

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division ("AG"), and the Kentucky Industrial Utility Customers ("KIUC") 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 ensure 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. The information requested herein is due no later than September 18, 1992. 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 a motion will be considered by the Commission.

Questions to the AG and KIUC

1. Do you agree or disagree with the following statement which was extracted from a General Industry Report dated March 19, 1992 by Duff and Phelps, titled "SFAS 106 and its Impact on Utility Credit Quality" which was included in the joint petitioners' response to Question No. 17 of the KIUC data request:

The impact on long-term customer rates can be mitigated by authorizing recovery of accrued costs beginning now rather than adding these costs to other rising costs in the future. In addition, costs over the long run will be offset, in part, by the accumulation of PBOPs fund earnings. . . .

Explain your response.

2. The joint petitioners' response to Question No. 17 of the KIUC data request also included an article entitled "Utilities and FAS 106" from the June 8, 1992 edition of Standard & Poor's "Creditweek." The following statement regarding the effect of nonrecovery of SFAS 106 costs either through rates or the creation of a regulatory asset was taken from that article:

[e]arnings and common equity will be reduced by the amount of the unrecovered accrual. This will have no cash impact, but may reduce financing flexibility since real net worth has been eroded. It will also create complications for dividend policy and payout ratios, in that utilities pay dividends in relation to earnings, not cash.

a. Do you agree or disagree? Explain your response.

b. Should the Commission be concerned about the possible reduction in financing options or increase in borrowing rates which might confront regulated utilities in this state if pay-as-you-go for OPEB is continued for rate-making purposes? Explain your response.

3. Your witnesses have asserted that the use of SFAS 106 for rate-making purposes would not resolve intergenerational cost allocation problems. However, isn't it true that the pay-as-you-go method completely ignores the intergenerational problem and ensures that future customers will continue to pay the costs belonging to past customers? Explain your response.

4. The prefiled testimony of Benjamin A. McKnight stated as follows:

The SEC's staff has publicly announced that the current practice of cash basis regulatory treatment for OPEBs cost does not provide sufficient evidence that a regulatory asset exists. Thus, for a SEC registrant, the difference between cash basis regulatory treatment and SFAS 106 OPEBs expense would have to be charged to the income statement each year.

a. Do you agree or disagree that this correctly describes the SEC's position regarding regulatory assets established pursuant to SFAS 71? Explain your response.

b. The prefiled testimony of Lane Kollen included a recommendation that the SFAS No. 71 deferral should continue indefinitely into the future. Is there any reason to believe the SEC would object to establishment of a regulatory asset with such a long-term recovery period?

Questions for the AG

5. Does Thomas C. DeWard agree or disagree with the recommendation in the prefiled testimony of Lane Kollen that the pay-as-you-go method should be continued for rate-making and the SFAS No. 71 deferral should continue indefinitely into the future?

6. With regard to your statement on page 5 that "Utilities already have some of the highest costs of employee benefits per employee and as a percentage of base salaries amongst various industry groups," provide copies of all surveys, articles, research or other supporting documentation.

7. In your prefiled testimony, you stated that "the concern regarding the numerous assumptions and estimates which are part of the SFAS 106 calculations is that those estimates will lead to inaccurate costs, and therefore not appropriate for rate-making purposes."

a. If the Commission approves the accrual method, how would you propose to calculate the SFAS 106 costs for rate-making purposes without using assumptions and estimates?

b. Should the Commission set uniform actuarial assumptions and estimates for all utilities to use in the calculation of SFAS 106 costs?

8. Should the Commission allow the amortization of the transition obligation for rate-making purposes? Explain your response.

9. If the Commission allows amortization of the transition obligation for rate-making purposes, over what period would you recommend the obligation be amortized?

Done at Frankfort, Kentucky, this 11th day of September, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director