

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT)	
AND POWER COMPANY D/B/A DUKE ENERGY)	
KENTUCKY, INC. FOR AUTHORITY TO)	CASE NO.
ESTABLISH A REGULATORY ASSET FOR)	2007-00054
DEFERRED VACATION EXPENSE)	

O R D E R

On January 22, 2007, The Union Light, Heat and Power Company, now Duke Energy Kentucky, Inc. (“Duke Kentucky”), filed a letter¹ requesting approval to establish a deferred asset account for its deferred vacation expense. Duke Kentucky states that the deferred asset account is needed as part of its compliance with the requirements of Statement of Financial Accounting Standards (“SFAS”) No. 43.

SFAS No. 43 requires Duke Kentucky to accrue a liability for vacation benefits that its employees have earned but not yet used. The accrual takes place when the vacation benefits are earned, not when paid. Based upon a review of its vacation policies and practices and information from generally accepted accounting principles, Duke Kentucky determined that the vacation benefit liability exists for the amount of vacation expense to be taken by employees in the next 12-month period.² As a result of

¹ The Commission accepted the letter as an application to establish the deferred asset account by its February 15, 2007 Order.

² SFAS No. 43 was issued in 1980. However, Duke Kentucky made this determination in conjunction with a review of policies after the merger of Cinergy Corp. and Duke Energy Corp. See Response to the Commission Staff’s First Data Request dated February 22, 2007, Item 1.

this determination, Duke Kentucky concluded that it is necessary for it to record a charge to its balance sheet accounts for the earned, but unpaid, vacation benefit at the beginning of each year. This charge to the balance sheet would result in the creation of a new regulatory asset, a deferred vacation expense account. Throughout the year, as employees use vacation days and receive vacation pay, the vacation liability account would be debited and the deferred vacation expense account would be credited to reflect the payment of the vacation benefit.³

In its January 22, 2007 filing, Duke Kentucky states that it is not requesting that the Commission approve rate recovery for the proposed regulatory asset. Duke Kentucky acknowledges that if rate recovery is sought in a future application for a rate increase, it will have the burden to establish that rate recovery is reasonable.

Based upon a review of the record, the Commission finds that Duke Kentucky's proposal to create a new regulatory asset account for deferred vacation expense is reasonable and should be approved. The establishment of the deferred vacation expense account operates in conjunction with Duke Kentucky's application of SFAS No. 43 concerning its vacation policy. The Commission notes that this approval is for accounting purposes only, and agrees that if there is a future request for rate-making treatment for the deferred vacation expense Duke Kentucky will have the burden to demonstrate the proposed treatment is reasonable.

³ Response to the Commission Staff's First Data Request dated February 22, 2007, Item 5. Duke Kentucky provided examples of accounting entries that showed how the deferred vacation expense would be affected by different events during a 12-month period.

IT IS THEREFORE ORDERED that Duke Kentucky's request to establish a regulatory asset account for deferred vacation expense is approved for accounting purposes only.

Done at Frankfort, Kentucky, this 27th day of April, 2007.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned above a horizontal line.

Executive Director