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

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PUBLIC SERVICE
COMMISSION

November 3, 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

The Application of Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge
Case No. 2011-00162

Dear Mr. DeRouen:

Enclosed please find an original and fifteen (15) copies of Kentucky Utilities Company (KU) and Louisville Gas and Electric Company's (LG&E) response to the Commission Staff's Third Request for Information dated October 24, 2011, in the above-referenced matter.

Also enclosed for each of the above-referenced dockets are an original and fifteen (15) copies of a Joint Petition for Confidential Protection regarding certain information contained in response to Question Nos. 1 through 6.

Also enclosed for each of the above-referenced dockets are an original and fifteen (15) copies of a Joint Motion to Deviate from Requirement Governing Filing of Copies. As noted in the Joint Motion to Deviate, enclosed for each of the above-referenced dockets is one paper copy of the workpapers for the responses.

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

Sincerely,

Robert M. Conroy

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY FOR CERTIFICATES	)	
OF PUBLIC CONVENIENCE AND NECESSITY	)	CASE NO.
AND APPROVAL OF ITS 2011 COMPLIANCE	)	2011-00162
PLAN FOR RECOVERY BY ENVIRONMENTAL	)	
SURCHARGE	)	

KENTUCKY UTILITIES COMPANY
AND
LOUISVILLE GAS AND ELECTRIC COMPANY
RESPONSE TO THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
DATED OCTOBER 24, 2011

FILED: NOVEMBER 3, 2011

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Louisville Gas and Electric Company and 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.

Lonnie E Bellar
Lonnie E. Bellar

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

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **David S. Sinclair**, being duly sworn, deposes and says that he is Vice President, Energy Marketing for Kentucky Utilities Company and Louisville Gas and Electric 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.

David S. Sinclair

David S. Sinclair

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

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

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

The undersigned, **Gary H. Revlett**, being duly sworn, deposes and says that he is Director – Environmental Affairs 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.

Gary H. Revlett

Gary H. Revlett

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

Tammy 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 November 2011.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Third Request for Information Dated October 24, 2011

Case Nos. 2011-00161 and 2011-00162

Response to Instructions for Items 1 through 5 of this Request

Witness: Lonnie E. Bellar / Gary H. Revlett / Charles R. Schram

Instructions for Items 1 through 5 of this Request:

Items 1 through 5 each request that a new *Strategist* modeling run be provided based on changes in certain modeling assumptions. In addition to the specific change identified for each of these runs, all of the runs should incorporate the following changes or assumptions:

A. Based on the projected costs in the original Black & Veatch study, reflect the Net Present Value Revenue Requirements ("NPVRR") of installing selective catalytic reduction devices ("SCR") on all units not already equipped with an SCR.

B. Reflect the NPVRR associated with making all additions/retrofits necessary to comply with the U.S. Environmental Protection Agency's ("EPA") new cooling tower requirements.

C. Assume that Nitrous Oxide and Sulfur Dioxide costs continue at the levels most recently projected by EPA.

Response to Instructions for Items 1 through 5 of this Request:

The Companies respectfully make the following comments upon the assumptions the instructions to these requests require the Companies to make, and believe that the following explanations and data used in complying with the instructions will assist the Commission Staff in making a full evaluation of the responses provided.

Concerning Assumption A, Dr. Jeremy Fisher, a witness for the Sierra Club and related parties, has argued that the Companies inappropriately dismissed the risk that some of the Companies' coal units may require SCRs in the future.[1] In his rebuttal testimony, Dr.

[1] *See, e.g.*, Fisher Direct Testimony at 23-29.

Gary Revlett shows why this is not true; contrary to Dr. Fisher's assertions, current NO_x-related regulations do not require the Companies to install any new SCRs.[2] Moreover, Dr. Revlett testified that if a purely local non-attainment issue required NO_x reductions at Brown, the Companies would, as required by the Commission, look for the most cost-effective means to comply with the required emission reductions, which would include selective non-catalytic reduction ("SNCR") or other less expensive control technologies before considering SCR.[3] For these reasons, the Companies respectfully submit that assuming that SCRs will be required for all of Ghent Unit 2, Mill Creek Units 1 and 2, and Brown Units 1 and 2 is a remote possibility, and requires assuming additional costs that no set of current, proposed, or even EPA-considered NO_x-related regulations would require.

Concerning Assumption B, the Companies' 2011 Compliance Plan analysis included estimates for potential future environmental costs related to cooling water intake structures (section 316(b) of the Clean Water Act) and wastewater discharge compliance, all of which will require capital investment within the next 10-15 years. The tables below summarize these costs.[4]

Waste-Water Treatment Plant Costs ($Millions - Nominal)

Station	**Capital Cost**
Brown	40
Cane Run	35
Ghent	60
Green River	15
Mill Creek	60
Trimble County	20

Costs for Water Intake Screens ($Millions - Nominal)

Station	**Capital Cost**
Cane Run	3
Ghent	3
Mill Creek	3

Costs for new cooling towers were not considered in the Companies' earlier analyses because the EPA has not issued any regulations that explicitly require the installation of cooling towers; indeed, the proposed regulation scheme would require a site-by-site study and analysis of what is needed, which studies have not been conducted. Adding a cooling tower would likely be the most expensive compliance option, but in accordance with the Commission Staff's request, the Companies have assumed in the following

[2] *See* Revlett Rebuttal Testimony at 7-12.
[3] *See id.*
[4] In the 2011 Compliance Plan analysis, these costs were allocated to individual units based on the units' capacities.

responses that a cooling tower would be required for Mill Creek Unit 1 at a capital cost of $19 million.

Concerning Assumption C, Charles Schram's rebuttal testimony explains that limited allowance trading under the Cross-State Air Pollution Rule ("CSAPR") could lead to an emissions allowance market with uncertain liquidity, particularly for time periods well into the future.[5] As a result, a physical compliance strategy, consistent with allocated allowances, is a prudent compliance strategy for the Companies to pursue.[6] Moreover, the Companies will physically comply with the CSAPR as a consequence of installing (or already having installed) the environmental controls necessary to meet the relevant National Ambient Air Quality Standards ("NAAQS") and the National Emission Standards for Hazardous Air Pollutants concerning electric generating units ("HAPs Rule"), and the retirement of coal units at Tyrone, Green River and Cane Run. As a result, the Companies expect to have a sufficient allocation of NO_x and SO_2 allowances beginning in 2016, so revenue requirements would not be materially affected by the projected price of CSAPR allowances. Therefore, the Companies are not proposing any projects justified by forecasts of future allowance prices because they are not expected to be short allowances post-2015 nor do they believe it would be prudent to invest capital dollars in hopes of monetizing allotted allowances at speculative prices in the future.

The foregoing comments notwithstanding, the Companies are pleased to respond to the Commission Staff's requests using the required assumptions as clarified below:

A. Consistent with the assumptions in the Companies' Supplemental Analysis (and because SCR is currently not needed on these units), the installation of SCR on Ghent Unit 2, Mill Creek Units 1 and 2, Brown Units 1 and 2, Tyrone Unit 3, and Green River Units 3 and 4 is assumed to occur in 2018.
B. The Companies do not have a cost estimate for a new cooling tower at Mill Creek Unit 1. Therefore, the cost of the new cooling tower is assumed to be $19 million, which was the cost to construct the new cooling tower for Trimble County Unit 1 in 2007. This is arguably a conservative estimate because Mill Creek Unit 1 is smaller in capacity (330 MW for Mill Creek Unit 1 versus 546 MW for Trimble County Unit 1).
C. The table below summarizes the CSAPR NO_x and SO_2 allowance prices most recently projected by the EPA, which the Companies use in the following responses. For purposes of this analysis, the Companies have included the price of allowances as a cost for all emissions, which is offset by the value of allowances allocated by EPA. The Companies, except as explained in response to Question No. 1 below, have not assumed the opportunity to monetize any excess allowances.

[5] Schram Rebuttal Testimony at 13-14.
[6] *See id.*

CSAPR Allowance Price Projections (EPA, \$/ton)[7]

CSAPR Emission Allowance	**2012-13**	**2014+**
SO_2	1,000	1,100
Annual NO_x	500	600
Ozone NO_x	1,300	1,500

Summary of Analysis

For the reasons discussed above, the Companies respectfully submit that the baseline assumptions associated with this data request (in particular, the assumption to install SCR on Brown Units 1 and 2) are extreme, and constitute a set of stress tests for the proposed compliance plans. The Companies are pleased to report that, as explained below and shown in the Scenario Summary Table at the end of this response, the Companies' proposed compliance plans fare quite well under the proposed stresses.

As the records of these proceedings have developed and as suggested by the Commission Staff's requests, this proceeding ultimately focuses on three generating portfolios resulting from two retire-versus-retrofit decisions. No party to these proceedings has challenged the Companies' recommendation to retire the existing Tyrone, Green River, and Cane Run units. Rather, the retire-versus-retrofit decisions most at issue concern Brown Units 1 and 2 and Mill Creek Units 1 and 2. The three plausible generating portfolios these retire-versus-retrofit decisions produce are:[8]

1. **The Companies' recommended portfolio**: Retrofit Brown Units 1 and 2 ("BR1-2") and Mill Creek Units 1 and 2 ("MC1-2")
2. **Retire BR1-2**: Retire Brown Units 1 and 2 and Retrofit Mill Creek Units 1 and 2
3. **Retire BR1-2 and MC1-2**: Retire Brown Units 1 and 2 and Mill Creek Units 1 and 2

The PVRR for these three portfolios are summarized in the Scenario Summary Table on the following page for all the scenarios considered in this proceeding, including the scenarios considered in response to this Third Request for Information of Commission Staff.

The 'Retire BR1-2 and MC1-2' portfolio is least-cost only in Scenario 6 in which it is assumed with certainty that regulations resulting in relatively high CO_2 pricing will be promulgated; however, David Sinclair's rebuttal testimony explains why it would be imprudent to make any retire-versus-retrofit decisions today based on unknown and unknowable future CO_2 regulations and pricing.[9]

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[7] 76 Fed. Reg. 48,246 *et seq. See also* http://www.cantorco2e.com/MarketData/news.asp?id=36622 (presenting the EPA's CSAPR allowance price assumptions in tabular form).
[8] It is highly unlikely that a situation would arise in which the lowest-cost generating portfolio would include (i.e., retrofit) Brown Units 1 and 2 but exclude (i.e., retire) Mill Creek Units 1 and 2.
[9] Sinclair Rebuttal Testimony at 16-33.

The 'Retire BR1-2' portfolio is least-cost in some (but not all) of the scenarios where SCR is assumed to be needed at Brown Units 1 and 2 (see Scenarios 10, 13 and 14); however, Dr. Revlett's rebuttal testimony explains that installing additional SCRs at any of the Companies' units is unnecessary, and it is particularly remote in the future for Brown Units 1 and 2. In all the scenarios where SCR is not added to Brown Units 1 and 2, the Companies' recommended portfolio is lowest-reasonable-cost (except Scenario 6 noted above).

Scenario Summary Table ($ in 2011)

	Assumptions						PVRR ($Millions)		
	Gas Price Forecast	Coal Price Forecast	NOx/SO2 Prices	CO2 Prices	New SCRs	Cooling Towers	Recommended Portfolio	Retire BR1-2	Retire BR1-2 and MC1-2
Base Compliance Plan[1]	Compliance Plan	Compliance Plan	None	None	None	None	32,786	33,083	34,268
Scenario 1[2]	2011 PIRA	2011 Wood Mac	None	None	None	None	35,139	35,354	36,325
Scenario 2[2]	2011 Wood Mac	2011 Wood Mac	None	None	None	None	34,462	34,545	35,180
Scenario 3[2]	2011 CERA	2011 CERA	None	None	None	None	30,910	30,910	31,348
Scenario 4[3]	AESC (Nominal)	Compliance Plan	None	None	None	None	32,671	32,909	33,969
Scenario 5[3]	AESC (Nominal)	Compliance Plan	None	Synapse Low	None	None	43,577	No Analysis	43,968
Scenario 6[3]	AESC (Nominal)	Compliance Plan	None	Synapse Mid	None	None	50,653	No Analysis	50,484
Scenario 7[4]	Compliance Plan	Compliance Plan	None	None	GH2, MC1-2	MC1	33,353	33,653	No Analysis
Scenario 8[4]	Compliance Plan	Compliance Plan	EPA	None	GH2, MC1-2	MC1	33,438	33,735	No Analysis
Scenario 9[4]	2011 PIRA	2011 Wood Mac	EPA	None	GH2, MC1-2	MC1	35,387	35,562	No Analysis
Scenario 10[4]	2011 PIRA	2011 Wood Mac	EPA	None	BR1-2, GH2, MC1-2	MC1	35,596	35,562	36,122
Scenario 11[5]	AESC (Nominal)	Compliance Plan	EPA	None	BR1-2, GH2, MC1-2	MC1	33,537	33,564	34,286
Scenario 12[6]	Compliance Plan	Compliance Plan	EPA	$30 2020+	GH2, MC1-2	MC1	41,585	41,699	42,054
Scenario 13[6]	Compliance Plan	Compliance Plan	EPA	$30 2020+	BR1-2, GH2, MC1-2	MC1	41,793	41,699	42,054
Scenario 14[7]	Compliance Plan	Compliance Plan	EPA	$50 2020+	BR1-2, GH2, MC1-2	MC1	47,130	46,947	46,955

Least-Cost Portfolio

[1]These values reflect the correction of the landfill cost error identified by Dr. Fisher and the error identified by the Companies' in response to Supplemental Requests for Information of Rick Clewett, Raymond Barry, Sierra Club and the Natural Resource Defense Council dated August 18, 2011, Question No. 8(b). The impact of these errors is insignificant.

[2]These values are consistent with the 2011 Air Compliance Plan Supplemental Analysis filed on September 15, 2011 and reflect the correction of the aforementioned errors (see Footnote 1).

[3]These values are consistent with Exhibit DSS-2 in the Rebuttal Testimony of David Sinclair filed on October 24, 2011 and reflect the correction of the aforementioned errors (see Footnote 1).

[4]These values were developed in response to Question No. 1 of Commission Staff's Third Request for Information.

[5]These values were developed in response to Question No. 2 of Commission Staff's Third Request for Information.

[6]These values were developed in response to Question No. 3 of Commission Staff's Third Request for Information.

[7]These values were developed in response to Question No. 4 of Commission Staff's Third Request for Information.

As a final comparison, the table below compares the PVRR of the 'Retire BR1-2' and 'Retire BR1-2 and MC1-2' portfolios to the PVRR of the Companies' recommended portfolio for each of the scenarios in the Scenario Summary Table. Positive values in this table indicate that the alternative portfolios are higher cost than the Companies' recommended portfolio. These tables show that the Companies recommended portfolio is the least-reasonable-cost portfolio for complying with EPA regulations in the great majority of the scenarios analyzed, and particularly in the most likely scenarios.

	PVRR Difference from Recommended Portfolio ($Millions)	
	Retire BR1-2	**Retire BR1-2 and MC1-2**
Base Compliance Plan	297	1,482
Scenario 1	214	1,186
Scenario 2	83	718
Scenario 3	0	438
Scenario 4	239	1,298
Scenario 5	N/A	391
Scenario 6	N/A	(168)
Scenario 7	300	N/A
Scenario 8	297	N/A
Scenario 9	175	N/A
Scenario 10	(34)	526
Scenario 11	27	749
Scenario 12	114	469
Scenario 13	(94)	261
Scenario 14	(184)	(176)

Pursuant to a Joint Motion to Deviate from Rule being filed herewith, attached hereto on a single compact disc are all of the Strategist input and output files and other work-papers related to the scenarios the Companies have analyzed to respond to these requests. One paper version of the non-Strategist work-papers is being provided to the Commission.

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Third Request for Information
Dated October 24, 2011**

Case Nos. 2011-00161 and 2011-00162

Question No. 1

Witness: Charles R. Schram

Q-1. Refer to the responses to Items 32 and 23, respectively, of Commission Staff's second requests for information to KU and LG&E. Using *Strategist* and the same assumptions as in the initial analysis of whether to retrofit or retire the coal-fired units included in the KU and LG&E generation fleet, perform and provide the results of a new model run using the updated prices for coal and natural gas included in the responses.

A-1. The results of this analysis are summarized in the table below. In response to Dr. Fisher's criticisms regarding the ordering of units in the Companies' retire-versus-retrofit analysis, Mr. Schram demonstrated that the Companies' methodology for evaluating the retire-versus-retrofit decisions resulted in the lowest-reasonable-cost portfolio of generating units.[10]

To dispel the notion that the ordering of units has any impact on the Companies' recommendation, the table below summarizes the PVRR for each portfolio of generating units considered in the analysis the Companies conducted in response to this request. Two additional portfolios that were not evaluated in the 2011 Air Compliance Plan are included in the table to ensure the completeness of the analysis. In the first additional portfolio, Brown Units 1 and 2 are retired along with the Tyrone, Green River, and Cane Run coal units (see Row 1 in the table). The second additional portfolio is identical to the first except Mill Creek Units 1 and 2 are also retired (see Row 10). The portfolio PVRRs are sorted from lowest to highest cost.

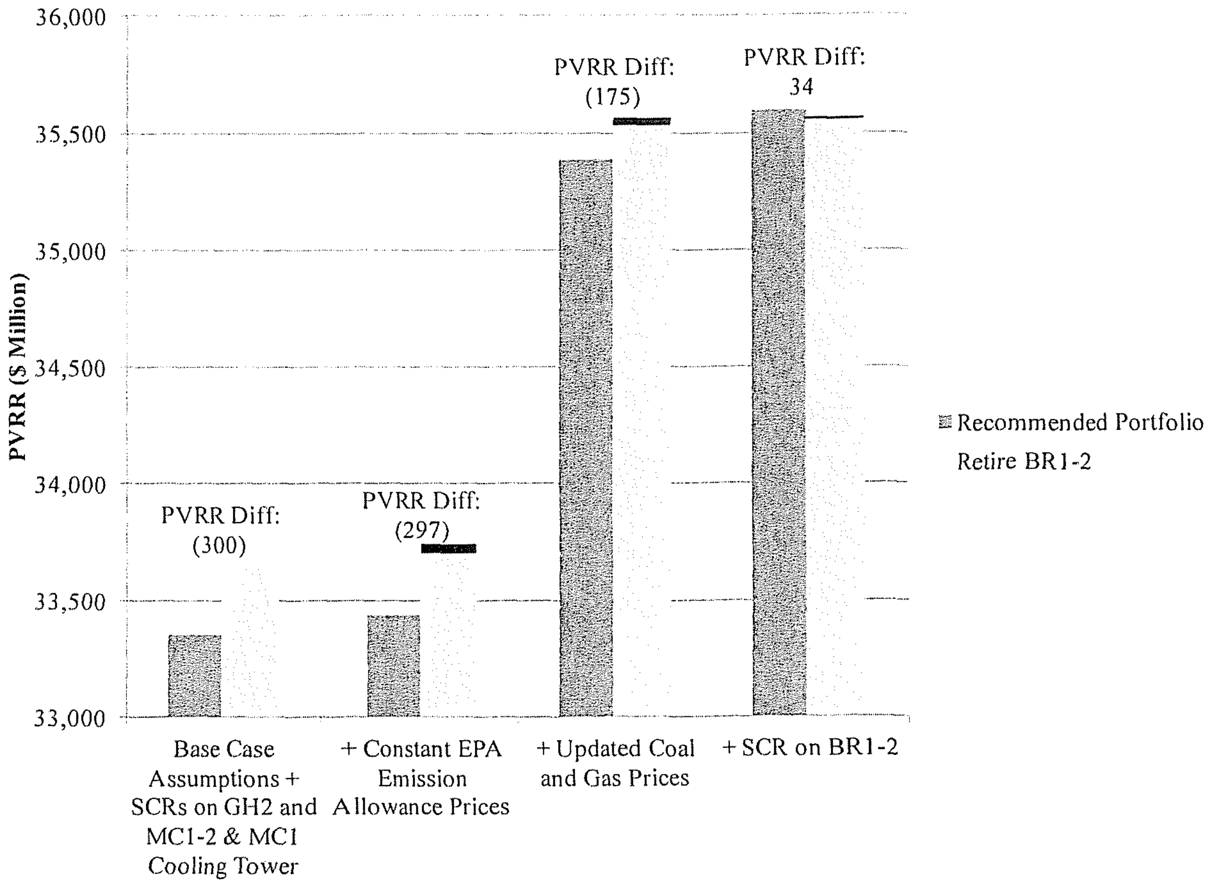
[10] Schram Rebuttal Testimony at 14-17.

Coal Units in Portfolio

Row	Trimble County 2	Trimble County 1	Mill Creek 3	Mill Creek 4	Ghent 1	Ghent 2	Ghent 3	Ghent 4	Brown 3	Mill Creek 1-2	Brown 1-2	Green River 4	Cane Run 5	Cane Run 6	Cane Run 4	Green River 3	Tyrone 3	Portfolio PVRR 2011 to 2040 ($Million)
1	X	X	X	X	X	X	X	X	X	X								35,562
2	X	X	X	X	X	X	X	X	X	X	X							35,596
3	X	X	X	X	X	X	X	X	X	X		X	X					35,782
4	X	X	X	X	X	X	X	X	X	X	X	X						35,799
5	X	X	X	X	X	X	X	X	X	X	X	X	X	X				35,855
6	X	X	X	X	X	X	X	X	X	X	X	X	X					35,870
7	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			35,954
8	X	X	X	X	X	X	X	X	X		X							36,044
9	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		36,077
10	X	X	X	X	X	X	X	X	X									36,122
11	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	36,161
12	X	X		X	X	X	X	X	X	X	X							36,208
13	X	X	X		X	X	X	X	X	X	X							36,253
14	X	X	X	X	X		X	X	X	X	X							36,326
15	X	X	X	X	X	X	X	X		X	X	X	X	X	X			36,406
16	X		X	X	X	X	X	X	X	X	X							36,518
17	X	X	X	X		X	X	X	X	X	X	X						36,551
18	X	X	X	X	X	X	X		X	X	X							36,589
19	X	X	X	X	X	X		X	X	X	X	X						36,623

The least-cost portfolio in this scenario includes the retirement of Brown Units 1 and 2 as well as the Tyrone, Green River, and Cane Run coal units. The difference in PVRR between this portfolio and the Companies' recommended portfolio is $34 million (the difference between Row 2 and Row 1). This result is driven by the assumption to install SCR at Brown Units 1 and 2.

The chart on the following page summarizes the impact (PVRR in 2011 dollars) of each of the Commission's assumptions on the 'Retire BR1-2' portfolio (Row 1 in the table above) and the Companies' recommended portfolio (Row 2 in the table above). Although the Companies do not believe it is prudent to include the revenue requirement savings from potential allowance sales due to over-compliance, the graphs below demonstrate the potential impact from the potential sales of excess allowances. The smaller top segment of the "Retire BR1-2" portfolio reflects the amount by which the total PVRR would decrease if the Companies assumed the opportunity to monetize any excess allowances (based on the EPA allowance prices). In each of the cases presented, the ranking of the two portfolios is not impacted by this reduction in revenue requirements.



In the first case (first set of bars on the left side of the chart), the Companies have used Assumption A (except the Brown Units 1 and 2 SCR) and Assumption B. All other assumptions in this case are consistent with the Companies' initial 2011 Compliance Plan analysis. The PVRR of the Companies' recommended portfolio is $300 million lower than the PVRR of the alternative portfolio in which Brown Units 1 and 2 are retired.

The second case is identical to the first except emission allowance prices are included and held constant at EPA-projected levels throughout the planning period, consistent with Assumption C. In this case, the PVRR of the Companies' recommended portfolio is $297 million lower than the PVRR of the alternative portfolio; compared to the first case, the PVRRs of the two portfolios are minimally impacted because the Companies are not expected to be short allowances beyond 2015. If the Companies assumed the opportunity to monetize excess allowances, the PVRR of the 'Retire BR1-2' portfolio would decrease by $38 million (the smaller top segment of the "Retire BR1-2" portfolio).

In the third case, the coal and natural gas prices from the 2011 Compliance Plan analysis are replaced with the updated coal and natural gas prices (all other assumptions are the same as in the second case). Because of the higher coal prices, the absolute PVRR values are higher, but the PVRR of the Companies' recommended portfolio is still lower than the PVRR of the alternative portfolio by $175 million. If the Companies assumed the opportunity to monetize excess allowances, the PVRR of the 'Retire BR1-2' portfolio would decrease by $34 million (the smaller top segment of the "Retire BR1-2" portfolio).

Finally, in the last case, SCR is added to Brown Units 1 and 2 in the Companies' recommended portfolio, consistent with Assumption A. This change does not affect the alternative portfolio because Brown Units 1 and 2 are retired in this portfolio. In this case, the PVRR of the Companies recommended portfolio is $34 million higher than the PVRR of the alternative portfolio (the difference between Row 2 and Row 1 in the table above). If the Companies assumed the opportunity to monetize excess allowances, the PVRR of the 'Retire BR1-2' portfolio would decrease by $11 million (the smaller top segment of the "Retire BR1-2" portfolio). In summary, if SCR is not needed at Brown Units 1 and 2, the Companies' recommended portfolio is the lowest-reasonable-cost portfolio.

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Third Request for Information
Dated October 24, 2011

Case Nos. 2011-00161 and 2011-00162

Question No. 2

Witness: Charles R. Schram

Q-2. Refer to page 2 of Exhibit JIF-3 to the Direct Testimony of Jeremy P. Fisher ("Fisher Testimony") filed on Behalf of the Sierra Club and Natural Resources Defense Council. Using *Strategist* and the same assumptions as in the initial analysis of whether to retrofit or retire the coal-fired units included in the KU and LG&E generation fleet, perform and provide the results of a new model run using the Avoided Energy Supply Component Report Study natural gas price forecast reflected in the graph contained in the exhibit.

A-2. Using Dr. Fisher's recommended gas price forecast expressed in nominal dollars, as well as all of the other assumptions requested by Commission Staff, results in the Companies' recommended generation portfolio being the lowest-reasonable-cost portfolio of generating units.[11] The PVRR of various portfolios are summarized in the table below. Even with the assumption to install SCR at Brown Units 1 and 2, the Companies' recommended portfolio is lowest-reasonable-cost.

[11] Dr. Fisher argues that the Companies' natural gas price forecast is "highly inflated." *See, e.g.*, Fisher Direct Testimony at 8. However, as discussed in Mr. Sinclair's Rebuttal Testimony at 6-8, Dr. Fisher inappropriately compared the Companies' nominal gas price forecast to several forecasts presented in real dollars.

Coal Units in Portfolio

Row	Trimble County 2	Trimble County 1	Mill Creek 3	Mill Creek 4	Ghent 1	Ghent 2	Ghent 3	Ghent 4	Brown 3	Mill Creek 1-2	Brown 1-2	Green River 4	Cane Run 5	Cane Run 6	Cane Run 4	Green River 3	Tyrone 3	Portfolio PVRR 2011 to 2040 ($Million)
1	X	X	X	X	X	X	X	X	X	X	X							33,537
2	X	X	X	X	X	X	X	X	X	X								33,564
3	X	X	X	X	X	X	X	X	X	X	X	X	X	X				33,678
4	X	X	X	X	X	X	X	X	X	X	X	X						33,699
5	X	X	X	X	X	X	X	X	X	X	X	X	X					33,732
6	X	X	X	X	X	X	X	X	X	X		X	X					33,755
7	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			33,781
8	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		33,868
9	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	33,951
10	X	X	X	X	X	X	X	X	X		X							34,080
11	X	X		X	X	X	X	X	X	X	X							34,191
12	X	X	X	X	X		X	X	X	X	X							34,256
13	X	X	X		X	X	X	X	X	X	X							34,256
14	X	X	X	X	X	X	X	X	X									34,286
15	X	X	X	X	X	X	X	X		X	X	X	X	X	X			34,311
16	X		X	X	X	X	X	X	X	X	X							34,449
17	X	X	X	X		X	X	X	X	X	X	X						34,483
18	X	X	X	X	X	X	X		X	X	X							34,531
19	X	X	X	X	X	X		X	X	X	X	X						34,564

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Third Request for Information
Dated October 24, 2011

Case Nos. 2011-00161 and 2011-00162

Question No. 3

Witness: David S. Sinclair / Charles R. Schram

Q-3. Using *Strategist* and the same assumptions as in the initial analysis of whether to retrofit or retire the coal-fired units included in the KU and LG&E generation fleet, perform and provide the results of a new model run which incorporates a price for Carbon Dioxide ("CO_2"), beginning in 2020, of $30 per ton.

A-3. If it is assumed with certainty that CO_2 prices will start in 2020 at $30 per ton (in nominal dollars) and remain at that level, then the lowest-reasonable-cost portfolio of generating units, given the other assumptions specified in this request, includes retiring and replacing Brown Units 1 and 2 (in addition to the Tyrone, Green River, and Cane Run coal units). This is demonstrated in the table below, which summarizes the PVRR for each portfolio of generating units considered in this analysis (the lowest-reasonable-cost portfolio is shown in Row 1).

Only the decision to retrofit Brown Units 1 and 2 is impacted in this CO_2 price scenario. Decisions regarding retrofitting the remaining units in the Companies' portfolio, including Mill Creek Units 1 and 2, are unchanged. The decision to retire Brown Units 1 and 2 is driven entirely by the additional revenue requirements of the SCRs stipulated for these units in this request. As seen in Scenario 12 in the Scenario Summary Table, if SCR is not installed on Brown Units 1 and 2, the Companies' recommended portfolio is lowest-reasonable-cost.

But, as explained in Mr. Sinclair's rebuttal testimony, it is important to consider that it is unknown and unknowable whether there will be CO_2 pricing of any amount applicable to the Companies' units. Therefore, significant value is created for customers to wait for more information regarding the potential for CO_2 regulations instead of deciding now to retire Brown Units 1 and 2.[12]

[12] *See* Sinclair Rebuttal Testimony at 17-32.

Coal Units in Portfolio

Row	Trimble County 2	Trimble County 1	Mill Creek 3	Mill Creek 4	Ghent 1	Ghent 2	Ghent 3	Ghent 4	Brown 3	Mill Creek 1-2	Brown 1-2	Green River 4	Cane Run 5	Cane Run 6	Cane Run 4	Green River 3	Tyrone 3	Portfolio PVRR 2011 to 2040 ($Million)
1	X	X	X	X	X	X	X	X	X	X								41,699
2	X	X	X	X	X	X	X	X	X	X	X							41,793
3	X	X	X	X	X	X	X	X	X	X		X	X					41,979
4	X	X	X	X	X	X	X	X	X	X	X	X						42,003
5	X	X	X	X	X	X	X	X	X		X							42,037
6	X	X	X	X	X	X	X	X	X									42,054
7	X	X	X	X	X	X	X	X	X	X	X	X	X					42,124
8	X	X	X	X	X	X	X	X	X	X	X	X	X	X				42,179
9	X	X		X	X	X	X	X	X	X	X							42,272
10	X	X	X		X	X	X	X	X	X	X							42,299
11	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			42,307
12	X	X	X	X	X		X	X	X	X	X							42,338
13	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		42,446
14	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	42,504
15	X	X	X	X		X	X	X	X	X	X	X						42,513
16	X		X	X	X	X	X	X	X	X	X							42,548
17	X	X	X	X	X	X	X		X	X	X							42,559
18	X	X	X	X	X	X		X	X	X	X	X						42,588
19	X	X	X	X	X	X	X	X		X	X	X	X	X	X			42,701

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Third Request for Information
Dated October 24, 2011

Case Nos. 2011-00161 and 2011-00162

Question No. 4

Witness: David S. Sinclair / Charles R. Schram

Q-4. Using *Strategist* and the same assumptions as in the initial analysis of whether to retrofit or retire the coal-fired units included in the KU and LG&E generation fleet, perform and provide the results of a new model run which incorporates a price for CO_2, beginning in 2020, of $50 per ton.

A-4. If it is assumed with certainty that CO_2 prices will start in 2020 at $50 per ton (in nominal dollars) and remain at that level, then the lowest-reasonable-cost portfolio of generating units, given the other assumptions specified in this request, includes retiring and replacing Brown Units 1 and 2 (in addition to the Tyrone, Green River, and Cane Run coal units). This is demonstrated in the table below, which summarizes the PVRR for each portfolio of generating units considered in this analysis (the least-cost portfolio is shown in Row 1). Only the decision to retrofit Brown Units 1 and 2 is impacted in this CO_2 price scenario. Decisions regarding retrofitting the remaining units in the Companies' portfolio are unchanged.

But, as explained in Mr. Sinclair's rebuttal testimony, it is important to consider that it is unknown and unknowable whether there will be CO_2 pricing of any amount applicable to the Companies' units. Therefore, significant value is created for customers to wait for more information regarding the potential for CO_2 regulations instead of deciding now to retire Brown Units 1 and 2.[13]

[13] *See* Sinclair Rebuttal Testimony at 17-32.

Coal Units in Portfolio

Row	Trimble County 2	Trimble County 1	Mill Creek 3	Mill Creek 4	Ghent 1	Ghent 2	Ghent 3	Ghent 4	Brown 3	Mill Creek 1-2	Brown 1-2	Green River 4	Cane Run 5	Cane Run 6	Cane Run 4	Green River 3	Tyrone 3	Portfolio PVRR 2011 to 2040 ($Million)
1	X	X	X	X	X	X	X	X	X	X								46,947
2	X	X	X	X	X	X	X	X	X									46,955
3	X	X	X	X	X	X	X	X	X		X							47,056
4	X	X	X	X	X	X	X	X	X	X	X							47,130
5	X	X	X	X	X	X	X	X	X	X		X	X					47,299
6	X	X	X	X	X	X	X	X	X	X	X	X						47,345
7	X	X	X		X	X	X	X	X	X	X							47,403
8	X	X		X	X	X	X	X	X	X	X							47,412
9	X	X	X	X	X		X	X	X	X	X							47,464
10	X	X	X		X	X	X	X	X									47,472
11	X	X	X	X	X	X	X	X										47,491
12	X	X	X	X	X	X	X	X	X	X	X	X	X					47,544
13	X	X	X	X		X	X	X	X	X	X	X						47,651
14	X	X	X	X	X	X	X		X	X	X							47,653
15	X	X	X	X	X	X		X	X	X	X	X						47,685
16	X	X	X	X	X	X	X	X	X	X	X	X	X	X				47,689
17	X		X	X	X	X	X	X	X	X	X							47,697
18	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			47,879
19	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		48,053
20	X	X	X	X	X	X	X	X		X	X	X	X	X	X			48,122
21	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	48,134

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Third Request for Information
Dated October 24, 2011

Case Nos. 2011-00161 and 2011-00162

Question No. 5

Witness: Charles R. Schram

Q-5. Using *Strategist* and the same assumptions as in the initial analysis of whether to retrofit or retire the coal-fired units included in the KU and LG&E generation fleet, perform and provide the results of a new model run which show the natural gas prices at which it would be uneconomical to retrofit the most marginal coal-fired unit at the E.W. Brown Generating Station.

A-5. The table below contains the natural gas price forecast (expressed in nominal dollars) at which it would be uneconomical to retrofit Brown Units 1 and 2. The assumption to install SCR at Brown Units 1 and 2 causes this break-even forecast to be higher than the break-even forecast presented in the Companies' Supplemental Analysis filed on September 15, 2011. These break-even forecasts along with other natural gas forecasts considered in this proceeding are summarized in the chart on the following page being provided pursuant to a Petition for Confidential Protection.

Henry Hub Natural Gas Prices ($/mmBtu - Nominal)

Year	Breakeven
2011	4.87
2012	5.24
2013	5.47
2014	5.68
2015	5.91
2016	6.16
2017	6.52
2018	6.89
2019	7.27
2020	7.67
2021	8.13
2022	8.66
2023	9.21
2024	9.78
2025	10.43

CONFIDENTIAL INFORMATION REDACTED

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Third Request for Information
Dated October 24, 2011

Case Nos. 2011-00161 and 2011-00162

Question No. 6

Witness: David S. Sinclair

Q-6. Refer to page 1 of Exhibit JIF-3 to the Fisher Testimony. Identify and describe in detail the modeling assumptions that account for the higher natural gas prices and accelerated rate of growth of those prices, as reflected in the KU and LG&E natural gas price forecast, compared to the prices and growth rates reflected in the other gas price forecasts shown in the exhibit.

A-6. Please refer to the Rebuttal Testimony of David S. Sinclair at pages 6-8, which explains that, in his Exhibit JIF-3, Dr. Fisher erroneously compared the gas price forecast used by the company in nominal dollars with other gas price forecasts in real 2010 dollars. As stated in Mr. Sinclair's rebuttal testimony, "This error is especially puzzling because the Companies clearly stated in response to the Environmental Interveners' supplemental data request Question No. 33(b) that the Companies' fuel forecasts were in nominal dollars."[14] Figure 1 from Mr. Sinclair's rebuttal testimony is shown on the following page and is being provided pursuant to a Petition for Confidential Protection. This graph demonstrates that the price level and the rate of growth of the gas price forecast used by the Companies are clearly comparable to the gas price forecasts proposed by Dr. Fisher when compared appropriately.

[14] Sinclair Rebuttal Testimony at 6.

CONFIDENTIAL INFORMATION REDACTED

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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**

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PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND APPROVAL OF ITS 2011 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE	)	**CASE NO. 2011-00162**

JOINT PETITION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY FOR CONFIDENTIAL PROTECTION

Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, the "Companies") hereby petitions the Kentucky Public Service Commission ("Commission") pursuant to 807 KAR 5:001 § 7 and KRS 61.878(1)(c) to grant confidential protection for the item described herein, which the Companies are providing in response to the Commission Staff's Third Request for Information. In support of this Petition, the Companies state as follows:

1. Under the Kentucky Open Records Act, the Commission is entitled to withhold from public disclosure commercially sensitive to the extent that open disclosure would permit an unfair commercial advantage to competitors of the entity disclosing the information to the Commission. See KRS 61.878(1)(c). Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

2. The confidential information contained in Strategist modeling files being provided in the work-paper appendix to the Companies' responses to the Commission Staff's Third Request for Information includes projected fuel prices the Companies purchased from reputable vendors to enable the Companies to make prudent business decisions of several kinds, including fuel contracting decisions and environmental-compliance decisions. The Companies' responses to Question Nos. 5 and 6 contain some of the same confidential fuel price forecast information in fuel-price-forecast-comparison graphs. If the Commission grants public access to this information, the vendors from whom the Companies purchased the fuel forecast information at issue could refuse to do business with the utilities in the future, which would do serious harm to the Companies' ability to make prudent fuel contract, environmental compliance, and other decisions. All such commercial harms would ultimately harm the Companies' customers. Moreover, publicly disclosing such information would do immediate and costly harm to the firms from which the Companies purchased the fuel forecast information at issue; the firms derive significant revenues from developing and selling such forecasts to customers under strict license agreement obligations not to disclose. Any public disclosure of the forecasts would render them commercially worthless.

3. The Companies have obtained consent from the fuel forecast vendors to disclose on a limited basis the confidential information described herein, pursuant to an acceptable protective agreement, to intervenors with legitimate interests in reviewing the same for the purpose of participating in this case.

4. The Commission has historically given confidential treatment to all of the information described herein.[1]

[1] For example, see the Commission's letter to KU and LG&E (collectively, "Companies") dated May 1, 2008, concerning the Companies' 2008 IRP case (Case No. 2008-00148); the Commission's letter to the Companies dated

5. If the Commission disagrees with this request for confidential protection, it must hold an evidentiary hearing (a) to protect the Companies' due process rights and (b) to supply the Commission with a complete record to enable it to reach a decision with regard to this matter. Utility Regulatory Commission v. Kentucky Water Service Company, Inc., Ky. App., 642 S.W.2d 591, 592-94 (1982).

6. In accordance with the provisions of 807 KAR 5:001 § 7, each utility is filing with the Commission one copy of each of the above-described responses and attachment with the Confidential Information highlighted (and to the extent such information is electronic, on a yellow-labeled compact disc) and fifteen (15) copies of the same with the confidential information redacted (and to the extent such information is electronic, on white-labeled compact discs that do not contain the Confidential Information).

WHEREFORE, Kentucky Utilities Company and Louisville Gas and Electric Company respectfully request that the Commission grant confidential protection for the information at issue, or in the alternative, schedule and evidentiary hearing on all factual issues while maintaining the confidentiality of the information pending the outcome of the hearing.

(This space intentionally left blank.)

April 28, 2005, concerning the Companies' 2005 IRP case (Case No. 2005-00162); the Commission's letter to the Companies dated October 24, 2002, concerning the Companies' 2002 IRP case (Case No. 2002-00367); and the Commission's letter to the Companies dated March 6, 2000, concerning the Companies' 1999 IRP case (Case No. 99-430).

Dated: November 3, 2011

Respectfully submitted,

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Counsel for Kentucky Utilities Company and Louisville Gas and Electric Company

400001.139563/769565.1

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Joint Petition was served via U.S. mail (first-class, postage prepaid), overnight delivery, or hand-delivery this 3rd day of November 2011 upon the following persons:

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NOV 03 2011

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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**

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND APPROVAL OF ITS 2011 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE	)	**CASE NO. 2011-00162**

JOINT MOTION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL TO DEVIATE FROM <u>REQUIREMENT GOVERNING FILING OF COPIES</u>

Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, the "Companies") respectfully hereby move the Kentucky Public Service Commission ("Commission") to grant the Companies approval, pursuant to 807 KAR 5:001 § 14, to deviate from the requirement that parties file an original and fifteen (15) complete copies of all documents in these proceedings. The Companies ask to be excused from filing any paper copies of portions of a work-paper attachment to their responses to the Commission Staff's Third Request for Information, and to be permitted to file only one paper original per utility of the remaining portion of the attachment at issue, because the attachment is voluminous. In support of their joint motion, the Companies state as follows:

1. Pursuant to the Commission's June 28, 2011 Order, the Companies must provide to the Commission an original and fifteen (15) copies of all documents filed in each of these proceedings, along with a service copy to all parties of record and their consultants. The number of service copies is now nearly 20 in these proceedings.

2. The Companies' responses to the Commission Staff's Third Request for Information, which are being filed contemporaneously herewith, contain an attachment of work-papers that includes a number of spreadsheets and Strategist modeling input and output files. (The Strategist files are confidential and are the subject of a petition for confidential protection being filed herewith.) The workpapers contain 99 Strategist files that would consume over 297,000 pages per copy, and would be mostly unintelligible because they are intended to be read by computers. The non-Strategist workpapers would consume approximately 527 pages per copy. Therefore, providing just the Commission's original and fifteen copies of the attachment would require over 4.5 million pages, and providing paper service copies would increase the number significantly more.

3. Due to the voluminous nature of these documents, the Companies request permission pursuant to 807 KAR 5:001 § 14 to deviate from the Commission's June 28, 2011 Order and provide on compact discs the Commission's fifteen copies of the above-described work-paper attachment for each utility, as well as one original copy of each exhibit per utility comprising a paper version of the non-Strategist workpapers and an electronic version of the Strategist workpapers. The Companies seek permission to provide compact-disc service copies to the other parties to the proceeding, as well.

WHEREFORE, the Companies request a deviation from the requirement that parties provide an original and fifteen (15) paper copies of all documents. The Companies request that they be allowed to instead submit the work-paper attachment identified above on compact discs, and to provide one paper copy per utility of the above-described non-Strategist portions of the attachment to the Commission, in compliance with this requirement.

Dated: November 3, 2011

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Joint Motion was served via U.S. mail (first-class, postage prepaid), overnight delivery, or hand-delivery this 3rd day of November 2011 upon the following persons:

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