

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF KENTUCKY	)	
UTILITIES COMPANY AND LOUISVILLE GAS	)	CASE NO.
AND ELECTRIC COMPANY FOR APPROVAL	)	2009-00329
OF DEPRECIATION RATES FOR TRIMBLE	)	
COUNTY UNIT 2	)	

I N T E R I M   O R D E R

On August 7, 2009, Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively “Joint Applicants”) filed an application seeking approval of depreciation rates for a new coal-fired baseload electric generating unit that Joint Applicants are building at the Trimble County Generating Station, Trimble County Unit 2 (“TC 2”). Joint Applicants own 75 percent of the unit,<sup>1</sup> with KU’s share of ownership being 81 percent and LG&E’s ownership share being 19 percent. The application sets forth proposed depreciation rates, which Joint Applicants will use to depreciate their TC 2 related assets when commissioning activities begin in December 2009. Joint Applicants will also be transferring the joint assets applicable to TC 2 from LG&E to KU in December with the beginning of commissioning activities. According to Joint Applicants, this transfer presents a need to begin to book depreciation related to TC 2. Unless the proposed depreciation rates are approved, Joint Applicants assert that they will have to use the most recently approved depreciation rates for their generating units, i.e. Trimble County Unit 1 for LG&E and Ghent Unit 4 for KU.

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<sup>1</sup> The other 25 percent of TC 2 is owned by the Indiana Municipal Power Agency and the Illinois Municipal Electric Agency.

In processing this matter and recognizing Joint Applicants' need to have an order issued by December 2009, the Commission established a procedural schedule providing for two rounds of discovery on the application, an opportunity for intervenor testimony, and one round of discovery on intervenor testimony. The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), and the Kentucky Industrial Utility Customers, Inc. ("KIUC") were granted intervention in this matter. On October 30, 2009, KIUC filed testimony challenging one aspect of the Joint Applicants' proposed depreciation rates.

On December 14, 2009, Joint Applicants filed a motion for leave to file rebuttal testimony, which was attached to the motion. Because Joint Applicants bear the burden of proof, they argue that they should be entitled to an opportunity to rebut the claims made in the testimony submitted by KIUC's expert. Joint Applicants further argue that allowing its rebuttal testimony will not prejudice any parties to this proceeding. Finding that Joint Applicants have established good cause, the Commission will grant Joint Applicants' request for leave to file its rebuttal testimony.

The matter now stands submitted for a decision. For the following reasons, the Commission approves, on an interim basis, the depreciation rates as proposed by Joint Applicants. The Commission notes that the intervenors have not had an opportunity to fully examine Joint Applicants' rebuttal testimony. Accordingly, the Commission will establish a procedural schedule to allow for discovery on the rebuttal testimony as well as an opportunity for the parties to request a hearing.

#### BACKGROUND

Joint Applicants proposed depreciation rates for each steam production plant account based on an interim survivor curve, net salvage percent, and probable

retirement date. The overall life span for the TC 2 facility is assumed to be 55 years. The following table sets forth Joint Applicants' proposed net salvage percent and resultant depreciation accrual rate for each account:

<u>Account</u>	<u>Net Salvage Percent</u>	<u>Accrual Rate</u>
311	(10)	2.10
312	(30)	4.28
314	(10)	2.78
315	(5)	2.49
316	(5)	3.00

ARGUMENT<sup>2</sup>

KIUC recommends that the Commission not accept Joint Applicants' proposed TC 2 depreciation rates due to a claim that the rates are based on excessive net negative salvage percentages.<sup>3</sup> KIUC argues that the proposed depreciation rates will result in excessive annual depreciation expense of at least \$2.3 million. KIUC claims

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<sup>2</sup> The AG did not file testimony or comments in this matter.

<sup>3</sup> According to KIUC, "[n]et negative salvage is the present value of the projected costs to remove interim plant retirements offset with the proceeds from salvaging the interim plant retirements. Net negative salvage indicates that the Companies expect that they will incur costs to remove that will exceed the salvage proceeds." Testimony of Lane Kollen, at p. 5.

that Joint Applicants' latest depreciation studies, which were conducted in 2007,<sup>4</sup> contain a flaw due to the improper application of the net negative salvage percentage, computed as a percentage of interim retirements, to the total plant amount. Per KIUC, Joint Applicants' depreciation studies erroneously assumed that the total plant would be retired on an interim basis rather than some percentage of the total plant balance based on a given survivor curve assumption, such as 30 or 40 percent. In essence, KIUC contends that the depreciation studies improperly assumed that the interim retirements would equal the total gross plant.

KIUC cites the depreciation studies filed in Joint Applicants' 2003 rate cases<sup>5</sup> as having correctly computed net salvage based on the treatment of interim retirements. It also cites a depreciation study filed in a 2009 Florida Power and Light ("FPL") case before the Florida Commission<sup>6</sup> by the same consulting firm that performed Joint Applicants' 2007 depreciation studies, which KIUC claims computed net salvage in the same manner it recommends herein. KIUC recommends that its calculated

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<sup>4</sup> Case No. 2007-00564, Application of Louisville Gas and Electric Company to File Depreciation Study (Ky. PSC, February 5, 2009) and Case No. 2007-00565, Application of Kentucky Utilities Company to File Depreciation Study (Ky. PSC, February 5, 2009). LG&E's depreciation rate case was subsequently merged with its base rate case, Case No. 2008-00252, Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Base Rates. Likewise, KU's depreciation rate case was subsequently merged with its base rate case, Case No. 2008-00251, Application of Kentucky Utilities Company for an Adjustment of Electric Base Rates.

<sup>5</sup> Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of the Louisville Gas and Electric Company and Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of the Kentucky Utilities Company.

<sup>6</sup> Docket No. 080677-EI & No. 090130-EI, Petition for Rate Increase by Florida Power & Light Company.

depreciation rates for TC 2, which it claims correct the flaw in Joint Applicants' 2007 depreciation studies, and which would result in \$2.3 million less annual depreciation expense, be approved. And, since those 2007 studies formed the basis for the depreciation rates currently in use for Joint Applicants' existing coal-fired generating units, KIUC asks that the Commission direct Joint Applicants to address all aspects of depreciation in their next general rate cases.<sup>7</sup>

In their rebuttal, Joint Applicants assert that their proposed depreciation rates are appropriate for collecting full-service value of the TC 2 facility in a systematic and rational manner as well as a manner consistent with their other existing facilities. Joint Applicants point out that the net salvage percents utilized in the recommendation of the depreciation rates for TC 2 when it comes on line are for interim net salvage, not terminal net salvage. Therefore, Joint Applicants' analyses are only based on interim net salvage. Consequently, according to Joint Applicants, KIUC's discussion regarding segregating the amounts for final net salvage is not applicable. Joint Applicants further point out that all interim retirements will have a corresponding replacement asset which has an equal or higher original cost than the initial asset. This, according to Joint Applicants, is a critical concept because it must be understood that all existing components are necessary for the function of the facility. Joint Applicants' historical estimates support this practice.

Regarding the FPL depreciation study, Joint Applicants argue that there was a terminal net salvage component factored into the overall depreciation expense. In that

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<sup>7</sup> In data responses in this case, Joint Applicants have stated that they will be filing base rate applications sometime in 2010.

study, according to Joint Applicants, the adjustment made to include interim net salvage was lowered due to terminal net also being included. Ultimately, the depreciation rates were affected due to the terminal net salvage component being assigned to a separate decommissioning fund. Thus, Joint Applicants maintain that KIUC is not comparing two similar situations when viewing the FPL study and their 2007 studies.

#### DISCUSSION

The difference of opinion between Joint Applicants and KIUC is one that requires further analysis, much more analysis than the Commission can undertake in the time between the filing of Joint Applicants' rebuttal and the date an Order must be issued in order that Joint Applicants may begin to record depreciation for TC 2 during December 2009. For that reason, this ruling is in the form of an Interim Order, meaning that this case will remain on the Commission's docket for further proceedings before we render a final decision in this matter.

For purposes of recording depreciation for TC 2 in December 2009, and until such time as a Final Order is issued in this matter, Joint Applicants will be authorized to use the depreciation rates contained in their August 7, 2009 application. While we are not at the point of making a final conclusion on the issues affecting which depreciation rates are the most reasonable and appropriate to be applied to the various assets and plant accounts of TC 2, we are persuaded that Joint Applicants' rebuttal has alleviated some of our concerns, which were raised largely as a result of KIUC's testimony.

The procedural schedule in the Appendix to this Order will be used for the remainder of this proceeding. Under this schedule, the Commission anticipates that this interim decision will be replaced by a final decision in a relatively short period of time.

SUMMARY

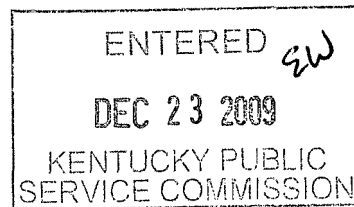
Based on the evidence of record and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. Joint Applicants' motion for leave to file rebuttal testimony is granted. Joint Applicants' rebuttal testimony, attached to the motion, is hereby deemed filed as part of the official record of this matter.

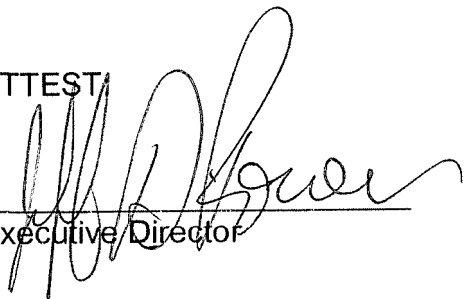
2. Joint Applicants are authorized on an interim basis to begin using the depreciation rates proposed in their August 7, 2009 application for recording depreciation for TC 2. Those rates shall be used on an interim basis until a final Order is entered in this matter.

3. The procedural schedule in the Appendix to this Order shall be followed for the remainder of this proceeding.

By the Commission



ATTEST

  
Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2009-00329 DATED **DEC 23 2009**

Data requests on Joint Applicants' rebuttal testimony  
shall be filed no later than..... 01/12/10

Joint Applicants' responses to data requests  
shall be filed no later than..... 01/26/10

Requests for a hearing in this matter, supported by a  
detailed statement of factual issues to be raised therein,  
shall be filed no later than..... 02/05/10



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