

Docket No. UT-040788 – General Rate Case
Verizon Responses to Public Counsel, AARP, & WeBTEC
Data Request Nos. PC 100 - 190
July 22, 2004

DATA REQUEST NO. PC-119:

Ref. Heuring Direct, p. 17 (FAS106 OPEB Costs). Please provide a copy of the policy statement relied upon by Ms. Heuring from Docket No. A-921197 related to the PAYGO treatment of postretirement benefits other than pensions.

RESPONSE:

Please see Attachment PC-119.

Prepared By: Cory Legner
Date: July 14, 2004
Witness: Nancy Heuring

Verizon Response to Public Counsel Data Request Nos. PC-100 – PC-190
UT-040788

Attachment PC-119



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W., P.O. Box 9022 • Olympia, Washington 98504-9022 • (206) 753-6423 • (SCAN) 234-6423

October 22, 1992

RE: RATEMAKING AND REGULATORY REPORTING REQUIREMENTS WITH REGARD TO FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 106, EMPLOYERS' ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSION DOCKET NO. A-921197

TO ALL PARTICIPANTS AND INTERESTED PERSONS IN DOCKET NO. UG-911253:

The Washington Utilities and Transportation Commission opened Docket No. UG-911253 to address policy issues related to implementation of the recently-issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pension" ("SFAS 106").

On September 16, 1992, as part of a special open public meeting, the Commission's staff formally presented its recommendation to the Commission as contained in its white paper on SFAS 106. The Commission also took oral statements from interested persons. Written initial and reply comments had been received previously.

The Commission adopts the policy recommendations of staff contained in its white paper, with one additional requirement: the Commission will initiate a generic proceeding in 1994 to enable both regulated companies and the Commission to review progress to that time in reducing the uncertainties associated with the estimates required under SFAS 106.

The Commission agrees with its staff that the appropriate approach on this transitional issue is for the Commission to issue a policy statement pursuant to WAC 480-09-200. This will allow the regulated companies reasonable assurance as to the Commission's policy on the proper regulatory and ratemaking treatment of this issue prior to companies requesting recovery of the expense through rates.

The policy statement is an attachment to this letter, together with a copy of the staff white paper which explains the reasons for the staff recommendations. Appended to policy statement is a description of the reporting requirements for any company wishing to avail itself of the benefits of the reasonable assurance given by the policy statement.

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RE: SFAS 106; Docket No. A-921197
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The Commission expects that affected utility companies will report their earnings for regulatory purposes, keep appropriate records, and meet reporting requirements in compliance with this policy statement and letter, prior to requesting permission for ratemaking treatment of this incremental expense in a general rate case proceeding.

Sincerely,


Paul Curl
Secretary

Attachment

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

RATEMAKING AND REGULATORY REPORTING)
REQUIREMENTS WITH REGARD TO FINANCIAL)
ACCOUNTING STANDARDS BOARD STATEMENT)
OF FINANCIAL ACCOUNTING STANDARDS)
NO. 106, EMPLOYERS' ACCOUNTING FOR)
POSTRETIREMENT BENEFITS OTHER THAN)
PENSION)
.)

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POLICY STATEMENT

As recognized by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 106 ("SFAS 106"), public utility companies with more than 500 employees have a large and growing obligation for postretirement benefits other than pension ("PBOP") which has not been reflected for either financial or regulatory reporting, or has not been allowed to be recovered as an accrued expense in rates. This issue applies to the utility companies operating in this state and subject to regulation by the Washington Utilities and Transportation Commission ("Commission"), with the exception, at this time, of Washington Natural Gas Company.

The purpose of this policy statement is to provide the affected regulated companies reasonable assurance as to the Commission's policy on the proper regulatory and ratemaking treatment of this issue prior to companies' requesting recovery of the expense through rates.

This Commission has set rates in all previous cases at levels which reflect recovery of the prudent level of cash payments (or "pay-as-you-go" level of expense) for these PBOP. After review of this issue, the Commission reiterates that it will require each company to demonstrate in a general rate case that the greater expense level of PBOP expense, required to be recognized for financial reporting purposes under SFAS 106, is reasonable, prudently incurred, and determined under conservative assumptions, in order for the higher level of expense to be reflected for ratemaking.

Further, the company must demonstrate that the level of PBOP expense requested reflects prudent and safe funding of the entire amount based on tax free asset transfers and fund income. The company will have to demonstrate that there is a benefit to ratepayers from reflecting the higher SFAS 106 level of expense in rates currently, over time. The company is encouraged, but not required, to participate in industry efforts to obtain favorable tax treatment for the SFAS 106 level of PBOP expense and related funding opportunities.

In the interim, prior to a general rate case in which recovery of the higher SFAS 106 level of PBOP expense is an issue,

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companies may record in a deferred account, for future rate consideration, the difference between the amount of expense determined under the "pay-as-you-go" method for these benefits in any year, and the level of expense required to be recognized under SFAS 106. For regulatory reporting purposes, the "pay-as-you-go" or cash basis level of expense should be utilized.

The amount determined under SFAS 106 must be determined under prudent, conservative, and reasonable assumptions, including reflecting full tax deductible funding of the amount of expense, regardless of whether the company actually and currently funds the entire annual expense amount on a fully tax deductible basis. No rate of return will be allowed to be earned or deferred by the company on the deferred balance as a rate base item or included in working capital in the interim period, prior to its being reflected in rates.

Companies choosing to defer the incremental expense may not capitalize a portion of the incremental expense in plant balances prior to the acceptance of the expense portion for recovery in rates.

By "conservative", the Commission intends that it be understood that the lowest reasonable assumptions be used for inflation related matters and the lowest reasonable costs be used. To the extent that this definition of conservative differs from that which is meant for financial reporting purposes, the Commission will accept its own definition for ratemaking purposes in preference to that of the accounting community.

In order to reduce the uncertainty associated with future Commission reviews of companies' deferrals for SFAS 106 using current assumptions, the Commission will initiate a generic proceeding in 1994 to address what assumptions have been used by the companies and what assumptions are appropriate in a generic sense. Specific circumstances regarding the role, cost, and prudence of the postretirement benefits other than pension offered by each company will be reviewed in the first general rate case involving each company in which SFAS 106 expense levels are requested to be included for recovery in rates.

In order to be allowed to defer these costs for future recovery, however,

- (a) the company must be before the Commission in a general rate case, for which the effective date of rates under statutory suspension rules, if applicable, will occur within five years from the effective date of SFAS 106;

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- (b) the general rate case must include a proposal for recovery of the prior accrued but unrecovered amount of the deferral; and,
- (c) the company may not defer the increment in costs for future recovery, if it experienced excessive returns during the interim period sufficient to exceed the amount of the annual accrual.

The burden of proof is on the company to demonstrate compliance with items (a) through (c) above. The determination of overearnings identified in part c will be made on the basis of the existing required semi-annual Commission basis reporting of earned rate of return. The rate of return with which the earned return is to be compared is the last allowed return authorized by the Commission.

The Commission will review the company's next general rate case on this and all other appropriate issues. The Commission will consider a proposal to allow both the current expense level of SFAS 106 and amortization of the accumulated balance in the accrual account for ratemaking purposes. The Commission will first determine whether the current level of expense under SFAS 106 is prudently incurred, and is calculated and developed under reasonable and conservative assumptions. If the Commission then determines, based on its review of all other facts and circumstances in the case that it is appropriate to allow the recovery of the current level of PBOP expense as determined under SFAS 106, it will also allow the amount of the accrued balance of the expense to be amortized, if it is determined to be similarly accounted for accurately, and under reasonable, prudent, and conservative assumptions, and only if the amounts were deferred in years in which the company was not overearning. The Commission will allow the amount of the balance of the deferred SFAS 106 incremental expense to be amortized and recovered through rates over a period not to exceed ten years from the effective date of SFAS 106.

Dated this 23rd day of October 1992.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon I. Nelson
SHARON I. NELSON, Chairman

R. D. Casad
RICHARD D. CASAD, Commissioner

A. S. Pardini
A. S. PARDINI, Commissioner

**Appendix A to Policy Statement
Docket No. A-921197**

**Reporting and Accounting Methods for
Postretirement Benefits Other Than Pension**

Any company subject to Commission regulation that elects to avail itself of the benefits of the reasonable assurance provided under the Commission's Policy Statement in Docket No. A-921197, shall agree to comply with the following reporting requirements as a condition of that election.

The Commission will review annually the amount of postretirement benefits other than pension ("PBOP") expense, and each company must develop reporting mechanisms and record keeping methods which will allow ready and fully understandable review of the calculation of the annual amount of expense. As part of its annual presentation of expense levels, the company must provide the Commission with a full explanation for changes initiated by the company in its PBOP plans which impact the accumulated liability level by 10% or more, as they become known. The annual presentation shall be in writing, and submitted to the Commission no later than the fourth month following the end of the company's fiscal year.

Further, the company shall report to the Commission the impact of any changes in tax laws or legislation, and other occurrences which may affect by 10% or more the amount of the company's liability for PBOP to be accrued; the accrued portion of PBOP; the amounts of funded PBOP; or, the annual expense of PBOP to the company. This reporting must occur no later than the first quarter after the effect is known.

These reporting requirements will continue in effect until the end of the first five years after the effective date of SFAS 106, i.e., until January 1, 1998, unless earlier changed by the Commission. At that time, the Commission will determine whether to continue, amend, or eliminate these reporting requirements.

Any company not choosing to defer the incremental expense of SFAS 106, and not intending to request the amount to be reflected for ratemaking purposes, is encouraged to keep appropriate records. The company should keep records which would indicate the amount of annual, incremental SFAS 106 expense and, if it capitalizes a portion of the annual incremental cost of SFAS 106, keep available the records and information which will enable the restatement of plant and accumulated depreciation reserve balances to eliminate the capitalized portion for future ratemaking purposes. For Commission basis regulatory reporting purposes such companies must reflect "pay-as-you-go" or cash basis in the calculation of adjusted earnings.