

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT PETITION OF KENTUCKY POWER)
COMPANY, KENTUCKY UTILITIES COMPANY,)
LOUISVILLE GAS AND ELECTRIC COMPANY, AND)
UNION LIGHT, HEAT AND POWER COMPANY FOR) CASE NO. 92-043
CERTAIN ACCOUNTING AND RATEMAKING)
AUTHORITY ASSOCIATED WITH THE IMPLEMENTA-)
TION OF STATEMENT OF FINANCIAL ACCOUNTING)
STANDARDS NO. 106)

O R D E R

On January 23, 1992, Kentucky Power Company, Kentucky Utilities Company, Louisville Gas and Electric Company, and The Union Light, Heat and Power Company ("Petitioners") filed a joint petition requesting approval to account for certain post-retirement benefits in accordance with the recently announced Statement of Financial Accounting Standards No. 106 ("SFAS 106"), Employers' Accounting For Post Retirement Benefits Other Than Pensions. Subsequent to the filing of the joint petition, Western Kentucky Gas Company and Kentucky-American Water Company have intervened and requested to be afforded the same relief sought by the Petitioners. Intervention has also been granted to the Attorney General's office, Utility and Rate Intervention Division, and the Kentucky Industrial Utility Customers.

SFAS 106 prescribes accounting treatment for benefits, such as health care, that a company promises to pay on behalf of an employee once that employee has retired. The promise of future

benefits are thus to be viewed as additional compensation earned by employees today. Companies that offer such benefits will be required under SFAS 106 to account for such benefits on an accrual basis. Currently, most companies account for such benefits on a cash or "pay-as-you-go" basis. To accurately accrue the cost of a future benefit that has been promised to an employee today, the employer will be required to make certain assumptions in arriving at the amount it has obligated itself to pay out in the future. SFAS 106 was issued by the Financial Accounting Standards Board in an attempt to have financial statements that more accurately reflect the amount of future obligations even though the amounts are based on assumptions. Reflecting such future obligations based on assumptions was deemed to be more appropriate than the current practice of ignoring the future obligation. Each utility offering post-retirement benefits and employing more than 500 employees will be impacted by SFAS 106 on January 1, 1993. If post-retirement benefits are offered by a utility with less than 500 employees, the impact of the accounting change can be delayed until 1995.

The Petitioners have requested authority to recover, in their next general rate case, an appropriate level of cost associated with implementation and compliance with SFAS 106 and to now begin accruing as a regulatory asset the full accrual related expense until such expense is reflected in rates. The Petitioners have further requested that the Commission grant specific authorization in this case that will allow each of them, in their next general rate proceeding, to amortize over a three year period the

regulatory asset that was created through the deferral of the increased expense and to earn a return on the unamortized balance of such regulatory asset. The Petitioners filed no information to demonstrate the financial impact of SFAS 106 on their respective financial conditions, although they did request that an informal conference be scheduled.

In general, when a new accounting standard is issued by the Financial Accounting Standards Board as a generally accepted accounting principle, the utilities under our jurisdiction adopt the standard for accounting purposes without any formal authorization by the Commission. If there is a cost impact associated with the new accounting standard, the utility either absorbs the cost or experiences higher earnings from the impact until its next general rate proceeding. The Petitioners have referenced no prior case, and we are not aware of any, where a formal request was made for authorization to implement an accounting change and for advanced approval of rate recovery of the cost impact.

The Petitioners have requested the Commission to make a pre-determination that a reasonable level of the deferred cost would be recouped in future rate proceedings. Such a predetermination by the Commission would be unprecedented. To decide in this case that the Petitioners will be entitled to future rate recovery of the deferred cost, the Commission would have to address all of the rate-making issues surrounding the SFAS 106 costs. This would require an investigation of the unique facts and circumstances applicable to each of the Petitioners in order to determine the

reasonableness of implementing SFAS 106, as well as the reasonableness of the benefit levels provided by each Petitioner and the cost of implementation. The Commission's ultimate decision must be based upon the justification presented by each Petitioner and, thus, the decision may differ among the Petitioners.

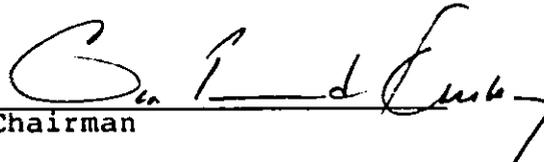
While the Petitioners have requested a ruling which would have binding application to a future rate proceeding, the pending joint petition is not a rate application. None of the Petitioners have either filed a proposed schedule of rates to recover the anticipated increase in costs or given notice to the public of the increased rates that would result from the authorization requested in this case. The Commission recognizes that absent the preauthorization of future rate recovery of the deferred costs, each of the Petitioners may immediately file an individual rate case to recover such costs. While the work load of those rate cases would be burdensome on the Commission and any intervenors, such a burden does not, under the present circumstances, constitute good cause to justify the adjudication of rate-making issues in a nonrate-making proceeding.

With respect to the accounting issue presented by SFAS 106, the Commission notes that such accounting changes have been adopted in the past without any prior formal approval by the Commission. The absence of a Commission decision approving a new accounting principle has not previously inhibited any utility from adopting the new principle for accounting purposes.

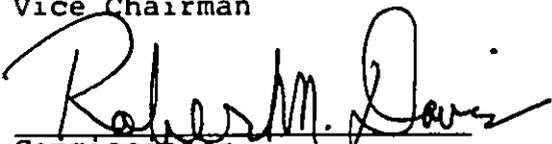
IT IS THEREFORE ORDERED that the relief requested by the Petitioners be and it hereby is denied without prejudice to their rights to seek such relief individually by filing a rate application.

Done at Frankfort, Kentucky, this 8th day of June, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director, Acting