

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)
Southwest Arkansas Telephone Cooperative, Inc.)
Request for Authority to Include in Its Rate Base)
the Interstate Portion of the Prepaid Accumulated)
Postretirement Benefits Recorded in Account)
1410, Other Noncurrent Assets)
WC Docket No. 19-286

ORDER

Adopted: January 20, 2022

Released: January 20, 2022

By the Chief, Wireline Competition Bureau

I. INTRODUCTION

1. In this Order, the Wireline Competition Bureau (Bureau) approves a request filed by Southwest Arkansas Telephone Cooperative, Inc. (SWAT) to include in its rate base the interstate portion of its prepaid accumulated postretirement benefit obligation recorded in Account 1410, Other noncurrent assets. Based on the record before us, and consistent with precedent, we find that granting the unopposed request will serve the public interest by reducing future expenses to be included in SWAT's rate base, thereby benefitting the carrier's ratepayers.

II. BACKGROUND

2. SWAT is a rate-of-return carrier serving Doddridge, Emerson, Fouke, Fulton, Garland City, Trigg, and Washington in Arkansas, and Bloomburg in Texas. SWAT serves approximately 4,087 lines, 3,762 of which are in Arkansas and 325 of which are in Texas. It is a participant in the National Exchange Carrier Association (NECA) common line and traffic sensitive pools and is an issuing carrier for the NECA access tariff, NECA Tariff F.C.C. No. 5.

3. As part of its compensation package, SWAT offers its employees certain postretirement benefits (OPEBs). These benefits are pre-funded through a trust sponsored by the National

1 Letter from Tina Moore, Compliance Officer, Southwest Arkansas Telephone Cooperative, Inc., to Kris Monteith, Bureau Chief, Wireline Competition Bureau, Federal Communications Commission (filed Sept. 13, 2019) (SWAT Request). Postretirement benefits (OPEBs) typically include health and dental care benefits and life insurance for retired employees. See 1993 Annual Access Tariff Filings Phase 1, et al., CC Docket No. 94-65 et al., 20 FCC Rcd 7672, 7673, para. 2 (2005).

2 See Arkansas Local Access Transport, Southwest Arkansas Telephone Cooperative Latas, https://www.swat.coop/documents/arkansas-local-access-transport (last visited Jan. 20, 2022).

3 SWAT Request at 1.

4 Id.

Telecommunications Cooperative Association (NTCA).⁵ As of December 31, 2018, the total balance of pre-funded OPEB benefits totaled \$2,869,512.⁶

4. SWAT seeks approval to include in its rate base the interstate portion of its prepaid accumulated OPEB obligation recorded in Account 1410, Other noncurrent assets, beginning with the date the prepayments were made.⁷ SWAT estimates the 2019 cost study year increase for the interstate access portion of these costs was \$1,194,293, with an estimated return of \$123,908 at the 2019 rate of 10.375 percent.⁸ SWAT claims that while such a figure is significant to SWAT, its impact on the overall NECA pool and Universal Service Fund should be *de minimis*.⁹

5. SWAT states that its prepayment costs benefit ratepayers by earning interest while maintained in the NTCA trust.¹⁰ In particular, the earned interest reduces SWAT's future OPEB expenses, resulting in lower future rates for its ratepayers.¹¹ In support of its position, SWAT includes a memorandum from the NTCA Benefits Administrator confirming the reduction in future expenses.¹² The NTCA memorandum states that prepayments serve three specific benefits. First, the expected returns on prepayments serve to reduce annual expenses in a given year.¹³ Second, accumulated total assets, held in the prefunding trust, serve to reduce the accumulated unfunded benefits obligation.¹⁴ Third, prefunded OPEB amounts are included as assets in SWAT's financial statements that offset a portion of the company's liabilities.¹⁵ According to SWAT, these benefits serve to reduce the company's overall costs, resulting in lower rates for consumers.

6. On October 8, 2019, the Bureau released a Public Notice seeking comment on SWAT's request.¹⁶ No comments were filed.

III. DISCUSSION

7. Under the Commission's rules, noncurrent assets recorded in Account 1410 may be included in a rate-of-return carrier's rate base when the carrier makes a showing that those assets are used-and-useful in the provision of telecommunications services and specifically obtains the Commission's approval for inclusion.¹⁷ In setting this standard in the *RAO Report and Order*, the

⁵ *Id.* at 2.

⁶ *Id.* at 2.

⁷ *Id.* at 1.

⁸ *Id.* at 2. The current rate of return is 9.75 percent. See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3212, para. 326 (2016).

⁹ SWAT Request at 2.

¹⁰ *Id.*

¹¹ *Id.*

¹² SWAT Request, Attachment (NTCA Memorandum).

¹³ NTCA Memorandum at 1.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Request of Southwest Arkansas Telephone Cooperative, Inc., for Authority to Include in Its Rate Base the Interstate Portion of the Prepaid Accumulated Post-Retirement Benefits in Account 1410, Other Noncurrent Assets*, WC Docket No. 19-286, Public Notice, 34 FCC Rcd 9317 (WCB 2019).

¹⁷ 47 CFR §§ 65.800, 65.820(c); *Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, Amendments to Part 65, Interstate Rate of Return Prescription Procedures*

(continued...)

Commission articulated the principle that “ratepayers must not be forced to pay a return on investment that does not benefit them directly.”¹⁸ The Commission allowed prepaid pension costs to be included in the rate base because “these costs can earn a return that later reduces expenses.”¹⁹ In another proceeding, the Commission acknowledged that prepaid OPEB costs specifically “produce returns that reduce the pension amounts companies must accrue in future periods.”²⁰ In line with this reasoning, the Commission approved a request by a carrier to include prepaid OPEB costs in its rate base, holding that the interest earned on pension prepayments serves to benefit ratepayers by reducing future expenses and future increases to the rate base, thus satisfying the used-and-useful standard.²¹ Following the Commission’s precedent, the Bureau has approved similar requests over the years.²²

8. In light of the Commission and Bureau precedent, we find that SWAT has demonstrated that its prepaid OPEB costs recorded in Account 1410 meet the used-and-useful standard.²³ Ratepayers will reap benefits from this inclusion because the accumulated interest from the prepayments will reduce future OPEB obligations and decrease future additions to the rate base and corresponding consumer rates. Accordingly, we grant SWAT’s unopposed request to include the interstate portion of its prepaid accumulated postretirement benefit obligation recorded in Account 1410 in its rate base beginning with the date the prepayments were made.

IV. ORDERING CLAUSES

9. Accordingly, IT IS ORDERED, pursuant to sections 4(i), and 220 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), and 220, and sections 0.91, 0.291, and 65.820(c) of the Commission’s rules, 47 CFR §§ 0.91, 0.291, and 65.820(c), that the request by Southwest Arkansas Telephone Cooperative, Inc., filed on September 13, 2019, IS GRANTED AS PROVIDED HEREIN.

and Methodologies, Subpart G, Rate Base, CC Docket No. 96-22, AAD 92-65, Report and Order, 12 FCC Rcd 2321, 2325, para. 12 (1997) (*RAO Report and Order*).

¹⁸ *RAO Report and Order*, 12 FCC Rcd at 2325, para. 12.

¹⁹ *Id.*

²⁰ See *Responsible Accounting Officer Letter 20, Uniform Accounting for Postretirement Benefits Other Than Pensions in Part 32, et al.*, CC Docket No. 96-22, Report and Order, 11 FCC Rcd. 2957, 2962, para. 30 (1996).

²¹ *Roosevelt County Rural Telephone Cooperative, Inc., Petition to Include the Interstate Portion of a Prepaid Accumulated Post-Retirement Benefit Obligation, Recorded in Account 1410, in the Rate Base*, WCB/Pricing Docket No. 05-31, Order, 21 FCC Rcd 2880, 2882, para. 6 (2006).

²² *Duo County Telephone Cooperative, Inc., Request to Include in Its Rate Base the Interstate Portion of the Prepaid Post-Employment Health Benefits Recorded in Account 1410, Other Noncurrent Assets, et al.*, WC Docket No. 06-183 *et al.*, Memorandum Opinion and Order, 23 FCC Rcd 1267, 1271, para. 7 (2008); *Central Arkansas Telephone Cooperative, Inc., Request for Authority to Include in Its Rate Base the Interstate Portion of the Prepaid Accumulated Postretirement Benefits Recorded in Account 1410, Other Noncurrent Assets*, WC Docket No. 14-3, 29 FCC Rcd 2085, 2086, para. 5 (2014).

²³ 47 CFR § 65.800.

10. IT IS FURTHER ORDERED, pursuant to section 1.102(b)(1) of the Commission's rules, 47 CFR § 1.102(b)(1), that this Order SHALL BE EFFECTIVE upon release.

FEDERAL COMMUNICATIONS COMMISSION

Kris Anne Monteith
Chief
Wireline Competition Bureau