

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Accounting & Finance Branch

RESOLUTION F-625
October 12, 1989

R E S O L U T I O N

CHANGES IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS 90 - 97.
DECISION 87-12-063 DATED DECEMBER 22, 1987.

SUMMARY

By Decision 87-12-063 the Commission adopted the Federal Communications Commission's (FCC) Part 32, Uniform System of Accounts for Telephone Companies (USOA). This decision directed that subsequent changes to Generally Accepted Accounting Principles (GAAP) be addressed in the Commission's Resolution process instead of being automatically adopted.

The recent GAAP changes consist of the Statements of Financial Accounting Standards (SFASs) 90 - 97 as issued by the Financial Accounting Standards Board (FASB). The Commission Advisory and Compliance Division (CACD) and the Division of Ratepayer Advocates (DRA) have analyzed the proposed changes and the impact studies provided by the major telephone corporations. The following SFASs will be adopted for intrastate telephone accounting and ratemaking purposes:

- SFAS 90 - Regulated Enterprises - Accounting for Abandonments and Disallowances of Plant Costs
- SFAS 94 - Consolidation of all Majority-Owned Subsidiaries
- SFAS 95 - Statement of Cash Flows

The following SFASs will not be adopted for intrastate telephone accounting and ratemaking purposes as these Statements do not affect the regulated telephone utilities:

- SFAS 91 - Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases
- SFAS 92 - Regulated Enterprises - Accounting for Phase-In Plans
- SFAS 93 - Recognition of Depreciation by Not-for-Profit Organizations

**SFAS 97 - Accounting and Reporting by Insurance Enterprises
for Certain Long-Duration Contracts and for
Realized Gains and Losses from the Sale of
Investments**

The following Statement will also not be adopted for regulated telephone utilities as the FASB has announced its intention to delay the effective date of the Statement:

SFAS 96 - Accounting for Income Taxes

BACKGROUND

In February of 1987, the Commission issued an order instituting investigation to determine whether the FCC's Part 32, USOA should be adopted for the regulated telephone companies. Part 32 was the FCC's response to the existing USOA (Parts 31 and 33) which the FCC believed was archaic and incapable of providing for changes in a complex technological and economic environment.

In December of 1987, the Commission issued Decision 87-12-063 which adopted the FCC's Part 32, USOA. This decision directed that subsequent changes to GAAP should not be routinely adopted; instead, these changes should be addressed in the Commission's Resolution process.

Ordering Paragraph 12 of the Decision required that each of the major telephone utilities provide the Commission with revenue impact studies regarding subsequent GAAP changes. Pacific Bell, GTE of California, Contel of California, Citizens Utilities of California, and A.T. & T. Communications of California were instructed to submit their impact studies within 90 days of the FASB accounting pronouncement.

Between April and September of 1988, the major telephone utilities responded and provided the Commission with their assessments of the revenue requirement impacts stemming from the recent GAAP changes. These GAAP changes consisted of the SFASs 90 - 97 which were not in effect at the time Decision 87-12-063 was adopted.

In August of 1988, the DRA proceeded to analyze the SFASs 90 through 97 and examine the responses from the telephone utilities. In November of 1988, the DRA submitted a report on its findings. Based upon the DRA's analysis, the CACD has prepared this resolution.

DISCUSSION

SFAS 90 - Regulated Enterprises - Accounting for

Abandonments and Disallowances of Plant Costs

SFAS 90 amends SFAS 71 - Accounting for the Effects of Certain Types of Regulation. The purpose of SFAS 90 is to appropriately reflect the impact of the regulator's actions on the utility's external financial statements. SFAS 90 requires that future revenue expected to result from a regulatory decision allowing recovery from the ratepayers for

the cost of an abandoned plant, be recorded at its present value when such abandonment becomes probable. All disallowed plant costs are to be recognized as a loss. SFAS 90 also requires that an allowance for funds used during construction be capitalized only if it is probable that it will be included for ratemaking purposes.

SFAS 91 - Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases

SFAS 91 applies to all types of lenders including nonfinancial institutions. It requires lenders to recognize loan origination fees over the life of the loan as an adjustment to the loan's yield.

SFAS 92 - Regulated Enterprises - Accounting for Phase-In Plans
SFAS 92 is another amendment to SFAS 71 - Accounting for the Effects of Certain Types of Regulation. SFAS 92 requires the capitalization of allowable costs deferred under a phase-in plan related to plants constructed or substantially constructed prior to January 1, 1988.

SFAS 93 - Recognition of Depreciation by Not-for-Profit Organizations

SFAS 93 requires that not-for-profit organizations recognize depreciation in general-purpose external financial statements.

SFAS 94 - Consolidation of all Majority-Owned Subsidiaries

SFAS 94 is an amendment to Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements, with related amendments to ARB No. 43, Chapter 12, Foreign Operations and Foreign Exchange. It requires the consolidation of all majority-owned subsidiaries in general-purpose financial statements even if these subsidiaries have "non-homogenous" operations, a large minority interest or are in a foreign location.

SFAS 95 - Statement of Cash Flows

SFAS 95 supersedes Accounting Principles Board (APB) Opinion 19, Reporting Changes in Financial Position. SFAS 95 requires that a statement of cash flows be included in a full set of financial statements instead of the statement of changes in financial position.

SFAS 96 - Accounting for Income Taxes

SFAS 96 supersedes APB Opinion No. 11. This Statement changes the focus of the deferred tax calculation from the income statement (Deferred Method) to the balance sheet (Liability Method). FASB has recently announced their intention to further delay the effective date of SFAS 96. For this reason, consideration of adoption is deferred, herein.

SFAS 97 - Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for

Realized Gains and Losses from the Sale of Investments
SFAS 97 establishes accounting standards for certain long-duration contracts issued by insurance enterprises.

FINDINGS OF FACT

(1) SFAS 90 is applicable to the regulated telephone utility industry. Although none of the major telephone utilities presently has any abandoned plant which falls within the scope of this Statement, an abandonment or disallowance may occur in the future.

(2) SFAS 91 is principally directed at lending institutions and does not apply to regulated telephone utilities.

(3) SFAS 92 will not affect regulated telephone utility companies. None of the major telephone utilities currently has the plant or the phase-in plan specified in this Statement.

(4) SFAS 93 pertains to not-for-profit entities; this Statement does not apply to regulated telephone utility companies.

(5) SFAS 94 applies to and affects regulated telephone utilities. This Statement has only external financial reporting implications. It will not impact revenue requirements and will not be detrimental to the ratepayers.

(6) SFAS 95 applies to and affects regulated telephone utilities. As with SFAS 94, this Statement is solely a new disclosure requirement. This Statement will not impact revenue requirements and will not be detrimental to the ratepayers.

(7) SFAS 96 applies to and affects regulated telephone utilities. SFAS 96 is to be effective for financial statements for fiscal years beginning after December 15, 1989. However, the FASB recently issued a press release announcing their intention to delay the application of SFAS 96 for a minimum of nine months.

(8) SFAS 97 specifically relates to the insurance industry and does not apply to regulated telephone utilities.

IT IS ORDERED THAT

(1) The following SFASs will be adopted for intrastate telephone accounting and ratemaking purposes:

SFAS 90 - Regulated Enterprises - Accounting for
Abandonments and Disallowances of Plant Costs

SFAS 94 - Consolidation of all Majority-Owned Subsidiaries

SFAS 95 - Statement of Cash Flows

(2) The following SFASs will not be adopted at this time for intrastate telephone accounting and ratemaking purposes:

- SFAS 91 - Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases
- SFAS 92 - Regulated Enterprises - Accounting for Phase-In Plans
- SFAS 93 - Recognition of Depreciation by Not-for-Profit Organizations
- SFAS 96 - Accounting for Income Taxes
- SFAS 97 - Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments

(3) This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 12, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

Wesley Franklin
Acting Executive Director