FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

ORIGINAL
EX PARTE OR LATE FILED
FILE

RECEIVED

DEC 2 4 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

December 21, 1992

Mr. Curtis G. Fields
President
Local Telecommunications Division
Sprint
P.O. Box 11315
Kansas City, Missouri 64112

92-101

Dear Mr. Fields:

Many thanks for your letter of November 30 about price cap treatment of the changes in accounting for Other Postretirement Employee Benefits (OPEBs).

I'm glad to have your views on how the Commission should treat these accounting changes under price caps. Please be assured that I will take those views into account as we take up this question.

Sincerely yours,

Ervin S. Duggan
Commissioner

Sprint

P. O. Box 11315
Kansas City, MO 64112
Telephone: (913) 624-8410

Curtis G. Fields
President
Local Telecommunications Division

November 30, 1992

The Honorable Ervin S. Duggan
Commissioner
Federal Communications Commission
1919 M Street, N.W., Room 832
Washington, D.C. 20554

Dear Commissioner Duggan:

During recent meetings with members of the Commission staff, we were told that the Common Carrier Bureau is not inclined to recommend exogenous treatment for Other Postretirement Employee Benefits (OPEB) costs. These are very large cost increases that we will incur when the Statement of Financial Accounting Standards No. 106 (SFAS 106) is implemented within the next month.[1]

I urge you to reject recommendations that OPEB costs not be treated exogenously. Without exogenous treatment, the financial impact of SFAS 106 on price cap carriers will be severe. We estimate that the impact on the United Telephone companies alone will be a $10 million annual increase in interstate costs.

The effect of SFAS 106 is clearly exogenous. The Commission is requiring all carriers to adopt SFAS 106 accounting treatment of OPEB costs on or before January 1, 1993. Thus, these incremental OPEB costs result from a Commission-mandated accounting change that is beyond a carrier's control. In its price cap order, the Commission plainly said that costs beyond a carrier's control will be considered exogenous. In the order, the Commission even cited accounting changes as a specific example of such costs. This plain language should not be construed now as meaning something else.

1. In short, SFAS 106 requires companies to accrue a liability related to nonpensioned benefits an employer will provide for employees' current services. The immediate effect is to recognize the cost of benefits that active and retired employees have already earned. This is in contrast to the current accounting requirement of recognizing OPEB costs on a pay-as-you-go basis.

Fairness is also at issue here. In the last two annual tariff filings, United removed more than $13 million in costs from its rates because of exogenous treatment mandated by the Commission. (This is in addition to a $12 million reduction in rates associated with the January 1, 1991, rate of return represcription.) When a price cap carrier experiences exogenous cost increases, the carrier should be afforded the opportunity to recover such costs by adjusting its price cap indices and access rates.

The Commission did not require the United Telephone companies to adopt price cap regulation. The choice was ours, and we chose to become price cap companies after carefully weighing the potential opportunities and risks the new form of regulation presented. While the outcome of our deliberations would probably have been the same, I assure you that our assumptions did not include the risk that we would not be given the chance to recover dramatic increases in OPEB costs. Indeed, United was an industry leader in the price cap debate. The real prospect of additional OPEB costs was the principal reason we were such strong advocates of exogenous treatment for the effects of mandated accounting changes.

I am convinced we have met the Commission's test for treating the increase in OPEB costs as exogenous. We have shown that these additional costs are clearly outside the control of carriers. We have also demonstrated through exhaustive studies that implementation of SFAS 106 has a minimal impact on the GNP-PI.

I am sending this letter to each of your fellow Commissioners and to Cheryl Tritt. Again, I urge the Commission to treat legitimate exogenous cost increases in the same manner the Commission has treated exogenous cost decreases. If we can clarify our position or provide other information, do not hesitate to contact me. Our Washington office staff also stands ready to assist you. Jay C. Keithley, Vice President-Law and External Affairs, can be reached at (202)828-7453.

Sincerely,

Curtis G. Fields

Curtis G. Fields

cc: Linda Oliver