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PUBLIC SERVICE  
COMMISSION

Jeff DeRouen, Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
P. O. Box 615  
Frankfort, Kentucky 40602

**Kentucky Utilities Company**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
[www.lge-ku.com](http://www.lge-ku.com)

Robert M. Conroy  
Director - Rates  
T 502-627-3324  
F 502-627-3213  
[robert.conroy@lge-ku.com](mailto:robert.conroy@lge-ku.com)

July 25, 2011

**RE: *The Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge***  
**Case No. 2011-00161**

Dear Mr. DeRouen:

Enclosed please find an original and fifteen (15) copies of Kentucky Utilities Company's (KU) response to the Attorney General's (AG) Initial Data Requests dated July 12, 2011, in the above-referenced matter.

Also enclosed are an original and fifteen (15) copies of a Petition for Confidential Protection regarding certain information contained in response to Question Nos. 2(a-c) and 5(a).

The verification page for Gary H. Revlett is being filed under a separate cover letter.

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

Sincerely,

A handwritten signature in black ink that reads "Robert M. Conroy".

Robert M. Conroy

cc: Parties of Record

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>THE APPLICATION OF KENTUCKY UTILITIES</b>	)	
<b>COMPANY FOR CERTIFICATES OF PUBLIC</b>	)	
<b>CONVENIENCE AND NECESSITY AND</b>	)	
<b>APPROVAL OF ITS 2011 COMPLIANCE PLAN</b>	)	<b>CASE NO. 2011-00161</b>
<b>FOR RECOVERY BY ENVIRONMENTAL</b>	)	
<b>SURCHARGE</b>	)	

**KENTUCKY UTILITIES COMPANY**

**RESPONSE TO THE  
ATTORNEY GENERAL'S (AG)  
INITIAL DATA REQUESTS**

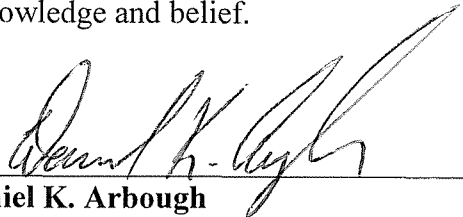
**DATED JULY 12, 2011**

**FILED: JULY 25, 2011**

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company and an employee of 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.

  
\_\_\_\_\_  
**Daniel K. Arbough**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22<sup>nd</sup> day of July 2011.

 (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:

November 9, 2014







**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 1**

**Witness: John N. Voyles, Jr.**

- Q-1. Regarding Project 29 (Brown, Amended), discuss whether the conversion of the main ash pond from wet to dry storage would satisfy all requirements of the CCR regulation, regardless of whether the EPA determines CCRs to be a non-hazardous or hazardous waste.
- a. In the event the EPA determines CCRs to be a hazardous waste, discuss whether:
    - (i) any other work will need to be done on Brown's main ash pond to achieve compliance; and
    - (ii) any of KU's other ash ponds may need any additional work.
  - b. Provide any and all cost estimates relevant hereto, together with projected starting and completion dates for any necessary projects.
- A-1. The Brown landfill will satisfy the EPA proposed regulation, Subtitle D (non-hazardous) as the landfill is currently designed. Subtitle C (hazardous) will not be completely satisfied under the current landfill design.
- a. In the event the EPA determines CCR to be hazardous, the full extent of the requirements to ensure compliance are unknown until the EPA releases its final ruling; however, under our current interpretation of Subtitle C:
    - (i) The Brown landfill liner system would not require modification; however, the future landfill cap system would likely require modification to achieve the expected permeability.
    - (ii) The operation of the other ash ponds within the KU fleet would likely be discontinued and then capped as required by those final EPA guidelines and timeframes, with CCR storage transitioning from wet to dry.
  - b. Please see Exhibit JNV-4 of Mr. Voyles's Testimony.





**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 2**

**Witness: Counsel**

- Q-2. Provide copies of all correspondence, memoranda and e-mails regarding any and all alternatives to the proposed environmental compliance plan set forth in the company's petition in the instant matter:
- a. by and among the employees, officers and directors of KU / LG&E; and
  - b. between the company's employees and any and all external consultants.
  - c. For purposes of this question, the term "company" includes any and all subsidiaries, affiliates and holding companies within the PPL corporate family.
- A-2.
- a. To the extent that the request for the production of documents is overly broad and unduly burdensome and seeks the production of documents that are irrelevant to the issues in this case or are privileged, objections are made to the request. Without waiver of these objections, counsel for KU is undertaking a reasonable and diligent search for responsive and non-privileged documents and will produce documents responsive to this request through a rolling production beginning July 25, 2011. Please note that KU anticipates seeking confidential protection for portions of certain documents being provided hereunder. Also a privilege log concerning documents responsive to this request, but which KU is not providing on the ground that they are exempt from production, will be subsequently provided in a supplemental response. This log will be supplemented as appropriate with the production of other documents or completion of the search. Counsel for KU will update counsel for the AG on a weekly basis on the status of the production of further documents.
  - b. See the response to (a).
  - c. No response appears to be required.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 3**

**Witness: John N. Voyles, Jr.**

Q-3. State whether the company anticipates any additional compliance work having to be done which was not outlined in the petition and accompanying testimony. If yes, please describe in detail.

A-3. The Compliance Plan contained in the filing is based on the Company's interpretation of the current and proposed regulations discussed in the Application and Testimony. The Companies continuously review their obligations related to environmental compliance and evaluate the need for additional compliance measures when proposed regulations are known. The EPA is required by provisions of a number of CAAA statutes to regularly review scientific data on emissions and determine whether further actions are warranted. This process has occurred many times in the last 30 years, resulting in changes to the emission requirements for all industry. The EPA is continuing to evaluate primary and secondary NAAQS, as well as the potential development of greenhouse gas emission standards. While the timing of some of these reviews are specified in the CAAA of 1990, it is not possible to predict what, if any, changes will be required as a result of those reviews by the EPA. In addition to new requirements under the CAAA, EPA has also indicated their intent to issue future new effluent discharge regulations under the Clean Water Act (CWA) and potential new requirements for coal combustion residuals. These non-air related rules will also have the potential for affecting our operations in the future.

Based on the EPA's requirements under the CAAA statutes discussed above, future compliance measures will likely be necessary; however, the Companies cannot at this time with reasonable certainty develop details associated with compliance work necessary for future regulations that have not been issued. The Companies, however, must comply with the environmental regulations identified in their Applications by the corresponding deadlines.



**KENTUCKY UTILITIES COMPANY**

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**Question No. 4**

**Witness: John N. Voyles, Jr. / Gary H. Revlett**

- Q-4. Regarding the construction plans detailed in projects 29 (Amended), 34 and 35, identify which are due to compliance with forthcoming environmental regulations / rules, and which are being implemented to settle or otherwise resolve prior violations and/or prior alleged violations.
- A-4. The testimony of Mr. Voyles and Mr. Revlett discuss in detail the environmental regulatory requirements that cause the need for the Projects contained in the Company's environmental compliance plan. Specific references to the environmental regulations are contained in Column 5 of Exhibit JNV-1 and explained in detail in Mr. Revlett's testimony.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 5**

**Witness: Counsel / Lonnie E. Bellar**

- Q-5. Reference the testimony of Mr. Bellar at page 15. Please identify precisely how long KU has been working on the matters at issue in application.
- a. Provide copies of any and all documents, emails, correspondence, memorandum, reports, letters, studies, analyses, conclusions, or opinions that relate to the preparation of the application, whether prepared by KU or any other entity involved, including but not limited to LG&E, an affiliate company, PPL, an independent contractor, or any agent of the aforementioned entities. In complying with this and all other specific requests set forth in the Attorney General's Initial Requests, please pay careful attention to the definition of "document" as set forth in instruction no. 10 of the attached instructions.
  - b. If not provided in the prior response, provide copies of all Board of Directors' meeting minutes, emails, correspondence, memorandum, reports, letters and/or any and all other documents that discuss the preparation of the application.
- A-5. KU cannot identify a precise date when work on this application began since review of and compliance with environmental regulations is an on-going process. However, in early to mid 2010 the Companies began developing projects to be contained in an amended environmental compliance plan that resulted in this Application.
- a. To the extent that the request for the production of documents is overly broad and unduly burdensome and seeks the production of documents that are irrelevant to the issues in this case or are privileged, objections are made to the request. Without waiver of these objections, counsel for KU is undertaking a reasonable and diligent search for responsive and non-privileged documents and will produce documents responsive to this request through a rolling production beginning July 25, 2011. Please note that KU is seeking confidential protection for portions of certain documents being provided hereunder. Also a privilege log concerning documents responsive to this request, but which KU is not providing on the ground that they are exempt from production, will be subsequently provided in a supplemental response. This log will be supplemented as appropriate with the production of other documents or completion of the search. Counsel for KU will update counsel for the AG on a weekly basis on the status of the production of further documents.
  - b. See the response to (a).





**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 6**

**Witness: John N. Voyles, Jr.**

- Q-6. Reference the testimony of Mr. Bellar at page 15. If it has not been provided, please provide a copy of the Bleak and Veatch report.
- A-6. Exhibit JNV-2 discusses the analysis and contains reports provided by Black and Veatch.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

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**Question No. 7**

**Witness: Lonnie E. Bellar**

- Q-7. Reference the testimony of Mr. Bellar at page 15. Please explain in complete detail why KU and LG&E “cannot afford to wait for the rules to become final before they act to comply” given the fact that some of the rules may change as the company admits at pages 8 – 9 of Mr. Bellar’s testimony.
- A-7. The Companies evaluated the proposed rules and assessed the deadlines included in those rules in the context of the time required to complete the regulatory process, construction timelines, and current maintenance and outage schedules of the plants. The Companies have moved with all reasonable and deliberate speed to file with the Commission an Application that contains proposed projects that will ensure KU’s compliance with the various proposed environmental regulations. Based on the proposed compliance dates, it may be necessary for the Companies to make commitments as early as December 2011 in order to ensure compliance with the environmental regulations in a least cost manner to customers. However, the Companies continue to monitor the schedules, timelines, and the markets for materials and labor for any flexibility in the process that could result in savings for the customer.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 8**

**Witness: Lonnie E. Bellar**

Q-8. Reference the testimony of Mr. Bellar at page 11. What is meant with the statement that "the approved stipulation in the Company's most recent base rate case thus eliminated the controversy often associated with this issue [ the determination of an ROE for the company]"?

A-8. Please see the response to KPSC Question No. 19.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 9**

**Witness: Daniel K. Arbough**

Q-9. Reference the testimony of Mr. Bellar at page 14. Explain in complete detail how "KU expects to finance the costs of the new facilities with a combination of new debt and equity."

A-9. Please see the response to KPSC Question No. 15.





**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 10**

**Witness: Daniel K. Arbough**

Q-10. Provide copies of all financial modeling, studies, analyses, reports and studies used by the company in reaching its result for its determination to finance the projects.

A-10. There are no studies, analyses or reports used in reaching this determination.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

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**Question No. 11**

**Witness: Lonnie E. Bellar**

Q-11. Has the company conducted any studies, analyses, reports or otherwise on the effect of the proposed rate increase on the affordability of its customers to pay their bills? If so, please provide copies of all such documents.

A-11. No, KU has not performed such a study. KU recognizes the hardship many of its low-income customers face. KU helps those customers by offering many different payment options and assistance programs, such as the following:

- 1) KU and its customers are major contributors to the WinterCare Energy Fund. KU matches customer contributions year-round, in amounts ranging from \$0.25 (during non-winter months) up to \$2 (during some winter months), for each \$1 donated by customers. In KU's last rate case approved July 30, 2010 and the PPL Change of Control agreement, KU agreed that the annual contribution will not be less than \$100,000 through 2014.
- 2) KU also works very closely with the Lexington Community Action Council (CAC) and Community Action Kentucky (CAK) during the LIHEAP Subsidy and Crisis season. Customer Commitment, Residential Call Centers and Business Office customer representatives communicate frequently with assistance agencies in providing information for customers in need throughout the KU service territory.
- 3) KU Customer Care Reps receive referral training and information to help customers in need to find assistance.
- 4) KU offers several different payment options, such as budget billing, Automatic Bank Club, and mutually agreeable payment arrangements.
- 5) The KU WeCare Program provides weatherization services to its low-income customers. Services include energy education, air and duct sealing and insulation, attic and wall insulation, heating and a/c tune-ups, programmable thermostats, and energy-efficient refrigerators.
- 6) KU also offers a residential energy audit to its customers for \$25, for which customers receive energy conservation products worth over \$100.

- 7) KU collects a 15 cent per electric meter charge as part of the Home Energy Assistance (HEA) program, equaling approximately \$772,000 annually. Funds are administered by CAK and CAC. In addition to the meter charge, for 2010, KU contributed approximately \$120,000 shareholder dollars to the HEA program.
- 8) Community Action Council and KU have a continuing partnership in participating in the annual Winter Blitz. In 2010, KU and Lexington CAC completed first level weatherization for approximately 40 homes. In addition to sponsoring the breakfast and covering the cost of materials, KU employees and other community groups volunteered their time in this effort to repair and weatherize homes in the community.
- 9) As of October 31, 2010, KU residential customers receiving a pledge or notice of low-income energy assistance from an authorized agency will not be assessed a late payment charge for a period of 12 months.
- 10) In addition, KU regularly provides conservation tips in its customer newsletter "Power Source."



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

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**Question No. 12**

**Witness: Lonnie E. Bellar**

Q-12. Has the company conducted any studies, analyses, reports or otherwise on the effect of the proposed rate increase on the economic impact relative to:

- a. Job retention;
- b. Job recruitment;
- c. Exiting of industrial customers;
- d. Exiting of commercial customers;
- e. General effect on the local economy?

If so, please provide copies of all such documents.

- A-12. a. No.
- b. No.
- c. No.
- d. No.
- e. No.



**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 13**

**Witness: Lonnie E. Bellar**

Q-13. Based on the company's request of a 10.63% ROE in the application and prefiled testimony, and assuming the Commission grants same, how much profit will the company earn on a yearly basis over the next ten years, broken down by each year?

A-13. The Company assumes the Attorney General's request refers to the return on equity component of the revenue requirement associated with the investments included in this application. The Company has not performed such a calculation. Such amount can be calculated as follows: 10.63% x equity % of capitalization structure x the average rate base (cost less accumulated depreciation and deferred taxes) x jurisdictional allocation factor. Please see the information contained in the response to KPSC Question No. 48.

It is not reasonable to calculate profit in the ECR over a ten year period without giving consideration to a number of variables that will impact such a calculation. Over the previous ten year period, KU has eliminated three previously approved ECR Plans in base rate cases and the authorized rate of return has changed multiple times. As the Attorney General is aware, the Company's overall return is a function of multiple variables and is filed monthly with the Commission. In addition, as evidenced in the Company's previous general rate case filings, a return on equity of 10.63% with respect to environmental compliance plans does not ensure that the Company will earn the overall authorized rate of return.





**KENTUCKY UTILITIES COMPANY**

**Response to Attorney General's Initial Data Requests Dated July 12, 2011**

**Case No. 2011-00161**

**Question No. 14**

**Witness: Daniel K. Arbough**

- Q-14. Has the company, through its ultimate holder PPL or any other affiliate within the PPL corporate group, represented to the financial and/or investment communities that that the ECR mechanism is a profit center for PPL? Has the company used any words of any similar nature whatsoever in any representation(s) to the financial and/or investment communities that could reasonably be construed to imply such? If so, provide copies of any and all documents.
- A-14. No. Neither the Company, PPL nor any other affiliate within the PPL corporate group, has represented to the financial and/or investment communities that the ECR mechanism is a "profit center" for PPL. The ECR mechanism is critical in facilitating timely recovery of pre-approved environmental capital investment. PPL's communications to the financial and investment communities have focused on the importance of timely recovery of environmental investment in light of the significant levels of environmental capital expenditures that are expected to be required over the next few years.