

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY) CASE NO.
TO FILE DEPRECIATION STUDY) 2007-00565

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 Kentucky Utilities Company ("KU") regarding its application for the approval of KU'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. KU 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, KU 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. 2007-00565 DATED FEBRUARY 18, 2008

- KU'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 KU shall be filed
no later than.....3/13/08
- KU'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 than.....04/10/08
- Requests for information to Intervenors shall be filed no later than.....04/24/08
- Intervenors shall file responses to requests for information no
later than.....05/08/08

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00565 DATED FEBRUARY 18, 2008

FIRST DATA REQUEST OF COMMISSION STAFF TO KENTUCKY UTILITIES COMPANY

1. Refer to the Application, page 3, paragraph 7.
 - a. In preparing this Application, did KU review pages 9 and 10 and 24 through 30 of the Commission's June 30, 2004 Order in Case No. 2003-00434?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. KU'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. 2004-00434, the Commission rejected KU'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, KU respectfully requests the Commission to defer review of the depreciation rates recommended in the study and to approve revised depreciation rates

¹ Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company, final Order dated June 30, 2004.

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

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

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

5. Concerning the depreciation study and proposed depreciation rates:

a. Explain whether the study and proposed rates apply only to KU's Kentucky jurisdictional operations or to KU's total operations.

b. If the study and proposed rates apply to total operations, has KU sought approval of the proposed rates in the other applicable jurisdictions? Explain the response.

6. Refer to the Direct Testimony of John J. Spanos ("Spanos Testimony"), page 12.

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.

7. Refer to the Spanos Testimony, Exhibit JJS-KU, page II-37. Explain how the amortization periods shown on this page were determined. Include any analyses that were based upon KU's historic experience for any of the listed accounts.

8. Refer to the Spanos Testimony, Exhibit JJS-KU, pages III-4 through III-10. Prepare an analysis of the depreciation information as outlined below. The analysis

should be at the same level of detail as shown on pages III-4 through III-10. 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.

9. Refer to the Spanos Testimony, Exhibit JJS-KU, page III-4. Explain the meaning of the “***” by the Accrual Rate for Account No. 312.00 – Boiler Plant Equipment – Ghent Unit 3.

10. Refer to the Spanos Testimony, Exhibit JJS-KU, pages III-7 through III-9. KU jointly owns 10 combustion turbines (“CTs”) with Louisville Gas and Electric Company (“LG&E”). The CTs are Paddy’s Run – Generator 13, E. W. Brown CTs 5 through 7, and Trimble County CTs 5 through 10.

a. A comparison of the depreciation information on pages III-7 through III-9 with the corresponding pages in the LG&E 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 KU and LG&E to have different depreciation rates for the same jointly owned assets.

b. Provide the "Summary of Book Salvage" data for Account Nos. 341 through 346.

11. Refer to the Spanos Testimony, Exhibit JJS-KU, page III-9. Explain in detail why the Future Accrual is larger than the Original Cost for Account No. 365.00 – Overhead Conductors and Devices. In addition, explain why the result is reasonable and why the proposed level of Future Accrual should be reflected in the approved depreciation rate.

12. Refer to the Spanos Testimony, Exhibit JJS-KU. For each of the "Original and Smooth Survivor Curves" listed below, explain why the selected lowa Curve is the best fit given the information plotted. Also indicate whether there were other lowa Curves that reflected a fit similar to the plotted information.

a. Page III-55, Account No. 336 - Roads, Railroads, and Bridges.

b. Page III-76, Account No. 352.1 – Structures and Improvements – Non-System Control.

c. Page III-84, Account No. 353.1 – Station Equipment – Non-System Control.

13. Refer to the Spanos Testimony, Exhibit JJS-KU. For each of the accounts listed below, explain how the net salvage percentage shown for the account on pages

III-4 through III-10 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. 311 – Structures and Improvements, page III-184.
- b. Account No. 316 – Miscellaneous Power Plant Equipment, page III-188.
- c. Account No. 333 – Water Wheels, Turbines, and Generators, page III-191.
- d. Account No. 352 – Structures and Improvements, page III-194.
- e. Account No. 353 – Station Equipment, page III-195.
- f. Account No. 355 – Poles and Fixtures, page III-197.
- g. Account No. 356 – Overhead Conductors and Devices, page III-198.
- h. Account No. 362 – Station Equipment, page III-200.
- i. Account No. 364 – Poles, Towers, and Fixtures, page III-201.
- j. Account No. 365 – Overhead Conductors and Devices, page III-202.
- k. Account No. 367 – Underground Conductors and Devices, page III-203.
- l. Account No. 373 – Street Lighting and Signal Systems, page III-208.
- m. Account No. 390 – Structures and Improvements, page III-209.

14. Refer to the Spanos Testimony, Exhibit JJS-KU, pages III-5 and III-254. Explain why the Composite Remaining Life shown for Account No. 316 – Miscellaneous Plant Equipment, does not agree with the Composite Remaining Life shown for that account.