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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

AUG 04 2011
PUBLIC SERVICE
COMMISSION

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August 4, 2011

RE: *The 2011 Joint Integrated Resource Plan of Louisville Gas and Electric Company and Kentucky Utilities Company – Case No. 2011-00140*

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the response of Louisville Gas and Electric Company and Kentucky Utilities Company to the Attorney General's Initial Data Requests dated June 29, 2011, in the above-referenced matter.

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

Sincerely,

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE 2011 JOINT INTEGRATED RESOURCE PLAN)
OF LOUISVILLE GAS AND ELECTRIC COMPANY) **CASE NO.**
AND KENTUCKY UTILITIES COMPANY) **2011-00140**

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY
TO THE ATTORNEY GENERAL'S INITIAL DATA REQUESTS
DATED JUNE 29, 2011

FILED: August 4, 2011

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is Director – Accounting and Regulatory Reporting for LG&E and KU Services Company, and 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 3rd day of August 2011.

Sammy J. Elzy (SEAL)

Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Charles R. Schram**, being duly sworn, deposes and says that he is Director – Energy Planning, Analysis and Forecasting for LG&E and KU Services Company, and 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.

Charles R. Schram
Charles R. Schram

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 3rd day of August 2011.

Jammy J. Ely (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to the Attorney General's Initial Data Requests
Dated June 29, 2011**

Case No. 2011-00140

Question No. 1

Witness: Shannon L. Charnas / Charles R. Schram

- Q-1. The IRP filing, together with documents filed in Case Nos. 2011-00161 and 2011- 00162 indicate that the Companies are either planning on, or considering whether to retire the remaining coal-fired units at their Cane Run facility, and that they are exploring whether to construct a combined cycle combustion turbine at that facility.
- a. What type of load would any such replacement generation serve: peak, intermediate or base?
 - b. Please state whether the generating units / plants to be retired are fully depreciated.
 - (i) If so, how do the Companies plan to treat the accounting regarding any such stranded costs?
 - (ii) If not, will the retirement result in stranded costs, and if so, will ratepayers in any manner be made responsible for the stranded costs?
- A-1.
- a. The companies anticipate that a combined cycle unit replacing the Cane Run coal-fired units would operate at an intermediate level.
 - b. Currently the Cane Run generating units/plants are not fully depreciated.
 - (i) While these generating units/plants are not currently fully depreciated, the next depreciation study that will be filed, based on information as of December 31, 2011, will take into account any change in the remaining life of the Cane Run facility. Following the implementation of new rates from the next depreciation study using the updated useful lives of the facilities, the Cane Run facility is expected to be fully depreciated at the time it is retired.
 - (ii) The next depreciation study will address the anticipated retirement of all plant facilities, including the Cane Run facility, based on the most current estimate of their retirement dates. In the depreciation study, the accumulated depreciation reserve will be reallocated based on the estimated retirements of each generating unit/plant. Depreciation rates are ultimately approved by the Commission before

they are implemented and used to calculate depreciation expense, which is eventually incorporated into base and other rates.

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to the Attorney General's Initial Data Requests
Dated June 29, 2011**

Case No. 2011-00140

Question No. 2

Witness: Shannon L. Charnas

- Q-2. The filing indicates the Companies plan to retire the remaining coal-fired units at their Green River and Tyrone facilities.
- a. Please state whether the generating units / plants to be retired are fully depreciated.
- (i) If so, how does the company plan to treat the accounting regarding any such stranded costs?
- (ii) If not, will the retirement result in stranded costs, and if so, will ratepayers in any manner be made responsible for the stranded costs?
- A-2.
- a. Currently the Green River and Tyrone generating units/plants are not fully depreciated.
- (i) While these generating units/plants are not currently fully depreciated, the next depreciation study that will be filed, based on information as of December 31, 2011, will take into account any change in the remaining lives of the Green River and Tyrone facilities. Following the implementation of new rates from the next depreciation study using the updated useful lives of the facilities, the Green River and Tyrone facilities are expected to be fully depreciated at the time they are retired.
- (ii) The next depreciation study will address the anticipated retirement of all plant facilities, including the Green River and Tyrone facilities, based on the most current estimate of their retirement dates. In the depreciation study, the accumulated depreciation reserve will be reallocated based on the estimated retirements of each generating unit/plant. Depreciation rates are ultimately approved by the Commission before they are implemented and used to calculate depreciation expense, which is eventually incorporated into base and other rates.

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

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Case No. 2011-00140

Question No. 3

Witness: Charles R. Schram

- Q-3. The latest round of EPA air quality regulations have imposed compliance deadlines resulting in utilities around the nation, including LG&E and KU, having to rush to develop plans to achieve compliance. This has also resulted in many utilities re-examining the findings of their latest IRP reviews. As the EPA continues the planning process for even more air quality regulations, e.g. "CATR II," is there any possibility that the results of the instant IRP review and the other processes the companies initiated in order to develop plans for compliance with the new air quality regulations may need to be amended and / or revised in order to achieve compliance? If so, are the companies prepared, if the need arises, to conduct another IRP review prior to the time that the next review would otherwise have been conducted? Please discuss and elaborate as needed.
- A-3. The Companies continuously monitor regulatory and other conditions that affect their ability to provide low-cost, safe, and reliable service. The Companies adjust their resource plans to provide such service when it is appropriate to do so based on data and analysis. The 2011 IRP, like all IRPs, is a snapshot of that ongoing resource planning process; it is a report of the Companies' planning and analysis at one point in time. Before embarking on any final strategic decisions or physical actions, the Companies carefully evaluate alternatives for providing reliable energy while complying with all regulations in a least-cost manner. Such decisions or actions are supported by specific analyses and are subject to the appropriate regulatory approval processes. Therefore, the Companies do not believe it is necessary, nor would it comport with the Commission's IRP regulations (807 KAR 5:058), for the Companies to file an IRP more or less frequently than triennially.

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to the Attorney General's Initial Data Requests
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Case No. 2011-00140

Question No. 4

Witness: Charles R. Schram

- Q-4. LG&E has engaged in an extensive program to rehabilitate the Ohio falls hydro generation station. Is it economically feasible to consider an expansion of this facility in addition to the current rehabilitation work? Please discuss and elaborate as needed.
- A-4. In 2008, LG&E hired a third-party contractor to perform a study of the feasibility of expanding LG&E's Ohio Falls Station. The study addressed five options, which were included in the supply-side screening of technology options to determine which technologies to consider for more detailed analysis. The lowest cost of the five options was a 50 MW bulb unit at Shippingport Island, which was selected as one of the options for further analysis; however, it was not sufficiently economical to be part of the least-cost expansion plan. Please refer to the IRP documentation in Volume III, Analysis of Supply-Side Technology Alternatives, and Section 4.5.1 – Ohio Falls Expansion (pp. 20-21) for additional details.

**LOUISVILLE GAS AND ELECTRIC COMPANY
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Case No. 2011-00140

Question No. 5

Witness: Charles R. Schram

- Q-5. Have the companies considered offering to purchase other hydro generation plants around the Commonwealth and expanding them, if feasible? Provide a discussion, as needed, of federal and state permitting requirements that would be necessary to expand any such facilities.
- A-5. Monitoring of publicly available data indicates that hydro resources currently being developed are not least-cost. If an economical site became available, the Companies would need to transfer the FERC license from the existing owner to the Companies. When the Companies tried to obtain the FERC license for the Meldahl Dam from WV Hydro, a municipality was awarded the license. Current law favors municipal ownership of hydro licenses. Until the municipal preference is removed from federal law, the chances of the Companies obtaining a FERC license for a potentially least-cost site are extremely low.

**LOUISVILLE GAS AND ELECTRIC COMPANY
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**Response to the Attorney General's Initial Data Requests
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Case No. 2011-00140

Question No. 6

Witness: Charles R. Schram

- Q-6. Regarding the IRP review's finding that several new CTs will be needed in the coming years, please discuss whether the companies are willing to consider either purchases of generation (whether short-term PPAs, long-term, or both) from merchant plants located in the Commonwealth, and / or outright purchases of such generation plants themselves.
- A-6. Yes, the Companies are willing to consider either purchases of generation and/or outright purchases of such generation plants.

**LOUISVILLE GAS AND ELECTRIC COMPANY
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**Response to the Attorney General's Initial Data Requests
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Case No. 2011-00140

Question No. 7

Witness: Charles R. Schram

- Q-7. The IRP filing appears to be premised at least in part upon improving economic conditions for the remainder of the current calendar year, and for 2012. However, recent news reports indicate the nation may be facing yet another economic downturn of unknown magnitude. In the event of another recession, at what point, if any, would the findings of the IRP filing become obsolete or in need of revision? Please discuss.
- A-7. Please see the Companies' response to Question No. 3. Notwithstanding that an IRP is a snapshot and subject to adjustment, given the unit retirements anticipated in 2016, it is unlikely that the Companies' plan to add generation capacity in 2016 would change due to an expectation for lower load. The result of the "low load" sensitivity demonstrates that a 3x1 combined cycle unit in 2016 remains a part of the least-cost expansion plan with lower load assumptions. Please refer to the IRP documentation in Volume III, Section "Sensitivity: Load" (pp. 11-13) for additional details.