

The FCC’s “Big Freeze” 15 Years of Neglect: Manipulated the Accounting to Make Local Service and the Wired Networks Look Unprofitable.

This story exposes one of the largest financial accounting scandals in American history and impacts all wireline and wireless phone, broadband, Internet and even cable TV/video services. However, the core of this deception is so bizarre that no one would believe it if it was detailed in some thriller about financial chicanery.

In 2001, the FCC “froze” the calculations of expenses that are used in every state, based on the year 2000 — and this freeze will continue until the year 2017.¹ It now assigns the majority of all expenses to the Local Service category, making it look unprofitable. There have been no audits or investigations by either the state commissions or the FCC for the last 15 years. And the kicker— this same phrase has appeared in some form since 2000— **“until comprehensive reform could be achieved”**.

Time Line:

- **2000:** “On July 21, 2000, the Joint Board issued its 2000 *Separations Recommended Decision*, recommending that, **until comprehensive reform could be achieved**, the Commission should freeze the expenses.
- **2001:** “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**.
- **2006:** “On May 16, 2006, in the *2006 Separations Freeze Extension and Further Notice*, the Commission extended the **freeze for three years or until comprehensive reform could be completed, whichever came first**. The Commission concluded that extending the freeze would provide stability to LECs pending further Commission action to reform the... rules, **and that more time was needed to study comprehensive reform**. The freeze was subsequently extended by one year in 2009, 2010, and 2011 and by two years in 2012.”
- **2010:** “March 30, 2010, the State Members of the Joint Board released a proposal for interim and comprehensive separations reform... On September 24, 2010, the Joint Board held a meeting with consumer groups, industry representatives, and state regulators to discuss interim and comprehensive reform...”
- **2011:** “In addition, in 2011, the Commission comprehensively reformed **the universal service and intercarrier compensation systems and proposed additional reforms. The Joint Board is considering the impact of the reforms** proposed by the *USF/ICC Transformation Order* and any subsequent changes on its analysis of the various approaches to separations reform.”
- **2014-2017:** “On March 27, 2014, the Commission sought comment on extending the freeze once more. We extend through June 30, 2017.... We conclude that extending the freeze will provide stability to carriers that must comply with the Commission’s jurisdictional separations rules **while the Joint Board continues its analysis of the jurisdictional separations process**.”

¹ <http://apps.fcc.gov/ecfs/document/view?id=7521314401>