



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

June 24, 2013

PARTIES OF RECORD

RE: Informal Conference for
Case No. 2013-00171

Enclosed please find a memorandum that has been filed in the record of the above-referenced cases. Any comments regarding the contents of the memorandum should be submitted to the Commission within seven days of receipt of this letter. Any questions regarding this memorandum should be directed to Ron Handziak of the Commission Staff at 502-782-2652.

Sincerely,



Jeff Derouen
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2013-00171

FROM: Ronald Handziak, Team Leader *RH*

DATE: June 24, 2013

RE: Informal Conference of June 19, 2013

Pursuant to the Commission's June 3, 2013 Order, on June 19, 2013, representatives of Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU") (collectively the "Companies") and Commission Staff ("Staff") met at the Commission's offices to discuss LG&E and KU's application for regulatory asset treatment of expenses associated with the Companies' proposed voluntary lump sum pension payment option. A list of attendees is attached.

Representatives of LG&E and KU made a presentation that included an overview of the proposed lump sum payment program, reasons for offering the lump sum payments and the corresponding regulatory asset treatment being requested. A copy of the presentation is attached to this memorandum.

Staff asked several clarifying questions related to information included in the presentation. The Companies agreed to provide supporting documentation of calculations presented at the meeting along with references to accounting requirements for pension accounting. The additional information will be included with the Companies' response to Commission Staff's initial data request that is due on June 21, 2013.

There being no other questions, the meeting adjourned.

Attachments

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

VERIFIED JOINT APPLICATION OF LOUISVILLE)
 GAS AND ELECTRIC COMPANY AND KENTUCKY) CASE NO.
 UTILITIES COMPANY FOR A REGULATORY) 2013-00171
 ACCOUNTING ORDER)

ORDER

Allyson Sturgeon	LG+E / KU
Eel STATION	" "
VALERIE SCOTT	LG+E / KU
Dan Arbough	LG+E / KU
Angela Sparks	LG+E / KU
Julie R. Prie	SFO for LG+E / KU
Ken Mudd	LG+E / KU
RICK LOEKAMP	LG+E / KU
Fereydoon Gorjian	PSC / Engineering
Matthew Baer	PSC - FA
Jonathan Beyer	PSC - Legal
Ron Handziak	PSC - FA
Bob Russell	PSC
RICHARD RAFF	PSC - LEGAL
Bary Dorn	SFO for LG+E / KU



PPL companies

Application for a Regulatory Accounting Order: Pension Lump-Sum Payment Option

*Kentucky Public Service Commission
Case No. 2013-00171
Informal Conference
June 19, 2013*



Agenda

I. Background

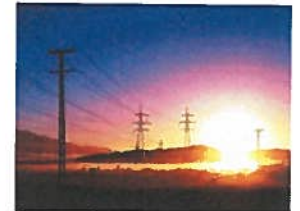
II. The Lump-Sum Payment Option

III. Regulatory Asset Treatment



PPL companies

I. Background



The Two Retirement Plans

- **LG&E Company Bargaining Employees' Retirement Plan (LG&E Union Plan)**
 - *Approximately 2,800 participants*
 - *Approximately \$331.7 million Pension Benefit Obligation (PBO) as of 12/31/12*
 - *LG&E is the administrator for the Plan*
- **LG&E and KU Retirement Plan**
 - *Approximately 5,300 participants*
 - *Approximately \$1.08 billion PBO as of 12/31/12*
 - *LG&E and KU Energy LLC is the administrator for the Plan*
- **Mercer is the record keeper for the Retirement Plans**
- **BNY Mellon is the trustee for the Retirement Plans**

Funding Status: Current and Post-Option

Current

	<u>As of 12/31/2012</u>	<u>Add: Jan 2013 Contribution</u>	<u>Post Contribution</u>
<u>LG&E Union Plan</u>			
Assets	\$287.5	\$10.6	\$298.1
PBO	<u>\$331.7</u>		<u>\$331.7</u>
Funded Status	87%		90%
<u>LG&E and KU Retirement Plan</u>			
Assets	\$780.2	\$139.3	\$919.5
PBO	<u>\$1,081.5</u>		<u>\$1,081.5</u>
Funded Status	72%		85%

Post-Option

	<u>Post Contribution</u>	<u>60% Take Rate Impact</u>	<u>Post Election</u>
<u>LG&E Union Plan</u>			
Assets	\$298.1	(\$20.3)	\$277.8
PBO	<u>\$331.7</u>	<u>(\$19.8)</u>	<u>\$311.9</u>
Funded Status	90%		89%
<u>LG&E and KU Retirement Plan</u>			
Assets	\$919.5	(\$47.3)	\$872.2
PBO	<u>\$1,081.5</u>	<u>(\$46.6)</u>	<u>\$1,034.9</u>
Funded Status	85%		84%

*Amounts in millions (\$)

Reasons for Offering the Lump-Sum Payment Option

- **Mitigate risks, including:**
 - *Risk of returns on investments not meeting expectations*
 - *Risk of changed discount rates*
 - *Risk of changes in mortality rates*
- **Results in less volatility in the ongoing pension expense**
- **Create and achieve administrative savings and efficiencies**
- **Maintain credit ratings**
- **Changes to the Internal Revenue Code**

Expected Savings

- **Anticipated savings between \$1.4 million and \$2.1 million (present value) depending upon the take rate**
- **Savings result from:**
 - **Eliminating Pension Benefit Guaranty Corporation (PBGC) premiums**
 - **Currently \$42 per participant, per year; \$49 in 2014**
 - **Eliminating trustee and administrative fees**
 - **Currently \$49 per participant, per year**
- **Savings are over life of the plans**

Other Companies Offering a Lump-Sum Payment Option

- **Ford**
- **General Motors**
- **YUM! Brands**
- **Exelon**
- **AEP**



PPL companies

II. The Companies' Lump-Sum Payment Option



The Companies' Lump-Sum Payment Option

- The Option is entirely voluntary
- Terminated Vested Employees (TVEs) are individuals, besides current retirees, who no longer work for the Companies but are vested in one of the Retirement Plans

Age Category	LG&E and KU Retirement Plan	LG&E Company Bargaining Employees Retirement Plan	Total of Both Plans
26 to 30	1	0	1
31 to 35	6	0	6
36 to 40	34	4	38
41 to 45	95	4	99
46 to 50	230	22	252
51 to 55	303	151	454
56 to 60	210	156	366
61 to 65	92	59	151
65+	33	11	44
Total	1,004	407	1,411

- Approximately 1,400 TVEs are eligible
- Can be rolled into individual retirement fund

Timeline

<u>Timeline</u>	<u>Activities</u>
Early Fall	Announcement letter issued to participants
Within days of announcement letter	Call center goes live
One week after announcement letter	Election Kits sent to participants
Within days of Election Kits	Election period opens
Two weeks before election period closes	Reminder letter
One month after election period opens	Deadline for elections
Throughout election period and week thereafter	Elections processing
After last month-end during election period	Redo all lump-sum calculations based on the interest rates as of two months prior to the last month-end that occurs during the election period
Two weeks after redone calculations	Depending on interest rate changes, send additional letter to participants indicating lump sum may be higher than amount elected
One month after election deadline	Payments issued
Two weeks after payments issued	Call Center closes

Sample Announcement Letter

Announcement Postcard – Standard Communications Package

Introduces lump sum opportunity with a personalized message targeted to eligible participants over 55 and under 55



Mercer

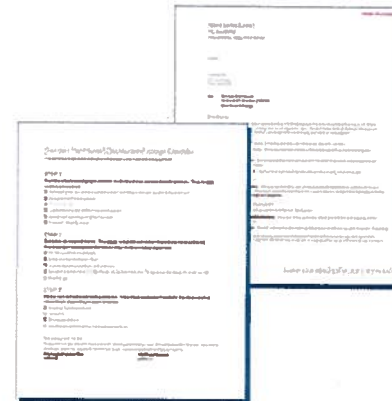
12

Sample Election Form

Distribution Package – Standard Communications Package



Includes a personalized letter highlighting the considerations of taking a lump sum payment now, along with an easy-to-follow checklist



Meritor

Illustration

Illustrative TVE Lump-Sum Payment Amounts

LG&E Union Plan

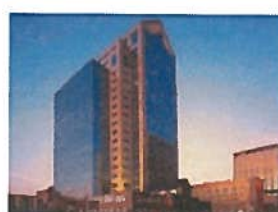
Example	Years & Months of Service at Termination Date	Current Age as of May 2013	Monthly Accrued Benefit Amount	Illustrative Lump-Sum Amount (a)
1	6 yrs, 5 mo	Age 40, 11 mo	\$350	\$17,300
2	15 yrs, 11 mo	Age 52, 6 mo	\$1,120	\$101,800
3	25 yrs, 7 mo	Age 51, 5 mo	\$1,770	\$217,800

(a) Illustrative lump-sum amount based on a payment date of December 1, 2013. Lump-sum amounts determined using IRS-prescribed § 417(e)(3) mortality for 2013 and the November 2012 § 417(e)(3) interest rate basis for the LG&E Union Plan. Actual lump-sum payment will be based on plan provisions (including the interest rate basis) in effect at the time of the lump-sum payment.



PPL companies

III. Regulatory Asset Treatment



Existing Regulatory Assets

- **First created in 2004 Rate Cases following FERC Opinion Letter on SFAS No. 87 (March 29, 2004)**
- **Subsequently, when SFAS No. 87 was amended by SFAS No. 158, FERC issued Guidance (March 29, 2007)**
- **2010 and 2012 Rate Cases, test year pension expenses and associated regulatory assets and liabilities were calculated in accordance with the 2007 FERC Guidance**
- **Currently, the regulatory assets include approximately \$136.3 million for the LG&E Union Plan and \$210.6 million for the LG&E and KU Retirement Plan**

Requested Regulatory Asset Treatment

- **Absent authority, the Companies may be required to recognize certain expenses in connection with the Lump-Sum Payment Option, known as the Settlement Charges**
- **The amount of Settlement Charges depends upon the take rate**
 - *Settlement charges triggered if lump-sum payments exceed the interest cost plus service cost for the respective plan*
- **The take rate is projected at 40% to 60%**

Example of Overall Impact

Approximate amounts the Companies will incur based upon a 60% take rate:

	LG&E Union Plan		LG&E & KU Retirement Plan		Total	
	Settlement Charges	Excess of Booked Liability	Settlement Charges	Excess of Booked Liability	Settlement Charges	Excess of Booked Liability
LG&E	7.5	0.5	0.0	0.3	7.5	0.8
KU	0	0	0	0.4	0	0.4

*Amounts in millions (\$)

LG&E Union Plan

LG&E Union Plan

Illustrative Regulatory Accounting Impact as of 12/31/2012

Uniform Take Rate (\$ millions)		<u>Baseline</u>	<u>40%</u>	<u>50%</u>	<u>60%</u>	<u>65%</u>	<u>70%</u>	<u>100%</u>
Estimated impact of lump sum window:								
Liability weighted take rate			40%	50%	60%	65%	70%	100%
Projected benefit obligation settled	A	n/a	\$ 13.2	\$ 16.5	\$ 19.8	\$ 21.4	\$ 23.1	\$ 33.0
Fair value of assets settled	B	<u>n/a</u>	<u>\$ (13.5)</u>	<u>\$ (16.9)</u>	<u>\$ (20.3)</u>	<u>\$ (22.0)</u>	<u>\$ (23.7)</u>	<u>\$ (33.8)</u>
Balance sheet impact	C	n/a	\$ (0.3)	\$ (0.4)	\$ (0.5)	\$ (0.6)	\$ (0.6)	\$ (0.8)
Funded Status:								
Projected benefit obligation	D	\$ (331.7)	\$ (318.5)	\$ (315.2)	\$ (311.9)	\$ (310.3)	\$ (308.6)	\$ (298.7)
Fair value of assets		<u>\$ 287.5</u>	<u>\$ 274.0</u>	<u>\$ 270.6</u>	<u>\$ 267.2</u>	<u>\$ 265.5</u>	<u>\$ 263.8</u>	<u>\$ 253.7</u>
Funded status		\$ (44.2)	\$ (44.5)	\$ (44.6)	\$ (44.7)	\$ (44.8)	\$ (44.8)	\$ (45.0)
Amounts recognized in accumulated other comprehensive income:								
Transition obligation (asset)		\$ -						
Prior service cost (credit)		\$ 17.5						
Unrecognized loss (gain)	E	<u>\$ 122.8</u>						
Total		\$ 140.3						
One-time accounting impact:								
Estimated settlement threshold		\$ 15.8	\$ 15.8	\$ 15.8	\$ 15.8	\$ 15.8	\$ 15.8	\$ 15.8
Settlement accounting triggered		n/a	N	Y	Y	Y	Y	Y
Percentage of obligation settled	F=B/(C+D)	n/a	4.1%	5.1%	6.1%	6.6%	7.1%	10.2%
One-time settlement charge	G=(E-C)*F	n/a	n/a	6.3	7.5	8.2	8.8	12.6

LG&E and KU Retirement Plan

LG&E and KU Retirement Plan

Illustrative Regulatory Accounting Impact as of 12/31/2012

Uniform Take Rate (\$ millions)		<u>Baseline</u>	<u>40%</u>	<u>50%</u>	<u>60%</u>	<u>65%</u>	<u>70%</u>	<u>100%</u>
Estimated impact of lump sum window:								
Liability weighted take rate			40%	50%	60%	65%	70%	100%
Projected benefit obligation settled	A	n/a	\$ 31.1	\$ 38.8	\$ 46.6	\$ 50.5	\$ 54.3	\$ 77.6
Fair value of assets settled	B	<u>n/a</u>	<u>\$ (31.5)</u>	<u>\$ (39.4)</u>	<u>\$ (47.3)</u>	<u>\$ (51.2)</u>	<u>\$ (55.1)</u>	<u>\$ (78.8)</u>
Balance sheet impact	C	n/a	\$ (0.4)	\$ (0.6)	\$ (0.7)	\$ (0.7)	\$ (0.8)	\$ (1.2)
Funded Status:								
Projected benefit obligation	D	\$ (1,081.5)	\$ (1,050.4)	\$ (1,042.7)	\$ (1,034.9)	\$ (1,031.0)	\$ (1,027.2)	\$ (1,003.9)
Fair value of assets		<u>\$ 780.2</u>	<u>\$ 748.7</u>	<u>\$ 740.8</u>	<u>\$ 732.9</u>	<u>\$ 729.0</u>	<u>\$ 725.1</u>	<u>\$ 701.4</u>
Funded status		\$ (301.3)	\$ (301.7)	\$ (301.9)	\$ (302.0)	\$ (302.0)	\$ (302.1)	\$ (302.5)
Amounts recognized in accumulated other comprehensive income:								
Transition obligation (asset)		\$ -						
Prior service cost (credit)		\$ 25.1						
Unrecognized loss (gain)	E	<u>\$ 313.0</u>						
Total		\$ 338.1						
One-time accounting impact:								
Estimated settlement threshold		\$ 69.5	\$ 69.5	\$ 69.5	\$ 69.5	\$ 69.5	\$ 69.5	\$ 69.5
Settlement accounting triggered		n/a	N	N	N	N	N	Y
Percentage of obligation settled	F=B/(C+D)	n/a	2.9%	3.6%	4.4%	4.7%	5.1%	7.3%
One-time settlement charge	G=(E-C)*F	n/a	n/a	n/a	n/a	n/a	n/a	22.9

LKE Retirement Plans

LKE Retirement Plans

Estimated Impact of Lump Sum Window

Illustrative Administrative Cost Savings as of 12/31/2012

Uniform Take Rate	Present Value of Estimated PBGC and Administrative Cost Savings (\$ in millions)		Total
	LG&E Company Bargaining Employees' Retirement Plan	LG&E and KU Retirement Plan	
	40%	\$ 0.4	
50%	0.5	1.3	1.8
60%	0.5	1.6	2.1
65%	0.6	1.7	2.3
70%	0.6	1.8	2.4
100%	\$ 0.9	\$ 2.6	\$ 3.5

Ongoing cost savings will be offset by window implementation costs of approximately \$0.3 million

Key Assumptions

Present Value Basis: 4.20%

PBGC Premiums reflect new flat rates: \$42/participant in 2013, and \$49/participant in 2014. Assumed to increase at 3.5% annually.

Administrative Fees: \$49/participant in 2012 (per PPL) with 2.5% CPI

Based on 1/1/2012 valuation census data. Actives with frozen benefits were removed from the populations; WKE Union plan not included in analysis. Assumes no new entrants to the plan population.

If window is implemented, actual take rates and composition of electing group will determine actual savings amounts.

Summary

- **The Companies respectfully request the Commission enter an Order:**
 - **Authorizing them to continue the regulatory asset recognition process for Settlement Charges for amounts that otherwise may require recognition as an expense; and**
 - **Authorizing them to include in the regulatory asset amounts paid to TVEs that are in excess of the pension liability accrued for TVEs.**
- **To complete the process by year-end, the Companies request the Order by August 12, 2013.**