projected increase in the rates of utilization. Different trends were developed for retirees under and over age 65 to account for the impact of Medicare. The plan trends were adjusted for the general leveraging effect of deductibles and out-of-pocket maximums.

The initial medical trend rates reflected the large increases in claims costs from recent years. It was assumed that these large increases would not continue over a long period of time.

Dental trend rates were developed based on an analysis of historical and expected dental inflation.

Health care cost trend rates were not used with respect to Medicare Part B Reimbursement because the reimbursement was frozen at the 1991 Medicare Part B amount.

Discount Rate and Rate of Return on Plan Assets
The discount rate and rate of return on plan assets were determined in accordance with the requirements of SFAS 106. The discount rate used in determining the SFAS 106 costs was 8%. The rate of return on plan assets was 7.5%.

The discount rate was determined based on an analysis of the yields on high quality bonds. The return on assets assumption was based on the expected long term rate of return on plan assets.

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.

RESPONSE

Workpaper 6-19 of Exhibit 20-1-A displays total SFAS-106 costs allocated to the Bell Atlantic study areas. The costs associated with the TBO Amortization, interest and return were booked to account 6728, Other General and Administrative Expense. The service cost amount was handled through the expense matrix.

Paragraph 20-4

Provide the method of allocating amounts to the telephone operating companies (head counts, actuarial studies, etc.).

RESPONSE

Employee headcounts by state were used to allocate the total SFAS-106 costs.

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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.

RESPONSE

Using the incremental expense amounts and incremental capital amounts, Bell Atlantic calculated the subject-to-separations amounts by multiplying the incremental total company amount by ratios of subject to separations to total company. These ratios were developed based on ARMIS 43-01 reports.

The steps used to develop subject-to-separation and non-regulated amounts are set forth in Bell Atlantic's Transmittal No. 497, Section 4.

See also, Workpapers 6-22 & 6-23 of Exhibit 20-1-A.

Paragraph 20-6

Provide the allocation of costs to baskets, by year.

RESPONSE

Bell Atlantic used the percentage of total operating expenses to interstate expenses from the ARMIS 43-01 report to spread the costs to price cap baskets for all years.

Common Line = Common Line / Interstate
Traffic Sensitive = Traffic Sensitive / Interstate
Special Access = Special Access / Interstate
Interexchange = Interexchange / Interstate

The steps used to allocated costs to baskets are set forth in Bell Atlantic's Transmittal No. 497, Section 4.

See Workpaper 6-33 of Exhibit 20-1-A for amounts by basket.

D

Issue D: **How should Voluntary Employee Benefit Association trusts or other funding mechanisms for these expenses be treated:**

Item 1

If implemented before price caps;

RESPONSE

As stated in the response to Paragraph 21-1, on January 1, 1991, Bell Atlantic had in effect two Voluntary Employee Benefit Association (VEBA) trusts, **Bell Atlantic Retiree Health Trust**, providing medical and dental benefit payments on behalf of retired associate plan participants and their beneficiaries[3], and the **Bell Atlantic Medical Trust**, providing benefit payments on behalf of active management and associate employees, and retired management employees.

Since these funded trusts were in existence prior to the implementation of price caps, it is appropriate to remove these costs from the incremental calculation of SFAS 106 expenses.

In all annual and mid-year tariff transmittals in which Bell Atlantic filed for exogenous treatment of its SFAS 106 expenses, Bell Atlantic removed all pay-as-you-go (e.g., VEBA funded trusts) and other accrued expenses from the total SFAS 106 costs, to determine the incremental costs subject to exogenous treatment. This ratemaking treatment was necessary to properly capture the incremental cost increase associated with the change from pay-as-you-go accounting to accrual accounting as specified under SFAS 106.

Item 2

If implemented after price caps, but before the change required by SFAS-106;

RESPONSE

This scenario is not applicable to Bell Atlantic.

Item 3

If implemented after the change in accounting required by SFAS-106?

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[3] Prior to January 1, 1990, the Bell Atlantic Medical Trust, established on December 30, 1987, made benefit payments on behalf of both active and retired associate employees. On January 1, 1990, after establishment of the Bell Atlantic Retiree Health Trust, the Medical Trust stopped making payments on behalf of retired associate employees.

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RESPONSE

Since the adoption of SFAS 106 is a promulgated accounting change that meets the definition of an exogenous event, per the U.S. Court of Appeals decision in July 1994, all SFAS 106 expenses are subject to exogenous recovery, except for those expenses that were either already embedded in rates at the inception of price caps, or endogenous in nature.

Therefore, the implementation of a VEBA trust subsequent to the adoption of SFAS 106 is irrelevant to the calculation of the exogenous cost. The incremental SFAS 106 expense subject to exogenous treatment would be the total SFAS 106 expense at adoption, less pay-as-you-go costs, at the inception of price caps. VEBA trusts established after the adoption of SFAS 106 are simply management's utilization of corporate assets, and have no bearing on the exogenous cost calculation for SFAS 106.

E

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

RESPONSE

The Commission should make no attempt to limit exogenous treatment of OPEB costs to amounts that are funded. The entire purpose of SFAS 106 was to move toward accrual recognition of these costs. To authorize the legitimate recognition of SFAS 106 expenses for calculation of net income, but prohibit recovery of these expenses, or otherwise limit recovery of these expenses to funded amounts, would be inconsistent with the accounting treatment accorded by the Commission in its December 19, 1991 Order authorizing the accounting change. Moreover, such an attempt would conflict with the ruling of the U.S. Court of Appeals for the D.C. Circuit in July 1994, affirming that LEC SFAS 106 expenses meet the definition of an exogenous cost. Any attempt by the Commission to limit exogenous treatment only to costs that are funded would be in direct violation of this Court ruling.

Should the Commission continue to pursue this issue, the Commission must realize that a funding requirement would have one of two consequences, neither of which is reasonable.

1) If the Commission were to require companies to fund all OPEB accruals, it would put the Commission in the position of requiring management to make imprudent or uneconomic financial decisions. Bell Atlantic has pre-funded OPEB benefits where it could do so on a tax-advantaged basis.[4] Full pre-funding could not be done on a tax deductible basis, or the assets would not be permitted to accumulate tax-free. Neither ratepayers nor shareholders will benefit if Bell Atlantic is required to manage its funds in ways that are not economical.

2) On the other hand, if the Commission were to limit the amount of OPEB costs that could be recovered through exogenous treatment to levels that were actually funded, it would, in effect, be requiring cash accounting for OPEB costs, and rejecting SFAS 106 altogether. Such a result is contrary to the Commission's own Part 32 Uniform System of Accounts' acceptance of Generally Accepted Accounting Principles (GAAP), which was adopted by the Commission in its GAAP Order dated October 31, 1985.[5]

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[4] See responses to Paragraphs 21 and 22 regarding VEBA Trusts.

[5] CC Docket 84-469, In the Matter of Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles, **Report and Order**, October 31, 1985.

By limiting exogenous treatment to amounts that are funded, the Commission would, in effect, be limiting traditional management functions of balancing the interests of ratepayers, employees and shareholders and carefully managing the Company's funds and assets. Under SFAS 106, Bell Atlantic's financial statements reflect the Company's liabilities, including OPEB[6], as well as the Company's ability to meet those liabilities. The Company should retain the ability to manage its funds in a financially sound manner, rather than being required to lock funds into uneconomic or non tax-advantaged investments where they could not be retrieved if other tax-advantaged vehicles were to become available.

Paragraph 21-1

Describe any VEBA trust or other funding mechanisms for the expenses that were established prior to the adoption of SFAS-106.

RESPONSE

On December 30, 1987, the company established the Bell Atlantic Medical Trust, a Voluntary Employees' Benefit Association (VEBA) trust, in accordance with Internal Revenue Code section 501 (c) (9). The trust was established to make employee benefit payments on behalf of active and retired Bell Atlantic employees in accordance with various Bell Atlantic employee benefit plans.

On November 30, 1989, the company established the Bell Atlantic Retiree Health Trust, also a VEBA trust, for retired associates (non-management employees) in accordance with Internal Revenue Code section 501 (c) (9). As of January 1, 1990, at the direction of the company, the trustee began making medical and dental benefit payments on behalf of retired associate plan participants and their beneficiaries. Effective January 1, 1990 the Bell Atlantic Medical Trust stopped making medical and dental benefit payments on behalf of retired associates.

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.

RESPONSE

See Exhibit 18-2-A for the annual funding amounts for the Bell Atlantic Medical Trust (Medical Trust) and the Bell Atlantic Retiree Health Trust. As noted on Exhibit 18-2-A, the company made a $47,837,516 contribution to the Medical Trust on December 31, 1987. At that time, the Medical Trust was not set-up to separately record active and

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[6] See disclosures in enclosed 1991 Annual Report, Exhibit 17-5-A.

retiree health care contributions. Therefore, Bell Atlantic did not, and cannot, segregate the $47,837,516 contribution made in 1987 between active and retired employees.

Paragraph 21-3

Describe and provide the amounts in the trust that were for ongoing OPEBs and those that were for TBO.

RESPONSE

Contributions to the Bell Atlantic Medical Trust are made on a current claims "pay-as-you-go" basis. Contributions to the Bell Atlantic Retiree Health Trust are made in accordance with the aggregate cost actuarial method (an IRS approved method). As such, amounts contributed to both trusts are not segregated between ongoing and TBO amounts.

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.

RESPONSE

The participating companies made an initial contribution of $47,837,516 on December 31, 1987 to the Bell Atlantic Medical Trust to fund 1987 "incurred but not reported" (IBNR) management and associate active and retired employee health care claims. Since this amount was based upon a cash method of calculating IBNR claims, the assumption information requested in this data request is not applicable.

During the fourth quarter of 1989, the participating companies made a contribution of $11,389,742 to the Bell Atlantic Retiree Health Trust to fund 1989 IBNR retired associate health claims. Since this amount was based upon a cash method of calculating IBNR claims, the assumption information requested in this data request is not applicable.

In addition, the participating companies made a second contribution of $136,995,000 to the Bell Atlantic Retiree Health Trust using the aggregate cost actuarial method. The actuarial valuation prepared for the 1989 contribution assumed an "earnings return" of 7.50% for 1989 and a one-quarter percentage point reduction per year in the earnings return through 1996. The earnings return for 1996 and 1997 was assumed to be 5.75%. In 1998 and later years, the earnings return was assumed to equal 5.50%. The discount rate was assumed equal to the earnings return rate for each year for purposes of the valuation. Other assumptions concerning average claim costs per retiree, health care cost trend rates, and rates of separation, mortality, disability and retirement are described in

Exhibit 21-4-A. Other assumption information requested in this data request is not included in the actuarial study, and is not applicable.

Paragraph 21-5

State the purpose of the VEBA funds and describe what SFAS-106 benefits packages are covered by each VEBA fund.

RESPONSE

The purpose of the Bell Atlantic Retiree Life Insurance Plan Trust is to provide post-retirement life insurance benefits for management and associate retirees and their beneficiaries in accordance with the Bell Atlantic Retiree Life Insurance Plan. The funds in this trust are used to pay retiree life insurance benefits.

The purpose of the Bell Atlantic Medical Trust is to maintain the following employee benefit plans for the participating companies: Bell Atlantic Medical Expense Plan (active associates), Bell Atlantic Dental Expense Plan (active associates), Bell Atlantic Vision Care Plan (active associates), Bell Atlantic BELL FLEX Medical Plan (active management), Bell Atlantic BELL FLEX Dental Plan (active management), Bell Atlantic BELL FLEX Vision Plan (active management), Bell Atlantic Management Retiree Health Plan (management retirees), and Bell Atlantic Health Care Plan (generally, active Bell Atlantic Metro Mobile employees). The funds in this trust are used to pay the medical, dental and vision care claims of the covered active and retired employees.

The purpose of the Bell Atlantic Retiree Health Trust is to maintain the following employee benefit plans for the participating companies: Bell Atlantic Medical Expense Plan (retired associates), and Bell Atlantic Dental Expense Plan (retired associates). The funds in this trust are used to pay the medical and dental claims of retired associates.

Paragraph 21-6

Describe the restrictions, if any, that prevent these VEBA funds from being used for other than SFAS-106 benefits.

RESPONSE

Generally, the provisions of the Bell Atlantic Medical Trust, the Bell Atlantic Retiree Health Trust, and the Bell Atlantic Retiree Life Insurance Trust state that **NO** assets of these trusts allocable to a specific plan may be used for or diverted to purposes other than the exclusive purpose of providing benefits to employees, retirees and their beneficiaries in accordance with such benefit plan. Assets may be used to defray reasonable expenses of administrating the plans. In the event that a contribution is made to one of the trusts by mistake of fact, the contribution, decreased for any attributable losses, may be returned to the company within one year after the contribution is made to the trust.

F

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

RESPONSE

Exogenous recovery of OPEB expenses should not be limited to amounts associated with employee interests that have vested. There is no requirement, either statutory, or as imposed by the Financial Accounting Standards Board (FASB), that these benefits be vested (see response to Issue E). Per the FASB's determination in SFAS 106, expenses incurred by an employer for benefits to be distributed to employees after they retire are legitimate current costs to the business, and should be recognized at the time that they are incurred, not when they are distributed. Moreover, the Company has maintained retiree health plans and paid benefits in accordance with such plans since the Company's inception in 1984, and earlier when it was still incorporated under AT&T.[7] In addition, these plans, including eligibility requirements, changes and amendments, have been clearly communicated, in writing, to all employee participants.

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.

RESPONSE

Unlike pension benefits, there is no statutory requirement that retiree health benefits vest. Therefore, as a general matter, Bell Atlantic reserves the right to modify or terminate the management retirement health plan at any time, both as to current employees and as to retirees. For management employees, there is no vesting provision. Although there is also no stated vesting provision applicable to associate retirees, there are special rules under which Bell Atlantic's ability to modify or terminate associate retiree health plans may be restricted or even denied under applicable labor laws.

Paragraph 23 of SFAS 106 states that one objective of the accounting standard is that an employer's method of accounting should reflect the terms of the exchange transaction that takes place between an employer who provides postretirement benefits and the employees who render services in exchange for those benefits as those terms are understood by both

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[7] The Bell Atlantic Telephone Operating Companies, formerly C&P Telephone, New Jersey Bell and Bell of Pennsylvania/Diamond State Telephone, have been providing postretirement health benefits since the 1960's.

parties to the transaction. Generally, the current written plan provides the best evidence of the terms of that exchange transaction (i.e. Bell Atlantic's Management and Associate Retiree Health Plans). It should be noted that the company has provided retiree health benefits as part of its employee benefits package since the company's inception on January 1, 1984. This demonstrates that postretirement benefits are not gratuities but are part of an employee's total compensation for services rendered. Since payment (of the postretirement benefits) is deferred, the benefits are a type of deferred compensation. Bell Atlantic's obligation for that compensation is incurred as employees render services necessary to earn their postretirement benefits. As such, the obligation is recorded as a current period cost and a liability as employees render their services in exchange for the future benefits.

G

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

RESPONSE

Deferred Taxes - State and Federal are fully recognized in Bell Atlantic's incremental SFAS-106 revenue requirement exogenous costs.

The method used by Bell Atlantic to calculate deferred taxes for OPEB is the same method used for all exogenous changes impacting taxes.

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.

RESPONSE

Bell Atlantic calculated average interstate deferred state income tax amounts and average interstate deferred federal income tax amounts for 1991 as reflected on Workpapers 6-27 & 6-28 of Exhibit 20-1-A.

The expenses recognized for book purposes but not for state tax purposes were calculated by applying the applicable state tax rates to the total interstate expenses not recognized for tax purposes. These amounts were divided by two to arrive at the average interstate deferred state tax amount.

The expenses recognized for book purposes but not for federal income tax purposes were computed by applying the applicable FIT rate to the total interstate expenses less state income taxes not recognized for tax purposes. These amounts were divided by two to arrive at the average interstate deferred federal income tax amounts.

The incremental interstate amounts for Deferred Taxes - State and Federal were used in the calculation of revenue requirements for SFAS 106.

H

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Supporting Studies and Models

Paragraph 24

We require each company to include in its direct case all studies upon which the company seeks to rely in its demonstration that these accounting changes should receive an exogenous cost adjustment.

This includes studies demonstrating that the change is not reflected in the current price cap formulas, factors for inflation, productivity, allowed exogenous changes, the rates in effect on the initial date that the carrier became subject to price cap regulation, or, for the LECs, the sharing and low-end formula adjustment mechanisms.

Paragraph 25

Parties and commenters relying on a macroeconomic model shall fully describe and document the model, including the method of estimation, parameter estimates, and summary statistics.

These same data should be submitted for any alternate functional forms that were modeled including data used to estimate the model, the data used in making forecasts from the model, and the results of any sensitivity analyses performed to determine the effect of using different assumptions.

RESPONSE

Bell Atlantic relies on several industry studies that will be filed by USTA. Specifically, USTA plans on filing the following:

1. Affidavit by Professor Andy Abel and Mr. Peter Neuwirth which summarizes the available evidence, and demonstrates that the original Godwin's study is still valid for demonstrating the relationship of the impact of SFAS-106 to GNP-PI, and the extent to which the cost increases engendered by SFAS-106 will be recovered through the price cap plan.

2. Narrative statement by David Crosby which explains the results of the original Godwin's study. (1993). Originally filed by Southwestern Bell Corporation.

3. Original Godwin's "Post Retirement Health Care Study Comparison of Telco Demographic and Economic Structures and Actuarial Basis National Averages" study (1992) was commissioned by USTA, and was submitted by Bell Atlantic as well as several other LEC's in support of our tariff transmittals.

4. Godwin's Response, which is an explanation of the macroeconomic model, to Paragraph 16 of the Order Designating Issues for Investigation in CC Docket 92-101. (1992).

5. The Rebuttal Analysis to accompany the 1992 Godwin's study. (1992)

6. Godwin's additional Sensitivity Analysis was provided to explain the conservative nature of the Godwin's study as well as to show the results of additional sensitivity analysis. (1992).

7. Additional Explanation of the Macroeconomic Model used in the Godwin's study. (1992).

8. USTA Ex Parte filed which responds to certain arguments that the adoption of SFAS-106 has not changed actual costs. (1993).

   In addition, a study performed by National Economic Research Associated ("NERA") and attached to the USTA filing provides support for the conclusion that only ***de minimis*** amounts of SFAS-106 adoption costs would be reflected in GNP-PI.

Paragraph 26

AT&T and the LECs shall provide a complete copy of all actuarial reports and studies used to determine SFAS-106 amounts and should provide descriptions and justifications of the actuarial assumptions, and the assumptions unique to post-retirement health care benefits, made in computing the SFAS-106 expenses.

These assumptions should include, but are not limited to, the time value of money, expected rate of return on plan assets, participation rates, retirement age, per capita claims cost by age, health care cost trend rates, medical reimbursement rates, salary progression (if a company has a pay-related plan), and the probability of payment (turnover, dependency status, mortality, etc.).

Parties and commenters should also discuss what assumptions, if any, were made about other future events such as capping or elimination of benefits, or the possible advent of national health insurance.

RESPONSE

Actuarial reports and studies used to determine SFAS-106 amounts for 1991 are provided in Exhibits 26-A through 26-C for the Bell Atlantic Management Retiree Health Plan, the Bell Atlantic Associates Retiree Health Plan, and the Bell Atlantic Retiree Life Insurance Plan, respectively.

The studies provided in Exhibits 26-A through 26-C, which were prepared by an independent actuarial firm, indicate the assumptions used. Also, see the response to Paragraph 20-2 for information on the assumptions.

The United States Court of Appeals for the District of Columbia Circuit has directed the Commission to grant exogenous treatment for OPEBs, and to determine the specific amount of OPEB-related costs that are eligible for exogenous treatment. The company's exogenous cost filing for SFAS-106 expenses was based on the company's OPEB-related expenses as existed in 1991, when the company adopted SFAS-106. The exogenous event **was** the adoption of SFAS-106 effective January 1, 1991. The exogenous event is **not** determined by the amount of on-going postretirement benefit expenses. The exogenous amount of SFAS-106 expenses equals the difference between the SFAS-106 accrual amount at the time the company adopted SFAS-106 and the pay-as-you-go amounts for OPEBs at that time. Changes in OPEB-related expenses that occurred in later years are endogenous to the company's operations, and are not eligible for exogenous treatment, regardless of whether the post-1991 OPEB-related expenses increased or decreased. Therefore, the probability of speculative and uncertain future events, such as elimination of benefits or the advent of national health insurance, are not quantified and are not reflected in the actuarial studies provided in Exhibits 26-A through 26-C. Please note that known caps on future benefits that were announced by the company (subject to negotiation for associates) are reflected in the actuarial assumptions.

Paragraph 27

We also direct AT&T and the LECs to submit all options provided by actuaries from which information was selected to derive SFAS-106 amounts including, but not limited to: the ranges of data on the age of the work force; the ages at which employees will retire; mortality rates; the gross eligible charge table by age; and the length of service of retirees.

For comparison purposes, carriers should also provide the actuarial assumptions and data used for SFAS-112 computations.

Carriers should provide information on whether they took into account the possibility of future downsizing of the workplace.

Carriers should provide information on what adjustments they have made to their SFAS-106 amounts for downsizing in the workforce that have occurred since the adoption of SFAS-106. Carriers should give full details of these adjustments.

RESPONSE

Bell Atlantic provides one set of plan participant census and claims data to the actuarial firm performing the studies each year for computation of SFAS-106 costs. Therefore, the actuaries have not provided Bell Atlantic with any options to derive the annual SFAS-106 amounts.

An "actuarial report" for 1993 (the year Bell Atlantic adopted SFAS-112) was not prepared. However, Towers Perrin, an independent actuarial firm, provided Bell Atlantic

with valuation amounts for worker's compensation and long-term disability claims for SFAS-112 purposes (see Exhibit 27-A).

The company's actuaries have advised the company that it is unclear whether future force reductions would increase or decrease future SFAS-106 costs. This situation is due to the fact that the company cannot identify the projected force reduction demographics. More specifically, the company cannot distinguish between those employees who will leave the payroll with retirement health care benefits as opposed to employees who will leave the payroll without retirement health care benefits.

This distinction is significant because the separation of retiree eligible employees before their SFAS-106 projected retirement date will result in a SFAS-106 actuarial loss and additional cost. Conversely, the separation of employees who are not eligible for retiree benefits will generate an SFAS-106 actuarial gain and a cost reduction. Because the demographic information necessary to develop a SFAS-106 work force reduction assumption is not available, the company did not include such an assumption in the annual SFAS-106 valuations. In addition, such demographic information is irrelevant to the company's exogenous cost filing for SFAS-106 expenses because the calculation of such SFAS-106 expenses was based on the demographics of the employee/retiree population as existed in 1991, when the company adopted SFAS-106. As noted in the company's response to the Commission's questions in Paragraph 26, only 1991 SFAS-106 data is pertinent to determination of the specific amount of Bell Atlantic's OPEB-related costs that are eligible for exogenous treatment.

Beginning in 1991, and each year thereafter, the employee/retiree census data used by the actuaries to calculate the annual SFAS-106 expense amounts is revised to reflect employees who were separated from the company during the preceding year. As such, each annual actuarial report and valuation takes into account employees that were separated during previous years. Since adjustments to annual SFAS-106 amounts are automatically incorporated into each new actuarial study based on actual work force changes from the preceding year, the company can not segregate the impact of these changes from other changes in actuarial assumptions. In addition, as previously noted, calculation of the company's post-1991 SFAS-106 expenses is irrelevant to the Commission's determination of the specific amount of OPEB-related costs that are eligible for exogenous treatment. Only the company's 1991 SFAS-106 expenses are relevant because the exogenous event occurred in 1991 (i.e., the company adopted SFAS-106).

Paragraph 28

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 adjustment, if any, should be made in the exogenous adjustment to avoid any double counting.

If an adjustment has been made, parties shall document how the adjustment was computed.

Moreover, parties and commenters should describe and quantify and 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.

RESPONSE

The Godwin's studies[8] provided as an attachment to the USTA filing in this proceeding provide expert analysis that shows that any GNP-PI double counting is limited to .0124% impact on GNP-PI. The .0124% was a result of the macroeconomic model output provided by Godwin's. In that study Abel and Neuwirth included all components, including medical costs effect on GNP-PI. Therefore, it should be noted that Bell Atlantic is only seeking exogenous treatment for the effects of the mandated change to SFAS-106 accounting. Furthermore, Bell Atlantic has not sought exogenous treatment for future increases in medical care costs.

It should be noted that the wage change effect calculated by Godwin's did <u>not</u> deal with the impact on GNP-PI. Because wages are not a separate component of the price cap formula, no additional offset is required for those amounts because there is no double counting.

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[8] See Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Post Retirement Benefits other than Pensions, CC Docket No. 92-101, Bell Atlantic Transmittal No. 497, US West Transmittal No. 246 and PacTel Transmittal No. 1579, Direct Case of Bell Atlantic at 6 (filed June 1, 1992). ("Bell Atlantic Initial Direct Case"). At the time of the initial studies, Professor Abel and Mr. Neuwirth were affiliated with Godwin's, Inc.

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Miscellaneous Supporting Information

Paragraph 29

Each carrier shall provide information on its average total compensation per employee and the amount of this total compensation represented by OPEBs.

We ask parties and commenters to provide similar data for the economy as a whole for comparison.

RESPONSE

See Exhibits 29-A and 29-B.

Paragraph 30

Because the accruals for OPEBs generally represent non-cash expenses that may never be paid, we direct parties to describe the provisions they have made, if any, to return to ratepayers the over-accrual, if any, of the non-cash expenses if exogenous treatment is given for these amounts.

Parties should describe any plans they have to return such monies to customers through voluntary PCI reductions or other means.

Parties shall also describe how they recognize these gains from such over-accruals on their books of account.

RESPONSE

The company's 1991 accrual for OPEBs was calculated in accordance with the requirements of SFAS-106. As noted in the company's response to the Commission's questions in Paragraph 26, only 1991 SFAS-106 data is pertinent to determination of the specific amount of Bell Atlantic's OPEB-related costs that are eligible for exogenous treatment.

Future adjustments to the price cap formula's productivity factor would reflect industry-wide productivity growth, which implicitly reflects, among other things, the cumulative impact of various endogenous changes, including the possible future avoidance of payments for OPEB-related expenses previously accrued.

Each year the aggregate actuarial gains and losses in excess of 10% of the Accumulated Postretirement Benefit Obligation (APBO) are amortized over the estimated average remaining service life of the active employee plan participants.

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Paragraph 31

The accrual calculations used by the companies to develop their claims for exogenous treatment for SFAS-106 amounts are, in part, based on the OPEBs provided pursuant to contracts between the companies and their employees. These contracts are currently being renegotiated. The OPEB benefits represent a significant issue in these negotiations. Any change in OPEBs will affect future accrued amounts and will be useful to compare prior calculated accruals to the new OPEB contracts to aid in determining whether the former calculations were reasonable.

In particular, we are interested in determining whether the underlying actuarial assumptions have changed. Therefore, on an ongoing basis, parties shall document any and all changes made in OPEBs offerings to employees. Any new contracts with employees and their representative unions shall be submitted as they are negotiated.

RESPONSE

The company will provide copies of new contracts with its unions as soon as they are finalized and printed. Please note that the recently negotiated contracts with the International Brotherhood of Electrical Workers (IBEW) in New Jersey and Pennsylvania are not final because they allow the IBEW to unilaterally adopt the provisions of the contracts that are still under negotiation with the Communications Workers of America (CWA).

The company's 1992 contracts with its unions are voluminous, and they do not contain any specific OPEB-related information. Therefore, these contracts are not provided herein. Please note that copies of these contracts will be made available to the Commission upon request.

Changes made in OPEBs offerings to employees in 1993 and 1994 are provided in Exhibits 31-A and 31-B, respectively. Please note that there were no OPEBs changes effective in 1992.

J