U-999/CI-92-96 ORDER INITIATING INVESTIGATION, GRANTING DISCOVERY RIGHTS, REQUIRING FILINGS, SOLICITING COMMENTS, AND PROTECTING PRIVILEGED INFORMATION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Accounting and Ratemaking Effects of the Statement of Financial Accounting Standard 106

ISSUE DATE: March 13, 1992

DOCKET NO. U-999/CI-92-96

ORDER INITIATING INVESTIGATION, GRANTING DISCOVERY RIGHTS, REQUIRING FILINGS, SOLICITING COMMENTS, AND PROTECTING PRIVILEGED INFORMATION

PROCEDURAL HISTORY

In December of 1990 the Financial Accounting Standards Board (FASB), the professional association that sets accounting standards for American finance and business, issued a new interpretation of the appropriate accounting treatment of post-employment benefits other than pensions. The main benefit in this category is health insurance, but life insurance, dental insurance, and miscellaneous benefits are also included. The new FASB standard requires companies to account for post-employment benefits other than pensions on an accrual basis. Most companies, including most Minnesota utilities, have been recording these expenses on a cash basis.

Under cash basis (pay-as-you-go) accounting, expenses are not recognized on a company's books until payment is made. Under accrual accounting, expenses are recognized on a pro-rata basis as the obligation to pay is incurred. Traditionally, post-retirement benefits other than pensions have been treated on a cash basis because the amounts of money involved were relatively insignificant. With the rising cost of health care, this is no longer true.

Converting post-employment non-pension benefits to accrual basis accounting will substantially increase recorded utility expenses and liabilities on an ongoing basis. It will also involve a substantial one-time upward adjustment of existing recorded expenses and liabilities. For at least some utilities, recognizing this accounting change in the ratemaking process could result in significant rate increases. (Although utilities must comply with the new FASB standard in financial statements to the public and shareholders, the new standard is not automatically incorporated into the ratemaking process.)

The Commission met to consider the ratemaking implications of the new FASB standard on February 25, 1992.

FINDINGS AND CONCLUSIONS

The Commission finds that the ratemaking implications of changing the accounting treatment of non-pension post-employment benefits from a cash to an accrual basis are far-reaching and complex. Informal estimates of the potential impact of the change on the revenue requirements of Minnesota utilities range from 0 to 3%. One large utility informally estimated the impact at $39 million each year, with an additional one-time upward adjustment of $300 million. It is clear that changes of this magnitude require careful analysis from as many perspectives as possible.

The Commission will therefore initiate an investigation into all issues raised by this new accounting standard. Initially, the scope of the investigation will be broad, to ensure that the Commission has before it all relevant facts and all viable procedural and policy alternatives. The Commission may narrow the scope of the investigation as it progresses.

The new accounting standard takes effect on the first day of all fiscal years beginning after December 15, 1992. (Small, non-public companies with fewer than 500 plan participants have a longer phase-in period.) This does not allow for a prolonged period of investigation before taking action. The Commission will therefore require all Minnesota utilities, including telephone companies, to respond to the comprehensive list of questions attached to this Order within 30 days. The Commission will also grant discovery rights from the outset to the two public agencies that intend to participate in this proceeding, the Department of Public Service and the Residential Utilities Division of the Office of the Attorney General.

These agencies, and any other parties granted intervention rights, will have 45 days from the companies' initial filings to file their comments. All parties will then have 15 days to file final comments. At that point, the Commission should have enough information to decide how to proceed to final decisionmaking. Procedural options at this point appear to include rulemaking, an industry-wide proceeding, and individual proceedings for individual utilities, but this investigation may point to other procedural vehicles.

This investigation will require utilities to disclose confidential financial information for review and analysis by other parties and by the Commission. The Commission has therefore, on this date, issued a Protective Order limiting access to confidential information to persons who have signed an agreement to follow procedures designed to protect its confidentiality. Protective Order, this docket. All parties are expected to take notice of the Protective Order and to abide by its terms.

ORDER

1. The Commission hereby initiates an investigation into all regulatory issues raised by the Financial Accounting Standards Board's new accounting standard for post-employment benefits other than pensions.

2. All Minnesota utilities, including telephone companies, shall respond to the questions listed on Attachment A within 30 days of the date of this Order.

3. All Minnesota utilities, including telephone companies, shall respond to discovery requests from the Department of Public Service, the Residential Utilities Division of the Office of the Attorney General, or any other party subsequently allowed to intervene in this proceeding, within ten days of receipt.

4. Initial comments on the utilities' filings shall be filed and served on all parties within 45 days of the due date for the utilities' filings. Final comments by utilities and intervenors shall be filed and served on all parties within 15 days thereafter.

5. All parties shall take notice of the Protective Order, establishing procedures for the disclosure of confidential information, issued today in this docket, and all parties shall abide by its terms.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)

ATTACHMENT A

FASB 106 Questions for Utilities

1) Provide a brief summary (one to two pages) of the post-employment benefits other than pensions at your company that are covered by FASB 106. The summary should include who qualifies and how qualification for benefits is made. Indicate any limitation in dollar amount for plan participants and what treatment or services are included.

2) For 1990 and 1991, and estimated for 1992 and 1993, show the calculations for the amount of "pay as you go" cost for post-employment benefits other than for pensions. Show total company and Minnesota jurisdictional.

3) For the year 1993, show the calculation of: a) the amount of accumulated post-retirement benefit obligation and the transition obligation as of 1-1-93 in accordance with FASB 106; b) the net periodic postretirement benefit cost for Y/E 12/93 including the service cost, amortization of unrecognized transition obligation, interest on the unamortized transition obligation and any other items; and c) the amount of expected postretirement benefit obligation. Show amounts for total company and Minnesota jurisdiction.

4) Show how much of the transition obligation is attributable to current retirees for total company and Minnesota jurisdiction.

5) How many plan participants are included in the calculation of the 1993 transition obligation for total company and Minnesota jurisdiction? How many of these plan participants are current employees?

6) What assumptions are used in calculating the transition obligation? What is the amortization period for this cost?

7) Describe how FASB 106 accounting will recognize union employee's postretirement benefits. Are the applicable union benefits accrued as a utility company liability or paid on a cash basis to a union or union trustee? What proportion, if any, are the amounts calculated in question 3 attributable to union employees?

8) Has the Company already implemented an accrual method for postretirement benefits? If so, when and explain how the method contrasts with the FASB 106 requirements.

9) Does the Company have a fund established to provide postretirement benefits? If yes, when was it established and is the fund qualified for tax deductible contributions? If no, does the Company plan to establish a fund? When will it be established and will it be tax qualified?

10) What plans, if any, does the company have or is considering to minimize the postretirement benefit cost in the future?

11) Does the Company support recovery of this new expense in utility rates? If yes, explain why this accounting change should be recognized for ratemaking purposes.

12) If the Minnesota Commission allowed recognition of the FASB 106 accounting change, how and when should it be recognized for ratemaking? Comment on any alternatives that may be considered.

13) What funding options are available for these benefits? Should funding be a consideration for recognition of this expense for ratemaking?

14) What procedural approach would be most appropriate for the Commission to address the issue of rate recovery for the FASB 106 accounting change? Potential approaches include rulemaking, Commission investigation, and case by case decisions.