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PUBLIC SERVICE
COMMISSION

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Louisville Gas and Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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Robert M. Conroy
Director - Rates
T 502-627-3324
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April 28, 2008

RE: ***APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO FILE DEPRECIATION STUDY***
CASE NO. 2007-00564

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Louisville Gas and Electric Company to the Second Data Request of Commission Staff dated April 14, 2008, in the above-referenced matter.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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APR 28 2008

PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	)	**CASE NO.**
ELECTRIC COMPANY TO FILE	)	**2007-00564**
DEPRECIATION STUDY	)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
SECOND DATA REQUEST OF COMMISSION STAFF
DATED APRIL 14, 2008

FILED: APRIL 28, 2008

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is the Director, Utility Accounting and Reporting for E.ON U.S. Services Inc., that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Shannon L Charnas
SHANNON L. CHARNAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25th day of April, 2008.

[signature] (SEAL)
Notary Public

My Commission Expires:

July 1, 2008

VERIFICATION

STATE OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director of Rates for E.ON U.S. Services Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Robert M. Conroy

ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25th day of April, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA)
) **SS:**
COUNTY OF CUMBERLAND)

The undersigned, **John J. Spanos**, being duly sworn, deposes and says that he is the Vice President, Valuation and Rate Division for Gannett Fleming, Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

John J. Spanos
JOHN J. SPANOS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 21st day of April, 2008.

_______________ (SEAL)
Notary Public

My Commission Expires:

February 20, 2011

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Ru... Notary Public
East Pennsboro T... ...berland County
My Commissi... ...b. 20, 2011
Member, Penn... ...Notaries

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00564

Question No. 1

Witness: John J. Spanos

Q-1. Refer to the response to the Commission Staff's First Data Request dated February 18, 2008 ("Staff First Request"), Item 2. LG&E was requested to compare and contrast the approach used in its last depreciation study with the approach followed in the current depreciation study. LG&E's response only identified the difference between the approaches, instead of comparing and contrasting the two approaches. Provide the originally requested information.

A-1. The last depreciation study and this current study utilized the same methodology with regard to identifying the depreciable property, collecting and examining the historical data provided by LG&E and performing statistical analysis of the depreciable plant by account. With the addition of four years of data, differences in the results of the statistical analysis are to be expected. The straight line method used in both studies is the most commonly employed and accepted method for the recovery of capital. The remaining life technique used in both studies is considered more appropriate for the utility industry since it recognizes the inevitable variances between the theoretical reserve and the Accumulated Provision for Depreciation, and automatically adjusts for these variances on an annual basis. The difference between the two studies lies in the procedure used. The equal life group ("ELG") procedure is superior to the average service life or Broad Group procedure because it allocates the capital cost of a group of property to annual expense in accordance with the consumption of the property group providing service to customers. The Company's customers are more appropriately charged with the cost of the property consumed in providing them service during the applicable service. The more timely return of plant cost is accomplished by fully accruing each unit's cost during its service life, thereby reducing the risk of incomplete recovery and resulting in less return on rate base over the life of a depreciable group. The total depreciation expense is the same for all procedures which allocate the full capital cost to expense, but at any specific point in time after implementation, the depreciated original cost is less under the ELG procedure than under the average service life procedure.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to the Second Data Request of Commission Staff Dated April 14, 2008

Case No. 2007-00564

Question No. 2

Witness: Robert M. Conroy

Q-2. Refer to the Application, page 4, and the response to the Staff First Request, Item 4. Paragraph 12 of the Application states,

> In order to match the proposed changes in its depreciation rates with the possible changes in its base rates, LG&E respectfully requests the Commission to issue an order in this proceeding to approve LG&E's proposed depreciation rates for accounting and ratemaking purposes concurrent with LG&E's next change in base rates pursuant to a Commission Order issued in a base rate proceeding filed by LG&E. LG&E anticipates filing a new base rate application during the 2008 calendar year, so there should not be undue delay associated with implementing new depreciation rates during LG&E's next base rate case, and the study will be sufficiently current.

However, in the response to Item 4, Mr. Conroy states,

> The Company is requesting the Commission to defer the review of the proposed depreciation rates in order to match the change in depreciation rates with a change in base rates and to obtain administrative efficiencies with a single proceeding addressing all impacts of a change in depreciation rates. . . . LG&E proposes to review the depreciation rates recommended in the study during the Company's next general rate case proceeding, which the Company has indicated it anticipates filing during 2008.

The response to Item 4 does not appear to be consistent with LG&E's Application.

a. Does LG&E seek approval of the proposed depreciation rates in this proceeding or wish to defer a ruling on the proposed depreciation rates until its next general rate case proceeding? Explain the response.

b. If LG&E's intent was to defer the review of the proposed depreciation rates to be considered as part of a future rate case, explain why LG&E filed the current application stating that it was seeking approval now.

A-2. a. LG&E's intention in the Application and as indicated in the response to Item 4, is to defer a ruling on the proposed depreciation rates until its next general rate case proceeding.

b. The intent of LG&E's Application accompanying the filing of the Depreciation Study was to request the review of the proposed rates with the next general rate case and to request the Commission to issue an order approving such timing.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00564

Question No. 3

Witness: John J. Spanos

Q-3. Refer to the response to the Staff First Request, Item 6. Concerning the comparable amortization periods of other utilities utilized in developing the LG&E amortization periods, identify the utilities included in this analysis and when the applicable amortization periods were last updated.

A-3. The detailed listing of other utilities' amortization periods was included in the response to the Attorney General's Initial Request, Item 8. In all cases, the studies were as of 1992 or subsequent, however, most of the studies have had amortization periods updated within the last five or six years. Amortization periods are seldom revised unless the assets within an account change.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00564

Question No. 4

Witness: John J. Spanos

Q-4. Refer to the response to the Staff First Request, Item 8. Would LG&E agree that from a regulator's perspective it would be appropriate to use the same depreciation rates for utility plant jointly owned by two regulated utilities? Explain the response.

A-4. It would be ideal to have the same depreciation rates for jointly-owned utility plant by two regulated utilities, however, that is not possible in such cases as exists here. Depreciation in the regulated environment requires a rational and systematic manner to recover all capital investment, no more and no less, over the life of the asset. Therefore, it is impossible to maintain this methodology for two different groups of assets if they do not have the identical asset base and the same recovery patterns from the initial day of installation regardless of whether they currently have the same life and salvage parameters.

Consequently, the methodology utilized in this depreciation study considers past recovery patterns of both regulated utilities as well as future recovery rates for all asset classes.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to the Second Data Request of Commission Staff
Dated April 14, 2008**

Case No. 2007-00564

Question No. 5

Witness: John J. Spanos

Q-5. Refer to the response to the Staff First Request, Item 11, and the response to the Attorney General's Initial Requests for Information dated February 4, 2008 ("AG's Initial Request"), Item 8.

a. In the response to Items 11(a) through 11(f), 11(k), 11(l), and 11(n) through 11(q), reference is made to "estimates of others." For each subpart of Item 11 referencing "estimates of others" specifically identify the individual or utility providing the estimate.

b. The response to Item 11(g) states that "It has been determined the most recent five-year period is more indicative of future net salvage percents. . ." Identify the individuals or utilities that have made this determination.

c. The response to Item 11(h) states that "industry averages were incorporated to establish the best estimate of negative 60%." Were these industry averages included in the response to the AG's Initial Request, Item 8?

(1) If yes, provide the specific reference to this information in that response.

(2) If no, provide the industry averages utilized to establish the negative 60 percent estimate.

d. The response to Item 11(i) states that "industry averages were considered in extrapolating the most appropriate future net salvage of negative 15%." Were these industry averages included in the response to the AG's Initial Request, Item 8?

(1) If yes, provide the specific reference to this information in that response.

(2) If no, provide the industry averages utilized to establish the negative 15 percent estimate.

e. Concerning the various depreciation studies referenced for the utilities included in the response to the AG's Initial Request, Item 8, indicate whether the listed studies are the most current depreciation studies for the referenced utility.

A-5. a. In all cases, the statistical analysis of other utilities is set forth in the attachment to LG&E's response to AG's Initial Request, Item 8. LG&E is providing the estimates of others as part of its filing, however, in all cases a depreciation consultant supported the results of the utility. The attachment to AG-1-8 reflects Gannett Fleming studies. However, other depreciation consultants have comparable estimates but the basis for their estimate was not always known.

b. This determination is the result of Mr. Spanos' experience with other utilities and his discussions with E.ON U.S. personnel.

c. Yes, the response to AG-1-8 is the primary document for determining the best net salvage percent for Account 364. The industry statistics were utilized as a basis for informed judgment. The negative 60% is considerably less than the Company's historical indications.

d. Yes, the response to AG-1-8 is the primary document for determining the most appropriate net salvage percent for Account 367. The industry statistics were utilized as a basis for informed judgment.

e. The studies referenced for each utility in response to AG-1-8 are the most current depreciation studies that have been finalized and recorded by Gannett Fleming. As soon as Gannett Fleming is aware of finalized results and has the opportunity to update the schedule, it is completed.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00564

Question No. 6

Witness: John J. Spanos / Shannon L. Charnas

Q-6. Refer to the response to the AG's Initial Request, Items 72, 73, and 76. In each response there are references to increases in reported retirements being due to either a delay in recording retirements for the account or the result of a catch up to prior years due to new accounting systems.

a. Explain in detail why there have been delays in recording retirements for the accounts included in Items 73 and 76.

b. Explain in detail why new accounting systems resulted in a need to catch up to prior years for the accounts included in Items 72 and 76.

A-6. a. The Company implemented a newly developed software system for utility fixed assets from Oracle Inc. In the new system, processing retirements was an extremely slow and burdensome process, which resulted in delays in recording retirements. Eventually, an upgrade was implemented by the Company, which allowed for the smoother processing of retirements and the Company was able to process retirements in a more timely manner.

b. Same the response to a.