COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY UTILITIES COMPANY FROM NOVEMBER 1, 1993 TO APRIL 30, 1994	)	CASE NO. 92-493-C

O R D E R

IT IS ORDERED that Kentucky Utilities Company ("KU") shall file, no later than 10 days from the date of this Order, an original and 12 copies of the following information with the 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 numerous 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 respond to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility.

1. Refer to the response to the Commission's October 4, 1994 Order, Item 10b. This response states in part that "[t]erminal salvage is the amount to be received for property retired, less any expenses in connection with the disposition of the asset." Under what circumstances is it appropriate to book a salvage value that differs from the amount to be received, less expenses?

2. Refer to the response to the Commission's October 4, 1994 Order, Item 11. The response refers only to "single assets" with no surviving group of assets.

a. Assume that Item 11 refers to depreciable assets in general with a surviving group of assets. Does this assumption change KU's response?

b. If yes,

(1) how does this change KU's response?

(2) explain why distinctions should be made in depreciation, accounting, and associated rate-making practices between single assets and assets in general.

c. If no, is it KU's position that shareholders, not ratepayers, should absorb the loss or gain from differences between theoretical reserves and actual reserves?

3. Refer to the response to the Commission's October 4, 1994 Order, Item 13. KU states that its experience with the railcars purchased in 1976 and sold in 1990 was considered when developing current depreciation rates. The response to Item 14, however, identifies only vintage years 1991 and 1992. Explain the discrepancy.

4. Provide the underlying study, including calculations and charts, developed to support the current depreciation rate for Account 312. This should include a table similar in format to the table provided in the response to Item 14, page 5 of the Commission's October 4, 1994 Order and should also include all available experience years regardless of whether this experience is

reflected in the current depreciation rate. Similar experience for salvage values should also be included.

5. Refer to the response to the Commission's October 4, 1994 Order, Item 17. The response indicates that there is no inconsistency between the statement referenced in the question and the issue of adjusting removal cost to reflect changes in inflation because there were no removal costs anticipated for the railroad cars. However, the referenced statement refers not to the specific issue of the railroad cars but refers to historical and accounting models. With this clarification:

a. Explain why it is inconsistent with the historical cost model to revise a terminal salvage value estimate based on current resale market value or the effects of inflation.

b. Are not the effects of inflation implicitly recognized whenever salvage and removal costs are estimated as a ratio of net salvage to the amount of the original investment?

c. What is meant by "adjust" as used in the response to Item 17c, page 2 of 2? For example, does this refer to adjustments of booked amounts or adjustment of data in depreciation studies, or both?

Done at Frankfort, Kentucky, this 11th day of November, 1994.

PUBLIC SERVICE COMMISSION

For the Commission

ATTEST:

Executive Director