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SNET

Daniel J. Miglio
President and
Chief Operating Officer

December 7, 1992

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BY OVERNIGHT MAIL

Commissioner Ervin S. Duggan
1919 M. Street N.W.
Room 832
Washington, D.C. 20054

92-101

Dear Commissioner Duggan:

I understand from USTA ex parte contacts with the Commissioners' Legal Advisors and with the Common Carrier Bureau Staff, that the decision in CC Docket No. 92-101 is likely to deny exogenous cost recovery of the change in accounting for SFAS-106, Post Retirement Benefits Other than Pensions (OPEB). I strongly feel that SNET as a voluntary price cap LEC should be allowed recovery of OPEB costs in rates on an equitable basis as if the Company had remained under rate of return regulation. Price increases should be permitted for the difference in expense between pay-as-you-go and accrual accounting.

SNET elected price cap regulation fully expecting that a change from rate of return regulation would provide all participants in the telecommunications industry, i.e., consumers, regulators and shareholders, a reasonable balance between risk and reward. Part of our understanding of the regulatory "rules of the road" was the opportunity for recovery of costs beyond the control of the company. The incremental SFAS-106 costs relate to the unrecognized liability from periods prior to the implementation of SNET's price cap plan.

The Commission's price cap decisions for both AT&T and the LECs specifically provided for exogenous treatment of an accounting rules change. The Commission's own "test" for such treatment required a demonstration that the cost change was beyond a company's control and that the cost was not included in the price cap inflation index. USTA has presented detailed studies to the Commission's Staff demonstrating that these standards have been met.

It appears that the Commission's Staff has recently taken a very narrow view of exogenous cost treatment under price cap rules. Apparently, this view allows exogenous treatment for costs that decrease rates, but bars such treatment if prices will increase.

There is prior Commission precedent for treating accounting costs as exogenous, for example, reserve deficiency amortization, inside wire, and separations changes, that decrease prices. SNET believes that there should be symmetrical treatment of those accounting costs with an opposite effect. Indeed, the Company expects full recovery of SFAS-106 costs on the intrastate side even though rates may increase.

The Commission allows rate of return regulated LECs to recover OPEB costs. I am especially disturbed that SNET would be disadvantaged by an accident in timing. Had the FASB ruling been released earlier, when SNET was subject to rate of return regulation, SNET's current rate cap would fully reflect these costs similar to the companies that had funded their postretirement benefit obligation before entering price cap regulation. SNET is simply asking to include in its prices the impact of the accounting change required by the Commission, and is at least seeking parity with those who had funded their obligation earlier.

AT&T agrees that rate recovery for price cap LECs should be permitted. SFAS-106, just like SFAS-87 for pensions, recognizes that employees earn benefits over their total expected length of service. The fact that a portion of the cash outlays does not occur at the same time as the expense is incurred does not mean these costs are not real.

I urge you and the Commission to grant fair and just treatment of OPEB costs under the Commission's price cap rules.

Sincerely,

Daniel J. Miglio
President and COO