STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 12th day of June, 1992.

In the matter of the application of Union Electric Company for an accounting authority order.) Case No. EO-92-179

ACCOUNTING AUTHORITY ORDER

On January 28, 1992, Union Electric Company (UE) filed an application before the Missouri Public Service Commission (Commission) seeking issuance of an accounting authority order for UE's postretirement benefit expense other than pensions (PBOPs) On May 15, 1992 the Commission's Staff (Staff) filed its recommendation.

Background of PBOPs

PBOPs refer to certain benefits paid to retired employees that are nonpension-related, primarily medical benefits. Almost all major utilities incur PBOP expense to some degree, and such costs, if prudently incurred, have been granted rate recovery in Missouri and other jurisdictions. Traditionally, such costs have been treated both for financial reporting and for ratemaking purposes on a "pay-as-you-go" basis; i.e., PBOP expense was booked at the time the utility paid out cash to its retired employees. In 1990 the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 106 (FAS 106), concerning financial reporting for PBOP costs. FAS 106 mandated that companies must change over to an accrual method of accounting for PBOPs for financial reporting purposes, effective January 1, 1993 for most entities. Use of accrual accounting for PBOPs means that utilities must attempt to estimate, and charge to expense, the PBOPs earned by employees during the period of their service with the company. Moving to an accrual method of accounting for PBOPs will, for most utilities, sharply increase the amount of PBOP expense charged on the company's financial statements after the adoption of FAS 106.

Regulated utilities such as UE must follow the dictates of FASB for financial reporting purposes unless they seek authorization from their regulators to deviate from generally accepted accounting principles (GAAP) as promulgated by FASB and such authorization meets the standards of FASB as set out in Financial Accounting Standard No. 71 (FAS 71). FAS 71, among other things, allows a utility to capitalize a cost on its financial statements that under GAAP would normally be expensed if the utility's regulators authorize such treatment and if it is "probable" that such capitalized costs will be recoverable in future revenues by the utility in rates. Such authorizations by regulators are normally given in the form of rate orders or accounting authority orders. Costs normally expensed that are capitalized by utilities pursuant to FAS 71 are called "regulatory assets".

Accounting Authority Order Standards

Accounting authority orders are used by the Commission to authorize utilities to deviate from the standard accounting prescribed in the Uniform System of Accounts adopted by the Commission. In recent cases before the Commission, discussion regarding accounting authority orders has centered on whether certain expenditures should be considered "extraordinary items" and thus deferred on the books for possible future recovery in rates, in contravention of normal accounting and ratemaking practice. In the Staff's opinion, the emphasis behind this accounting authority order request is somewhat different from those cases. UE is requesting authority to maintain its booking for PBOPs in accordance with past ratemaking treatment by the Commission. In short, UE is seeking to maintain the status quo financial reporting for PBOPs until ratemaking treatment is afforded. (It should be noted, however, that an accounting change of the magnitude of FAS 106 could probably be considered an "extraordinary event".)

UE Application

UE in its application is seeking to have the Commission authorize continued use of pay-as-you-go accounting for PBOPs on its financial statements after January 1, 1993, through issuance of an accounting authority order. If the Commission grants UE's request, UE would continue to only charge PBOP costs to expense as they are actually paid out to retirees, and would book the differential between the expense amount calculated under FAS 106 and the pay-as-you-go amount as a regulatory asset, booked to Uniform System of Accounts No. 186, Miscellaneous Deferred Debits. PBOP amounts charged to Account 186 would represent costs that will be charged to expense in future periods when the actual cash outlays to retired employees are made.

UE states in its application that it is seeking an accounting authority order from the Commission on this matter based on the fact that the Commission has historically treated PBOP expense on a pay-as-you-go basis for ratemaking purposes, and that the position of the Commission regarding accrual treatment of PBOPs for ratemaking purposes will not be known until sometime in the future. UE's application notes that it has not yet performed a detailed actuarial study concerning calculation of PBOP expense under the accrual methodology beyond 1992. Such a study is expected to be completed later this year. However, UE estimates that under an accrual methodology, PBOP expense will be approximately $60 million in 1993, while under a pay-as-you-go basis PBOP expense will be approximately $15 million.

Staff Recommendation

The Staff believes UE's request for an accounting authority order regarding PBOP expense is reasonable for several reasons:

1. If utilities begin booking PBOP expense on an accrual basis under FAS 106 in January, 1993, most of the major utilities in Missouri will be charging significantly greater PBOP expense on their books at that time compared to

the pay-as-you-go amounts. The reduced earnings associated with FAS 106 booking of PBOPs could lead to a major upsurge in rate case activity in this jurisdiction. Accounting authority orders would give the individual utilities more flexibility to seek future ratemaking treatment of PBOPs in a manner and at timing of their own choosing, if desired.

2. The Staff's preliminary review of possible ratemaking issues associated with accrual treatment of PBOPs has led to the conclusion that there are a number of important issues to be considered before ratemaking treatment of PBOPs is decided in the future. Among these issues are the need to make a determination of the degree that accrual calculations of PBOPs represent accurate quantifications of future PBOP payouts, and the degree that amounts calculated on accrual basis for PBOPs represent legal liabilities for the utilities. The Staff believes that such questions should be thoroughly examined by the Commission, through evidence presented to it by interested parties in a rate case format, before the Commission embarks on any implied or explicit acceptance of FAS 106 accrual methodology for ratemaking purposes. Until a thorough examination of PBOP ratemaking issues in light of FAS 106 is made, the Staff sees benefit to allowing utilities to maintain pay-as-you-go accounting for PBOPs through use of accounting authority orders.

The Staff also concludes that, in any order granting UE's request for an accounting authority order, the Commission should express a general intent to allow future rate recovery of prudently incurred PBOP costs that are booked as a regulatory asset pursuant to the order. Such an expression of general intent is necessary to meet the criteria for creation of a regulatory asset for financial reporting purposes.

Findings of Fact

The Commission finds Staff's recommendation to be a reasonable approach in dealing with the implementation of FAS 106. The Commission determines that reduced earnings associated with FAS 106 booking of PBOPs could lead to a deluge of rate cases in Missouri. An accounting authority order will provide the flexibility that the utility needs in planning future ratemaking treatment of PBOPs. Likewise, the ratemaking format will allow the Commission the opportunity to examine PBOP ratemaking issues through evidence presented to it. Maintaining pay-as-you-go accounting for PBOPs actually paid out to retirees and booking the differential between the expense amount calculated under FAS 106 and the pay-as-you-go amount as a regulatory asset will allow for those desirable alternatives to occur. At the same time, the Commission expresses its general intent to allow future rate recovery of prudently incurred PBOP costs that are booked as regulatory assets. The Commission finds that such an expression of general intent is necessary to meet the criteria for creation of a regulatory asset for financial reporting purposes. It should be noted that the Commission's expression of a general intent to allow recovery of this item on a pay-as-you-go basis in the future does not preclude the Commission from examining the reasonableness or the prudence of future pay-as-you-go PBOP cash outlays, or limit the Commission's authority at a later time to determine that an accrual basis for calculating PBOPs is appropriate for ratemaking purposes.

IT IS THEREFORE ORDERED:

1. That Union Electric Company be hereby authorized to continue to use the pay-as-you-go methodology for calculating the amounts charged to postretirement benefit expenses other than pensions (PBOPs) on its financial statements after January 1, 1993, based on actual payments to retirees. The differential between the expense amount calculated under Financial Accounting Standard No. 106 and the pay-as-you-go amount shall be booked to Uniform System of Accounts No. 186, Miscellaneous Deferred Debits, as a regulatory asset.

2. That the Commission intends to allow prudently incurred PBOP costs to be recovered in the future on a pay-as-you-go basis. PBOPs are legitimate and

historically approved costs of providing service and, absent evidence that they are excessive or imprudently incurred, they will continue to be recovered by Union Electric Company on a pay-as-you-go basis. Further, the Commission believes it is probable that PBOPs capitalized as a regulatory asset, as a result of adopting Financial Accounting Standard No. 106, will likewise be recovered in rates.

3. That nothing in this order shall be considered a finding of the Commission of the reasonableness of the expenditures involved herein, or of the value for ratemaking purposes of the properties herein involved, or as an acquiescence in the value placed by Union Electric Company upon PBOP expenses or costs involved; and the Commission reserves the right to consider the ratemaking treatment to be afforded these expenditures in any later proceeding.

4. That this order shall become effective on the 23rd day of June, 1992

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,
Perkins and Kincheloe, CC., concur.