

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S FIRST INFORMATION REQUEST  
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 15 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before July 25, 2011. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

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.

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

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Appendix A of the Application at page 1. The bill impact upon an average residential customer is based on average usage of 1,000 kWh per month.

a. Provide the most recent actual average usage for a residential customer and using the actual average usage, provide the monthly increase on both a dollar and a percentage basis in 2012 and 2016.

b. Provide the information requested in item 1.a for an electric space-heating customer.

c. Provide the information requested in item 1.a for an electric customer served under rate schedule GS.

2. Refer to the Direct Testimony of Charles R. Schram ("Schram Testimony") and Exhibit CRS-1. Mr. Schram explains the methodology used to analyze the projects included in LG&E's 2011 Environmental Compliance Plan, presents the evidence of the

analysis, and makes the final recommendations related to the most cost effective method of complying with appropriate environmental laws and regulations.

a. Was the effect of potential regulations concerning carbon mitigation considered in any of the analysis? Explain.

b. If the answer to a. above is no, would the consideration of carbon mitigation change the proposed 2011 Compliance Plan? Explain. Include in the explanation whether additional unit retirements could result.

3. Explain the availability of contractors for the emission control systems for which construction is proposed. Include whether contractors for the work are specifically dedicated to environmental compliance work and if so, whether there is concern as to the availability of the contractors to meet EPA deadlines.

4. Provide the age and estimated remaining life of each of LG&E's coal-fired generation units.

5. Refer to Schram Testimony at page 4. Beginning at line 7, Mr. Schram states, "we assumed that the proposed suite of environmental facilities for each unit was the most cost-effective suite of facilities for the unit; in other words, an analysis of numerous combinations of possible environmental controls for each unit was not necessary." Explain fully the reason(s) for this assumption.

6. Refer to Exhibit CRS-1 of the Application, at page 4.

a. The fourth column in Table 2 is labeled "Difference (A)-(B)". Should the column heading read "Difference (B)-(A)"?

b. It is stated that installation of additional environmental controls on the Cane Run units 4-6 is not cost effective and the units will be retired pursuant to the 2011 Compliance Plan.

(1) Provide the projected dates by which each unit is to be retired.

(2) Provide the generating capacity to be lost upon retirement of the units and the LG&E's plan to replace the power.

7. Refer to the Direct Testimony of Shannon L. Charnas ("Charnas Testimony") at page 3. LG&E proposes to make modifications to Mill Creek Units 3 and 4 to expand the operating range of the units at which their Selective Catalytic Reduction equipment can function to reduce nitrogen oxide emissions, but it does not propose to recover operation and maintenance ("O&M") expenses associated with these modifications.

a. Explain the nature of these modifications and the resultant O&M expenses.

b. Will the labor portion of the O&M expenses, if any, be performed by existing LG&E employees? Explain.

c. Explain the decision to not request recovery of the O&M expenses associated with these modifications.

8. Explain whether the 2011 Compliance Plan will result in de-rating any of the affected units. If so, identify the unit, current rating, and projected rating by unit.

9. Explain whether the 2011 Compliance Plan will result in any of LG&E's units being taken offline? If yes, provide which units will be taken out of service and the specific period of time the units will be out of service.

10. Refer to Exhibit 1, 2011 Environmental Compliance Plan, page 2 of 2.

a. For each project listed, provide a breakdown of the estimated operations and maintenance expenses and explain how they were calculated.

b. Mill Creek Unit 3 O&M expense increased from \$4,857,328 in 2015 to \$13,019,344 in 2016. Fully explain the reasons for an increase of this magnitude.

c. Mill Creek Unit 4 O&M expense increased from \$3,631,737 in 2014 to \$15,519,305 in 2015. Fully explain the reasons for an increase of this magnitude.

d. Explain why there are not any O&M expenses indicated for 2012 through 2014 for Project 27 if it is scheduled to be completed in 2012 as indicated on page 1 of 2.

11. Refer to Exhibit 3, Tariff. LG&E is proposing text changes in the "Availability of Service" section. Instead of listing the individual rate schedules to which the environmental cost recovery ("ECR") surcharge would apply, the proposed text lists the tariff sections to which ECR surcharge would apply. As a result of this proposed change, would the ECR surcharge apply to Rate Schedule RTP, Real-Time Pricing, when it does not apply to that schedule currently?

12. Refer to Exhibit JNV-2, the Environmental Air Compliance Strategy Summary, at page 7. The last paragraph states that preliminary studies showed that both wet FGDs at Mill Creek 1 and 2 could be modified to meet the expected minimum requirements for SO<sub>2</sub> removal, but that significant outages would be required to make

structural upgrades. Provide a detailed cost comparison between modifying the FGDs at Mill Creek 1 and 2 as discussed above and building a new FGD to serve both units as proposed in the 2011 Compliance Plan.

13. There appears to be evidence that credit markets have loosened. Discuss how LG&E will finance the proposed environmental compliance projects and explain whether it has received any indications of potential problems.

14. Provide a copy of LG&E's latest reports from its bond rating agencies and any other reports from rating agencies and or banks which discuss any risks facing the company which will affect its ability to borrow the necessary project funds.

15. Provide a copy of any bond rating agency and or bank reports which discuss any issues surrounding obtaining regulatory approval for construction projects based upon EPA rules that have not been finalized.

16. Explain whether LG&E is aware of any other electric generation utility that has filed a CPCN application with its state regulatory agency prior to EPA's new rules being finalized.

17. Refer to the Direct Testimony of Lonnie E. Bellar ("Bellar Testimony") at pages 9-10. In the final order in LG&E's most recent base rate case,<sup>1</sup> at pages 28-33, there is discussion of testimony which supported return on equity ("ROE") estimates over a wide range for LG&E. The Commission found that LG&E's "required ROE for both electric and gas operations falls within a range of 9.75 to 10.75 percent with a midpoint of 10.25 percent." Pursuant to KRS 278.183(2)(b), the Commission must

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<sup>1</sup> Case No. 2009-00549, Application of Louisville Gas and Electric Company for an Adjustment in Electric and Gas Base Rates (KY. PSC Jul. 30, 2010).

establish a reasonable return on capital expenditures for projects included in an environmental compliance plan.

a. Notwithstanding that the parties to Case No. 2009-00549, with the exception of the Attorney General, signed a settlement agreeing to an ROE of 10.63 percent, explain why a 10.63 percent ROE is appropriate on a going forward basis.

b. Provide all economic analyses performed by or for LG&E that demonstrate a ROE of 10.63 percent is reasonable based on current economic conditions.

c. If it is appropriate for the Commission to consider the 10.63 percent ROE established in LG&E's last rate case, and in the absence of any new testimony addressing the derivation of ROE estimates, explain why it would not be appropriate to consider the return on equity testimony also.

d. Provide all support for the position that the Commission's decision in LG&E's last rate case to accept a 10.63 percent ROE for environmental cost recovery obligates the Commission to now adopt that same ROE for a new environmental compliance plan absent a showing that a 10.63 percent ROE is now reasonable.

18. Refer to Schram Testimony at pages 3-4. The testimony references two related analyses which were performed by LG&E's Project Engineering department, along with Black & Veatch.

a. Provide the reports and all supporting workpapers for the suite of environmental compliance facilities for each coal unit in the generation fleet to determine whether all of the proposed facilities would be necessary to meet the applicable environmental regulations.

b. Provide the reports and all supporting workpapers for the determination for each generating unit if it would be more cost effective to install the facilities or to retire the unit and buy replacement power or generation.

c. If not included in parts a. and b. above, explain how the analyses considered the purchase of power (renewable or otherwise) and provide the workpapers and assumptions for each specific power purchase scenario.

d. As the costs of environmental compliance are realized, the relative price of smaller decentralized power generation becomes more attractive. Other utilities and companies in Kentucky are exploring the development of potential sources of generation including landfill methane, bio-digesters, biomass, and small natural gas wellheads. Explain whether the analyses considered the development of these or other potential distributed generation sources and provide the workpapers and assumptions for each scenario.

e. As the costs of environmental compliance are realized, the relative price of Demand Side Management and energy efficiency programs becomes more attractive. If not included in parts a. and b. above, explain whether and how the development of new and the expansion of existing programs is considered in the analyses.

19. Refer to Schram Testimony, Exhibit CRS-1, Section 6.0, Appendix A – Analysis Assumptions, at page 48. Explain the derivation of the Desired Return on Rate Base of 6.71 percent.



20. Refer to Bellar Testimony at page 5, lines 16-18. Explain why LG&E has not installed the SAM mitigation systems for Mill Creek Units 3 and 4 that were approved in LG&E's 2006 Plan. When does LG&E expect to install the systems?

21. Refer to the Direct Testimony of John N. Voyles ("Voyles Testimony") at page 12, lines 3-10. Fully explain the decision to locate the new FGD for Mill Creek Units 1 and 2 such that it requires demolition of existing warehouses and locker rooms, given that these facilities will be reconstructed in a different location at the site.

22. Refer to Voyles Testimony at page 5 which states that Black and Veatch was retained in May 2010 to assist the LG&E in developing their Environmental Compliance Plan.

a. Was a Request for Proposal ("RFP") issued to obtain these services? If so provide a copy.

b. What other companies were considered to perform the services for which Black & Veatch was retained?

c. Provide a copy of the contract with Black & Veatch.

d. Provide the amount that has been paid to Black & Veatch as of the most recent payment.

e. Will the expenditures associated with the Black and Veatch contracts be included in the ECR?

f. Have the expenditures that have been incurred to date been assigned to Projects 26 and/or 27?

g. If so, provide the amounts currently charged to each of the projects.

23. Refer to Charnas Testimony at page 4, lines 11-15 which indicates the accounts that LG&E proposes to use to identify and track O&M costs for the Compliance Plan projects.

a. Are other expenses charged to these accounts that are not related to the Compliance Plan projects?

b. If so, how will LG&E ensure that only O&M expenses related to the Compliance Plan projects are recovered through the environmental surcharge?

24. Refer to the Direct Testimony of Robert M. Conroy ("Conroy Testimony") at page 5, lines 1-21. Provide an analysis of the \$8.85 million of annual O&M expense associated with the FGDs at Mill Creek that is included in base rates.

25. Refer to Conroy Testimony at page 7, lines 3-6. Can LG&E's accounting system allow for the use of additional subaccounts to permit accumulation of SAM sorbent costs by the project for which it is consumed?

26. Refer to Bellar testimony at page 11, lines 4-8. Mr. Bellar implies that an alternative revenue allocation should be considered. Is Mr. Bellar suggesting any alternative for consideration in this proceeding?

27. Refer to Bellar Testimony at page 14, line 2. Mr. Bellar states that "contracting for certain parts of work" has commenced. List any contracts that LG&E has entered related to Projects 26 and 27. Include the date of the contract, a description of the services and/or equipment included and the dollar amount of the contract.

28. Refer to Bellar Testimony at page 14, lines 20-22. Mr. Bellar states, "by filing now, LG&E has ensured that the CATR and HAPs Rule should be final before the

Commission must issue its final order in this proceeding." In the event the HAPs rule is not final at the time the final order in this proceeding is due, what is LG&E's proposal to the Commission with regard to the approval of the certificates of convenience and necessity?

29. Refer to Voyles Testimony at page 24, lines 15-19. The testimony states that LG&E does not plan to enter into any contracts for equipment or construction until a final order is issued in this proceeding "unless entering into one or more such contracts would be necessary to ensure timely environmental compliance or to avoid significant market price or equipment availability risks".

a. Has LG&E enter into any contracts for Projects 26 and/or 27 to date?

b. How will LG&E assess the market price or equipment availability risks associated with the related equipment or construction?

30. Refer to Voyles Testimony at page 25. Has LG&E issued any Requests for Quotations ("RFQs") for the equipment related to these projects? If so, provide the issue date of the RFQ, the equipment for which quotations are sought, and the due date for responses.

31. Refer to Voyles Testimony at page 6, Exhibit JNV-2, Environmental Air Compliance Strategy Summary. The discussion at the end of Section 3.0 indicates that the plans should not be considered final at this time. What is the expected range of actual expenditures that LG&E may incur for Projects 26 and 27?

32. Refer to Voyles Testimony. Provide the following information for each unit proposed for the addition of AQC equipment:

- a. Year placed in service;
- b. The number of normal cycles (stops and starts);
- c. The number of emergency trips and starts;
- d. Heat rate;
- e. Capacity factor;
- f. Provide for the last 10 years of major internal and minor outages including the major projects completed during each outage;
- g. Provide an outline of the major availability and performance detractors;
- h. Provide a condition assessment that includes;
  - (1) Condition of turbine.
  - (2) Condition of generator.
  - (3) Condition of boiler.
  - (4) Condition of balance of plant equipment.
- i. Provide any formal life assessment or extension reports.

33. Refer to Voyles Testimony. Indicate whether any risk assessment was performed to determine probability of units meeting a 30 year projected life extension.

34. Refer to Voyles Testimony. Are there any capital costs included in individual unit budgets for replacement of major plant components such as turbine shells, rotors, generator components, steam leads, heaters, or transformers? Have these costs been included in the economic assessment?

35. Refer to Voyles Testimony. Provide any analysis on replacement power costs for the 2015-2017 time period. Include potential long term purchases, bi-lateral

contracts or other sources that may be available should there be delays in completing construction. What is the impact on heat rate of the selected option?

36. Refer to Voyles Testimony at page 11, line 17.

a. Was there any analysis that considered a long term outage to replace the existing FGD in its present location?

b. What is the incremental cost in performance and ancillary services required for a FGD located further from the unit?

37. Refer to Voyles Testimony at page 24, line 10. Provide any analysis to support the conclusion that purchased power would be more expensive, given all factors.

38. Refer to Voyles Testimony. Provide a color copy of the May 2011 presentation titled "Existing and Preliminary Air Quality Control Process flow Diagrams"

39. Refer to the Direct Testimony of Gary H. Revlett ("Revlett Testimony"). Did LG&E or any of the PPL affiliated entities file comments on the May 3, 2011 version of EPA's HAPs proposed rule? If so, provide a copy of the comments.

40. Refer to Revlett Testimony at page 7, lines 19-20. Mr. Revlett's testimony notes that EPA expects to issue proposed rules for CATR II in the near future. It appears that the proposed regulation will likely result in further nitrogen compound ("NOx") and SO<sub>2</sub> restrictions.

a. Although the specifics of CATR II are not known, does LG&E believe that the modifications proposed in this proceeding are likely to meet the more stringent compliance requirements of CATR II?

b. Was the impact of carbon regulation considered as part of LG&E's analysis to determine the modifications proposed in this proceeding?

c. Was the impact of NAQS revisions considered as part of LG&E's analysis to determine the modifications proposed in this proceeding?

41. Refer to Schram Testimony at page 4, lines 7-10. There it states that it was "assumed that the proposed suite of environmental facilities for each unit was the most cost-effective suite of facilities for the unit". However, it appears that with the assistance of Black and Veatch the most compliance-effective suite of facilities was selected. Explain how this assumption translates to most cost-effective suite of facilities.

42. Refer to Schram Testimony at page 5, lines 4-6. Provide any analysis that supports conclusion that gas combined cycle is only the replacement technology.

43. Refer to Schram Testimony at page 5, lines 7-13. Why was a thirty year extension used for every unit? Was sensitivity analysis conducted for shorter lives for older units?

44. Refer to Schram Testimony. For the evaluation of the LG&E air compliance projects, the construction of the environmental controls was compared to the retirement of the generation unit to determine the least cost method of compliance. At page 5, lines 5-6, of Schram Testimony, it states that the replacement generation technology for the purposes of this analysis was a natural gas fired combined cycle combustion turbine.

a. Was any consideration given to constructing a coal-fired generating unit?

b. Explain why a coal-fired unit was not included in the analysis.

45. Refer to Schram Testimony. Provide the fuel forecasts for coal by type and natural gas as well as the source of the forecasts that were used to perform the analyses in Exhibit CRS-1, 2011 Air Compliance Plan.

46. Refer to Schram Testimony. Provide details that describe both Strategist and PROSYM, including:

a. Details on license, operation and any modifications developed for KU/LG&E;

b. Inputs for all KU units, including, size, heat rate, outage projections, O&M costs, and other parameters used in the model;

c. Provide all inputs from outside the KU/LGE system that are used in the models; and

d. When were model inputs updated? Do they consider projected changes in regional capacity and pricing due to the very AQC changes being proposed by KU/LG&E? Are retirements of units by utilities in other regions included in the models?

47. Refer to Schram Testimony, Exhibit CRS-1, Appendix 6.1. The Exhibit provides the analysis assumptions. For each of the Financial Assumptions provide all documentation and calculations relied on to support those assumptions.

48. Refer to Charnas Testimony. At this time, have any costs been incurred for Projects 26 and/or 27? If so, what are those amounts by project and have any of those expenditures been previously recovered through base rates?

49. Refer to Conroy Testimony at page 8. Mr. Conroy provides a table titled Environmental Cost Recovery Surcharge Summary. Provide copies of all documents and data inputs used to make the computations included in this table. Also provide these computations in an electronic spreadsheet with formulas included.

50. How do the changes between the proposed rule and the final Cross-State Air Pollution rule impact the assumptions and results in your modeling and thus your recommendations in this case?

51. Do you anticipate that the cap and trade provision will provide any lower cost alternatives to either LG&E? Will it provide any economic opportunities to allow LG&E to create any new revenue streams?

52. Refer to LG&E Application at page 5. LG&E proposes to build a Particulate Matter Control System for each of the four Generating units at Mill Creek and for TC1. Each Particulate Matter Control System comprises a pulse-jet fabric filter ("baghouse") to capture particulate matter, a Powdered Activated Carbon ("PAC") injection system to capture mercury, and a lime injection system to protect the baghouse from the corrosive effects of sulfuric acid mist ("SAM"). These Particulate Matter Control Systems will be similar to the baghouse (including the SAM mitigation and PAC injection systems) installed at Trimble County Unit 2 ("TC2") as part of its overall air quality control system (which the Commission approved as part of LG&E's 2006 Plan).

a. Explain the make and model and the technology of all pulse-jet fabric filter ("baghouses") to capture particulate matter.



b. Explain the make and model and the technology of all Powdered Activated Carbon (“PAC”) injection system to capture mercury.

c. Is the technology of the Selective Catalytic Reduction (“SCR”) proposed to be installed in Mill Creek and TC1 units the most cost effective and the most efficient available in power generation industry? If there are other technologies available in the market, explain why they were not selected.

d. Explain if the above Particulate Matter Control Systems technologies are flexible, so it can provide reduction of inhalable particulate required by future regulations.

53. Refer to LG&E Application, paragraph 13. A statement is made that “Building these Particulate Matter Control Systems is the most cost-effective means of complying with the HAPs Rule.” Is this an industry-wide position or specific to the LG&E fleet?

a. If this is an industry position, provide the study/work papers which support this statement.

b. If LG&E specific, provide a summary of the support for this position.

54. Refer to LG&E Application, paragraph 21. Project 19, approved by the commission, approved Sulfuric acid mist (“SAM”) mitigation systems for MillCreek 3 and 4 which have not been built. This application asks for Particulate Matter Control Systems (“PMCS”) to serve all the generating units at Mill Creek and Trimble County Generating Station Unit 1 (“TC1”).

a. Has SAM technology changed from the Project 19 approval to the currently proposed Project 26? Explain in detail.

b. Is a SAM mitigation system a component of a PMCS?

55. Refer to Voyles Testimony at page 7. The testimony supports modifications to various systems at Mill Creek Units 3 and 4 to expand the operating range of the units at which their existing SCR equipment can function to reduce NOx emissions. Currently, the SCRs can operate only when the Mill Creek units are operating at relatively high generating load levels due to the SCR requiring flue gas temperatures above approximately 630 degrees Fahrenheit. Provide the engineering support for temperature/load versus performance of the catalytic function.

a. Explain the relationship between the proximity to the burners and the effectiveness of the SCR?

b. In combining flues for operation, does this affect the performance of the SCRs? Explain in summary fashion.

c. Provide any available efficiency curves.

56. Refer to Voyles Testimony at page 13. The testimony indicates that the addition of a higher efficiency FGD in combination with the installation of Particulate Matter Control Systems will require the installation of larger induced draft fans and/or the installation of booster fans to account for the increased pressure drop through the flue gas train. These larger or additional fans will likely require auxiliary power upgrades.

a. Are those likely costs included in the Black & Veatch financial estimates?

b. Do these fans affect the thermal properties of the flue gas?

c. Will they affect the power output of the generators?

57. Refer to Voyles Testimony at page 8. Mr. Voyles discusses LG&E's preference for recovering costs associated with particulate sorbents. With respect to sorbent cost recovery, is there any difference in the recovery of costs, or any factors related thereto, for the proposed project 26, 27 and the previously approved project 19?

58. Refer to Voyles Testimony. Provide a brief discussion of the maturity and upgrade potential of:

- a. Baghouse technology;
- b. Powder Activated Carbon Injection;
- c. Lime injection for SAM Systems;
- d. FGDs (dry and wet); and
- e. SCRs.

59. Refer to Charnas Testimony at page 7. The testimony states that in LG&E's 2006 Plan Case No. 2006-00208, the Commission approved separate SAM mitigation systems for Mill Creek Units 3 and 4 as part of Project 19; however, as Mr. Voyles explains in his testimony, LG&E has not yet built those systems, and there is no O&M associated with those systems in base rates or being recovered through the environmental surcharge mechanism.

- a. Is the same true for Capital Costs?
- b. Are any SAM mitigation system costs associated with Units 3 and 4 which are being recovered currently?

60. Refer to Schram Testimony at page 4. In performing the analysis for the 2011 Environmental plan, Mr. Schram states that the analyses performed by the Companies' Project Engineering department and Black and Veatch produced the most

cost-effective suite of environmental controls to meet the applicable environmental requirements.

a. Are the initial air quality attainment equipment assumptions, e.g. the equipment used to meet the current air quality limits, thoroughly vetted and explored prior to model runs? Explain the decision making process.

b. What element did LG&E contribute versus Black and Veatch?

c. Does Black and Veatch represent other electric generation utilities in environmental issues?

d. If so, do they come to similar recommendations for air quality attainment?

61. Refer to Schram Testimony at page 5. Mr. Schram supports the position that the recommended projects result in the lowest Present Value Revenue Requirements ("PVRR") over 30 years, including the impacts from capital investment and Operations and Maintenance (O&M) costs.

a. Is 30 years a realistic time frame in the pollution control environment?

b. Did you look at different time frames?

c. If so, provide those calculations.

62. Refer to Schram Testimony. For each project to be constructed, provide the PV for every alternative that was considered and the reasons they were eliminated. Provide all supporting calculations.

63. Refer to Schram Testimony. How was the estimated cost for each proposed project derived?

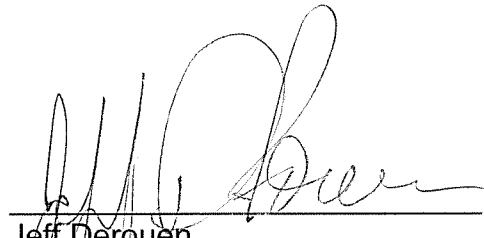
64. Refer to Schram Testimony. Did you send an RFP to construct the proposed facilities?

a. If no, explain why it is not necessary.

b. If yes, provide a list to whom it was sent and the responses. Also explain how the successful bidder was chosen.

65. What is the impact of the planned retirements on LG&E's depreciation?

66. Are any costs associated with any retirements proposed to be recovered in this proceeding?



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DATED:     JUL 12 2011    

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