COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST KENTUCKY POWER COOPERATIVE, INC. FOR AN ORDER APPROVING THE ESTABLISHMENT OF REGULATORY ASSETS FOR THE DEPRECIATION AND ACCRETION EXPENSES ASSOCIATED WITH ASSET RETIREMENT OBLIGATIONS	)))))))	CASE NO. 2014-00432

ORDER

On March 20, 2015, East Kentucky Power Cooperative, Inc. ("EKPC") filed a petition for rehearing of the Commission's March 6, 2015 Final Order. The Final Order authorized EKPC to establish regulatory assets for the depreciation and accretion expenses in 2014 and subsequent years associated with EKPC's asbestos-abatement and ash-removal asset retirement obligations ("ARO"), except for ARO-related depreciation and accretion expenses associated with the ash-transfer costs for the Dale Ash Ponds. The petition requests a rehearing of the Commission's denial of EKPC's request to establish a regulatory asset for depreciation and accretion expenses associated with the Dale Ash Ponds ash-transfer costs.

In support of its motion, EKPC argues that the Final Order inappropriately applied the accounting and ratemaking treatments authorized in Case No. 2014-00252 to the accounting treatment for the previously established ARO. EKPC points out that AROs are recorded at their present value in the period in which they are incurred and when the amount of the liability can be reasonably estimated. In Case No. 2014-00252, the Commission granted EKPC's request for a CPCN to construct the Smith Landfill, but directed EKPC to treat the Dale Ash Ponds ash transfer costs for ratemaking purposes as a non-capital expense. EKPC asserts that not being able to record a regulatory asset for the depreciation and accretion expenses associated with the ash transfer costs will result in a mismatch in expenses and revenues that will exist on its books for four years, which, consequently, would force EKPC to produce financial statements which tend to understate and then overstate its actual financial performance. As of December 31, 2013, EKPC had recorded on its books an ARO liability totaling $32,238,032, consisting of $5,127,906 in AROs associated with asbestos abatement and $27,110,126 in AROs associated with coal-ash disposal sites. The ARO liability represents EKPC's best available estimate of the costs expected to be incurred to satisfy the legal obligation.

Consistent with the Rural Utilities Service Uniform System of Accounts ("RUS USoA"), EKPC maintains that it recorded on its books corresponding capitalized asset retirement costs in its utility plant accounts. The capitalized asset retirement costs are to be depreciated over the useful life of the related asset giving rise to the obligation. As previously stated, the corresponding capitalized asset retirement costs reflect EKPC's best available estimate of the expected costs. For 2014, and in compliance with the RUS USoA, EKPC recorded ARO-related depreciation expense of $5,275,341 and ARO-related accretion expense of $1,077,265. These amounts, which total $6,352,606, were recorded in EKPC's 2014 financial statements. As a result of the Commission's decision, $2,149,889 of the 2014 total ARO-related depreciation and accretion amounts of $6,352,606 remained on EKPC's financial statements as an expense and resulted in a corresponding reduction of 2014 margins.

EKPC contends that its request to establish regulatory assets for the ARO-related depreciation and accretion expenses was consistent with the RUS USoA definition of a regulatory asset, as well as that of the Financial Accounting Standards board Accounting Standards Codification Topic 980-410-25-2. According to EKPC, this suggests that a regulated utility should recognize a regulatory asset or liability for differences in the timing of recognition of costs associated with an ARO and collection of such amounts through rates if it is probable that such amounts would be recovered. EKPC further contends that the accounting for the ARO liabilities, corresponding capitalized asset retirement costs, and ARO-related depreciation and accretion expenses constitutes a set of transactions that are distinct and separate from the accounting and ratemaking treatments authorized by the Commission in Case No. 2014-00252. EKPC notes that the ARO liabilities and corresponding assets have already been recorded on EKPC's books for accounting purposes. EKPC maintains that the denial to establish a regulatory asset for the ARO-related depreciation and accretion expenses associated with the ash-transfer costs would result in a mismatch of ARO-related depreciation and accretion expenses and the revenues associated with the recovery of actual Dale Ash Ponds ash-transfer expenses. EKPC states that the previously mentioned $2.15 million mismatch for 2014 will similarly impact its 2015 financial statements and margins at the same level. Subsequent mismatches in expenses and revenues would occur in 2016 and 2017.

EKPC also requests rehearing and clarification of ordering paragraphs 4 and 5 regarding the requirement to file annual updated ARO calculations and the reporting of any increases of 10 percent or more in the ARO balances, respectively.

Having reviewed the petition and being otherwise sufficiently advised, the Commission finds that EKPC has raised a number of issues regarding the appropriateness of certain findings and conclusions set forth in our March 6, 2015 Final Order. A more fully developed evidentiary record will enable us to determine the merits of EKPC's issues and whether changes are required to our March 6, 2015 Final Order. For these reasons, EKPC's petition should be granted. The Commission also finds that a limited procedural schedule should be established to process the rehearing issues.

IT IS THEREFORE ORDERED that:

1. EKPC's petition for rehearing is granted.

2. A limited procedural schedule consisting of the following dates shall be established.

a. All rehearing requests for information to EKPC shall be filed no later than April 27, 2015.

b. EKPC shall file responses to rehearing requests for information no later than May 11, 2015.

By the Commission

ENTERED
APR 08 2015
KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

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