

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 2nd
day of May, 1995.

- In the matter of the application of)
Orchard Farm Telephone Company for an)
accounting authority order relating) Case No. TO-95-175
to FAS 106.)

ACCOUNTING AUTHORITY ORDER

On November 28, 1994, Orchard Farm Telephone Company (Orchard Farm or Company) filed an Application for an accounting authority order from the Commission for Orchard Farm's Post-Retirement Benefits Other Than Pensions (PBOPs). Orchard Farm states that its Application is a simple request to change its current financial reporting treatment of its PBOP expense from the pay-as-you-go method to the FAS 106 accrual treatment.

The request to defer costs from one period to another has traditionally been characterized as a request for an accounting authority order. The authority granted in such an order usually provides for booking of certain costs in Account 186 under the Uniform System of Accounts rather than in a traditional account for the type of costs incurred. The booking of costs in Account 186 creates an asset rather than a liability and so improves the financial picture of the Company for the period when the costs were booked. In the case sub judice the applicant is not requesting authority to book certain costs in Account 186 but, rather, is requesting specific authority to undertake a substantial change in the way in which its PBOP expenses are booked.

Traditionally, such costs have been treated for financial reporting and ratemaking purposes on a pay-as-you-go basis. The expense

was booked at the time the utility paid out cash for benefits to its retired employees. However, in 1990, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 106 (FAS 106) concerning financial reporting for PBOP costs. FAS 106 mandated that companies change over to an accrual method for accounting for PBOPs for financial reporting purposes.

In late 1992, Orchard Farm filed a rate increase request with the Commission which was docketed as Case No. TR-93-153. This case was resolved by a Stipulation and Agreement which provided that Orchard Farm would continue to reflect the pay-as-you-go treatment of PBOP costs and that Orchard Farm would continue to charge PBOP expense using the pay-as-you-go method on its books for financial reporting purposes and it would book to a regulatory asset account the difference between the pay-as-you-go amount and the FAS 106 accrual. Resolution of this case included an assurance from the Commission that it intended to grant Orchard Farm recovery in rates of the prudently incurred PBOP expense deferred to the regulatory asset account on a pay-as-you-go basis in the future.

In May of 1994, the Missouri Legislature passed House Bill 1405, now § 386.315 RSMo 1994. This provision requires the Commission to set rates for utilities on an accrual basis for PBOP expense pursuant to FAS 106. This bill includes a provision that allows utilities which had previous rate cases in which FAS 106 treatment was denied by the Commission to file single-issue tariffs to allow recovery of their current FAS 106 costs. Orchard Farms submits that it is one of the utilities which would be eligible for a single-issue rate increase under the new law. However, the Application indicates that Orchard Farms will not pursue such a filing.

On March 22, 1995, the Accounting Department Staff of the Public Service Commission (Staff) filed its Memorandum in which it

recommended approval of an accounting authority order for Orchard Farms relating to the FAS 106 issue. The Staff Memorandum further recommended that the Commission order approving the Company's Application reserve any and all ratemaking determinations or findings to future rate proceedings. The Staff Memorandum states that subsequent to the passage of House Bill 1405 the Commission has approved rate case stipulations and agreements calling for rate treatment of PBOPs on a FAS 106 basis for several other utility companies. Based upon these stipulations as well as the Staff's interpretation of § 386.315, the Staff believes that it is clear that Orchard Farm's request in this Application is consistent with current Commission policy regarding treatment of PBOP expense. Therefore, Staff has stated that it is not opposed to Orchard Farm's request in this case. The Staff specifically notes that § 386.315 contained a provision requiring the utilities to externally fund their FAS 106 amounts to be eligible for rate recovery. The Staff's investigation reflects that Orchard Farms has fully funded their PBOP expenses either through VEBAs or a 401(h) account since 1993.

The Commission has reviewed the Application, the Staff Memorandum and the entirety of the file and makes the following findings of fact. The Commission finds that Orchard Farms has been booking a deferral associated with PBOP costs since its last rate proceeding in 1993. The Commission finds that if the Application is granted this deferral will cease. This cessation might normally raise the question of future rate treatment of the deferred amounts. However, Orchard Farms indicated in data requests to the Staff that it intends to write off the previously deferred amount in lieu of seeking a future rate recovery. The Commission finds that no specific rate questions regarding past differences in rate and book treatment of PBOP expense should need to be addressed in future

Orchard Farm rate proceedings. However, the Commission will maintain its traditional position of reserving any and all ratemaking decisions associated with this docket for future rate proceedings, as requested by Staff.

Lastly, the Commission finds that an accounting authority order is the appropriate vehicle for the changes necessitated in booking PBOP costs as necessitated by House Bill 1405. The Commission finds that the authority sought in the Application is reasonable and necessary for the purpose of resolving the proper treatment of PBOP costs pursuant to House Bill 1405. The Commission will grant the authority sought in the Application.

IT IS THEREFORE ORDERED:

1. That Orchard Farm Telephone Company shall be hereby authorized to defer and record its Post-Retirement Benefits Other Than Pensions pursuant to Financial Accounting Standard No. 106.
2. That nothing in this order shall be considered as a finding by the Commission as to the reasonableness of the expenditures herein or the recovery of the expenditures.
3. That this order shall become effective on May 12, 1995.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

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