

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

COMPLIANCE WITH THE)
ECONOMIC RECOVERY TAX)
ACT OF 1981 CONCERNING) CASE NO. 8740
ACCELERATED COST RECOVERY)
SYSTEM DEPRECIATION)

SUPPLEMENTAL ORDER

On August 13, 1981, the Economic Recovery Tax Act of 1981 ("ERTA") became law. ERTA changes the tax law as it relates to public utilities and hence as it relates to General Telephone Company of Kentucky ("General"). Among the changes, ERTA does the following:

Establishes an accelerated cost recovery system ("ACRS") which allows a faster write-off of certain assets without regard to salvage value; and

Establishes an expanded normalization requirement for the deductions available with respect to ACRS property.

The expanded normalization requirements are described in §168(e)(3) of the Internal Revenue Code ("IRC"). The practical impact of the normalization requirement is that utilities currently using flow-through accounting for accelerated depreciation must file new rates adjusted to reflect normalization accounting in order to be eligible for the benefits of ACRS. Utilities such as General, whose

current rates adequately recover the cost of service under normalization accounting, must determine if the approved method meets the requirements of §168(e)(3) of the IRC.

Moreover, Section 209(d) of ERTA provides that regulatory approval of a normalized method of accounting consistent with ERTA must be obtained in the first rate Order subsequent thereto or no later than January 1, 1983, for the utility to meet its requirements and to qualify for the maximum income tax deductions thereunder. Because it did not have a rate case pending before the Commission, General on December 9, 1982, filed an application requesting that a supplemental Order be issued by the Commission.

Findings and Orders

The Commission is of the opinion and finds that:

1. General should be authorized to use, for both book and rate-making purposes, a normalized method of accounting for the income tax effects of using accelerated depreciation methods such as ACRS on its income tax return and that this authorized method of accounting meets the normalization requirements of §168(e)(3) of the IRC;

2. General should be authorized to use, for both book and rate-making purposes, a normalized method of accounting for the use of investment tax credits;

3. The rates approved in General's last rate case (Case No. 8045, effective May 15, 1982) provide revenues sufficient to recover the cost of service predicated upon the use of the authorized normalization methods listed in 1. and 2.;

4. General should continue to be authorized, for both book and rate-making purposes, to use ACRS for calculating depreciation for income tax purposes and to use a normalization method of accounting, as defined and prescribed in ERTA, and (subject to Commission review) as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of ERTA: and

5. General should continue to be authorized to use, for both book and rate-making purposes, the normalization method of accounting for investment tax credits as contemplated in ERTA.

IT IS THEREFORE ORDERED that General be and it hereby is authorized to use, for both book purposes and rate-making purposes, a normalized method of accounting for the income tax effects of using accelerated depreciation methods such as ACRS on its income tax return and that this authorized method of accounting meets the normalization requirements of §168(e)(3) of the IRC.

IT IS FURTHER ORDERED that General be and it hereby is authorized to use, for both book and rate-making purposes, a

normalized method of accounting for the use of investment tax credits.

IT IS FURTHER ORDERED that General will continue to be authorized, for both book and rate-making purposes, to use ACRS for calculating depreciation for income tax purposes and to use a normalization method of accounting, as defined and prescribed in ERTA, and (subject to Commission review) as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of ERTA.

IT IS FURTHER ORDERED that General will continue to be authorized to use, for both book and rate-making purposes, the normalization method of accounting for investment tax credits as contemplated in ERTA.

Done at Frankfort, Kentucky, this 22nd day of December, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary