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VIA OVERNIGHT MAIL

April 26, 2012

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

RECEIVED

APR 27 2012

**PUBLIC SERVICE
COMMISSION**

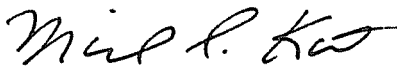
Re: Case No. 2011-00036

Dear Mr. Derouen:

Please find enclosed the original and ten (10) copies of the SUPPLEMENTAL REBUTTAL REHEARING TESTIMONY AND EXHIBITS OF LANE KOLLEN on behalf of the KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. for filing in the above-referenced matter.

By copy of this letter, all parties listed on the Certificate of Service have been served. Please place these documents of file.

Very Truly Yours,



Michael L. Kurtz, Esq.

Kurt J. Boehm, Esq.

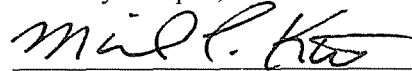
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

cc: Certificate of Service
Richard Raff, Esq.
David C. Brown, Esq.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail (when available) or by mailing a true and correct copy by overnight mail, unless other noted, this 26th day of April, 2012 to the following



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Kurt J. Boehm, Esq.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS))
ELECTRIC CORPORATION FOR)) **CASE NO. 2011-00036**
A GENERAL ADJUSTMENT IN RATES))

SUPPLEMENTAL
REHEARING TESTIMONY
AND EXHIBITS
OF
LANE KOLLEN

ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

April 2012

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|----------------------------|
| APPLICATION OF BIG RIVERS |) | |
| ELECTRIC CORPORATION FOR |) | CASE NO. 2011-00036 |
| A GENERAL ADJUSTMENT IN RATES |) | |

SUPPLEMENTAL REHEARING TESTIMONY OF LANE KOLLEN

1 **Q.** **Please state your name and business address.**

2 A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell,
4 Georgia 30075.

5 **Q.** **Have you previously filed testimony in this proceeding?**

6 A. Yes. I filed Direct Testimony summarizing KIUC's recommendations and
7 addressing specific revenue requirement issues. In addition, I filed Rehearing
8 Testimony addressing incremental rate case expense and depreciation on
9 construction work in progress ("CWIP").

10 **Q.** **What is the purpose of your Supplemental Rehearing Testimony?**

11 A. The purpose of my testimony is to address whether the depreciation rates
12 approved in the Commission's November 17, 2011 Order should be corrected and
13 modified to reflect the depreciation rates proposed by KIUC. The Commission
14 directed the parties to address this issue through additional testimony in its April
15 12, 2012 Order in this proceeding.

1 **Q. Please summarize your testimony.**

2 A. I recommend that the Commission correct and modify the Company's
3 depreciation rates to reflect the depreciation rates proposed by KIUC through the
4 Direct Testimony of Mr. Charles King, its depreciation witness in this proceeding.
5 These depreciation rates are shown on Revised Schedule 1 of Exhibit ___ CWK-1
6 in column (2) attached to Mr. King's Direct Testimony. I have attached a copy of
7 Mr. King's depreciation rates as my Supplemental Rehearing Exhibit ___(LK-1).

8 In its November 17, 2011 Order, the Commission found that the
9 depreciation study presented by KIUC constituted "credible evidence" in support
10 of KIUC's proposed depreciation rates,¹ but nevertheless adopted Big Rivers'
11 proposed depreciation rates.

12 The depreciation rates developed and sponsored by Mr. King correctly
13 reflect the service lives for the Company's generating units determined by Big
14 Rivers' management and reported to the Rural Utilities Service ("RUS"), the
15 Company's largest creditor.² In contrast, the depreciation rates developed for the
16 Company by Burns & McDonnell ("BMD") and sponsored by Mr. Ted Kelly
17 reflect shorter service lives that are not supported by the evidence. The average
18 service lives developed by Mr. King also reflect the same interim retirement data
19 used by Mr. Kelly in the BMD study, including the simulated data for the period
20 when the generating units were not owned by Big Rivers.

21 In addition, I recommend that the Commission reject the Company's

1 KPSC Order p. 20.

2 King Direct Testimony at p. 11.

1 attack on the KIUC depreciation rates set forth by Mr. Kelly in his Rebuttal
2 Testimony and his fundamentally flawed “revisions” to Mr. King’s depreciation
3 rates. His revisions are not consistent with normal depreciation practice.

4 **Q. What is the effect of your recommendation?**

5 A. The KIUC depreciation rates will reduce depreciation expense and the revenue
6 requirement by \$5.851 million. This quantification is based on the difference in
7 the KIUC depreciation rates compared to the present depreciation rates applied to
8 the gross plant in service at October 31, 2010, the end of the historic test year. It
9 does not include the effects of the depreciation rates applied to any amount of
10 CWIP at October 31, 2010, consistent with the Commission’s determination that
11 all CWIP should be excluded from the computation of depreciation expense. The
12 computations are detailed on my Supplemental Rehearing Exhibit___(LK-2).

13 **Q. What effect will your recommendation have on Big Rivers?**

14 A. Initially, there will be no effect on the Company’s margins, although it will
15 reduce the Company’s cash flow. When rates are reset, there is a matching of the
16 Company’s costs with revenues. Thus, the reduction in depreciation expense will
17 be matched with a reduction in revenues and there will be no effect on the
18 Company’s margins, TIER, DSC, or MFIR, all else equal.

19 Subsequently, as gross plant in service increases, there will be a beneficial
20 effect on the Company’s margins compared to the present depreciation rates. The
21 KIUC depreciation rates are lower than the present depreciation rates. Thus, the
22 depreciation expense on capital additions since the end of the test year in this

1 proceeding will be less than if the present depreciation rates are affirmed. The
2 reduction in depreciation expense will improve the Company's margins until the
3 Company's base rates are reset in the future, all else equal.

4 **Q. What did the Commission's November 17, 2011 Order conclude with respect**
5 **to the remaining service lives used in Big Rivers' depreciation study?**

6 A. On page 20 of the Order the Commission stated:

7 As we analyze the evidence, we concur with the depreciation experts that
8 the remaining service lives of Big Rivers' assets are essentially estimates
9 based on past patterns of retirements, in addition to assumptions of the
10 remaining number of plant operating hours and the probability of plant life
11 extensions. In this instance, our review of the record indicates that both
12 Big Rivers and KIUC have presented credible evidence in support of their
13 respective positions on the remaining service lives and proposed
14 depreciation rates. However, due to the problem of early retirements
15 experienced by Big Rivers since the closing of the Unwind Transaction,
16 there is a clear need to utilize shorter service lives. For that reason, we
17 will approve and authorize Big Rivers' use, on a going-forward basis, of
18 the depreciation rates proposed in its application.

19

20 **Q. Do you agree with the Order that Big Rivers "presented credible evidence in**
21 **support" of its position on the remaining service lives and proposed**
22 **depreciation rates?**

23 A. No. The record shows that there were numerous inconsistencies and inaccuracies
24 in the BMD depreciation study and incorporated in the Company's depreciation
25 rates. The Big Rivers' depreciation rates are not reasonable.

26 **Q. Please describe the inconsistency between the service lives used in the BMD**
27 **study and the service lives Big Rivers management provided to Mr. Kelly**
28 **and to the RUS.**

1 A. Mr. Kelly generally used shorter remaining service lives than he was provided by
2 Big Rivers' management based on the probable retirement dates for the
3 generating units. In the narrative section of the BMD study, Mr. Kelly reported
4 the probable retirement dates provided by Big Rivers' management. Instead of
5 simply using these probably retirement dates to determine the service lives, Mr.
6 Kelly developed a range of remaining service lives for each of Big Rivers'
7 generating units based on various other assumptions, including remaining
8 operating hours and the probability of plant life extensions.

9 Mr. Kelly then subjectively combined this information for each generating
10 unit and translated it into the remaining lives for each plant account shown in
11 Table ES-1 in the BMD depreciation study. Mr. Kelly chose remaining lives at
12 the low end of the ranges for each account. Mr. Kelly relied in part on the simple
13 averages and mW weighted averages of the remaining lives for each generating
14 unit to determine the remaining lives for the gross plant investment in plant
15 accounts such as accounts 312 and 314. However, the normal practice is to
16 determine the average lives for each plant account by weighting the service lives
17 by the gross plant in service investment for each generating unit. The results of
18 Mr. Kelly's unusual methodologies were to understate the remaining lives for the
19 plant accounts and thus, overstate the depreciation expense and rates. The
20 problems with Mr. Kelly's analysis are described in greater detail in Mr. King's
21 Direct Testimony.

22 According to Mr. Kelly in his Rebuttal Testimony, he used six separate
23 assumptions regarding useful lives to develop a dispersion of results and to inform

1 his judgment. The total service life assumptions appear to have been selected in
2 order to support shorter remaining lives than management expects and that it
3 reported to the RUS. For example, in a February 28, 2011 letter to RUS³ and in a
4 January 2011 Report, BMD projected that the Wilson unit would remain in
5 service life through the year 2051; equating to a 65 year total life. In the January
6 2011 Report, BMD states that Wilson “*is in excellent condition for its age and*
7 *service requirements. Provided that operation and maintenance continue as is,*
8 *this unit is estimated to be suitable for ongoing service through the year 2051.*”⁴

9 Despite Big Rivers’ management’s intent to operate the generating units
10 until their probable retirement dates and Big Rivers’ representations to the RUS,
11 which were repeated in the BMD study, Mr. Kelly actually did not use a 65 year
12 life span for the Wilson unit. Instead, he claims to have assumed a wide variety
13 of service lives for the Wilson unit, ranging from 57 to 65 years, and then used a
14 life span somewhere within this range in the calculation of depreciation rates.⁵ If
15 correct, this claim would result in a remaining service life of 33 to 41 years.
16 However, Mr. Kelly assumed that all gross plant investment in plant accounts 312
17 and 314 had a remaining life of only 28 years and the amount in account 313 had
18 a remaining life of only 30 years on average when combined with the other
19 production plant amounts in those accounts.

20 The gross plant in service costs for each of the Big Rivers power plants are

3 KIUC Cross Exam Exhibit 15 p. 5.

4 KIUC Cross Exam Exhibit 15, p. 11.

5 Kelly Rebuttal Testimony at pp. 9-12.

1 recorded in plant accounts. The depreciation rates were developed at the plant
2 account level in the depreciation study (Structures, Boiler Plant, Turbine, etc.).
3 Wilson should have the greatest effect on the remaining lives for each plant
4 account because it is the Company's newest and most expensive generating unit
5 in absolute dollars and on a per mW basis. Wilson comprises approximately 60%
6 of the cost included in each plant account.⁶

7 Despite Big Rivers' management's estimate of a 65 year life for Wilson,
8 only two of the six studies cited by Mr. Kelly in his Rebuttal Testimony to
9 determine the remaining lives for each account reflected the proper service life of
10 65 years for Wilson, namely, studies #1 and #4. That is why the remaining
11 service lives computed in studies #1 and #4 were longer than the remaining lives
12 used by Mr. Kelly for his proposed depreciation rates. The Table below compares
13 the assumed remaining useful lives used in the BMD Report (Column 1) to the
14 Kelly rebuttal testimony scenarios #1 and #4 (Columns 2 and 3, respectively),
15 which used the 65 year life for Wilson.⁷

6 KIUC Cross Exam Exhibit 15.

7 Kelly Rebuttal Testimony at pp. 9-12.

1

REMAINING SERVICE LIVES (YEARS)⁸

| Gross Plant | (1) Table ES-1 Remaining Life Based On B&M Judgment (Actually Used In Depreciation Study) | (2) B&M Actual Operating Hours (Annual) Remaining Life Analysis #1 (Using A 65 Year Total Life For Wilson) | (3) B&M Actual Operating Hours (Annual) Remaining Life Analysis #4, (Using A 65 Year Total Life For Wilson) |
|------------------------------------|--|---|--|
| Account 311 - \$124,375,974 | 30 | 33.8 | 31.6 |
| Account 312 - \$667,206,536 | 28 | 34.2 | 32.3 |
| Account 312 A-K - \$574,184,346 | 28 | 34.2 | 32.3 |
| Account 314 - \$225,272,354 | 28 | 33.6 | 31.3 |

2

3 **Q. Are the problems with Mr. Kelly's methodology limited to Wilson or do they**
 4 **also affect the remaining lives for the other generating units reflected in the**
 5 **average for each plant account?**

6 A. The problems affect the remaining service lives for the other generating units
 7 reflected in each plant account. I focused on the Wilson unit as a point of

8 KIUC Cross Exam Exhibit 14 for Column (1); KIUC Cross Exam Exhibit 15 at p. 12 for Columns (2)
and (3).

1 reference, but Mr. Kelly applied the same flawed methodology in his treatment of
2 the other Big Rivers' generating units.⁹ Mr. King developed a corrected
3 computation of the average remaining lives for each plant account using the
4 Company's life spans based on the Company's probable retirement dates,
5 adjusted for interim retirements based on the same retirement information used by
6 Mr. Kelly, and weighted these life spans based on the plant dollars for each
7 generating unit in each plant account. Mr. King presented his results in Schedule
8 4 of his Exhibit ___(CWK-1) attached to his Direct Testimony.

9 **Q. How did Mr. Kelly respond to KIUC's criticism of the inconsistencies in the**
10 **remaining service lives used to generate proposed depreciation rates?**

11 **A.** In his Rebuttal Testimony, Mr. Kelly defended his analysis by stating:

12 [a]rriving at the remaining lives used in B&M's analysis required the use
13 of judgment..."¹⁰ ..."Many factors, both quantitative and qualitative, along
14 with the *substantial* application of judgment went into determining the
15 remaining useful lives of each production facility. The selection of the
16 ultimate remaining lives used to calculate Big Rivers' final depreciation
17 rates required judgment, but...the selection was clearly not arbitrary."¹¹
18 (emphasis added).

19 **Q. Do you agree with Mr. Kelly that the selection of remaining plant lives for**

9 King Direct Testimony at pp. 8-9.

10 Kelly Rebuttal Testimony at p. 4.

11 *Id.* at p. 6.

1 **purposes of calculating depreciation rates requires judgment?**

2 A. Yes. However, the judgment must be informed judgment based on a reasonable
3 assessment of the facts and management’s intent, not a bias toward shorter lives
4 and excessive depreciation rates. In addition, the basis for the analyst’s informed
5 judgment should be fully documented in his testimony and workpapers. Yet, Mr.
6 Kelly did not do so. He substituted his own judgment in place of the judgment of
7 the Big Rivers’ management regarding the useful life of the generating units and
8 failed to explain, let alone justify, this departure from management’s intent. His
9 remaining lives also were substantially shorter than the useful lives that the
10 Company’s management submitted to RUS. Again, there was no explanation, let
11 alone justification, for this divergence.

12 **Q. Are there also flaws in Mr. Kelly’s attempt in his Rebuttal Testimony to**
13 **revise Mr. King’s depreciation rates for shorter remaining lives that the**
14 **Commission did not address in its November 17, 2011 Order?**

15 A. Yes. Mr. Kelly’s attempt to revise Mr. King’s depreciation rates suffers from
16 several infirmities that render the so-called revisions meritless. Mr. Kelly argued
17 that Mr. King should have computed his remaining lives as of December 31,
18 2011, which would have reduced the remaining lives and brought them closer to
19 those used by Mr. Kelly. If correct, the revisions would have the effect of
20 increasing depreciation rates because the Big Rivers generating units were twenty
21 months older than they were on April 30, 2010 and thus, the remaining service
22 lives were twenty months less, all else equal.

23 As I noted in the Summary section of my testimony, Mr. King used the

1 same study date as did Mr. Kelly, i.e., April 30, 2010. Mr. Kelly's argument rests
2 on the simple premise that if Mr. King had used a December 31, 2011 date to
3 estimate the remaining service lives, then the result would have been closer to the
4 remaining service lives developed by Mr. Kelly, who used the same April 30,
5 2010 study date. This argument is logically indefensible because it imposes a
6 different and later study date on Mr. King's analysis to derive the remaining
7 service lives than Mr. Kelly used.

8 Mr. Kelly then compounded this error by failing to update the
9 accumulated depreciation from April 30, 2010 to December 31, 2011, thus
10 creating a mismatch in the calculations of net plant and remaining service lives,
11 the two most important components in the equation used to develop the
12 depreciation rates. If the remaining lives are to be reduced by 20 or more months
13 due to the passage of time through December 31, 2011, then the net plant also
14 should be reduced to reflect the additional depreciation expense incurred and
15 recovered during that same period. This mismatch is another analytical error that
16 should be considered by the Commission in conjunction with all the other errors
17 during the conduct of the BMD depreciation study.

18 Mr. Kelly also asserted that Mr. King's analysis should be adjusted to a
19 mid-year date instead of assuming that each facility began operation on January 1
20 of the applicable year. If correct, this adjustment would have reduced the
21 remaining lives and brought them closer to those used by Mr. Kelly. However,
22 Mr. Kelly cited no basis for this claim. To the contrary, Mr. King's analysis
23 reflected a total life span for the Wilson unit of 65 years based on a probable

1 retirement date of 2051 and an in-service date of 1986, both assumed to be mid-
2 year dates. If Mr. King had assumed that the unit began operation on January 1
3 and would be retired in mid-2051, then he would have used a total life span of
4 65.5 years, not 65 years. If Mr. King had assumed that the unit began operation
5 on January 1 and would be retired at year-end 2051, then he would have used a
6 total life span of 66 years, not 65 years.

7 **Q. Was Mr. Kelly able to justify the fact that he did not revise the accumulated**
8 **depreciation to December 31, 2011 in his attempt to revise Mr. King's**
9 **analysis?**

10 A. No. At the hearing, Mr. Kelly initially wasn't even sure whether he had updated
11 the accumulated depreciation. During cross-examination at the hearing, the
12 following exchange took place between counsel for KIUC and Mr. Kelly:

13 Q. You've updated the useful life and made it shorter, because it's a
14 year and half later, but you haven't updated the amount of
15 depreciation consumers have will have paid on the plants [through
16 2011] because it is a year and half later?

17 A. Okay...I'll have to check that, but I assume that would be
18 correct."¹²

19 Subsequently during cross-examination, the following exchange between
20 counsel for KIUC and Mr. Kelly confirmed that indeed there was a mismatch:

21 Q. You didn't update the accumulated depreciation since your original
22 study date, did you?

23 A. No.¹³

12 Video Transcript (7-27-11; 13:17:45 through 7-27-11; 13:18:07)

13 Video Transcript (7-27-11; 13:20:40 through 13:20:55)

1 **Q. Did the Commission's Order address Mr. Kelly's attacks on the KIUC**
2 **analysis and the analytical errors in his criticisms and attempt to revise Mr.**
3 **King's depreciation rates?**

4 A. No. The Commission's Order did not address these attacks and the fact that his
5 arguments were analytically indefensible.

6 **Q. Are there additional reasons to question the reliability of the depreciation**
7 **rates proposed by BMD and Big Rivers?**

8 A. Yes. The analytical errors in Mr. Kelly's Rebuttal Testimony are simply more of
9 the same. The BMD analysis has been plagued with problems from the
10 beginning, including serious computational errors. Prior to filing its Application,
11 Big Rivers invited KIUC to review the BMD analysis. In his review of the BMD
12 analysis on behalf of KIUC, Mr. King discovered that BMD had reversed the
13 positive and negative signs in its net salvage factors and failed to subtract removal
14 costs from the salvage proceeds to derive net salvage.¹⁴ Correction of these two
15 errors reduced the proposed depreciation increase from \$12 million to \$4.33
16 million.¹⁵

17 Additionally, in emails provided by Big Rivers in response to discovery,
18 Big Rivers' managers repeatedly expressed frustration and disappointment with
19 BMD's failure to calculate reliable depreciation rates.¹⁶ These emails show,

14 KIUC Cross Exam Exhibit 16 at p. 6.

15 *Id.*

16 KIUC Cross Exam Exhibit 16 at pp. 11-34.

1 among other things, that Big Rivers' management had concerns that the total
2 service life used by BMD for the Wilson generating unit was too short because it
3 was less than the 65 years that they had determined was correct.¹⁷

4 The evidence in this proceeding shows that the BMD analysis is
5 fundamentally flawed and unreliable. The Commission should reverse its
6 decision on the depreciation rates developed by BMD and sponsored by Mr.
7 Kelly.

8 **Q. Does the KIUC depreciation analysis performed by Mr. King suffer from the**
9 **infirmities reflected in the various iterations of the B&M analysis?**

10 A. No, Mr. King's depreciation study corrected the remaining service lives and used
11 the estimates developed by Big Rivers' own management rather than substituting
12 his own judgment. Mr. King's study also matched the remaining useful life and
13 accumulated depreciation at the April 30, 2010, the standard analytical approach
14 when performing a depreciation study.

15 **Q. What do you propose the Commission do with respect to depreciation**
16 **expense in this Rehearing proceeding?**

17 A. I recommend that the Commission approve the depreciation rates sponsored by
18 Mr. King and addressed in his Direct Testimony. These depreciation rates are
19 shown on Revised Schedule 1 Exhibit___CWK-1 in column (2). These
20 depreciation rates are based on Big River's management's determinations of the
21 remaining plant lives and are properly computed using an April 30, 2010 study

17 KIUC Cross Exam Exhibit 16 at p. 15.

1 date.

2 **Q.** **Does this conclude your testimony?**

3 **A.** Yes.

AFFIDAVIT

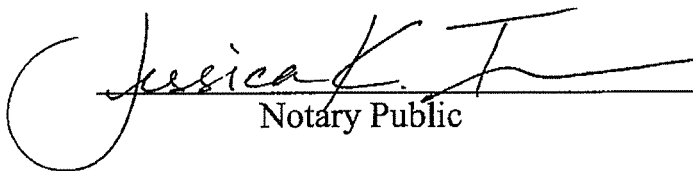
STATE OF GEORGIA)

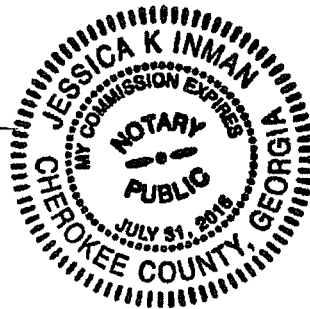
COUNTY OF FULTON)

LANE KOLLEN, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.


Lane Kollen

Sworn to and subscribed before me on this
26th day of April 2012.


Notary Public



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG RIVERS)
ELECTRIC CORPORATION FOR) **CASE NO. 2011-00036**
A GENERAL ADJUSTMENT IN RATES)

EXHIBITS
OF
LANE KOLLEN

ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

April 2012

Big Rivers Electric Corporation
Annual Depreciation Expense Based on April 30, 2010 Plant in Service

| Account | Description | April 30, 2010 Plant Balance | Recommended Depreciation Rate | Annual Depreciation Expense | | |
|---------|--|------------------------------------|-------------------------------------|-----------------------------|------------------------|------------------------|
| | | | | KIUC Recommended | Existing BREC Rates | Proposed BREC Rates |
| | | (1) | (2) | (3) | (4) | (5) |
| 340 | Land | 475,968 | | | | |
| 311 | Structures | 124,375,974 | 1.17% | 1,456,976 | 2,126,829 | 1,717,828 |
| 312 | Boiler Plant | 667,206,536 | 1.54% | 10,248,087 | 11,942,997 | 12,543,396 |
| 312 A-K | Boiler Plant - Env Compl | 574,184,346 | 1.95% | 11,206,160 | 10,852,084 | 13,074,185 |
| 312 L-P | Short-Life Production Plant -Environmental | 3,208,938 | 19.31% | 619,761 | 60,649 | 648,949 |
| 312 V-Z | Short-Life Production Plant -Other | 868,755 | 19.31% | 167,788 | 16,419 | 125,054 |
| 314 | Turbine | 225,272,354 | 1.54% | 3,459,508 | 3,739,521 | 4,309,293 |
| 315 | Electric Eqpt | 60,355,721 | 1.08% | 654,448 | 965,692 | 1,202,952 |
| 316 | Misc Eqpt | 3,014,912 | 3.77% | 113,706 | 55,173 | 113,919 |
| 341 | CT - Structures | 154,233 | 1.17% | 1,804 | 3,563 | 1,804 |
| 342 | CT - Fuel Holders & Access. | 1,436,912 | 9.10% | 130,751 | 33,336 | 130,751 |
| 343 | CT - Prime Movers | 4,915,886 | 3.02% | 148,408 | 121,422 | 148,408 |
| 344 | CT - Generators | 1,102,964 | 0.50% | 5,511 | 24,596 | 5,511 |
| 345 | CT - Access. Elec. Eqpt. | 317,726 | 2.05% | 6,510 | 7,085 | 6,510 |
| | Subtotal | <u>1,666,891,222</u> | | <u>28,219,418</u> | <u>29,949,367</u> | <u>34,028,559</u> |
| | Difference from KIUC Recommendation | | | | (1,729,949) | (5,809,141) |

Sources

(1) AG 1-104 - "Deprec Summary 2010-12-16 FINAL.xls"

(2) Schedule 10

(3) Col (1)*Col (2)

(4) & (5) AG 1-104 - "Deprec Summary 2010-12-16 FINAL.xls"

KIUC Adjustment to Depreciation Expense

| ACCT | BALANCE 10/31/2010 | COMPANY'S NEW YEARLY RATE | COMPANY'S NEW DEPRECIATION RATE | COMPANY'S PRO FORMA DEPRECIATION EXPENSE | COMPANY'S NEW DEPRECIATION RATE | COMPANY'S PRO FORMA DEPRECIATION EXPENSE | KIUC NEW YEARLY RATE | KIUC NEW DEPRECIATION RATE | KIUC NEW DEPRECIATION RATE | PRO FORMA DEPRECIATION EXPENSE | KIUC ADJUSTMENT |
|-----------|-----------------------|------------------------------------|--|---|--|---|-------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|--------------------|
| 3010 | 419.82 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3020 | 66,475.65 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3030 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3101 | 83,342.47 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3102 | 1,124,664.82 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3103 | 1,110,711.72 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3104 | 2,218,857.54 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.000000 | 0.00 | 0.00 | 0.00 |
| 3111 | 3,236,944.36 | 1.38 | 0.001150 | 44,669.83 | 0.001150 | 44,669.83 | 1.17 | 0.000975 | 37,872.25 | (6,797.58) | (6,797.58) |
| 3112 | 18,977,054.83 | 1.38 | 0.001150 | 261,893.36 | 0.001150 | 261,893.36 | 1.17 | 0.000975 | 222,031.54 | (39,861.82) | (39,861.82) |
| 3113 | 26,723,028.18 | 1.38 | 0.001150 | 368,777.79 | 0.001150 | 368,777.79 | 1.17 | 0.000975 | 312,659.43 | (56,118.36) | (56,118.36) |
| 3114 | 73,073,034.47 | 1.38 | 0.001150 | 1,008,407.88 | 0.001150 | 1,008,407.88 | 1.17 | 0.000975 | 854,954.50 | (153,453.38) | (153,453.38) |
| 3115 | 421,179.00 | 1.38 | 0.001150 | 5,812.27 | 0.001150 | 5,812.27 | 1.17 | 0.000975 | 4,927.79 | (884.48) | (884.48) |
| 3116 | 577,533.07 | 1.38 | 0.001150 | 7,969.96 | 0.001150 | 7,969.96 | 1.17 | 0.000975 | 6,757.14 | (1,212.82) | (1,212.82) |
| 3117 | 937,856.03 | 1.38 | 0.001150 | 12,942.41 | 0.001150 | 12,942.41 | 1.17 | 0.000975 | 10,972.92 | (1,969.49) | (1,969.49) |
| 3119 | 693,609.79 | 1.38 | 0.001150 | 9,571.82 | 0.001150 | 9,571.82 | 1.17 | 0.000975 | 8,115.23 | (1,456.59) | (1,456.59) |
| 3120 | 29,686.39 | 1.88 | 0.001567 | 558.10 | 0.001567 | 558.10 | 1.54 | 0.001283 | 457.17 | (100.93) | (100.93) |
| 312A | 220,240.55 | 2.28 | 0.001900 | 5,021.48 | 0.001900 | 5,021.48 | 1.95 | 0.001625 | 4,294.69 | (726.79) | (726.79) |
| 3121 | 7,193,006.17 | 1.88 | 0.001567 | 135,228.52 | 0.001567 | 135,228.52 | 1.54 | 0.001283 | 110,772.30 | (24,456.22) | (24,456.22) |
| 312B | 5,061,431.08 | 2.28 | 0.001900 | 115,400.63 | 0.001900 | 115,400.63 | 1.95 | 0.001625 | 98,697.91 | (16,702.72) | (16,702.72) |
| 3122 | 77,143,667.49 | 1.88 | 0.001567 | 1,450,300.95 | 0.001567 | 1,450,300.95 | 1.54 | 0.001283 | 1,188,012.48 | (262,288.47) | (262,288.47) |
| 312C | 121,989,593.12 | 2.28 | 0.001900 | 2,781,362.72 | 0.001900 | 2,781,362.72 | 1.95 | 0.001625 | 2,378,797.07 | (402,565.65) | (402,565.65) |
| 3123 | 161,617,029.17 | 1.88 | 0.001567 | 3,038,400.15 | 0.001567 | 3,038,400.15 | 1.54 | 0.001283 | 2,488,902.25 | (549,497.90) | (549,497.90) |
| 312D | 113,968,704.31 | 2.28 | 0.001900 | 2,598,486.46 | 0.001900 | 2,598,486.46 | 1.95 | 0.001625 | 2,222,389.73 | (376,096.73) | (376,096.73) |
| 312E | 402,071,586.26 | 1.88 | 0.001567 | 7,558,945.82 | 0.001567 | 7,558,945.82 | 1.54 | 0.001283 | 6,191,902.43 | (1,367,043.39) | (1,367,043.39) |
| 3125 | 17,389,606.87 | 2.28 | 0.001900 | 6,125,235.51 | 0.001900 | 6,125,235.51 | 1.95 | 0.001625 | 5,238,688.26 | (886,547.25) | (886,547.25) |
| 312F&312K | 71,086,231.78 | 2.28 | 0.001900 | 326,924.61 | 0.001900 | 326,924.61 | 1.95 | 0.001625 | 267,799.95 | (59,124.66) | (59,124.66) |
| 3126 | 2,554,464.97 | 1.88 | 0.001567 | 1,620,766.08 | 0.001567 | 1,620,766.08 | 1.54 | 0.001283 | 1,386,181.52 | (234,584.56) | (234,584.56) |
| 312G | 1,899,172.74 | 2.28 | 0.001900 | 43,301.14 | 0.001900 | 43,301.14 | 1.95 | 0.001625 | 39,338.76 | (4,962.38) | (4,962.38) |
| 3127 | 376,268.58 | 1.88 | 0.001567 | 7,073.85 | 0.001567 | 7,073.85 | 1.54 | 0.001283 | 37,033.87 | (6,267.27) | (6,267.27) |
| 3128 | 1,186,252.75 | 1.88 | 0.001567 | 22,301.55 | 0.001567 | 22,301.55 | 1.54 | 0.001283 | 5,794.54 | (1,279.31) | (1,279.31) |
| 312J | 15,438.27 | 2.28 | 0.001900 | 361.99 | 0.001900 | 361.99 | 1.95 | 0.001625 | 18,268.29 | (4,033.26) | (4,033.26) |
| 3140 | 0.00 | 1.91 | 0.001592 | 0.00 | 0.001592 | 0.00 | 1.54 | 0.001283 | 301.05 | (50.94) | (50.94) |
| 3141 | 4,310,530.59 | 1.91 | 0.001592 | 82,331.13 | 0.001592 | 82,331.13 | 1.54 | 0.001283 | 0.00 | 0.00 | 0.00 |
| 3142 | 32,762,390.07 | 1.91 | 0.001592 | 625,761.65 | 0.001592 | 625,761.65 | 1.54 | 0.001283 | 66,382.17 | (15,948.96) | (15,948.96) |
| 3143 | 57,679,599.22 | 1.91 | 0.001592 | 1,101,680.35 | 0.001592 | 1,101,680.35 | 1.54 | 0.001283 | 504,940.81 | (121,220.84) | (121,220.84) |
| 3144 | 127,883,751.07 | 1.91 | 0.001592 | 2,442,579.85 | 0.001592 | 2,442,579.85 | 1.54 | 0.001283 | 888,265.83 | (213,414.52) | (213,414.52) |
| 3145 | 4,991,571.10 | 1.91 | 0.001592 | 95,339.01 | 0.001592 | 95,339.01 | 1.54 | 0.001283 | 1,969,409.77 | (473,169.88) | (473,169.88) |
| 3146 | 262,741.29 | 1.91 | 0.001592 | 5,018.36 | 0.001592 | 5,018.36 | 1.54 | 0.001283 | 76,870.19 | (18,468.82) | (18,468.82) |
| 3147 | 18,495.15 | 1.91 | 0.001592 | 353.26 | 0.001592 | 353.26 | 1.54 | 0.001283 | 4,046.22 | (972.14) | (972.14) |
| 3151 | 1,494,658.69 | 1.99 | 0.001658 | 29,743.71 | 0.001658 | 29,743.71 | 1.08 | 0.000900 | 284.83 | (68.43) | (68.43) |
| 3152 | 8,552,676.77 | 1.99 | 0.001658 | 170,198.27 | 0.001658 | 170,198.27 | 1.08 | 0.000900 | 16,142.31 | (13,601.40) | (13,601.40) |
| 3153 | 16,091,239.72 | 1.99 | 0.001658 | 320,215.67 | 0.001658 | 320,215.67 | 1.08 | 0.000900 | 92,368.91 | (77,829.36) | (77,829.36) |
| 3154 | 35,070,442.41 | 1.99 | 0.001658 | 697,901.80 | 0.001658 | 697,901.80 | 1.08 | 0.000900 | 173,785.39 | (146,430.28) | (146,430.28) |
| 3155 | 171,384.26 | 1.99 | 0.001658 | 3,410.55 | 0.001658 | 3,410.55 | 1.08 | 0.000900 | 378,760.78 | (319,141.02) | (319,141.02) |
| 3159 | 43,548.07 | 1.99 | 0.001658 | 866.61 | 0.001658 | 866.61 | 1.08 | 0.000900 | 1,850.95 | (1,559.60) | (1,559.60) |
| 3160 | 56,008.08 | 3.78 | 0.003150 | 2,117.11 | 0.003150 | 2,117.11 | 3.77 | 0.003142 | 470.32 | (396.29) | (396.29) |
| 3161 | 1,227.09 | 3.78 | 0.003150 | 46.38 | 0.003150 | 46.38 | 3.77 | 0.003142 | 46.26 | (0.12) | (0.12) |

KIUC Adjustment to Depreciation Expense

| ACCT | BALANCE 10/31/2010 | COMPANY'S NEW YEARLY RATE | COMPANY'S NEW DEPRECIATION RATE | COMPANY'S PRO FORMA DEPRECIATION EXPENSE | KIUC NEW YEARLY RATE | KIUC NEW DEPRECIATION RATE | KIUC PRO FORMA DEPRECIATION EXPENSE | KIUC ADJUSTMENT |
|---------------------------------|-------------------------|------------------------------------|--|---|-------------------------------|-------------------------------------|--|----------------------|
| 3987 | 1,625.49 | 11.80 | 0.009833 | 191.81 | 11.80 | 0.009833 | 191.81 | 0.00 |
| 312 L-P | 3,208,938.00 | 20.22 | 0.016850 | 648,847.26 | 19.31 | 0.016092 | 619,645.93 | (29,201.33) |
| 312 V-Z | 868,755.00 | 14.39 | 0.011992 | 125,013.84 | 19.31 | 0.016092 | 167,756.59 | 42,742.75 |
| 3525 | 185,107.45 | 1.90 | 0.001583 | 3,517.04 | 1.90 | 0.001583 | 3,517.04 | 0.00 |
| 3535 | 6,511,340.66 | 2.23 | 0.001858 | 145,202.90 | 2.23 | 0.001858 | 145,202.90 | 0.00 |
| 3545 | 312,557.79 | 1.42 | 0.001183 | 4,438.32 | 1.42 | 0.001183 | 4,438.32 | 0.00 |
| 3555 | 79,206.80 | 2.06 | 0.001717 | 1,631.66 | 2.06 | 0.001717 | 1,631.66 | 0.00 |
| 3565 | 104,571.36 | 1.69 | 0.001408 | 1,767.26 | 1.69 | 0.001408 | 1,767.26 | 0.00 |
| Total - No CWIP Included | 1,942,558,139.59 | | | 40,218,778.28 | | | 34,367,973.80 | -5,850,804.48 |