopted a voluntary path under which rate-of-return carriers may elect model-based support for a term of 10 years in exchange for meeting defined build-out obligations. *Id.* at 3094-117, paras. 17-79.

²³ *Comprehensive Review of the Part 32 Uniform System of Accounts, Jurisdictional Separations and Referral to the Federal-State Joint Board*, WC Docket No. 14-130 et al., Report and Order, FCC 17-15 (Feb. 23, 2017), 2017 WL 751378 (*Part 32 Order*).

²⁴ Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, Further Notice of Proposed Rulemaking, FCC 17-22 (rel. Mar. 20, 2017), 2017 WL 1067517 (*2017 FNPRM*).

²⁵ See Irregulars Comments; The National Association of State Utility Consumer Advocates Comments (NASUCA Comments); National Exchange Carrier Association, Inc. Comments (NECA Comments), NTCA-The Rural Broadband Association Comments (NTCA Comments); NTCA-The Rural Broadband Association Reply Comments (NTCA Reply); Pioneer Telephone Cooperative, Inc. Reply Comments (Pioneer Reply); Terral Telephone Comments (Terral Comments); United States Telecom Association Comments (USTelecom Comments); WTA – Advocates for Rural Broadband Reply Comments (WTA Reply).

²⁶ *Federal-State Joint Board on Jurisdictional Separations Seeks to Refresh Record on Issues Related to Jurisdictional Separations*, CC Docket No. 80-286, Public Notice, FCC 17J-1 (rel. Apr. 24, 2017).

²⁷ *Federal-State Joint Board on Jurisdictional Separations Seeks Comment on Referral for Recommendations of Rule Changes to Part 36 as a Result of Commission Revisions to Part 32 Accounting Rules*, CC Docket No. 80-286, Public Notice, FCC 17J-2 (rel. Apr. 24, 2017).

²⁸ *2017 FNPRM* at 4-5, para. 10.

As a result of the extension, price cap carriers that have not availed themselves of conditional forbearance from the Part 36 rules will use the same relationships between categories of investment and expenses within Part 32 accounts and the same jurisdictional allocation factors that have been in place since the inception of the current freeze on July 1, 2001. Rate-of-return carriers will use the same frozen jurisdictional allocation factors, and will, absent a waiver, use the same frozen category relationships if they had opted in 2001 to freeze those.

10. The issues involved with modernizing separations are broad and complex.²⁹ As commenters point out, the policy changes the Commission has adopted in recent years, particularly those arising from the Commission's fundamental reform of the high cost universal service support program, the intercarrier compensation systems, and the Part 32 accounting rules, will significantly affect our analysis of interim and comprehensive separations reform, as well as that of the Joint Board.³⁰ Extending the freeze provides time for the Joint Board to consider the impact of our recent reforms on the separations rules and gives us the time necessary to tackle rule changes informed by the Joint Board's recommendations. We strongly urge interested parties to provide detailed and constructive feedback about how best to revise or eliminate the separations process as we work towards separations reform with the Joint Board.

11. We agree with those commenters that argue that allowing the existing freeze to lapse and frozen separations rules to be reinstated during the pendency of our work with the Joint Board would create undue instability and administrative burdens on affected carriers.³¹ As WTA has explained, reinstating these long-unused separations rules, many of which are now outmoded, would not only require substantial training and investment by rural LECs, but also could cause significant disruptions in their regulated rates, cost recovery and other operating conditions.³² If we were to allow the freeze to expire, carriers would have to reinstitute their former separations processes, even those that no longer have the necessary employees and systems in place to comply with the separations rules. Many carriers likely would have to hire or reassign and train employees and redevelop systems for collecting and analyzing the data necessary to perform separations in the prior manner.³³ Requiring carriers to reinstate their separations systems "would be unduly burdensome when there is a significant likelihood that there would be no lasting benefit to doing so."³⁴

12. Two commenters, a group of concerned individuals called the Irregulars and Terral Telephone Company, Inc. (Terral), oppose the extension of the freeze.³⁵ According to the Irregulars, the freeze is being used to deliberately hide "massive financial cross subsidies and data manipulation."³⁶

²⁹ *2011 Separations Freeze Extension Order*, 26 FCC Rcd at 7137, para. 13. See also NTCA Comments at 2; NTCA Reply at 2-3; WTA Reply at 2.

³⁰ NECA Comments at 3, NTCA Comments at 1-3; USTelecom Comments at 1-2; NTCA Reply at 3-4. Even NASUCA, which expressed concerns about extending the freeze, acknowledges that "the frozen rules are outdated." NASUCA Comments at 1-2.

³¹ NTCA Comments at 3-5; NTCA Reply at 1-2; WTA Reply at 1-3. See also *2010 Separations Freeze Extension Order*, 25 FCC Rcd at 6049, para. 11; *2011 Separations Freeze Extension Order*, 26 FCC Rcd at 7137, para. 13; *2014 Separations Freeze Extension Order*, 29 FCC Rcd at 6474-75, para. 12.

³² WTA Reply at 2.

³³ NTCA Reply at 2. See also *2017 FNPRM* at 4, para. 8, *2014 Separations Freeze Extension Order*, 29 FCC Rcd at 6475, para. 12; *2012 Separations Freeze Extension Order*, 27 FCC Rcd at 5598, para. 14.

³⁴ *2006 Separations Freeze Extension and Further Notice*, 21 FCC Rcd at 5525, para. 23.

³⁵ Irregulars Comments at 3-16; Terral Comments at 1.

³⁶ Irregulars Comments at 3-16 (asserting that "we object to the extension on the grounds that it is being done as a cover-up so that actual financial data is excluded from the FCC rulemaking process....What is the FCC hiding? Massive financial cross subsidies and data manipulation that were caused by the FCC's own accounting rules"); 12-

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However, the evidence offered does not support this claim.³⁷ We thus find the harm alleged by the Irregulars to be speculative and insufficient to outweigh the clear benefits that will result from granting a further extension. Terral opposes the extension as it applies to Terral and then uses its comments to ask the Commission to grant its pending petition for waiver of the categories of frozen separations.³⁸ We decline, however, to substantively address individual requests for relief or a waiver of the separations rules in this Order as those requests are beyond the scope of this proceeding.³⁹ We do welcome the input of these commenters as we move toward full consideration of how best to reform the separations rules and note that the decision to extend the freeze does not affect the Commission's ability to address pending or future waiver petitions.⁴⁰

13. Separately, we deny the request of USTelecom to modify frozen category relationships for carriers electing the Alternative Connect America Cost Model and to make other changes to the separations process.⁴¹ These issues fall within the pending referral to the Joint Board and may be addressed in the Joint Board's recommended decision.⁴² We will therefore not grant USTelecom's request here.

14. With regard to the length of the extension, the majority of commenters support extending the freeze for at least eighteen months.⁴³ Some argue that the freeze should be longer, and should be tied to the completion of a comprehensive rulemaking.⁴⁴ Some stakeholders have expressed concern about the

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13 (asserting that the freeze has created a myriad of problems that the Commission has never investigated, including accounting distortions and harm to wired services, competition, users, and municipalities).

³⁷ The evidence proffered to support the Irregulars' objections, consisting mainly of quotations from comments filed in an assortment of dockets, is disjointed, unpersuasive, and insufficient to support its allegations. The Irregulars also raise various objections to the Commission's consideration of Business Data Services, broadband deployment, and "utility and public obligations." Irregulars Comments at 3-16. We find these allegations to be outside the scope of the issues being considered in this Order. These and other comments may be considered in the Commission's broader separations review as appropriate. *See 2009 Separations Freeze Extension Order*, 24 FCC Rcd at 6167-69, paras. 15-20.

³⁸ Terral Comments at 1. Pioneer does not oppose the extension but similarly asks the Commission grants its pending waiver petition of the frozen separations categories. Pioneer Reply at 1-2. *See also* Terral Telephone Company, Inc., Petition for Waiver of 47 CFR Sections 36.3 et al. to Unfreeze Part 36 Category Relationships, CC Docket No. 80-286 (filed Aug. 29, 2012); Pioneer Telephone Cooperative, Inc. Petition for Waiver of 47 CFR Section 36.3 et al. to Unfreeze Part 36 Category Relationships, CC Docket No. 80-286 (filed Mar. 22, 2013).

³⁹ Terral Comments at 1 (asserting that the Commission should not extend the freeze of the separations categories as it applies to Terral, and should grant its pending petition for waiver of frozen separations categories as necessary); Pioneer Reply at 1-2 (asserting that its waiver should be granted immediately).

⁴⁰ *See 2014 Separations Freeze Extension Order*, 27 FCC Rcd at 5598, para. 14; *2012 Separations Freeze Extension Order*, 27 FCC Rcd at 5598, para. 15; *2010 Separations Freeze Extension Order*, 25 FCC Rcd at 6050, para. 12; *2009 Separations Freeze Extension Order*, 24 FCC Rcd at 6167-69, paras. 15-20.

⁴¹ *See* USTelecom Comments at 1-2 (supporting the proposed 18 month freeze extension with the exception that rate-of-return companies that have elected A-CAM support should receive an immediate one-time opportunity to unfreeze their category relationships); NTCA Reply at 1; Pioneer Reply at 1; WTA Reply at 1-2.

⁴² *See 2017 FNPRM* at 4-5, para. 10; *2014 Separations Freeze Extension Order*, 27 FCC Rcd at 5598, para. 15; *2012 Separations Freeze Extension Order*, 27 FCC Rcd at 5598, para 14; *2010 Separations Freeze Extension Order*, 25 FCC Rcd at 6050, para. 12; *2009 Separations Freeze Extension Order*, 24 FCC Rcd at 6167-69, paras. 15-20.

⁴³ *See* NECA Comments at 1-2; NTCA Comments at 1-2; USTelecom Comments at 1-6; NTCA Reply at 2-3; WTA Reply at 1-2.

⁴⁴ *See, e.g.,* NECA Comments at 2-3 (stating that the freeze should be extended for at least eighteen months or for a set period of time after revised separations rules are adopted, finalized, and no longer subject to reconsideration or review); NTCA Comments at 1 (asserting that asserts that the freeze should be extended at least eighteen months

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amount of time needed to operationalize any changes we ultimately make to the separations rules.⁴⁵ While those concerns are legitimate, they are premature at this point in the process, and would be more appropriately raised and addressed when considering the implementation of any reform measures as part of the on-going, comprehensive rulemaking proceeding.

15. We find that extending the freeze by eighteen months, the length of time proposed in the *2017 FNPRM*, is appropriate. We fully agree with NASUCA that the freeze should not continue indefinitely.⁴⁶ While we recognize that an eighteen-month freeze extension is shorter than those the Commission previously adopted,⁴⁷ as we explained in the *2017 FNPRM*, “now is the time to address the separations rules.”⁴⁸ We are committed to moving this process forward and believe that eighteen months is a sufficient amount of time to carefully consider the issues in the record and work with the Joint Board toward meaningful separations reform. We intend to work diligently with the Joint Board toward that goal.

IV. PROCEDURAL MATTERS

16. *Final Regulatory Flexibility Certification.* The Regulatory Flexibility Act of 1980, as amended (RFA),⁴⁹ requires that a regulatory flexibility analysis be prepared for notice-and-comment rulemaking proceedings, unless the agency certifies that “the rule will not, if promulgated, have a significant economic impact on a substantial number of small entities.”⁵⁰ The RFA generally defines the term “small entity” as having the same meaning as the terms “small business,” “small organization,” and “small governmental jurisdiction.”⁵¹ In addition, the term “small business” has the same meaning as the term “small business concern” under the Small Business Act.⁵² A “small business concern” is one that: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA).⁵³

17. As discussed above, in 2001 the Commission adopted a Joint Board recommendation to impose an interim freeze of the Part 36 category relationships and jurisdictional cost allocation factors,

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and that the freeze extension should be triggered by the issuance of a Joint Board recommendation and the adoption of any resulting rule changes).

⁴⁵ NECA Comments at 2-3; NTCA Comments at 1.

⁴⁶ NASUCA Comments at 1-2.

⁴⁷ See, e.g., *2014 Separations Freeze Extension Order*, 29 FCC Rcd at 1 (extending freeze for three years).

⁴⁸ *2017 FNPRM* at 1, para. 1; see also *2009 Separations Freeze Extension Order*, 24 FCC Rcd at 6167, para. 15 (asserting that “we are committed to working with the Joint Board to develop an efficient system for the jurisdictional separation of regulated costs in light of the dynamic nature of the telecommunications market place and the dramatic changes to the telecommunications industry since the separations freeze was first adopted in 2001”).

⁴⁹ See 5 U.S.C. § 604. The RFA, see 5 U.S.C. §§ 601–612, has been amended by the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA), Pub. L. No. 104-121, Title II, 110 Stat. 857 (1996).

⁵⁰ 5 U.S.C. § 605(b).

⁵¹ 5 U.S.C. § 601(6).

⁵² 5 U.S.C. § 601(3) (incorporating by reference the definition of “small business concern” in the Small Business Act, 15 U.S.C. § 632). Pursuant to 5 U.S.C. § 601(3), the statutory definition of a small business applies “unless an agency, after consultation with the Office of Advocacy of the Small Business Administration and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition(s) in the Federal Register.”

⁵³ 15 U.S.C. § 632.

pending comprehensive reform of the Part 36 separations rules.⁵⁴ The Commission ordered that the freeze would be in effect for a five-year period beginning July 1, 2001, or until the Commission completed comprehensive separations reform, whichever came first.⁵⁵ On May 16, 2006, concluding that more time was needed to implement comprehensive separations reform, the Commission extended the freeze for three years or until such comprehensive reform could be completed, whichever came first.⁵⁶ On May 15, 2009, the Commission extended the freeze through June 30, 2010;⁵⁷ on May 24, 2010, extended the freeze through June 30, 2011;⁵⁸ on May 3, 2011, extended the freeze through June 30, 2012;⁵⁹ on May 8, 2012, extended the freeze through June 30, 2104;⁶⁰ and on June 12, 2014, extending the freeze through June 30, 2017.⁶¹

18. The purpose of the current extension of the freeze is to allow the Commission and the Joint Board additional time to consider changes that may need to be made to the separations process in light of changes in the law, technology, and market structure of the telecommunications industry without creating the undue instability and administrative burdens that would occur were the Commission to eliminate the freeze.⁶²

19. Implementation of the freeze extension will ease the administrative burden of regulatory compliance for LECs, including small incumbent LECs. The freeze has eliminated the need for all incumbent LECs, including incumbent LECs with 1500 employees or fewer, to complete certain annual studies formerly required by the Commission's rules. The effect of the freeze extension is to reduce a regulatory compliance burden for small incumbent LECs, by abating the aforementioned separations studies and providing these carriers with greater regulatory certainty. Therefore, we certify that the requirement of the report and order will not have a significant economic impact on a substantial number of small entities.

20. The Commission will send a copy of the report and order, including a copy of this Final Regulatory Flexibility Certification, in a report to Congress pursuant to the Congressional Review Act.⁶³ In addition, the report and order and this final certification will be sent to the Chief Counsel for Advocacy of the SBA, and will be published in the Federal Register.⁶⁴

21. *Paperwork Reduction Act Analysis.* This Report and Order does not contain new, modified, or proposed information collections subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. In addition, therefore, it does not contain any new, modified, or proposed information collection burden for small business concerns with fewer than 25 employees, pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, *see* 44 U.S.C. 3506(c)(4).

⁵⁴ *See 2001 Separations Freeze Order*, 16 FCC Rcd at 11387–88, para. 9.

⁵⁵ *2001 Separations Freeze Order*, 16 FCC Rcd at 11387–88, para. 9.

⁵⁶ *2006 Separations Freeze Extension and Further Notice*, 21 FCC Rcd at 5523, para. 16.

⁵⁷ *2009 Separations Freeze Extension Order*, 24 FCC Rcd at 6165–69, paras. 11–20.

⁵⁸ *2010 Separations Freeze Extension Order*, 25 FCC Rcd at 6049, para. 10.

⁵⁹ *2011 Separations Freeze Extension Order*, 26 FCC Rcd at 7137, para. 11.

⁶⁰ *2012 Separations Freeze Extension Order*, 27 FCC Rcd at 5597, para. 12.

⁶¹ *2014 Separations Freeze Extension Order*, 29 FCC Rcd at 6474-75, para. 10.

⁶² *See supra* para. 10.

⁶³ *See* 5 U.S.C. § 801(a)(1)(A).

⁶⁴ *See* 5 U.S.C. § 605(b).

22. *Congressional Review Act.* The Commission will send a copy of this Report and Order in a report to be sent to Congress and the Government Accountability Office pursuant to the Congressional Review Act.⁶⁵

23. *Effective Date.* We find good cause to make these rule changes effective immediately upon publication in the Federal Register.⁶⁶ As explained above, the current freeze is scheduled to expire on June 30, 2017.⁶⁷ To avoid unnecessary disruption to carriers subject to these rules, we preserve the status quo by making the extension of the freeze effective before the scheduled expiration date.

V. ORDERING CLAUSES

24. Accordingly, IT IS ORDERED, pursuant to sections 1, 2, 4(i), 201-05, 215, 218, 220, and 410 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 152, 154(i), 201-205, 215, 218, 220, and 410, that this Report and Order is ADOPTED.

25. IT IS FURTHER ORDERED that the Commission's Consumer and Governmental Affairs Bureau, Reference Information Center, SHALL SEND a copy of this Report and Order, including the Final Regulatory Flexibility Certification, to the Chief Counsel for Advocacy of the Small Business Administration.

26. IT IS FURTHER ORDERED, pursuant to section 553(d)(3) of the Administrative Procedure Act, 5 U.S.C. § 553(d)(3), and sections 1.4(b)(1) and 1.427(b) of the Commission's rules, 47 CFR § 1.4(b)(1), 1.427(b), that this Report and Order SHALL BE EFFECTIVE on the date of publication in the Federal Register.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

⁶⁵ See 5 U.S.C. § 801(a)(1)(A).

⁶⁶ 5 U.S.C. § 553(d)(3).

⁶⁷ See *supra* note 1.

APPENDIX A**Final Rules**

The attached rules differ from the existing Part 36 rules in the end date of the separations freeze, which has changed to December 31, 2018.

PART 36 - JURISDICTIONAL SEPARATIONS PROCEDURES; STANDARD PROCEDURES FOR SEPARATING TELECOMMUNICATIONS PROPERTY COSTS, REVENUES, EXPENSES, TAXES AND RESERVES FOR TELECOMMUNICATIONS COMPANIES

1. The authority citation for Part 36 continues to read as follows:

AUTHORITY: 47 U.S.C. Secs. 151, 154(i) and (j), 205, 221(c), 254, 403, and 410.

Subpart A – General

2. Amend Section 36.3 by revising paragraphs (a), (b), (c), (d) and (e) to read as follows:

§ 36.3 Freezing of jurisdictional separations category relationships and/or allocation factors

(a) Effective July 1, 2001, through December 31, 2018, all local exchange carriers subject to Part 36 rules shall apportion costs to the jurisdictions using their study area and/or exchange specific jurisdictional allocation factors calculated during the twelve month period ending December 31, 2000, for each of the categories/sub-categories as specified herein. Direct assignment of private line service costs between jurisdictions shall be updated annually. Other direct assignment of investment, expenses, revenues or taxes between jurisdictions shall be updated annually. Local exchange carriers that invest in telecommunications plant categories during the period July 1, 2001, through December 31, 2018, for which it had no separations allocation factors for the twelve month period ending December 31, 2000, shall apportion that investment among the jurisdictions in accordance with the separations procedures in effect as of December 31, 2000 for the duration of the freeze.

(b) Effective July 1, 2001, through December 31, 2018, local exchange carriers subject to price cap regulation, pursuant to § 61.41, shall assign costs from the Part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated Part 32 accounts for the twelve month period ending December 31, 2000. If a Part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, through December 31, 2018, for which it had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000. Local exchange carriers not subject to price cap regulation, pursuant to § 61.41 of this chapter, may elect to be subject to the provisions of paragraph (b) of this section. Such election must be made prior to July 1, 2001. Local exchange carriers electing to become subject to paragraph (b) shall not be eligible to withdraw from such regulation for the duration of the freeze. Local exchange carriers participating in Association tariffs, pursuant to § 69.601 et seq., shall notify the Association prior to July 1, 2001, of such intent to be subject to the provisions of paragraph (b). Local exchange carriers not participating in Association tariffs shall notify the Commission prior to July 1, 2001, of such intent to be subject to the provisions of paragraph (b).

(c) Effective July 1, 2001, through December 31, 2018, any local exchange carrier that sells or otherwise transfers exchanges, or parts thereof, to another carrier's study area shall continue to utilize the factors and, if applicable, category relationships as specified in paragraphs (a) and (b) of this section.

(d) Effective July 1, 2001, through December 31, 2018, any local exchange carrier that buys or otherwise acquires exchanges or part thereof, shall calculate new, composite factors and, if applicable, category relationships based on a weighted average of both the seller's and purchaser's factors and category relationships calculated pursuant to paragraphs (a) and (b) of this section. This weighted average should be based on the number of access lines currently being served by the acquiring carrier and the number of access lines in the acquired exchanges.

* * * * *

(e) Any local exchange carrier study area converting from average schedule company status, as defined in § 69.605(c) of this chapter, to cost company status during the period July 1, 2001, through December 31, 2018, shall, for the first twelve months subsequent to conversion categorize the telecommunications plant and expenses and develop separations allocation factors in accordance with the separations procedures in effect as of December 31, 2000. Effective July 1, 2001 through December 31, 2018, such companies shall utilize the separations allocation factors and account categorization subject to the requirements of paragraphs 3(a) and (b) of this section based on the category relationships and allocation factors for the twelve months subsequent to the conversion to cost company status.

* * * * *

Subpart B - Telecommunications Property Central Office Equipment

3. Amend Section 36.123 by revising paragraphs (a)(5) and (a)(6) to read as follows:

§ 36.123 Operator systems equipment - Category 1.

(a) * * *

(5) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balance of Account 2220, Operator Systems, to the categories/subcategories, as specified in paragraph (a)(1) of this section, based on the relative percentage assignment of the average balance of Account 2220 to these categories/subcategories during the twelve month period ending December 31, 2000.

(6) Effective July 1, 2001 through December 31, 2018, all study areas shall apportion the costs assigned to the categories/subcategories, as specified in paragraph (a)(1) of this section, among the jurisdictions using the relative use measurements for the twelve month period ending December 31, 2000 for each of the categories/subcategories specified in paragraphs (b) through (e) of this section.

* * * * *

4. Amend Section 36.124 by revising paragraphs (c) and (d) to read as follows:

§ 36.124 Tandem switching equipment - Category 2.

* * * * *

(c) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balances of Accounts 2210, 2211, and 2212 to Category 2, Tandem Switching Equipment based on the relative percentage assignment of the average balances of Account 2210, 2211, 2212, and 2215 to Category 2, Tandem Switching Equipment during the twelve month period ending December 31, 2000.

(d) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion costs in Category 2, Tandem Switching Equipment, among the jurisdictions using the relative number of study area minutes of use, as specified in paragraph (b) of this section, for the twelve month period ending December 31, 2000. Direct assignment of any subcategory of Category 2 Tandem Switching Equipment between jurisdictions shall be updated annually.

* * * * *

5. Amend Section 36.125 by revising paragraphs (h), (i), and (j) to read as follows:

§ 36.125 Local switching equipment - Category 3.

* * * * *

(h) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balances of Accounts 2210, 2211, and 2212 to Category 3, Local Switching Equipment, based on the relative percentage assignment of the average balances of Account 2210, 2211, 2212 and 2215 to Category 3, during the twelve month period ending December 31, 2000.

(i) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion costs in Category 3, Local Switching Equipment, among the jurisdictions using relative dial equipment minutes of use for the twelve month period ending December 31, 2000.

(j) If the number of a study area's access lines increases such that, under paragraphs (f) of this section, the weighted interstate DEM factor for 1997 or any successive year would be reduced, that lowered weighted interstate DEM factor shall be applied to the study area's 1996 unweighted interstate DEM factor to derive a new local switching support factor. If the number of a study area's access lines decreases or has decreased such that, under paragraph (f) of this section, the weighted interstate DEM factor for 2010 or any successive year would be raised, that higher weighted interstate DEM factor shall be applied to the study area's 1996 unweighted interstate DEM factor to derive a new local switching support factor.

6. Amend Section 36.126 by revising paragraphs (b)(6), (c)(4), (e)(4), and (f)(2) to read as follows:

§ 36.126 Circuit equipment - Category 4.

* * * * *

(b) * * *

(6) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balances of Accounts 2230 through 2232 to the categories/subcategories as specified in paragraphs (b)(1) through (4) of this section based on the relative percentage assignment of the average balances of Accounts 2230 through 2232 costs to these categories/subcategories during the twelve month period ending December 31, 2000.

(c) * * *

(4) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion costs in the categories/subcategories, as specified in paragraphs (b)(1) through (4) of this section, among the jurisdictions using the relative use measurements or factors, as specified in paragraphs (c)(1) through (3) of this section for the twelve month period ending December 31, 2000. Direct assignment of any subcategory of Category 4.1 Exchange Circuit Equipment to the jurisdictions shall be updated annually.

* * * * *

(e) * * *

(4) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion costs in the categories/subcategories specified in paragraphs (e)(1) through (3) of this section among the jurisdictions using relative use measurements or factors, as specified in paragraphs (e)(1) through (e)(3) for the twelve month period ending December 31, 2000. Direct assignment of any subcategory of Category 4.2 Interexchange Circuit Equipment to the jurisdictions shall be updated annually.

(f) * * *

(2) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion costs in the subcategory specified in paragraph (f)(1) of this section among the jurisdictions using the allocation factor, as specified in paragraph (f)(1)(i) of this section, for this subcategory for the twelve month period ending December 31, 2000. Direct assignment of any Category 4.3 Host/Remote Message Circuit Equipment to the jurisdictions shall be updated annually.

* * * * *

Information Origination/Termination (IOT) Expenses

7. Amend Section 36.141 by revising paragraph (c) to read as follows:

§ 36.141 General.

* * * * *

(c) Effective July 1, 2001, through December 31, 2018, local exchange carriers subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balance of Account 2310 to the categories, as specified in paragraph (b) of this section, based on the relative percentage assignment of the average balance of Account 2310 to these categories during the twelve month period ending December 31, 2000.

* * * * *

8. Amend Section 36.142 by revising paragraph (c) to read as follows:

§ 36.142 Categories and apportionment procedures.

* * * * *

(c) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion costs in the categories, as specified in § 36.141(b), among the jurisdictions using the relative use measurements or

factors, as specified in paragraph (a) of this section, for the twelve month period ending December 31, 2000. Direct assignment of any category of Information Origination/Termination Equipment to the jurisdictions shall be updated annually.

* * * * *

Cable and Wire Facilities

9. Amend Section 36.152 by revising paragraph (d) to read as follows:

§ 36.152 Categories of Cable and Wire Facilities (C&WF).

* * * * *

(d) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the average balance of Account 2410 to the categories/subcategories, as specified in paragraphs (a) through (c) of this section, based on the relative percentage assignment of the average balance of Account 2410 to these categories/subcategories during the twelve month period ending December 31, 2000.

* * * * *

10. Amend Section 36.154 by revising paragraph (g) to read as follows:

§ 36.154 Exchange Line Cable and Wire Facilities (C&WF) - Category 1 – apportionment procedures.

* * * * *

(g) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Subcategory 1.3 Exchange Line C&WF among the jurisdictions as specified in paragraph (c) of this section. Direct assignment of subcategory Categories 1.1 and 1.2 Exchange Line C&WF to the jurisdictions shall be updated annually as specified in paragraph (b) of this section.

* * * * *

11. Amend Section 36.155 by revising paragraph (b) to read as follows:

§ 36.155 Wideband and exchange trunk (C&WF) - Category 2 - apportionment procedures.

* * * * *

(b) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Category 2 Wideband and exchange trunk C&WF among the jurisdictions using the relative number of minutes of use, as specified in paragraph (a) of this section, for the twelve-month period ending December 31, 2000. Direct assignment of any Category 2 equipment to the jurisdictions shall be updated annually.

* * * * *

12. Amend Section 36.156 by revising paragraph (c) to read as follows:

§ 36.156 Interexchange Cable and Wire Facilities (C&WF) - Category 3 - apportionment procedures.

* * * * *

(c) Effective July 1, 2001, through December 31, 2018, all study areas shall directly assign Category 3 Interexchange Cable and Wire Facilities C&WF where feasible. All study areas shall apportion the non-directly assigned costs in Category 3 equipment to the jurisdictions using the relative use measurements, as specified in paragraph (b) of this section, during the twelve-month period ending December 31, 2000.

* * * * *

13. Amend Section 36.157 by revising paragraph (b) to read as follows:

§ 36.157 Host/remote message Cable and Wire Facilities (C&WF) - Category 4 - apportionment procedures.

* * * * *

(b) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Category 4 Host/Remote message Cable and Wire Facilities C&WF among the jurisdictions using the relative number of study area minutes-of-use kilometers applicable to such facilities, as specified in paragraph (a)(1) of this section, for the twelve month period ending December 31, 2000. Direct assignment of any Category 4 equipment to the jurisdictions shall be updated annually.

* * * * *

Equal Access Equipment

14. Amend Section 36.191 by revising paragraph (d) to read as follows:

§ 36.191 Equal access equipment.

* * * * *

(d) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Equal Access Equipment, as specified in paragraph (a) of this section, among the jurisdictions using the relative state and interstate equal access traffic, as specified in paragraph (c) of this section, for the twelve month period ending December 31, 2000.

* * * * *

**Subpart C - Operating Revenues and Certain Income Accounts
Operating Revenues**

15. Amend Section 36.212 by revising paragraph (c) to read as follows:

§ 36.212 Basic local services revenue—Account 5000 (Class B telephone companies); Basic area revenue—Account 5001 (Class A telephone companies).

* * * * *

(c) Wideband Message Service revenues from monthly and miscellaneous charges, service connections, move and change charges, are apportioned between state and interstate operations on the basis of the relative number of minutes-of-use in the study area. Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Wideband Message Service revenues among the jurisdictions using the relative number of minutes of use for the twelve-month period ending December 31, 2000.

* * * * *

16. Amend Section 36.214 by revising paragraph (a) to read as follows:

§ 36.214 Long distance message revenue - Account 5100.

(a) Wideband message service revenues from monthly and miscellaneous charges, service connections, move and change charges, are apportioned between state and interstate operations on the basis of the relative number of minutes-of-use in the study area. Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Wideband Message Service revenues among the jurisdictions using the relative number of minutes of use for the twelve-month period ending December 31, 2000.

* * * * *

Subpart D - Operating Expenses and Taxes
Customer Operations Expenses

17. Amend Section 36.372 by revising to read as follows:

§ 36.372 Marketing—Account 6610 (Class B telephone companies); Accounts 6611 and 6613 (Class A telephone companies).

The expenses in this account are apportioned among the operations on the basis of an analysis of current billing for a representative period, excluding current billing on behalf of others and billing in connection with intercompany settlements. Effective July 1, 2001, through December 31, 2018, all study areas shall apportion expenses in this account among the jurisdictions using the analysis during the twelve-month period ending December 31, 2000.

* * * * *

18. Amend Section 36.374 by revising paragraphs (b) and (d) to read as follows:

§ 36.374 Telephone Operator Services.

* * * * *

(b) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the Telephone operator expense classification based on the relative percentage assignment of the balance of Account 6620 to this classification during the twelve month period ending December 31, 2000.

* * * * *

(d) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Telephone operator expenses among the jurisdictions using the relative number of weighted standard work seconds, as specified in paragraph (c) of this section, during the twelve-month period ending December 31, 2000.

* * * * *

19. Amend Section 36.375 by revising paragraphs (b)(4) and (b)(5) to read as follows:

§ 36.375 Published directory listing.

* * * * *

(b) * * *

(4) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the classifications, as specified in paragraphs (b)(1) through (4) of this section, based on the relative percentage assignment of the balance of Account 6620 to these classifications during the twelve month period ending December 31, 2000.

(5) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Published directory listing expenses using the underlying relative use measurements, as specified in paragraphs (b)(1) through (4) of this section, during the twelve-month period ending December 31, 2000. Direct assignment of any Publishing directory listing expense to the jurisdictions shall be updated annually.

* * * * *

20. Amend Section 36.377 by revising paragraphs (a), (a)(1)(ix), (a)(2)(vii), (a)(3)(vii), (a)(4)(vii), (a)(5)(vii), and (a)(6)(vii) to read as follows:

§ 36.377 Category 1 - Local business office expense.

(a) The expense in this category for the area under study is first segregated on the basis of an analysis of job functions into the following subcategories: End user service order processing; end user payment and collection; end user billing inquiry; interexchange carrier service order processing; interexchange carrier payment and collection; interexchange carrier billing inquiry; and coin collection and administration. Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the subcategories, as specified in this paragraph (a), based on the relative percentage assignment of the balance of Account 6620 to these categories/subcategories during the twelve month period ending December 31, 2000.

(1) * * *

(ix) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the categories/subcategories, as specified in paragraphs (a)(1)(i) through (viii) of this section, based on the relative percentage assignment of the balance of Account 6620 to these categories/subcategories during the twelve month period ending December 31, 2000. Effective July 1, 2001, through December 31, 2018, all study areas shall apportion TWX service order processing expense, as specified in paragraph (a)(1)(viii) of this section among the jurisdictions using relative billed TWX revenues for the twelve-month period ending December 31, 2000. All other subcategories of End-user service order processing expense, as specified in paragraphs (a)(1)(i) through (viii) shall be directly assigned.

(2) * * *

(vii) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620- Services to the subcategories, as specified in paragraphs (a)(2)(i) through (vi) of this section, based on the relative percentage assignment of the balance of Account 6620 to these categories/subcategories during the twelve month period ending December 31, 2000. All other subcategories of End User payment and collection expense, as specified in paragraphs (a)(2)(i) through (v) of this section, shall be directly assigned.

(3) * * *

(vii) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the subcategories, as specified in paragraphs (a)(3)(i) through (vi) of this section, based on the relative percentage assignment of the balance of Account 6620 to these subcategories during the twelve month period ending December 31, 2000. All other subcategories of End user billing inquiry expense, as specified in paragraphs (a)(3)(i) through (vi) of this section shall be directly assigned.

(4) * * *

(vii) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the subcategories, as specified in paragraphs (a)(4)(i) through (vi) of this section, based on the relative percentage assignment of the balance of Account 6620 to these subcategories during the twelve month period ending December 31, 2000. All subcategories of Interexchange carrier service order processing expense, as specified in paragraphs (a)(4)(i) through (vi) of this section, shall be directly assigned.

(5) * * *

(vii) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the subcategories, as specified in paragraphs (a)(5)(i) through (vi) of this section, based on the relative percentage assignment of the balance of Account 6620 to these subcategories during the twelve month period ending December 31, 2000. All subcategories of Interexchange carrier payment expense, as specified in paragraphs (a)(5)(i) through (vi) of this section, shall be directly assigned.

(6) * * *

(vii) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the subcategories, as specified in paragraphs (a)(6)(i) through (vi) of this section, based on the relative percentage assignment of the balance of Account 6620 to these subcategories during the twelve month period ending December 31, 2000. All subcategories of Interexchange carrier billing inquiry expense, as specified in paragraphs (a)(6)(i) through (vi) of this section, shall be directly assigned.

* * * * *

21. Amend Section 36.378 by revising paragraph (b)(1) to read as follows:

§ 36.378 Category 2 - Customer services (revenue accounting).

* * * * *

(b) * * *

(1) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the classifications, as specified in paragraph (b) of this section, based on the relative percentage assignment of the balance of Account 6620 to those classifications during the twelve month period ending December 31, 2000.

* * * * *

22. Amend Section 36.379 by revising paragraphs (b)(1) and (b)(2) to read as follows:

§ 36.379 Message processing expense.

* * * * *

(b) * * *

(1) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the subcategories, as specified in paragraph (b), based on the relative percentage assignment of the balance of Account 6620 to those subcategories during the twelve month period ending December 31, 2000.

(2) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Toll Ticketing Processing Expense among the jurisdictions using the relative number of toll messages for the twelve-month period ending December 31, 2000. Local Message Process Expense is assigned to the state jurisdiction.

* * * * *

23. Amend Section 36.380 by revising paragraphs (d) and (e) to read as follows:

§ 36.380 Other billing and collecting expense.

* * * * *

(d) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the Other billing and collecting expense classification based on the relative percentage assignment of the balance of Account 6620 to those subcategory during the twelve month period ending December 31, 2000.

(e) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Other billing and collecting expense among the jurisdictions using the allocation factor utilized, pursuant to paragraph (b) or (c) of this section, for the twelve month period ending December 31, 2000.

* * * * *

24. Amend Section 36.381 by revising paragraphs (c) and (d) to read as follows:

§ 36.381 Carrier access charge billing and collecting expense.

* * * * *

(c) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to the Carrier access charge billing and collecting expense classification based on the relative percentage assignment of the balance of Account 6620 to that classification during the twelve month period ending December 31, 2000.

(d) Effective July 1, 2001, through December 31, 2018, all study areas shall apportion Carrier access charge billing and collecting expense among the jurisdictions using the allocation factor, pursuant to paragraph (b) of this section, for the twelve-month period ending December 31, 2000.

* * * * *

25. Amend Section 36.382 by revising paragraph (a) to read as follows:

§ 36.382 Category 3 - All other customer services expense.

(a) Effective July 1, 2001, through December 31, 2018, study areas subject to price cap regulation, pursuant to § 61.41 of this chapter, shall assign the balance of Account 6620-Services to this category based on the relative percentage assignment of the balance of Account 6620 to this category during the twelve month period ending December 31, 2000.

* * * * *