

*copy to
 Jim
 Lauer*

RECEIVED
 FEB 1993
 AMERICAN
 ELECTRIC
 POWER

Date February 4, 1993
 Subject 1993 Postretirement Benefits Expense

From G. S. Campbell/H. E. McCoy
 To E. Bafle - Ft. Wayne
 E. L. Berginnis - Ashland
 T. P. Bowman - Columbus (CSP)
 J. R. Hoffer - Canton
 C. D. Jones - Lancaster
 G. R. Knorr - Columbus
 G. E. Laurey - Roanoke

Beginning in 1993, the AEP System Companies must record postretirement benefits expense on the accrual basis in accordance with FASB Statement (SFAS) No. 106. This letter provides accounting instructions to record postretirement benefits expense based on a valuation performed by our actuary. A separate letter in the future will authorize postretirement benefits Voluntary Employees' Beneficiary Association (VEBA) trust fund contributions, which will be tied to recovery of the accrued expenses through rates.

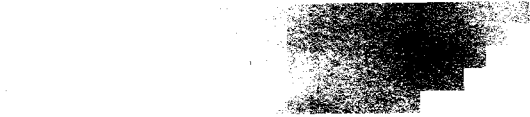
Postretirement benefits expense accrual adjustment totals to record the incremental SFAS No. 106 cost for 1993 are shown on the attached schedule. One-twelfth (1/12) of the total 1993 SFAS No. 106 accrual adjustment as shown on the attached schedule should be recorded each month, as follows:

Journal Entry No. 1

Account No.	Description	Debit	Credit
<i>JE 130</i> 626.71	Employee Pensions and Benefits - Other Postretirement Benefits	143,793 \$ XXX	
242 90	Miscellaneous Current and Accrued Liabilities - <i>OTHER POSTRETIREMENT BENEFITS</i>		143,793 \$ XXX

To accrue the incremental cost of postretirement benefits in accordance with SFAS No. 106.

SC - M ADD 143,793



AEP Service Corporation and the coal companies should record other postretirement benefits to their corresponding employee pensions and benefits accounts.

Since accrued postretirement benefits expenses are not currently deductible for federal income tax purposes, a Schedule M addition adjustment should be provided monthly to remove the accrued expense from taxable income. Deferred federal income taxes should be recorded through the Mechanized Tax System, which will result in the following journal entry:

Journal Entry No. 1 - Tax

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
190.1	Accumulated Deferred Income Taxes	\$ XXX	
411.1	Provision for Deferred Income Taxes - Credit, Utility Operating Income		\$ XXX

To defer the FIT related to the accrual of incremental SFAS No. 106 costs.

When contributions to the postretirement benefits VEBA trust fund are made (in accordance with future instructions), the payments should be recorded as follows:

Journal Entry No. 2

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
242	Miscellaneous Current and Accrued Liabilities	\$ XXX	
232	Accounts Payable		\$ XXX

To record contributions to the postretirement benefits VEBA trust fund.

February 4, 1993
Page 3

Contributions to the postretirement benefits VEBA trust fund are not necessarily fully deductible for income tax purposes when the contributions are made, although all SFAS No. 106 expense will become deductible when benefits are paid in the future. The currently deductible portion of VEBA contributions under the Internal Revenue Code is limited because it is calculated with no provision for future medical cost inflation. The currently deductible portion of VEBA contributions as determined by our actuary should be included in taxable income by providing a Schedule M deduction adjustment. Related deferred federal income taxes should be reversed through the Mechanized Tax System, which will result in the following journal entry:

Journal Entry No. 2 - Tax

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
410.1	Provision for Deferred Income Taxes, Utility Operating Income	\$ XXX	
190.1	Accumulated Deferred Income Taxes		\$ XXX

To reverse the SFAS No. 106 accrual deferred FIT to the extent that the accrual is currently deductible upon its contribution to the VEBA trust.

Total SFAS No. 106 cost is comprised of the accrual adjustment in Journal Entry No. 1 above plus retiree pay-as-you-go costs which are recorded along with the cost of life insurance and medical benefits for current employees in Accounts 626.43 and 626.44 as those benefits are paid. Accordingly, the cost of pay-as-you-go life insurance and medical benefits for retirees should be reclassified to SFAS No. 106 costs monthly in the amount of one-twelfth (1/12) of the annual numbers as shown on the attached schedule, as follows:

February 4, 1993
 Page 4

Journal Entry No. 3

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
JE 130 626.71	Employee Pensions and Benefits - Other Postretirement Benefits	56,485 \$ XXX	
626.43	Employee Pensions and Benefits - Group Life Insurance		12,354 \$ XXX
626.44	Employee Pensions and Benefits - Group Medical Insurance		44,131 XXX
	To reclassify the retiree portion of pay-as-you-go group life insurance and medical benefits to SFAS No. 106 costs.		

Until rate levels are adjusted to include SFAS No. 106 costs, some of the operating companies will defer for future recovery in certain jurisdictions the SFAS No. 106 increase in cost recorded in Journal Entry No. 1 above (but not Journal Entry No. 3). However, amounts which are currently billable through unit power agreements or other special contracts should be billed rather than deferred. Monthly deferrals of the SFAS No. 106 accrual adjustment recorded in Journal Entry No. 1 should be recorded for the jurisdictions indicated on the attached schedule, as follows:

Journal Entry No. 4

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
186	Miscellaneous Deferred Debits - Other Postretirement Benefits	\$ XXX	
626.71	Employee Pensions and Benefits - Other Postretirement Benefits		\$ XXX
	To defer the jurisdictional portion of the incremental cost of SFAS No. 106 postretirement benefits for future recovery.		

February 4, 1993
 Page 5

A Schedule M deduction adjustment should be provided monthly to remove the above deferral from taxable income. Related deferred federal income taxes should be recorded through the Mechanized Tax System, which will result in the following journal entry:

Journal Entry No. 4 - Tax

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
410.1	Provision for Deferred Income Taxes, Utility Operating Income	\$ XXX	
283.1	Accumulated Deferred Income Taxes - Other		\$ XXX
To record deferred FIT on SFAS No. 106 costs which have been deferred for future recovery.			

Once rate recovery begins, the incremental postretirement benefits cost deferred as a regulatory asset in Journal Entry No. 4 should be amortized commensurate with ratemaking treatment, as follows:

Journal Entry No. 5

<u>Account No.</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
626.71	Employee Pensions and Benefits - Other Postretirement Benefits	\$ XXX	
186	Miscellaneous Deferred Debits - Other Postretirement Benefits		\$ XXX
To amortize the deferred incremental cost of SFAS No. 106 postretirement benefits commensurate with rate recovery.			

In order to remove the amortization from current taxable income, a Schedule M addition adjustment should be provided. Related deferred income taxes should be reversed through the Mechanized Tax System, which will result in the following journal entry:



February 4, 1993
Page 6

Journal Entry No. 5 - Tax

Account No.	Description	Debit	Credit
283.1	Accumulated Deferred Income Taxes - Other	\$ XXX	
411.1	Provision for Deferred Income Taxes - Credit, Utility Operating Income		\$ XXX
	To amortize deferred FIT related to the amortization of deferred SFAS No. 106 costs.		

JE130

704-6800 14%
704-6800 3%

62672 14%

62673 3%

62674 -

The SFAS No. 106 cost recorded in Account 626.71 should be payroll loaded so that a portion of the cost will be capitalized as a component of construction cost. Payroll loading should be accomplished through manual adjustment until the programming to handle this automatically is complete.

Please contact us if you should have any questions.

H. E. McCoy

G. S. Campbell/H. E. McCoy

GSC:HEM:ca
Attachment

cc: L. V. Assante
G. C. Dean
P. J. DeMaria
B. G. Lynn
W. L. Scott
J. H. Shepard, Jr.
Deloitte & Touche

rc: H. W. Fayne
G. P. Maloney
R. A. Mueller
A. P. Varley

c:\hem\hem005.93

AEP System
 Postretirement Benefits Expense
 1993

Addressee	Company	SFAS 106 Accrual Adjustment	Plus Pay-As-You-Go Costs			Total SFAS 106 Cost	Jurisdictions to Record Deferral
			Medical	Life Insur.	Subtotal		
	Journal Entry No.:	JE #1	JE #3	JE #3			JE #4
E. L. Berginnis	Kentucky Power Co.	1,725,400	529,570	148,249	677,819	2,403,219	FERC
		<i>212</i>	<i>÷ 12</i>	<i>÷ 12</i>	<i>÷ 12</i>		<i>N/A</i>
		<i>148,783</i>	<i>44,131</i>	<i>12,354</i>	<i>56,485</i>		

(For Attachments Here)

JOURNAL ENTRY VOUCHER

KENTUCKY POWER COMPANY
Month and Year JANUARY, 1993

Page No. of
J.E.No. 013-J130

SHORT ACCOUNT TITLE	ACCOUNT	DESCRIPTION	CONTRA-ACCT	DEBIT	CREDIT
1 OPER MAINT EXP-UNSEG	40190	POSTRETIRE BENEFIT EXP	24290	143,783.00	
MC&AL-OH P/RET BENEFIT	24290	POSTRETIRE BENE ACCRUAL	40190		143,783.00
2 MC&AL-ALL OTHER	24299	DEFER W/O CHARGES	40190	27,318.00	
OPER MAINT EXP-UNSEG	40190	POST RETIRE W/O LOAD	24299		27,318.00
3 OPER MAINT EXP-UNSEG	40190	RECLASS TO SFAS 106	40190	56,485.00	
OPER MAINT EXP-UNSEG	40190	RECLASS FORM P.A.Y.G.	40190		56,485.00
KRS/df 02/09/93				227,586.00	227,586.00

EXPLANATION: 1)To accrue the incremental cost of postretirement benefits in accordance with SFAS No. 106 per letter of G. S. Campbell/H. E. McCoy letter of 2/4/93. 2)To load W/O with portion of other postretirement benefits that should be payroll loaded. 3)To reclassify the retiree portion of pay-as-go Group Life Insurance and medical benefits to SEAS No. 106 Costs

Acct. Dept. Approvals: Compiled By [Signature] Approved By [Signature] Key Entered FEB 10 1993 Form TRY-25 KY Rev. 1/91