

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 12th
day of January, 1993.

In the matter of an incentive plan for Southwestern
Bell Telephone Company.

)
) Case No. TO-90-1
)

ORDER DENYING MOTION
AND DENYING APPLICATIONS TO INTERVENE

On December 2, 1992 Southwestern Bell Telephone Company (SWB) filed a motion requesting the Commission approve the adoption of Financial Accounting Standard No. 106 (FAS 106) for SWB's books of account and in its cost of service effective January 1, 1993. Midwest Independent Coin Payphone Association (MICPA), the Office of Public Counsel and Commission Staff filed responses opposing the motion. St. Louis County Water Company (SLCWC) and Missouri-American Water Company (Missouri-American) filed applications to intervene in support of SWB's motion.

FAS 106 is an accounting standard issued by the Financial Accounting Standards Board (FASB) which requires that employers account for "other post retirement benefits" (OPRBs), also called PBOPs ("postretirement benefits other than pensions"), on an accrual basis rather than a "cash basis". PBOPs are benefits, other than pensions, such as health care, dental care and life insurance. Currently, utility companies under the Commission's jurisdiction, including SWB, have accounted for PBOPs as they are paid on a cash basis. Accrual accounting under FAS 106 requires the employer, SWB, to accrue the cost of these benefits in the same period the employees are earning the benefits. Accounting for PBOPs would increase SWB's operating expenses for 1993 by approximately \$35.6 million.

SWB indicates in its pleadings that it will prepare its external financial reports in 1993 using FAS 106. In its motion, though, SWB is seeking Commission direction for purposes of its intrastate regulatory books upon which the monitoring of the incentive plan will be based. SWB states that it needs a decision by March 1993 to ensure it accrues the proper amounts for any sharing which might occur under the incentive plan for 1993.

The Commission has considered the pleadings regarding SWB's motion in the context of the extension to the incentive regulation plan ordered October 14, 1992 and the other decisions the Commission has made or which are before it concerning FAS 106. Based upon that review the Commission finds that SWB should continue to account for PBOP expense for monitoring purposes in this case under the current cash basis.

The Commission extended the experimental incentive regulation plan for SWB from its original ending date of December 31, 1992 to January 1, 1994 based upon the recommendation of SWB, Staff and Public Counsel. The plan was extended to allow sufficient time for consideration of proposals concerning a future alternative regulation plan for SWB. Under the extension the existing monitoring procedures are to be maintained and any sharing for 1993 would be based upon those procedures.

Even though the monitoring procedures allow for issues such as FAS 106 to be brought to the Commission for decision, the Commission finds any change such as would be occasioned by adoption of accrual accounting for PBOPs should be addressed in a complaint or general rate case proceeding or the docket concerning the proposals for alternative regulation, Case No. TO-93-192. The extension of the incentive plan was approved to ensure that no lapse occurred between the original ending date and any new alternative regulatory plan which might be adopted. The Commission finds that a change in the monitoring

procedures such as the one proposed is not warranted for a plan extended for that purpose.

Other state public service commissions as well as federal regulatory agencies are struggling with the decision of how to treat PBOPs for regulatory purposes. In addition, the Emergency Issues Task Force (EITF) of FASB has recently issued additional guidelines for ratemaking treatment of FAS 106. The EITF guidelines indicate that the issue may be deferred to a full ratemaking proceeding. Ruling on this issue by motion, or even after a limited hearing, in the context of this docket would not allow the full review the Commission believes this issue requires.

The Commission in Case No. EO-92-179 authorized Union Electric Company (UE) to continue the current cash basis method of accounting for PBOPs. This decision maintained the current method until a complete review could occur. The Commission stated that maintaining the cash basis accounting for PBOPs actually paid out to retirees and booking the differential between that amount and the amount calculated under FAS 106 as a regulatory asset, would allow UE flexibility to plan for future ratemaking treatment of PBOPs. The Commission considers the approach adopted by UE to be the appropriate alternative for dealing with FAS 106 outside of a general rate case or complaint case or other proceeding which would allow an in-depth review of the issue.

Since the Commission is denying SWB's motion and that is the sole basis of SLCWC's and Missouri-American's applications to intervene, the Commission will deny those applications.

IT IS THEREFORE ORDERED:

1. That the Motion Of Southwestern Bell Telephone Company For Approval Of The Adoption Of FAS 106 For 1993 Monitoring Purposes be hereby denied.

2. That the applications to intervene of St. Louis County Water Company and Missouri-American Water Company be hereby denied.

3. That this order shall become effective on the date hereof.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,
Perkins and Kincheloe, CC., Concur.