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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
1993 Annual Access Tariff Filings	)	CC Docket No. 93-193, Phase I
1994 Annual Access Tariff Filings	)	CC Docket No. 94-65
AT&T Communications Tariff F.C.C. Nos. 1 and 2 Transmittal Nos. 5460, 5461, 5462 and 5464	)	CC Docket No. 93-193, Phase II
Bell Atlantic Telephone Companies Tariff F.C.C. No. 1, Transmittal No. 690	)	CC Docket No. 94-157
NYNEX Telephone Companies Tariff F.C.C. No. 1, Transmittal No. 328	)	

DIRECT CASE OF BELLSOUTH

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SUMMARY

In its Direct Case, BellSouth submits information requested by the Common Carrier Bureau in its investigation of BellSouth's 1993 Annual Access Tariff filing. In that filing, BellSouth sought "exogenous" cost treatment for the retiree-only portion of its Transition Benefit Obligation (TBO) resulting from its adoption of SFAS-106. BellSouth was required by the Commission to adopt SFAS-106 no later than January 1, 1993. The Commission also mandated that carriers amortize the TBO. Thus, the limited costs included by BellSouth in its 1993 Access Tariff filing clearly met the then extant definition of "exogenous" costs. In addition to limiting its request for exogenous cost treatment to the retiree-only portion of its TBO, BellSouth further reduced its claim to reflect the possibility that some portion of this amount may have been captured in the GNP-PI. BellSouth relied on the Godwins study to estimate that, at most, 0.7 percent of the average cost increase experienced by a price cap LEC will be reflected in the GNP-PI. BellSouth further reduced its claim by 14.5 percent based on the output of Godwins' macroeconomic model. That model predicts that national wage rates may decline by that amount over time. While not technically within the Commission's definition of an "exogenous cost", BellSouth's reduction of its claim by that amount more than offsets any

possible "double-counting". Thus the Commission should terminate its investigation of BellSouth's 1993 tariff.

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DIRECT CASE OF BELLSOUTH

BellSouth Telecommunications, Inc. ("BellSouth"), in response to the Order Designating Issues for Investigation ("Investigation Order"), DA 95-1485, released June 30, 1995, hereby submits its Direct Case in the captioned proceedings. In this Direct Case, BellSouth demonstrates that it included an appropriate amount of the retiree portion of its "transitional benefit obligation" ("TBO") associated with its adoption of SFAS-106 as an "exogenous" cost in the development of its price cap indices in its 1993 annual access tariff filing.

The Investigation Order succinctly summarizes the proceedings giving rise to this investigation. BellSouth will not repeat that background information, but will address the issues designated for investigation in the

Investigation Order. The documentation requested from BellSouth is set forth in attachments to this Direct Case, as indicated below.

BellSouth participated in the development of the USTA direct case, which is being submitted this date. A number of price cap local exchange carriers ("LECs"), including BellSouth, rely upon the Godwins Study[1] to determine the portion of LEC OPEB costs that are not reflected in the inflation component of the price cap formula. In order to avoid duplicate filings of the Godwins Study and related information, BellSouth incorporates the USTA Direct Case and its Attachments into BellSouth's direct case by reference.

1. General Information on OPEB Costs Claimed.

Issue A: Have AT&T and the individual LECs correctly, reasonably and justifiably calculated the gross amount of SFAS-106 costs that may be subject to exogenous treatment under price cap regulation?

Paragraph 17(1): provide the date the company implemented SFAS-106.

BellSouth adopted SFAS-106 effective January 1, 1993. See notification letter from Maurice P. Talbot, Jr. to Kenneth P. Moran dated November 30, 1992 (Attachment 1).

Paragraph 17(2): provide the cost basis of the pay-as-you-go amounts that supported the rates in effect on the initial date that the carrier became subject to price cap regulation.

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[1]Godwins, "Post-Retirement Health Care Study Comparison of Telco Demographic and Economic Structures and Actuarial Basis National Averages" (1992).

The revenue requirements underlying BellSouth's initial interstate price cap rates included the interstate portion of BellSouth's contribution to the VEBA trusts and its 1990 "pay-as-you-go" amounts. The interstate portion of BellSouth's 1990 VEBA Trust Contribution was $30.9 million. This amount did not include OPEBs for pre-05/01/85 management and non-represented retirees. At that time, these costs were considered "pay-as-you-go" amounts. BellSouth's "pay-as-you-go" amounts were included in Account 6728, Other General and Administrative Expense. These amounts were included in BellSouth's forecasted revenue requirement, but the data utilized by BellSouth did not separately identify the total "pay-as-you-go" amounts included in that account.

Paragraph 17(3): provide the effect of the price cap formula on that amount up to the date of conversion to SFAS-106.

BellSouth's price cap declined by a cumulative 5.91 percent during 1991 and 1992 under the LEC price cap plan. Thus, the price cap formula had the effect of reducing the support available for OPEBs at a time when OPEB "pay-as-you-go" amounts were increasing. See BellSouth Response to Paragraph 21(2), below. In any event, the effect of the price cap formula on BellSouth's "pay-as-you-go" amount up to the date of conversion to SFAS-106 had little, if any, effect on the calculation of BellSouth's exogenous cost amount. BellSouth claimed exogenous treatment for only the retiree portion of its TBO. This amount was largely fixed, and is being amortized over a 15-year period.

Paragraph 17(4): provide the carrier's actual cash expenditures related to SFAS-106 for each year since the implementation of price caps, but prior to the implementation of SFAS-106 accounting methods.

(millions-unseparated)	1991	1992
VEBA Trust Contributions	$142.4	$154.7[2]

Paragraph 17(5): provide the treatment of these costs in reports to the Securities and Exchange Commission (SEC) and to shareholders, including specific citations to or excerpted materials from, such reports to indicate the amount of liability each party has projected for OPEBs.

See excerpt from BellSouth's 1991 Annual Report, Attachment 2, and 1992 Annual Report, Attachment 3. The disclosures in the 1991 and 1992 Annual Reports were incorporated into BellSouth's SEC Form 10-K by reference.

Paragraph 18(1): describe each type of benefit being provided that is covered by the SFAS-106 accounting rules.

BellSouth offers the following OPEBs to its employees:

Medical Assistance Plan ("MAP") including Medicare Part B. See Summary Plan Description, Attachment 4.

Dental Assistance Plan. See Summary Plan Description, Attachment 5.

Group Life Insurance. See Summary Plan Description, Attachment 6.

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[2] As noted in response to Paragraph 17(2), above, BellSouth did not separately identify and track "pay-as-you-go" amounts for pre-05/01/85 retirees. The "pay-as-you-go" amounts were included in Account 6728. The total amount in Account 6728 was used to develop BellSouth's interstate revenue requirement.

Paragraph 18(2): provide, on a year-by-year basis, what the pay-as-you-go amounts would have been had the company not implemented SFAS-106 methods.

BellSouth's "pay-as-you-go" amounts would not have been different had BellSouth not implemented SFAS-106. See response to Paragraph 21(2) for BellSouth's total annual OPEB costs.

Paragraph 18(3): describe the forms of postretirement benefit accrual accounting, if any, that were utilized before the effective date of price cap regulation.

BellSouth did not utilize any form of accrual accounting before the effective date of price cap regulation. BellSouth expensed in the year incurred the "pay-as-you-go" benefit amounts and its contributions to its VEBA trusts that were established pursuant to Internal Revenue Code Section 501(c)(9) and ERISA requirements.

Paragraph 18(4): describe the type and provide the level of SFAS-106-type expenses reflected in rates before they were adjusted for any exogenous treatment related to SFAS-106.

BellSouth had a combination of contributions to the VEBA trusts and "pay-as-you-go" amounts reflected in the costs that underlie its initial price cap rates. See Response to Paragraph 17(2), above. The contributions to the trusts included amounts funded for all representable employees as well as amounts funded for management and non-representable employees retiring after May 1, 1985. In addition, BellSouth expensed "pay-as-you-go" amounts for management and non-representable employees that retired before May 1, 1985. No additional "SFAS-106-type expenses" underlie the initial price cap rates.

See response to Paragraph 18(1) for the specific type of OPEBs offered to BellSouth employees.

Paragraph 18(5): provide the level of SFAS-106 expenses that were reflected in the rates in effect on the initial date that the carrier became subject to price cap regulation.

BellSouth did not adopt SFAS-106 until January 1, 1993, and therefore no SFAS-106 expenses were included in its initial price cap rates, which became effective January 1, 1991. See response to Paragraph 17(2) for the amount of OPEB expenses included in the development of BellSouth's initial price cap rates.

Issue B: Should exogenous claims be permitted for SFAS-106 costs incurred prior to January 1, 1993, the Commission's date for mandatory compliance?

BellSouth adopted SFAS-106 effective January 1, 1993, and thus has not claimed exogenous treatment for SFAS-106 costs for any period prior to that date. However, BellSouth notes, as stated in Paragraph 19 of the Investigation Order, that the Bureau authorized adoption of SFAS-106 "on or before" January 1, 1993. There is no reason to deny exogenous treatment of SFAS-106 costs incurred prior to January 1, 1993, for those carriers that implemented the standard after FASB adoption, but prior to the final date for mandatory compliance.

2. Regulatory Separations and Allocations.

Issue C: Have AT&T and the individual LECs correctly and reasonably allocated and separated amounts associated with implementation of SFAS-106 in accordance with the Commission's rules and Responsible Accounting Officer (RAO) letters?

Paragraph 20(1): provide the amount associated with implementation of SFAS-106 for the total company (including telephone operations and non-telephone operations).

In its 1993 Annual Access Tariff filing, BellSouth claimed exogenous treatment for 84.8 percent of the retiree portion of its TBO only. Attachment 7 is a worksheet reflecting the development of this amount for both telephone and non-telephone operations. Attachment 8 reflects the development of this amount for telephone operations only.

Paragraph 20(2): provide an explanation of how the carrier arrived at the total company SFAS-106 amounts.

BellSouth developed its SFAS-106 Total Company amount for telephone and non-telephone operations according to the SFAS-106 FASB accounting standard. The basic elements of SFAS-106 include the following:

--Expected Postretirement Benefit Obligation (EPBO)-the actuarial present value of other postretirement benefits expected to be paid to covered employees, retirees and dependents as of a particular valuation date.

--Accumulated Postretirement Benefit Obligation (APBO)-the portion of the EPBO that has been earned by active employees and retirees as of a particular valuation date.

--Transition Benefit Obligation (TBO)-the unrecognized postretirement benefit obligation that has accumulated as of the date of adoption.

The components of the net periodic postretirement benefit costs include the following:

--Service Cost-the portion of the EPBO earned by active employees during the current period.

--Interest-the increase in the APBO to recognize the passage of time.

--Return on Plan Assets-the earnings on assets of a funded plan.

--TBO Amortization-the amortization of the unrecognized postretirement benefit obligation that has accumulated on the date of adoption.

As stated in BellSouth's 1993 Annual Access Tariff Filing Supporting Documentation (pages A-11 through A-13), Attachment 9, BellSouth examined the components of the TBO in light of the OPEB Order released January 22, 1993. Based on the requirements established in that Order, BellSouth determined that there should be little debate over the portion of the TBO earned by employees who had already retired. As a result, and for the sole purpose of the 1993 Annual Access Tariff Filing, BellSouth sought exogenous treatment for only the retiree portion of the TBO.

BellSouth allocated its TBO Retiree Only amount to telephone operations by developing the percentage of total telephone company head count to the total head count for telephone and non-telephone company operations. The percentage developed was 92 percent. Once this amount was developed, the incremental differences, by account, between the SFAS-106 accounting standard and the then-current accounting for "pay-as-you-go" amounts, were determined on an annual basis for 1993. These incremental costs were applied to 1992 base period cost data to calculate the exogenous cost change. Part 64 Rules were used to remove non-regulated amounts and Part 36 Rules were used to determine interstate costs. Part 69 Rules were used to assign the costs among the price cap baskets. The development of BellSouth's TBO interstate cost change is displayed on Attachment 11.

Paragraph 20(3): provide the amounts allocated to the telephone operating companies, including the specific Part 32 Accounts used and the amounts allocated to each of those accounts.

Attachment 10 to this Direct Case sets forth the Part 32 Accounts used and the amounts allocated to each of these accounts.

Paragraph 20(4): provide the method of allocating amounts to the telephone operating companies (head count, actuarial studies, etc.).

See response to Paragraph 20(2), above.

Paragraph 20(5): provide the amounts allocated between regulated and non-regulated activities of the telephone company, with a description and justification of the methodology for the allocations.

See response to Paragraph 20(2), above, and Attachment 11.

Paragraph 20(6): provide the allocation of costs to baskets, by year.

Attachment 11 provides a worksheet showing the allocation of costs to the various price cap baskets for the 1993 annual access tariff filing. BellSouth has made no other filings reflecting exogenous treatment of OPEB costs. In its 1995 annual access tariff filing, BellSouth removed these amounts from its price cap indices, as required by the Commission.

3. VEBA Trust Information.

Issue D: How should Voluntary Employee Benefit Association trusts or other funding mechanisms for these expenses be treated: (1) if implemented before price caps; (2) if implemented after price caps, but before the change required by SFAS-106; and (3) if implemented after the change in accounting required by SFAS-106?

BellSouth has sought exogenous treatment for the incremental costs resulting from the adoption of SFAS-106 accrual accounting applicable to the retiree only portion of the TBO. This issue is separate and distinct from the methods used to fund and pay OPEBs to employees. BellSouth established and began funding its VEBA trusts prior to price caps in a manner that was consistent with the Commission's rules in effect at that time. See Policy and Rules Concerning Rates for Dominant Carriers, 6 FCC Rcd 2637, 2664 (1991). The only impact that the creation and funding of these trusts has on the issue now before the Commission is one of quantification: BellSouth's exogenous amount is lower than it would have been had BellSouth not created and funded its VEBA trusts. Except for the quantification issue, the timing of the creation and the funding of VEBA trusts is irrelevant to the issues before the Commission in this proceeding.

Issue E: Should exogenous treatment for SFAS-106 amounts be limited to costs that are funded?

Paragraph 21(1): describe any VEBA trust or other funding mechanisms for the expenses that were established prior to the adoption of SFAS-106.

The BellSouth Corporation Employee's Beneficiary Health Care Trust was established on November 1, 1986, to fund and pay post-retirement medical and dental benefits for employees who retire on or after May 1, 1985; to pay medical and dental benefits for pre-May, 1985, retirees; and to pay medical, dental and vision benefits for active employees. On January 1, 1990, this trust was amended and renamed the BellSouth Corporation Health Care Trust. At that time, it was limited in coverage to employees and retirees not represented by the collective bargaining agreement. The BellSouth Corporation Health Care Trust for Representable Employees was collectively negotiated in 1989 and established on January 1, 1990. This trust funds and pays medical and dental benefits for all representable retirees (including pre-May 1, 1985 retirees) and pays medical, dental and vision benefits for representable active employees.

On January 1, 1993, both health trusts were separated into two trusts to effectively segregate the assets of the post-retirement group and the active employees for SFAS-106. The original trusts were amended and renamed, the BellSouth Corporation Health Care Trust-Retirees and the BellSouth Corporation Representable Employees' Health Care Trust-Retirees. Two new trusts, the BellSouth Corporation Health Care Trust-Employees and the BellSouth Corporation Representable Employees' Health Care Trust-Employees were established to retain the reserves for those claims and expenses incurred but not reported to the trusts for paying active employees' plan benefits. On January 1, 1993, the BellSouth Corporation Health Care Trust-Retirees extended its post-retirement reserve to cover pre-May 1, 1985, non-representable retirees.

On May 15, 1988, the BellSouth RFA VEBA Trust was established to fund post-retirement benefits for the group term life insurance plan. The Retirement Funding Account (RFA) held by the insurance company, Aetna, was transferred to this trust.

Paragraph 21(2): provide the amounts, placed in these funds for each year since they were implemented, including the 1990-91 tariff year for LECs and the 1989-90 tariff year for AT&T.

BellSouth Corporation Consolidated Total Health Trust ($ millions)

	Post-Retirement	Other Claims[3]
1986	71.8	42.8
1987	78.0	310.0
1988	83.1	341.6
1989	84.8	377.4
1990		
Non-Rep	19.4	104.1
Rep	133.8*	236.3
1991		
Non-Rep	30.6	133.1
Rep	134.7	235.5
1992		
Non-Rep	37.5	147.5
Rep	134.8	247.5
1993		
Non-Rep	73.6**	113.0
Rep	214.0	240.3
1994		
Non-Rep	70.1	126.3
Rep	196.4	259.4

Group Life***

1988	12.5	
1989	4.1	

*Includes Pre-1985 Representable Retirees for the first time.
**Includes Pre-1985 Non-Representable Retirees for the first time.
***Premiums established by the insurance companies in previous years had been paid to fund an RFA under the policy. All contributions were suspended in 1989 because actuarial evaluation at that time indicated the trust amounts were adequate for future needs.

Paragraph 21(3): describe and provide the amounts in the trust that were for ongoing OPEBs and those that were for the TBO.

Funding was not broken down between ongoing OPEBs and the TBO. The TBO is an accounting concept which is not related to funding.

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[3]Includes OPEBS for pre-1985 retirees until year shown and health and life benefits paid to active employees.

Paragraph 21(4): describe the assumptions made when the funds were set up, including, but not limited to, the time value of money, expected long-term rate of return on plan assets, future compensation levels, and retirement age factors affecting the amount and timing of future benefits.

Interest rate: 8.25% for 1986, declining by 0.25% each year to 5.5% for 1998 and remaining level thereafter.

Salaries were assumed to increase at 70% of the interest rate for purposes of determining funding levels with inflation recognized.

Rate of retirement on service pension assumed is provided on Attachment 12.

Paragraph 21(5): state the purpose of the VEBA funds and describe what SFAS-106 benefits packages are covered by each VEBA fund.

See response to Paragraph (21)(1), above.

The Health Trusts are established to fund and pay post-retirement medical and dental benefits. The current claims and expenses for active employees are also funded and paid through the trusts from separate funds.

The Group Life Trust (RFA VEBA Trust) is established to fund and pay premiums for post-retirement group term life insurance coverage.

Paragraph 21(6): describe the restrictions, if any, that prevent these VEBA funds from being used for other than SFAS-106 benefits.

The post-retirement health care funds are held in separate VEBAs which are limited in purpose to providing medical and dental plan benefits to retirees. This purpose cannot be altered by amendment or termination. The RFA funds similarly are held under a special purpose VEBA. In addition, the BellSouth Corporation Representable Employees' Health Care Trust-Retirees and the BellSouth RFA VEBA Trust are subject to collective bargaining.

4. Vesting of OPEB Interests.

Issue F: Should exogenous treatment be given only for amounts associated with employee interests that have vested?

Paragraph 22: We direct the LECs and AT&T to provide documentation showing when the employees' interests in the OPEBs vest. Also, companies must explain how they determine when an employee's interest vests in the OPEBs.

See the Summary Plan Descriptions for BellSouth's Medical Assistance Plan (Attachment 4), Dental Assistance Plan (Attachment 5), and Group Life Insurance Plan (Attachment 6) for documentation of eligibility and vesting requirements.

5. Treatment of Deferred Tax Benefits.

ISSUE G: How should the deferred tax benefit applicable to OPEBs be treated for purposes of exogenous adjustments?

Paragraph 23: AT&T and the LECs are directed to describe on a year-by-year basis any exogenous adjustments made to reflect any deferred tax benefit associated with their OPEB accrual amounts. Companies are also directed to provide an explanation if there are no such adjustments.

BellSouth has sought exogenous cost treatment for the retiree portion of its TBO only. BellSouth has only booked what it has funded. Therefore, this issue is inapplicable to BellSouth.

6. Supporting Studies and Models.

BellSouth's response to Paragraphs 24 and 25 are provided in the USTA Direct Case, which is incorporated herein by reference.

BellSouth response to Paragraph 26: BellSouth made the following actuarial assumptions in computing its TBO amount that formed the basis for its claim for exogenous cost treatment in its 1993 annual tariff filing:

Return on Assets: 8.00 percent compounded annually. This rate was developed in compliance with the provisions of SFAS-106. In selecting this rate, consideration was given to returns being earned on BellSouth's currently invested plan assets as well as rates of return expected to be available for reinvestment.

Discount Rate: 7.50 percent compounded annually. In selecting this rate, consideration was given to the return on high-quality fixed income investments currently available which have cash flows that match the timing and amount of BellSouth's expected benefit payments, as required by SFAS-106.

Participation Rates: BellSouth does not have a contributory plan. Consequently, 100 percent of eligible employees participate.

Retirement Age: Actuarially determined normal retirement age is 55 and is based on BellSouth's experience from 1975 through 1985, as modified in 1991 to reflect plan amendments adopted after 1985 that provide incentive for postponing election of service retirements.

Claims Cost: Claims costs are based on the latest available retiree-specific historic enrollment and claim payment data. Actual claims data from 1988 through 1990 were used to forecast an average base for medical claims incurred in 1991. The average claims cost includes dependent coverage. The average monthly claims cost is as follows:

Medical

Management employee under 65	$395.00
Management employee over 65	136.00
Non-Management employee under 65	385.00
Non-Management employee over 65	113.00

Dental

Management employee	$29.00
Non-Management employee	14.20

Health Care Cost Trend Rate: Dental trend is assumed to start at 6.00 percent per year in 1990 and grade down to 3.00 percent per year for 1996 and after. Since the rate of increase is not assumed to be age sensitive, no adjustment is required for the aging of the retiree group.

Medical Trend, which includes medical care utilization and the effect of aging of the population, is assumed to range from 11.50 percent in 1994 to 5.00 percent in the year 2007.

Medicare Reimbursement Rates: Effective January 1, 1990, BellSouth's reimbursements to present and future service and disability pension retirees and/or Medicare-eligible spouses of service and disability pension retirees will be frozen at 1990 levels, excluding the premiums associated with the catastrophic coverage provisions of the Medicare Program. Also, MAP will continue to be secondary to Medicare for those eligible for coverage regardless of their enrollment status.

Salary Progression: BellSouth's medical and dental plans are not salary related. Therefore, this question is not applicable for those plans. Salary progression for the life plan is based on salary at retirement. Salary at retirement is projected using salary scale progressions.

Turnover: Separation rates were derived from a study of the experience of BellSouth management and non-management employees for the period 1975-1985.

Dependency Status: Dependents of living retirees are covered under the plan except as noted under "Capping Assumptions" below. Surviving dependents have six months of coverage at company expense and then can continue coverage at their own expense.

Mortality: Preretirement and postretirement rates were derived from a study of the experience of BellSouth management and non-management employees for the period 1975-1985.

Capping Assumptions: As a result of 1989 bargaining, BellSouth's contributions for post-retirement medical and dental contributions for postretirement medical and dental benefits were frozen at 1990 actual cost levels for anyone eligible for postretirement benefits as a result of being eligible for a service or disability pension, whose pension effective date is on or after January 1, 1992. The excess amount of the Plan's medical and dental cost (claims and administrative cost) above the Plan's 1990 cost (the company's frozen contribution level) is to be deducted from pension payments as an average premium cost, based on the total retiree cost experience beginning on January 1, 1993. Subsequent yearly participant contribution requirements will be the amount that the plan's costs, two years in arrears of the effective date of the revised contributions, exceeds the actual retiree cost in aggregate for the Plan's 1990 cost (the company's frozen contribution amount).

In addition, as a result of 1986 bargaining, eligibility rules for employees whose term of employment is less than 30 years that retire (in other than a special early-out program) on a service or disability pension on or after January 1, 1988, were revised to require payment of an equivalent premium for a portion of their health care benefits. Eligibility rules for employees who retire on a service or disability pension on or after January 1, 1988, were revised to exclude Company-paid coverage for dependents, other than spouses, acquired after retirement.

Retirees may pay the full cost premiums for coverage for any otherwise eligible acquired dependents.

National Health Insurance: BellSouth made no assumptions regarding elimination of benefits or the possible advent of national health insurance. BellSouth's actuarial assumptions include a leveling of health care costs, but does not assume any specific cause of such cost leveling.

Paragraph 27 response: The information provided by actuaries for the development of BellSouth's SFAS-106 amounts are included in Attachment 13. SFAS-112 applies to employees who terminate their employment prior to reaching service pension eligibility. There is no reason to expect the actuarial assumptions underlying the two standards to be comparable.

BellSouth sought exogenous treatment for the retiree portion of the TBO only. Therefore, downsizing that has occurred subsequent to the adoption of SFAS-106 has had no material impact on BellSouth's request. Nor will any future downsizing.

Paragraph 28: Further, since part of the growth in Gross Domestic Product Price Index (GDP-PI) presumably occurs due to growth in medical costs, we seek information on what adjustments, if any, should be made in the exogenous adjustment to avoid any double-counting. If an adjustment has been made, parties and commenters shall document how the adjustment was computed. Moreover, parties and commenters shall document and quantify any wage changes that will be reflected in the GDP-PI that are expected to occur as a result of the introduction of SFAS-106. In particular, parties and commenters should discuss what adjustment, if any, should be reflected in the exogenous adjustment for this change.

BellSouth respectfully submits that no adjustment is necessary to reflect medical expense inflation. The change in accounting that requires exogenous cost treatment reflects the incremental difference between the amount of postretirement benefits that the LECs were recovering prior to adoption of SFAS-106 and the amount that is being incurred under SFAS-106. Since both the prior postretirement expenses and the SFAS-106 expenses have growth in medical expenses embedded in them, the incremental difference for which the LECs' are seeking exogenous treatment does not include an additional growth factor. Consequently, there is no double counting with respect to growth.

The change from GNP-PI to GDP-PI as the measure of inflation in the price cap index requires no adjustment to BellSouth's requested exogenous amount. BellSouth has reviewed the two indices and found that they track almost identically.

The impact of SFAS-106 on future wages was taken into account in the Godwins study. That study demonstrated that only 0.7 percent of the average cost increase experienced by a price cap LEC will be reflected in the GNP-PI. The Godwins macroeconomic model estimates that national wage rates could eventually decline such that 14.5 percent of the additional SFAS-106 costs would be recovered. Since this