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United States Telephone Association

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**ORIGINAL
FILE**

September 9, 1992

Ms. Donna Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

RECEIVED

SEP 9 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**RE: Ex Parte Notice
CC Docket No. 92-101**

Dear Ms. Searcy:

On September 9, 1992 the United States Telephone Association presented the attached data to Chris Frentrup of the Common Carrier Bureau regarding the above-referenced docket. Also included is the response to Michael Mandigo's request regarding the status of SFAS 106 issues in state jurisdictions.

The original and a copy of this ex parte notice are being filed in the Office of the Secretary on September 9 and should be included in the public record.

Respectfully submitted,

Martin T. McCue
Vice President and
General Counsel

cc w/att.: C. Frentrup
M. Mandigo

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CC Docket No. 92-101 -- Exogenous Treatment of Incremental SFAS 106 Costs

Dollar Amounts in Millions, 1993 Calendar Year (unless noted otherwise) Totals may not add exactly due to rounding.

	Ameritech	Bell Atl (*91 data)	BellSou	GTE	NYNEX Low Est. (6)	NYNEX High Est. (6)	Pacific	Roch. (7)	SNET	SWBT	United	US West
A. Service Cost	70.8	55.5	31	67.9	34.7	91.9	44.9	3.4	4.4	43.5	12.7	61.4
B. Interest Cost	238.5	247.7	198	210.1	212.9	320.6	233.8	11.2	27.1	231.7	40.3	231.6
C. Return on Plan Assets	61.2	49.8	82	10.1	35.3	35.3	38.8	0.3	4.5	19.7	0.0	16.6
D. Amortization of TBO	136.0	150.0	63	127.0	150.0	193.9	154.1	6.9	14.3	171.0	25.6	127.4
E. SFAS 106 Accrual (A+B-C+D)	384.1	403.4	210	395.0	362.3	571.1	394.0	21.3	41.3	426.5	78.6	403.8
F. Cash Claims Payments for Retirees (Pay-As-You Go)	166.2	66.8	25	88.6	184.1	184.1	53.0	3.5	26.0	143.6	15.8	121.6
G. VEBA Funding (see notes 1 - 4)	79.1	126.5	166	123.8	0.0	0.0	137.6	0.0	0.0	0.0	0.0	61.4
H. Other	0.0	106.7	0	10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
I. Total Current Cost (F+G+H)	247.3	302.0	191	99.5	184.1	184.1	190.7	3.5	26.0	143.6	15.8	183.0 0.0
J. SFAS 106 less Current Acctg. (E-I) (see note 8)	136.8	101.4	19	295.5	178.2	387.0	203.4	17.8	15.3	282.9	62.7	220.8
K. Interstate Price Cap Revenue Requirement (related to J)	19.9	19.2	0.9	65.0	28.9	69.4	28.1	2.8	2.3	44.1	10.9	44.8
L. Interstate Exogenous Cost	16.9	19.2	0.8	55.3	24.5	58.9	26.4	2.7	2.0	37.4	9.3	38.1
M. Ratio of L to K (see note 5)	85%	100%	85%	85%	85%	85%	94%	95%	85%	85%	85%	85%

Notes:

1. For Pacific Bell and Nevada Bell, approximately \$61M is expected to be paid out of bargained-for VEBAs (from row G, VEBA funding) to settle claims for retirees in 1993.
2. For BellSouth, approximately \$125 M is expected to be paid out of VEBAs to settle claims for retirees in 1993 (similar to note 1).
3. For Bell Atlantic, \$ 78.3M was paid out of trusts to settle claims for retirees in 1991 (similar to note 1).
4. For GTE, the \$123.8 of VEBA funding for 1993 does not represent an expense on its income statement, and is not added to row I, Total Current Cost.
5. Bell Atlantic data is for 1991. Bell Atlantic reduced its exogenous amount for GNP-PI effects beginning in 7-1-92. (See Bell Atlantic's Direct Case and tariff filing.)
6. The range of estimates for the NYNEX Telephone Companies SFAS 106 accruals and incremental interstate revenue requirement provided herein differs from the range reported in the NYNEX Direct Case. Since NYNEX is currently analyzing all aspects of SFAS 106, these estimates could change at the time of adoption and the forthcoming tariff filing. The above NYNEX estimates are consistent with NYNEX's latest SEC disclosure regarding SFAS 106. The revised range of estimates includes an update for actual 1991 medical claims experience and certain changed actuarial assumptions.
7. For Rochester, amounts include Rochester Telephone and Vista Telephone.
8. For US West, this does not include \$0.8 M of Depreciation Expense in the SFAS 106 accrual amount.

BELL ATLANTIC
CURRENT INTRASTATE STATUS OF SFAS 106
September 8, 1992

DELAWARE

Type of Regulation: Traditional rate of return regulation.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review.

DISTRICT OF COLUMBIA

Type of Regulation: Traditional rate of return regulation.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review. The PSC has indicated its intent to initiate a generic proceeding on SFAS 106 adoption.

MARYLAND

Type of Regulation: Incentive regulation plan since October 1, 1990. the plan provides for pricing and earnings flexibility on competitive services, a two-year rate cap, and earnings sharing provisions for other-than-competitive services.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review.

NEW JERSEY

Type of Regulation: Six-year rate stability plan since July 1, 1987. Under that plan, tariffed rates are capped. Competitive services are allowed earnings flexibility while less competitive services are subject to a traditional earnings cap.

Effective January 17, 1992, legislation was enacted that deregulated existing competitive services rates.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review. No current State Commission activity.

BELL ATLANTIC
CURRENT INTRASTATE STATUS OF SFAS 106
September 8, 1992

PENNSYLVANIA

Type of Regulation: Traditional rate of return regulation.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review. No current State Commission activity.

VIRGINIA

Type of Regulation: Four year experimental plan that was implemented January 1, 1989. Under the Plan, services receive varying regulatory treatment according to their competitive categorization. Actually Competitive services receive the most earnings and pricing flexibility. The other category services remain traditionally regulated with pricing flexibility afforded services in the Potentially Competitive category.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review.

WEST VIRGINIA

Type of Regulation: Social contract-like plan since 1988. The current incentive regulation plan, implemented January 1, 1992, extends and expands upon the key provisions of the previous flexible regulation plan. This plan also categorizes services according to their degree of competition which receive varying regulatory treatment. A new category was added for workably competitive services which will be rate deregulated according to legislation effective January 1, 1991. Competitive services receive pricing and earnings flexibility, discretionary services receive limited pricing flexibility and basic service rates will be frozen three years.

SFAS 106 Treatment: SFAS 106 amounts in excess of cash costs are tentatively included in monitored results pending State Commission review. No current State Commission activity.

September 8, 1992

AMERITECH

FCC Data Request - OPEB Status in the State Jurisdictions

ILLINOIS

SFAS 106 Status:

The Illinois Commerce Commission has dealt with SFAS No. 106 on a case-by-case basis. For the most part, the ICC has permitted accrual accounting and the recovery of the increased expense, including amortization of the transition obligation, with the unamortized balance included in rate base, provided that an external trust fund is established. (Excerpt from Regulatory Focus Newsletter, dated August 18, 1992.)

Form of Regulation:

Illinois Bell is currently regulated on a traditional rate base, rate of return basis in its intrastate jurisdiction.

WISCONSIN

SFAS 106 Status:

The Public Service Commission of Wisconsin (PSCW) Accounting Staff has sent a memo to the Commission which includes its Position Memorandum, comments from interested parties and a listing of interested parties. This issue will come before the Commission on Thursday, September 10, 1992. Based on the staff position memo and the interested parties' comments, the Commission will make a decision on this docket (05-UI-104) and an order will be issued.

The staff position memo requires the use of SFAS 106 for ratemaking purposes, plans for funding the liability (though no specific funding level is required) and the implementation of SFAS 87 and SFAS 88. It also states that utilities should be allowed to amortize the transition obligation over either the remaining service life, or 20 years.

Form of Regulation:

In a September 1990 decision, the PSCW approved a three-year alternative regulatory plan for WBI under which the company is not subject to any earnings constraints. The decision was based on a 13.75% return on equity. As part of the plan, flat rate pricing for residential customers was eliminated in favor of a usage-sensitive volume discount pricing system. The plan became effective October 1, 1990 and is to continue through 1993.

WBI is obligated to file projected financial information on October 1, 1993 for the Test Year of April 1, 1994 - March 31, 1995.

INDIANA BELL

SFAS 106 Status:

Indiana Bell and its joint petitioners, a group of investor-owned utilities subject to SFAS 106, filed testimony June 5, 1992 in a case before the Indiana Utility Regulatory Commission instituted by that body at the request of the joint petitioners for the purpose of considering the adoption of SFAS 106 for jurisdictional regulatory purposes. (Currently, only pay-as-you-go recognition of OPEB costs is sanctioned for ratemaking purposes.) Adversarial testimony, including that of the State's Office of the Utility Consumer Counsel, will be filed September 15.

A hearing will begin October 13, in Indianapolis on the SFAS 106 case, which includes the joint petitioners' request that the Commission first make a generalized adoption of SFAS 106 with utility-specific implementation to take place in subsequent rate cases of each utility subject to SFAS 106. The joint petitioners additionally seek deferral, as a regulatory asset, of SFAS 106 costs occurring from the beginning of 1993 until implementation in individual rate cases.

The joint petitioners hope for an order by the end of 1992.

Form of Regulation:

Rate of Return regulation is applied in Indiana.

MICHIGAN

SFAS 106 Status:

On December 19, 1991 the PSC initiated a generic proceeding regarding SFAS 106. The utilities support accrual treatment with no mandated funding technique, while the PSC Staff recommends accrual treatment with mandated external funding. On July 15, 1992, the Administrative law Judge (ALJ) issued a Proposal for Decision recommending that the PSC adopt accrual treatment for SFAS 106 costs. The ALJ, while not recommending an external funding mandate, did recommend that "the Commission determine that external funding is the preferred mechanism, but a utility should have the opportunity to demonstrate that some other mechanism is more beneficial and economically superior given its particular circumstances." (Excerpt from Regulatory Focus Newsletter, dated August 18, 1992.)

Form of Regulation:

As of January 1, 1992 Rate of Return regulation was replaced by Price Regulation of Selective Services, whereby the Commission regulates selective services vs. the providers of those services.

OHIO

SFAS 106 Status:

Following a PUC request, the Ohio utilities have submitted estimates of the financial impact of the accrual accounting method required by SFAS 106. The PUC is expected to open a generic docket to investigate SFAS 106 matters and to issue a decision before year-end 1992. (Excerpt from Regulatory Focus Newsletter, dated August 18, 1992)

Form of Regulation:

Ohio follows Rate of Return regulation.

**SFAS 106 (OPEBs)
United Telephone Companies
State Regulatory Summary
Company Specific Filings**

United Telephone Company of the Northwest
State: Oregon

Commission	Order	Type of Regulation	Summary of Rate Treatment
Public Utility Commission of Oregon	91-1786	Rate of Return Prescribed by State Regulator	Commission approved the intrastate recovery of other postretirement benefits. Rate base adjustment is required for the difference between postretirement benefits expenses and annual contribution to trust fund.

United Telephone Company of Florida
State: Florida

Commission	Order	Type of Regulation	Summary of Rate Treatment
Florida Public Service Commission	PSC-92-078087-FOF-TL	Rate of Return Prescribed by State Regulator	Ruled that SFAS 106 should be implemented on January 1, 1993; however, intrastate expense recognition deferred until July, 1993. The incremental cost increase (SFAS 106 over pay-as-you-go) for the first six months of 1993 to be amortized over eighteen months beginning July, 1993.

Commission found that:

- It is "appropriate to recognize the interest component of current service cost".
- It is "appropriate to recognize the interest component of recognized prior period cost."
- "The mechanisms contained within SFAS 106 combined with the surveillance program at the Commission are sufficient to monitor OPEB costs."
- Funding should not be required.
- "The postretirement benefit obligation is the same regardless of what discount rate is used. It is a matter of timing."

**SFAS 106
United Telephone Companies
State Regulatory Summary
Update (Other than Filings)**

State	Type of Regulation	Summary
North Carolina	Rate of Return Prescribed by State Regulator	No formal proceedings.
Pennsylvania	Rate of Return Prescribed by State Regulator	Gas Association has presented proposal. Commission action is pending.
New Jersey	Rate of Return Prescribed by State Regulator	Commission staff is reviewing.
Ohio	Rate of Return Prescribed by State Regulator	No formal proceedings.
Indiana	Rate of Return Prescribed by State Regulator	Indiana Utilities have made proposals to PUC but no rulings have been issued.
Missouri	Rate of Return Prescribed by State Regulator	No formal proceedings.
Minnesota	Rate of Return Prescribed by State Regulator	OPEBs has been formally docketed and an order has been issued by the Commission. The order is summarized as follows: <ol style="list-style-type: none"> 1. Adopt SFAS 106 accrual accounting for record keeping and ratemaking purposes. 2. Adopt 20 year amortization of the transition obligation. 3. Funding to be determined on a case by case basis. 4. Incremental OPEBs' amounts can be placed in a deferred asset account for three years, with ratemaking on the deferred balance subject to normal rate review.
Kansas	Rate of Return Prescribed by State Regulator	No formal proceeding.

**SFAS 106
United Telephone Companies
State Regulatory Summary
Update (Other than Filings) - Cont'd**

<u>State</u>	<u>Type of Regulation</u>	<u>Summary</u>
Nebraska	Rate of Return Prescribed by State Regulator	Under consideration. No formal proceeding.
Wyoming	Rate of Return Prescribed by State Regulator	United's recent rate case award reflects rate recovery based on SFAS 106 accrual accounting. However, the agreed upon stipulation does not set a precedent on this issue. The Commission has surveyed the 11 largest utility companies in the state seeking positions on several issues and a "workshop" to discuss the responses and other OPEB issues followed thereafter. No formal docket has been issued.
Texas	Rate of Return Prescribed by State Regulator	Under consideration through Commission Project No. 11125.
Virginia	Alternative Regulation Plan	Under consideration by PUC. Order Directing Notice and Inviting Comment dated 1/21/92. Comment Letter to Order dated 4/15/92. Information data request dated 1/29/92. Response to data request dated 4/23/92. VSCC Staff Report dated 7/17/92. Comment Letter to Staff Report dated 8/20/92. Oral argument scheduled for 9/10/92.
Tennessee	Incentive Regulation	No formal proceeding.
South Carolina	Rate-of Return Prescribed by State Regulator	Commission is addressing SFAS 106 through filing to enter the incentive reg plan - where United has shown the effect of SFAS 106 as a pro forma adjustment. The Staff has completed its audit of the pro forma adjustment, and agrees in theory.
Washington	Rate of Return Prescribed by State Regulator	Under consideration.

**LEC DATA FOR USE IN CC DOCKET NO. 92-101
FCC Investigation Regarding SFAS 106**

Company: The Southern New England
Telephone Company (SNET)

Question 1. What form of state regulation is SNET
subject to in Connecticut?

Response: On June 28, 1991, the Department of
Public Utility Control (DPUC) issued its Phase
II - Final Decision in Docket No. 89-12-05
which included an incentive regulation
structure. This structure provides for an
equal sharing of earnings with ratepayers,
provided certain benchmarks addressing service
availability are met, on amounts earned from a
return on rate base ("ROR") ranging from 11.26%
to 13.05% as measured quarterly on a twelve
month basis beginning with the first quarter of
1992. As of the end of the 2nd quarter 1992,
the Telephone Company's intrastate rate of
return was below the 11.26% threshold.

Question 2. How have SFAS-106 issues been treated by
the state regulator?

Response: On March 20, 1991, the DPUC issued a final
decision in Phase I of Docket No. 89-12-05
authorizing an increase in the Telephone
Company's annual revenue requirements of \$47.7
million implemented through a temporary
surcharge on local service rates until Phase II
was complete. The final decision in Phase II
on June 28, 1991 established rates designed to
achieve the \$47.7 million rate award.

In SNET's Direct Case in CC Docket No. 92-101
on pages 5 and 6, the DPUC's decision in Phase
I is cited as approval for the establishment
and funding of Voluntary Employees' Beneficiary
Association (VEBA) trusts, one for management
and one for bargaining-unit employees. Fund
contributions are equal to the actuarially
determined current service cost and interest
cost of active employees postretirement health
care benefits. These amounts are being
expensed in addition to pay-as-you-go costs.

GTE TELEPHONE OPERATIONS

SFAS No. 106 Status

September 3, 1992

Page 1 of 2

STATE OF OPERATION	TYPE OF REGULATION	SFAS 106 STATUS
1 Alabama	Rate of Return	Company to file for accounting adoption in October.
2 Alaska	Rate of Return	Has not been addressed by the Alaskan Public Utility Commission.
3 Arizona	Rate of Return	Implied adoption for accounting purposes.
4 Arkansas	Rate of Return	Generic proceeding in progress.
5 California - GTE	Incentive Regulation	California commission implemented generic proceeding with 2 phases. Phase I allowed prefunding of OPEB liability. Phase II is in progress and will determine accounting adoption and rate recovery issues for all utilities in the state.
- Contel	Rate of Return	
6 Florida	Rate of Return	Commission has adopted SFAS 106 for accounting purposes. Company currently seeking rate recovery in rate case.
7 Georgia	Rate of Return	Company to file for accounting adoption in September.
8 Hawaii	Rate of Return	Generic proceeding in progress.
9 Idaho	Rate of Return	Company to file for accounting adoption in fourth quarter.
10 Illinois	Rate of Return	OPEB costs included in stipulation for rates effective 8/14/92.
11 Indiana	Rate of Return	Generic proceeding in progress.
12 Iowa	Rate of Return	Rule making proceeding currently in progress.
13 Kansas	Rate of Return	Implied adoption for accounting purposes.
14 Kentucky	Rate of Return	Implied adoption for accounting purposes.
15 Maine	Rate of Return	Company to file for accounting adoption in October.
16 Michigan	Incentive Regulation	Generic proceeding in progress.
17 Minnesota	Rate of Return	Generic proceeding in progress.
18 Missouri	Rate of Return	Implied adoption for accounting purposes.
19 Montana	Rate of Return	Rate case in progress.
20 Nebraska	Lessened regulation	Implied adoption for accounting purposes.
21 Nevada	Rate of Return	Implied adoption for accounting purposes.
22 New Hampshire	Rate of Return	Company to file for accounting adoption in October.

GTE TELEPHONE OPERATIONS

SFAS No. 106 Status

September 3, 1992

Page 2 of 2

STATE OF OPERATION	TYPE OF REGULATION	SFAS 106 STATUS
23 New Mexico - GTE	Rate of Return	Implied adoption for accounting purposes.
- Contel	Alternative Reg. Framework	No exogenous component in price cap formula.
24 New York	Rate of Return	Generic proceeding in process.
25 North Carolina	Rate of Return	Company to file for accounting adoption in October.
26 North Dakota	Rate of Return	Implied adoption for accounting purposes.
27 Ohio	Rate of Return	Generic proceeding in process.
28 Oklahoma	Rate of Return	Company to file notification of accounting adoption in September.
29 Oregon	Rate of Return	Earnings review to begin in October.
30 Pennsylvania	Rate of Return	Concurs with FCC accounting rules.
31 South Carolina - GTE	Incentive regulation	Approved by commission in 1991 rate case.
- Contel	Rate of Return	Approved by commission in 1991 rate case.
32 South Dakota	Lessened Regulation	Implied adoption for accounting purposes.
33 Tennessee	Incentive regulation	Company to file for accounting adoption in October.
34 Texas	Rate of Return	Generic proceeding in process.
35 Utah	Rate of Return	Generic proceeding in process.
36 Vermont	Rate of Return	Implied adoption for accounting purposes.
37 Virginia	Incentive Regulation	Generic proceeding in process.
38 Washington	Rate of Return	Commission published white paper, company requesting generic proceeding.
39 West Virginia	Rate of Return	Company to file for accounting adoption in October.
40 Wisconsin	Rate of Return	Rate case in process. 1990 rate case approved VERA pre-funding.

Note:

- In those states where there is implied adoption of SFAS No. 106 for accounting purposes the company will address revenue recovery in the next rate proceeding.

September 2, 1992

Jeff Olson

Jeff,

The status of OPEB recovery in California is as follows:

Type of Regulation: Incentive Price Caps

Status of OPEB: Hearings and Briefs have concluded and a proposed recommendation from the Administrative Law Judge is expected during the fall. After issuance of the proposed recommendation, parties have 20 days in which to provide comments on the proposal; with Reply Comments due 5 days after Comments are filed. After the Comment Cycle, the Commission will issue its Order. The Order is anticipated prior to the end of 1992.

And in Nevada Bell:

Type of Regulation: Price Freeze (5 year price freeze with consumer sharing above authorized return on equity)

Status of OPEB: Has not been requested by Nevada Bell.



Cheryl Helms
(415) 542-5539

CAH465

cc: C. K. Feiner and D. A. Loomis

SOUTHWESTERN BELL TELEPHONE COMPANY

**INTRASTATE ANALYSIS OF
SFAS 106**

ARKANSAS (Rate Base/Rate of Return Regulation)

Arkansas utilities and the commission staff were involved in an educational forum on FAS 106 on August 25, 1992.

KANSAS (Alternative Regulation)

FAS 106 is an issue in a pending Peoples Natural Gas rate case.

MISSOURI (Incentive Regulation with a Sharing Formula)

FAS 106 has been addressed in a recent Union Electric rate case where pay-as-you-go treatment was ordered. It is anticipated the Missouri Commission will address this issue on a rate case by rate case basis.

OKLAHOMA (Rate Base/Rate of Return Regulation)

The Oklahoma Corporation Commission has not addressed the FAS 106 issue.

TEXAS (Incentive Regulation with a Sharing Formula)

The PUC has opened a request for response from all utilities regarding the treatment of FAS 106. A majority of the respondents to the commission FAS 106 questions favored adoption of FAS 106 for ratemaking purposes. A rule has not been published on FAS 106, but a draft NPRM authored by the Commission staff would allow for the recovery of FAS 106 costs if the PUC finds the costs to be reasonable.

**NEW YORK TELEPHONE
FINANCE & COMPTROLLERS**

RE: Status of Other Post Employment Benefits (OPEB) in New York State

The New York State Public Service Commission ("PSC") issued a Notice Soliciting Comments on proposed accounting and rate treatment for Pensions and OPEB for all utilities on March 19, 1992. Interested parties responded with their comments by the July 1, 1992 deadline. Action by the New York State PSC is expected by year end. New York Telephone is under traditional rate of return regulation.

The PSC Notice Soliciting Comments recommended adoption of SFAS NO. 106 (OPEB) for fiscal years beginning after December 15, 1992. However, the PSC Notice also proposed numerous deferral requirements which are not in accordance with Generally Accepted Accounting Principles ("GAAP") and proposed to require the adoption of certain provisions of SFAS No. 106 which are only optional under the terms of the Statement. New York Telephone and virtually all of the other utilities in New York State opposed these additional proposals.

September 2, 1992

NEW ENGLAND TELEPHONE

RE: STATUS OF OTHER POST EMPLOYMENT BENEFITS (OPEB) IN NEW ENGLAND TERRITORY

STATE: RHODE ISLAND

Regulation - Rate of return based with a sharing adjustment for a specified range of ROR

OPEB STATUS - R. I. Commission allows pay-as-you-go expense and any additional amounts to the extent they are funded for rate recovery.

OTHER STATES:

OPEB issue has not been addressed by the Commissions in the other states (Massachusetts, Maine, New Hampshire, Vermont)

September 4, 1992

- Subject:** U S WEST Response to request for Current Status of SFAS 106 and the Current Form of Regulation in U S WEST States
- Arizona** - Informal discussions are underway with the Commission Staff. Possible decision in July 1993 filing. Form of Regulation: Traditional Rate of Return.
- Colorado** - Informal discussions are underway with the Commission Staff. Form of Regulation: Traditional Rate of Return.
- Idaho South** - The Commission adopted SFAS 106 effective January 1, 1992. Form of Regulation: Revenue Sharing.
- Idaho North** - Informal Discussions. Form of Regulation: Traditional Rate of Return.
- Iowa** - The Commission is addressing the issue on an industry level for rulemaking. Written testimony is due September 22, 1992 with oral hearings scheduled for October 26, 1992. Form of Regulation: Traditional Rate of Return.
- Minnesota** - The Commission established an industry docket for OPEB and on August 20, 1992 voted to adopt 106 at the oral hearings. However they will review each company on a case by case basis. The formal order has not been issued. Form of Regulation: Profit Sharing.
- Montana** - In the current case, the Commission has given preliminary approval to adopt SFAS 106. It will become effective with the final order that is expected in the fourth quarter. Form of Regulation: Traditional Rate of Return.
- Nebraska** - No Activity. Form of Regulation: Price Regulation (Social Contract).
- New Mexico** - SFAS 106 is being addressed in the rate case filed by U S WEST on August 28, 1992. Form of Regulation: Profit Sharing.
- North Dakota** - U S WEST has notified the PSC of our intent to adopt January 1, 1993. The filing has been suspended pending staff review. Form of Regulation: Price Cap.

- Oregon** - The Commission has granted adoption of SFAS 106 effective January 1, 1992. Form of Regulation: Revenue Sharing.
- South Dakota-** There is no filing requirement associated with SFAS 106 as it is an allowable Part 32 Cost. The Company, as a courtesy, will inform the Commission of our intention to adopt. Form of Regulation: Piecemeal - 3 Bucket Approach.
- Utah** - The Commission has opened a separate industry docket to address SFAS 106. Informal hearings were held August 26, 1992, written testimony is due October 9, 1992, rebuttals due October 30, 1992 with hearings schedules for November 11-12, 1992. Form of Regulation: Traditional Rate of Return.
- Washington** - The Commission has opened an industry docket to address SFAS 106. Comments were filed August 26, 1992 and an open meeting is scheduled for September 16, 1992 for oral comments. Form of Regulation: Profit Sharing.
- Wyoming** - Informal Discussions. Form of Regulation: Traditional Rate of Return.

SENT BY:

; 9- 9-92 ; 9:50 ; BELLSOUTH D. C., INC. →

2028353248:# 2

BELLSOUTH'S STATE SFAS 106 ACTIVITY

ALABAMA - As of this writing the PSC has not opened a generic docket to address SFAS 106 issues. For several years, the state's major utilities have been accruing OPEB costs, to the extent that they are tax deductible. Alabama's major utilities are operating under Rate RSE plans in which each company's earnings are evaluated relative to an authorized return-on-equity or overall rate-of-return range. (See The Alabama Annual Review dated February 1992.) Because each company's earnings under Rate RSE are evaluated based on reported results, the costs of implementing SFAS 106, absent any specific Commission action, can be expected to be reflected in each utility's reported financial results beginning January 1, 1993.

FLORIDA - The PSC Staff has approved a generic rulemaking that would adopt SFAS 106 for ratemaking purposes. The window for appeal is still open with respect to this rulemaking. The generic rule does not require external funding; however, the rule would require a rate base offset for OPEB costs not externally funded. A Staff workshop is currently scheduled to be held on October 29, 1992, with a PSC decision expected by the end of 1992. The PSC has previously allowed accrual treatment of certain OPEB costs for ratemaking purposes for Gulf Power and Central Telephone.

GEORGIA - The PSC has not opened a generic docket to address SFAS 106 issues. In October 1991, the Commission adopted a settlement for Georgia Power in which the PSC order requires Georgia Power to "defer for future recovery the difference between the amount computed in accordance with SFAS No. 106 and the 'pay-as-you-go' method for financial accounting. Under the 'pay-as-you-go' method, the deferred amount will be recognized for rate recovery when actually paid."

TENNESSEE - The TPSC Staff recently recommended that United Cities Gas not be allowed full SFAS 106 expense in their regulated cost of service. Rather, the Staff recommended "a pay-as-you-go basis be adopted. For utilities that have a funded plan I recommend that tax deductible contribution be recognized for ratemaking." Also, the Staff went to recommend that an administrative Law Judge be appointed to address SFAS 106 for all utilities in Tennessee.

KENTUCKY - In January 1992, Kentucky Power (KP), Kentucky Utilities, Louisville Gas & Electric, and Union Light, Heat and Power filed a joint petition requesting accounting and ratemaking treatment associated with SFAS 106. The utilities sought Commission approval to recover, in their next general rate cases, "an appropriate level of costs associated with [the] implementation of and compliance with [SFAS] 106." On June 8, 1992, the PSC rejected the companies' proposal. The commission stated that the utilities do not require PSC approval to implement SFAS 106. The PSC did not, however, indicate the ratemaking treatment it would authorize regarding SFAS 106 costs.

LOUISIANA - In rate cases for Arkansas-Louisiana Gas (decided in December 1991) and New Orleans Public Service (decided in May 1992) in which SFAS 106 had been an issue, the PSC opted to retain pay-as-you-go for ratemaking purposes for SFAS 106 costs. The creation of a regulatory asset was permitted in those cases.

MISSISSIPPI - Since 1987 Mississippi Power has been recovering OBEFs on an accrual basis through its Performance Evaluation Plan (PEP). Additional costs to be recognized upon adoption of SFAS 106 are expected to be recovered under the PEP. The PSC has not otherwise specifically addressed SFAS 106.

NORTH CAROLINA - In February and November 1991 rate case decisions, the NCUC allowed North Carolina Power and Duke Power, respectively, to include in rates the additional ongoing OFEB expense and the amortization (over 20 years) of the transition obligation associated with SFAS 106. In a November 1, 1991 NCUC order for Public Service North Carolina, the company was allowed to recover certain amounts which will be used to fund the SFAS 106 liability when the accounting change is adopted.

SOUTH CAROLINA - In a November 1991 general rate case decision, the PSC authorized Duke Power an increase in rates to bring the level of OFEB recovery virtually up to that required by SFAS 106. The small remaining revenue requirement was deferred. Also during 1991, the Commission allowed GTE South to utilize accrual accounting regarding a portion of the company's SFAS 106-related liability.

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September 9, 1992

BY FACSIMILE

Mr. Frank McKennedy
United States Telephone Association
900 Nineteenth Street, N.W.
Suite 800
Washington, D.C. 20006

Re: Other Post-Employment Benefits

Dear Mr. McKennedy:

At Jeff Olson's request, I am forwarding to you summaries of any regulatory action with respect to the treatment of SFAS 106 expenses in the jurisdictions in which Rochester has a local exchange presence. I am also including a summary of the different types of regulation that exist in each of these jurisdictions.

I wish briefly to explain Rochester's telephone operations, both to place the attached summaries in context and to show the relative importance to Rochester of each of the states in which it operates.

Rochester Telephone, obviously, operates in New York and serves approximately 480,000 of the 880,000 total access lines served by Rochester and its exchange carrier subsidiaries. Rochester also has four subsidiaries providing exchange service to approximately 80,000 additional access lines in New York State.

The next two states in importance to Rochester's operations are Minnesota and Iowa, where the Vista telephone companies operate. Vista Telephone of Minnesota serves approximately 85,000 access lines and Vista Telephone of Iowa serves approximately 50,000 access lines. In addition, Rochester owns another company in Iowa that serves approximately 1,000 access lines.