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OFFICE OF THE SECRETARY

GTE Service Corporation
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Washington, D.C. 20036
(202) 463-5292

Carol L. Bjelland
Director
Regulatory Matters

ORIGINAL

October 23, 1992

ORIGINAL FILE

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

RE: Ex Parte - CC Docket 92-101

Dear Ms. Searcy:

This letter shall serve as written notification that, on this date, Dennis M. Maunder, John P. Blanchard and Carol L. Bjelland, representing GTE Telephone Operations and GTE Service Corporation, respectively, met with Mike Mandigo and Chris Frentrup of the Common Carrier Bureau's Tariff Division. The purpose of the meeting was to discuss GTE's position regarding issues raised in the above-referenced proceeding. The attached outline was used to facilitate the discussion.

Please include this letter and attached discussion outline in the record of this proceeding in accordance with the Commission's rules concerning ex parte communications.

Sincerely,

Carol L. Bjelland

Attachment

C: Mike Mandigo
Chris Frentrup

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GTE TELEPHONE OPERATIONS
SFAS NO. 106

October 23, 1992

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

Background:

- CPUC Issued Order Instituting Investigation On SFAS No. 106 To All California Energy, Water, And Telecommunication Utility Companies on 8/18/90.

- Investigation Was Bifurcated Into Two Phases:

  Phase I - Whether Companies Should Be Permitted To Start Funding OPEBs Prior To The Effective Date Of SFAS No. 106

  Phase II - Revenue Requirement Impacts

  - Accounting And Ratemaking Treatment
  - Legislation Impacts
  - Safeguard Mechanisms
  - "Z Factor Treatment"

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

Proceeding Results:

Phase I -

- Decision 91-07-006 Concluded That Funding Of OPEB's With Tax-Deductible Trust Plans Prior To January 1993 Was In The Ratepayers Best Interest.
- Found That Adequate Legal And Accounting Safeguards Were Already In Existence To Assure The Safety And Proper Use Of Funds Contributed To OPEB Plans.
- Granted Utilities Permission To Fund And Recover Their OPEB Costs Prior To The Statement's Effective Date On A Tax Advantaged Basis. Recovery Was Subject To A Reasonableness Review At The Utility's Next Rate Proceeding.

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

Proceeding Results:

Phase II - Administrative Law Judge Galvin Issued A Proposed Decision Adopting SFAS No. 106 On 10/5/92.

- All Interested Parties May Submit Comments by 10/26/92. Reply Comments Are Due On 11/2/92.
- Comments Are Limited To Factual, Technical, And Legal Errors As Well As Points Of Clarification.
- California Commission Expected To Issue A Final Order In The Month Of December.

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

Phase II - GTE Study:

- Employed Godwins To Conduct An Analysis Of The Impact Of SFAS No. 106 Costs On GNPPI.
- Godwins Concluded That The Combined Effect Of The Impact Of SFAS No. 106 On the GNPPI And On The Wage Rate Would Still Leave At Least 84.9% Of GTE California's SFAS No. 106 Costs To Be Met From Other Sources.
- Godwins Was Later Hired By USTA To Perform A Similar Study Using Company Data Provided By The Eleven Price Cap LECs.

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

Phase II - GTE Position

- Advocated Adoption Of SFAS No. 106 For Accounting Purposes.
- Accounting Change Is Outside Management's Control, Hence Exogenous Treatment Is Merited.
- Sought "Z Factor" Treatment For At Least 84.9% Of SFAS No. 106 Costs.

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

<u>Phase II - Proposed Decision</u>

- SFAS No. 106 Is Adopted For Ratemaking Purposes With The Following Modifications

  A. Must Use The Employee Total Utility Service Life Attribution Method For Both The Utility's Transition Benefit Obligation (TBO) And Ongoing OPEB Costs.
  B. TBO Must Be Amortized Over 20 Years.

- Granted 99% Recovery of SFAS No. 106. Claimed Godwins Study Was "Very Conservative" Relative To NERA. Disregarded Godwins Wage Adjustment Thus Making Conclusions Of Godwins And NERA Studies Equal. However, Did Require GTE And PacBell To Submit Study In 1993 Addressing The Wage Adjustment.

- Recovery Of OPEB Costs Limited To Tax Deductible Contributions Up To A Maximum of 1% Of The Utility's Prior-Year's Total Operating Revenue. It Appears This 1% Limitation Will Be Cumulative.

- A Regulatory Asset Must Be Recorded For Difference Between The Total SFAS No. 106 Expense And The Amount Currently Being Paid By Ratepayers (Recovery).

- The Amount Prefunded By GTE California In 1991 ($27.1 Million) Will Not Be Allowed Z-Factor Recovery Since The Act Of Prefunding Was Under Control of Management And Therefore Does Not Meet Criteria Necessary To Qualify As An Exogenous Event.

GTE TELEPHONE OPERATIONS
SFAS NO. 106
California Generic Proceeding

<u>Phase II Decision - GTE Response</u>

- Generally Pleased With Decision
- Comments Will Include:

A. The 1% Rateshock Definition Contained In The Findings Of Fact 24 Should Be Deleted, As It Is Totally Unsupported By Any Evidence In The Proceeding.

B. If The Commission Finds It Necessary To Apply A Rateshock Definition Or Standard, The Standard Should Be Applied To The Net Annual Price Cap Filing, Not To An Individual Component Of The Filing.

C. If The 1% Cap Is Applied To OPEBs, It Must Be Cumulative In Order For GTE To Record A Regulatory Asset For External Financial Reporting. In Other Words, OPEB Recovery Must Be Allowed To Increase Annually By 1% Of The Prior Year's Total Operating Revenues.

D. The Exogenous Event In This Proceeding Is The Adoption Of SFAS No. 106 By The Commission. Both Prefunding And Funding Are Part Of GTE's Reaction To The Adoption Of SFAS No. 106, The Exogenous Event. Accordingly, The Prefunding Should Be Accorded Z-Factor Treatment.

E. GTE Prefunded In Good Faith Based Upon The Phase I Decision. This Prefunding Benefits Both The Shareholder And The Ratepayer By Utilizing Tax Advantaged Vehicles To Reduce The SFAS No. 106 Liability. In Doing So, The Ratepayer Has Benefited From The Company's Pro-Active Approach And The Company Should Be Granted Recovery.

GTE TELEPHONE OPERATIONS
SFAS NO. 106

Review of Direct Case:

- The Issuance Of SFAS No. 106 Constitutes An Administrative Action Beyond The Control Of The Carriers. Exogenous Treatment Is Justified.
- GTE Supports The USTA/Godwins Study Which Concluded That The Impact of SFAS No. 106 On The GNP-PI And On The Wage Rate Will Leave 84.8% Of A Telcos' Additional SFAS No. 106 Cost Unrecovered.

GTE TELEPHONE OPERATIONS
SFAS NO. 106

<u>Amendment To GTE Rebuttal Filed July 31, 1992</u>

- In Light Of Recent Private Letter Rulings, GTE Now Believes That The Entire OPEB Accrual Can Be Funded Using Tax Advantaged Vehicles.
- GTE Still Maintains That Funding Should Not Be Required.
  1. Due to RAO 20 Prescribed Rate Base Treatment, Recovery Not Funded Would Result In Increased Sharing.
  2. Cost To Administer Accounting For Interstate vs. Intrastate Funding Will Be Costly.