

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) CASE NO. 92-043
FOR CERTAIN ACCOUNTING AND RATE-MAKING)
AUTHORITY ASSOCIATED WITH THE)
IMPLEMENTATION OF STATEMENT OF)
FINANCIAL ACCOUNTING STANDARDS NO. 106)

O R D E R

On January 6, 1993, Kentucky Utilities Company ("KU") filed a petition for reconsideration of the December 17, 1992 Order in this proceeding. Kentucky Power Company joined in KU's petition on January 6, 1993. The Attorney General's office ("AG") and the Kentucky Industrial Utility Customers ("KIUC") each filed responses in opposition to the petition for reconsideration.

KU stated in its petition that on the same day the Commission issued its Order in this proceeding, "the Federal Energy Regulatory Commission issued a Statement of Policy in re: Post-Employment Benefits Other Than Pensions, 61 FERC 61,330, adopting, on the federal level, the same policy which the joint petitioners have urged this Commission to accept. . . ."

KU claims that this Commission based its refusal to adopt a similar policy on the grounds that the Petitioners have not presented persuasive evidence that the failure to grant the relief requested would result in financial impairment and that for at least three of the petitioners, including KU, the evidence is more

than adequate to establish that the accounting change mandated by FASB will, in fact, substantially increase current periodic costs.

KU argues that the issue here is not "financial impairment" but, rather, whether sound rate-making mandates accrual accounting for OPEBs. KU states that it believes this Commission could adequately address the issue at hand if it did no more than modify its prior Orders by acknowledging that accrual accounting for OPEBs is adopted in Kentucky as sound rate-making policy.

KIUC noted in its response that this Commission granted the first petition for reconsideration on the grounds that KU and the other Joint Petitioners were not provided an adequate opportunity to demonstrate the materially adverse effect that SFAS 106 was alleged to have on their respective financial operations. KIUC then stated that it found KU's argument that "financial impairment is not the issue here" to be in direct contradiction to its earlier position. KIUC compares KU's increased costs under SFAS 106 to the substantial decrease in interest costs that KU has experienced since its last rate proceeding. KIUC's position is that these cost changes should both properly be considered with all other cost of service items in a rate case.

KU's petition for rehearing reflects that KU has failed, once again, to understand the decision of the Commission in the Orders issued on June 8, 1992 and December 17, 1992 in this case. KU claims that the Commission must either follow the mandate of KRS 278.220 and adopt a policy similar to that established by FERC, or

on some sound basis say why the accrual of OPEBs is not good rate-making policy in Kentucky.

Contrary to KU's claim, KRS 278.220 has no application to rate-making. Rather, this statute directs the Commission to adopt a uniform system of accounting for electric utilities that conforms as nearly as possible to the system of accounts established by the Federal Energy Regulatory Commission ("FERC"). The FERC system of accounts mandates accounting treatment for expenses and revenues, not rate-making treatment. As our prior Orders in this case clearly stated, there is nothing that precludes KU and the other petitioners from adopting SFAS 106 for accounting purposes without formal approval of the Commission.

KU has presented no evidence to persuade us to modify our prior decisions to not establish a generic rate-making treatment for SFAS 106 costs. Although an evidentiary hearing was held, KU and the other petitioners chose not to offer any evidence on the pivotal issue of the financial impact of SFAS 106 cost on their respective operations. The mere fact that a utility will incur an increase in one expense is of no import absent evidence that the utility's existing rates are insufficient to cover that expense and still provide an opportunity for a reasonable return. None of the petitioners offered such evidence.

As our prior Orders stated, the rate-making treatment for SFAS 106 can properly be determined only in a utility specific rate case because of the need to investigate all costs and revenues to determine whether existing rates are fair, just and reasonable.

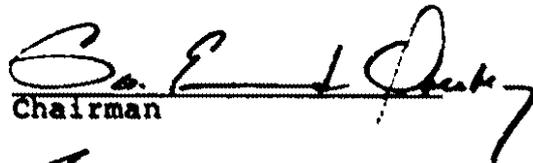
Our prior Orders in no way preclude KU from seeking to recover the accrual level of expense in a rate case.

KU is persistent in its request that a determination be made in this case that they will be allowed recovery in future rates of the accrual level of expense and that a deferral be established and recovered in the future for the current difference in the accrual and pay-as-you-go level of expense. KU claims that the Commission has denied it the right to recover the SFAS 106 accrual level of OPEB expense in rates. But since this is not a rate case, the Commission can neither deny nor accept KU's request to include this cost in rates. The Commission has not disallowed any of the cost KU is seeking to recover, the Commission has not denied KU the ability to include the SFAS 106 level of expense in its financial statements, nor has the Commission ruled that KU could not establish a regulatory asset to record the difference between the accrual and pay-as-you-go cost of OPEBs. The Commission has, however, denied the requested procedure of pre-determining the rate-making treatment of this increased level of expense in this generic proceeding. While KU would like for the Commission to approve the SFAS 106 level of expense for rate-making purposes in this proceeding, the Commission will affirm its two previous Orders in this case that recovery of this level of expense should be determined for each utility in a general rate case.

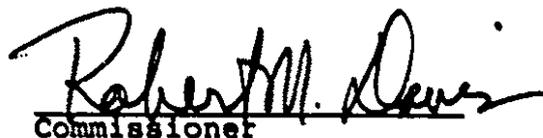
IT IS THEREFORE ORDERED that the petition for rehearing be and it hereby is denied.

Done at Frankfort, Kentucky, this 26th day of January, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director