

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE EFFECTS OF THE FEDERAL TAX)
REFORM ACT OF 1986 ON THE RATES OF) CASE NO. 9780
KENTUCKY UTILITIES COMPANY)

O R D E R

IT IS ORDERED that Kentucky Utilities Company ("KU") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. The information requested herein is due no later than March 27, 1987. If the information cannot be provided by this date, you should submit a motion for an extension of time stating the reason a delay is

necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

Information Request No. 1

1. In response to the Commission's Order of December 11, 1986, responding utilities have made numerous adjustments to reflect the affects on revenue requirements of increases and decreases in tax expense resulting from the 1986 Tax Reform Act. In order to allow every utility the same opportunity to address the numerous elements contained in the various filings the following list of issues is provided. The effects of Items (1), (2) and (3) shall be addressed by all utilities. The effects of Items (4) through (20) should be addressed by each utility as applicable. For each item below, provide the dollar amount for each adjustment or, for items omitted, an explanation as to why the information is not being supplied. Include a detailed explanation and workpapers of how each amount was determined and a reconciliation of the sum of these adjustments to the total amount of revenue requirement affect included in the original application.

- (1) Federal tax rate change - 46 to 34 percent.
- (2) Amortization of excess deferred taxes.
 - (a) Depreciation related.
 - (b) Non-depreciation related.
- (3) Unbilled revenues.
- (4) Alternative minimum tax.
- (5) Kentucky income taxes.
- (6) Investment tax credits.
- (7) Capitalized overheads.

- (8) Capitalized interest.
- (9) Depreciation.
- (10) Vacation pay.
- (11) ESOP.
- (12) Pension expense.
- (13) Uncollectible accounts and bad debt reserve.
- (14) Provision for 80 percent of certain business expense deductions.
- (15) Contributions in aid of construction.
- (16) Customer advances for construction.
- (17) Super fund taxes.
- (18) PGAs.
- (19) Cash flow.
- (20) Payroll taxes.

2. Provide any comments you deem appropriate as to the procedure of adjusting rates effective July 1, 1987, to reflect the change in revenue requirements based on the lowering of the top corporate rate to 34 percent.

3. With reference to Price Exhibit 3, Schedule 3, page 1, provide the following information:

a. An explanation for reducing net income before taxes by the interest amount shown on Line 2 of \$29,759 rather than the test year expense.

b. Computations supporting the \$2,744 addition to income resulting from book depreciation in excess of tax straight-line depreciation.

c. Computations supporting the amount of taxes in Column C through F on Line 5.

d. Computations supporting the amount of Pre-1971 investment tax credit amortized on Line 6.

e. An explanation for applying the 11.16 percentage difference in tax rates to the tax currently payable and originating deferred tax shown on Line 9 that results in a total reduction of \$6,265.

f. Computations supporting the effect of the reduction in tax depreciation shown on Line 11. A clear explanation of how the 1987 additions were estimated should be included.

g. Computations supporting the effect of capitalized interest and overheads shown on Line 12. Show separately the amount for interest and each specific overhead item included. A clear explanation of the determination of the 1987 estimates should be included.

h. For Item g. above, provide the effect on the test year as if the tax changes had been in effect during the test year.

i. Computations supporting and a thorough explanation of estimates used for the effect of unbilled revenues.

j. Computations supporting the increase in taxes shown on Line 16. Specifically identify each item included and provide a thorough explanation for this adjustment.

4. Provide support (including computations and any assumptions used) for the amounts shown on Price Exhibit 4.

5. Based on the test year revenue and expense levels, provide the cash flow decrease for 1987 if the tax reduction is flowed through.

6. With reference to the Price Testimony on page 23, Lines 21 through 26, provide an explanation for not including the tax effects of the items listed in KU's calculations.

7. Please explain why no adjustment was made for the excess deferred income taxes that will result from the change in tax rates.

8. Provide the total amount of accumulated deferred income taxes and the aggregate normalized timing differences arising from:

a. Use of accelerated tax depreciation.

b. Other book/tax differences.

9. Using the average rate assumption method, provide a calculation of the excess deferred income taxes due to use of accelerated tax depreciation that will result from the change in tax rates. Include the supporting workpapers.

10. For each item above, provide the information as it relates to Price Exhibit 3, Schedule 3, page 2.

11. Provide the Schedule M adjustments to taxable income for the test year. Clearly show the adjustments under prior tax law and the changes due to the Tax Reform Act.

Done at Frankfort, Kentucky, this 13th day of March, 1987.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director