

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

The matter is before the Commission upon a motion filed by the Attorney General ("AG") for the establishment of a procedural schedule. Concurrently with the motion, the AG tenders his data requests to Louisville Gas and Electric Company ("LG&E") regarding its application for the approval of LG&E's proposed revised depreciation rates.

IT IS THEREFORE ORDERED that:

1. The AG's motion is granted and the procedural schedule set forth in Appendix A to this Order shall be followed in this proceeding.

2. a. The information requested in Appendix B is due on or before February 28, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and 7 copies to the Commission.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the

response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any requests to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

3. Any party filing testimony shall file an original and 10 copies.

4. LG&E shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:011, Section 8(5). At the time publication is requested, LG&E shall forward a duplicate of the notice and request to the Commission.

5. At any public hearing in this matter, neither opening statements nor summarization of direct testimonies shall be permitted.

6. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 18th day of February, 2008.

By the Commission

Commissioner Clark abstains.

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2007-00564 DATED FEBRUARY 18, 2008

- LG&E's responses to Staff's First Data Request and the AG's
request for information shall be filed no later than.....02/28/08
- Supplemental requests for information to LG&E shall be filed
no later than.....03/13/08
- LG&E's responses to supplemental requests for information
shall be filed no later than.....03/27/08
- Intervenor testimony, if any, shall be filed in verified,
prepared form no later than04/10/08
- Requests for information to Intervenors shall be filed no later than.....04/24/08
- Intervenors shall file responses to requests for information no
later than05/08/08

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00564 DATED FEBRUARY 18, 2008

FIRST DATA REQUEST OF COMMISSION STAFF TO LOUISVILLE GAS AND ELECTRIC COMPANY

1. Refer to the Application, page 3, paragraph 7.
 - a. In preparing this Application, did LG&E review pages 10 through 12 and 29 through 35 of the Commission's June 30, 2004 Order in Case No. 2003-00433?¹
 - b. Explain why the narrative in paragraph 7 implies the depreciation issue in the last general rate case was resolved by Article III, Section 3.3 of the "Partial Settlement Agreement, Stipulation and Recommendation."
2. LG&E's last depreciation study was prepared utilizing the Straight Line Method, the Broad Group Procedure, and the Average Remaining Life Technique. Compare and contrast this approach with the approach utilized in the depreciation study submitted in this proceeding.
3. In its June 30, 2004 Order in Case No. 2004-00433, the Commission rejected LG&E's depreciation study because of concerns over the inclusion of an inflation adjustment for the removal costs. Explain in detail how the new depreciation study addresses this issue.
4. Refer to the Direct Testimony of Robert M. Conroy, page 3. Mr. Conroy states, "Therefore, LG&E respectfully requests the Commission to defer review of the depreciation rates recommended in the study and to approve revised depreciation rates

¹ Case No. 2003-00433, An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company, final Order dated June 30, 2004.

for accounting and ratemaking purposes concurrent with LG&E's next change in base rates pursuant to a Commission Order in a base rate proceeding filed by LG&E."

a. Explain why LG&E is requesting that the Commission defer the review of the depreciation rates recommended in the study.

b. When does LG&E propose the review of the depreciation rates recommended in the study be undertaken?

5. Refer to the Direct Testimony of John J. Spanos ("Spanos Testimony"), page 13.

a. Describe the basic differences between the average service life procedure and the equal life group procedure.

b. Provide the basis for the conclusion that the equal life group procedure reflects a more appropriate matching of capital recovery to asset utilization.

6. Refer to the Spanos Testimony, Exhibit JJS-LG&E, page II-40. Explain how the amortization periods shown on this page were determined. Include any analyses that were based upon LG&E's historic experience for any of the listed accounts.

7. Refer to the Spanos Testimony, Exhibit JJS-LG&E, pages III-4 through III-12. Prepare an analysis of the depreciation information in Tables 1 through 3 as outlined below. The analysis should be at the same level of detail as shown on Tables 1 through 3. The depreciation information should be organized in the following manner:

a. Column 1 – Account.

b. Column 2 – Book Depreciation Reserve.

c. Column 3 – Future Accruals.

d. Column 4 – Total Book Depreciation Reserve and Future Accruals, Column 2 plus Column 3.

e. Column 5 – Original Cost.

f. Column 6 – Difference Depreciation vs. Original Cost, Column 4 minus Column 5.

g. Column 7 – Percentage Difference, Column 6 divided by Column 5, carry to two decimal places.

For each account where the Percentage Difference calculated in Column 7 is greater than 10 percent, explain in detail why the results are reasonable and why depreciation rates should be established to generate the proposed levels of Future Accruals.

8. Refer to the Spanos Testimony, Exhibit JJS-LG&E, pages III-6 through III-8. LG&E jointly owns 10 combustion turbines (“CTs”) with Kentucky Utilities Company (“KU”). The CTs are Paddy’s Run – Generator 13, E. W. Brown CTs 5 through 7, and Trimble County CTs 5 through 10. A comparison of the depreciation information on pages III-6 through III-8 with the corresponding pages in the KU depreciation study reveals that the survivor curves, accrual rates, and composite remaining lives are not the same for the jointly owned assets. Explain in detail why it is reasonable for LG&E and KU to have different depreciation rates for the same jointly owned assets.

9. Refer to the Spanos Testimony, Exhibit JJS-LG&E, pages III-8 through III-10. For each of the accounts listed below, explain in detail why the Future Accrual is larger than the Original Cost. In addition, explain why the result is reasonable and why

the proposed level of Future Accrual should be reflected in the approved depreciation rates.

- a. Account No. 355.00 – Poles and Fixtures.
- b. Account No. 364.00 – Poles, Towers, and Fixtures.
- c. Account No. 265.00 – Overhead Conductors and Devices.
- d. Account No. 369.20 – Services – Overhead.
- e. Account No. 352.50 – Well Equipment.
- f. Account No. 380.00 – Services.

10. Refer to the Spanos Testimony, Exhibit JJS-LG&E. For each of the “Original and Smooth Survivor Curves” listed below, explain why the selected Iowa Curve is the best fit given the information plotted. Also indicate whether there were other Iowa Curves that reflected a fit similar to the plotted information.

- a. Page III-48, Account No. 341 – Structures and Improvements.
- b. Page III-66, Account No. 350 – Land and Land Rights.
- c. Page III-70, Account No. 352 – Structures and Improvements.
- d. Page III-76, Account No. 354 – Towers and Fixtures.
- e. Page III-82, Account No. 356 – Overhead Conductors and Devices.
- f. Page III-152, Account No. 351.30 – Measuring and Regulating Station Structures.
- g. Page III-168, Account No. 352.50 – Well Equipment.
- h. Page III-261, Account No. 385 – Measuring and regulating Station Equipment.

i. Page III-282, Account No. 390.30 -- Structures and Improvements -- Stores.

11. Refer to the Spanos Testimony, Exhibit JJS-LG&E. For each of the accounts listed below, explain how the net salvage percentage shown for the account on pages III-4 through III-12 is supported by the information presented on the referenced pages from the "Summary of Book Salvage." If depreciation studies for other utilities were utilized, identify the utility, indicate when the study was prepared, and explain why it was reasonable to use information from that study.

a. Account No. 331 -- Structures and Improvements, pages III-310 and III-311.

b. Account No. 332 -- Reservoirs, Dams and Waterway, page III-312.

c. Account No. 333 -- Water Wheels, Turbines, and Generators, page III-313.

d. Account No. 334 -- Accessory Electric Equipment, pages III-314 and III-315.

e. Account No. 335 -- Miscellaneous Plant Equipment, pages III-316 and III-317.

f. Account No. 343 -- Prime Movers, pages III-321 and III-322.

g. Account No. 362 -- Station Equipment, pages III-341 and III-342.

h. Account No. 364 -- Poles, Towers, and Fixtures, pages III-343 and III-344.

i. Account No. 367 -- Underground Conductors and Devices, pages III-349 and III-350.

- j. Account No. 351.20 – Compressor Station Structures, pages III-369 and III-370.
- k. Account No. 367 – Mains, pages III-387 and III-388.
- l. Account No. 375.20 – Structures and Improvements – Other, pages III-389 and III-390.
- m. Account No. 378 – Measuring and Regulating Station Equipment – General, pages III-393 and III-394.
- n. Account No. 396.20 – Power Operated Equipment – Other, pages III-410 and III-411.
- o. Account No. 390.30 – Structures and Improvements – Stores, page III-417.
- p. Account No. 390.40 – Structures and Improvements – Shops, pages III-418 and III-419.
- q. Account No. 392.20 – Transportation Equipment – Trailers, pages III-422 and III-423.