



PPL companies

Dr. Talina R. Mathews
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

January 10, 2017

RE: Joint Application of Kentucky Utilities Company and Louisville Gas and Electric Company for a Declaratory Order
Case No. 2017-00 ____ .

Dear Dr. Mathews:

Please find enclosed and accept for filing an original and ten copies of Kentucky Utilities Company's and Louisville Gas and Electric Company's (collectively, the "Companies") Joint Application requesting an order declaring that KRS 278.218 does not apply to asset transfers between the Companies.

Please do not hesitate to contact me if you have any questions about the enclosed.

Sincerely,

Rick E. Lovekamp

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JAN 10 2017
PUBLIC SERVICE
COMMISSION

LG&E and KU Energy LLC
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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Rick E. Lovekamp
Manager Regulatory
Affairs/Tariffs
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COMMONWEALTH OF KENTUCKY

JAN 10 2017

BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

JOINT APPLICATION OF KENTUCKY)
UTILITIES COMPANY AND LOUISVILLE)
GAS AND ELECTRIC COMPANY FOR A) CASE NO. 2017-00 ____
DECLARATORY ORDER)

VERIFIED APPLICATION

Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, the “Companies”) respectfully petition the Kentucky Public Service Commission (“Commission”) by verified application pursuant to 807 KAR 5:001 § 19 to issue an order declaring that KRS 278.218 does not apply to asset transfers between the Companies. The Companies believe the purpose of KRS 278.218 is to prevent the unauthorized transfer of ownership or control of electric-utility assets to entities not regulated by the Commission, not to constrain the transfer of assets between Commission-regulated utilities. This is particularly true for the Companies, whose common ownership and control the Commission has repeatedly approved and whose electric operations are highly integrated to deliver safe, reliable, and efficient service for both Companies’ customers.¹ Therefore, because the Companies are subject to the Commission’s jurisdiction and are under the common control and ownership of LG&E and KU Energy LLC and ultimately PPL Corporation (“PPL”), the provisions of KRS 278.218

¹ See *In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, Case No. 97-300, Order (Ky. Pub. Serv. Comm’n Sept. 12, 1997); *In the Matter of: Joint Application of PowerGen plc, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of a Merger*, Case No. 2000-095, Order (Ky. Pub. Serv. Comm’n May 15, 2000); *In the Matter of: Joint Application for Transfer of Louisville Gas and Electric Company and Kentucky Utilities Company in Accordance with E.ON AG’s Planned Acquisition of PowerGen plc*, Case No. 2001-104, Order (Ky. Pub. Serv. Comm’n Aug. 6, 2001); *In the Matter of: Joint Application of PPL Corporation, E.ON AG, E.ON Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities*, Case No. 2010-00204, Order (Ky. Pub. Serv. Comm’n Sept. 30, 2010).

should not apply to asset transfers between the Companies, and the Companies respectfully ask the Commission to issue a declaratory order to that effect.²

In the alternative, the Companies petition to the Commission pursuant to KRS 278.218, 807 KAR 5:001 § 8, and any and all other applicable statutes and regulations, to issue an order pre-approving asset transfers at net book value, *i.e.*, fully-distributed cost, between the Companies when necessary to restore or maintain safe and reliable service and when there is inadequate time due to pressing circumstances to seek Commission approval. The Companies anticipate that situations will arise when (1) reliability and safety concerns require immediate action and (2) procuring assets from the market or obtaining pre-approval from the Commission present further reliability risks and challenges to operating the Companies' systems. Such transfers will be made at net book value in accordance with the Companies' *Corporate Policies and Guidelines for Intercompany Transactions*, which were first approved in connection with the LG&E and KU merger.³ The transfers will be for a proper purpose and consistent with the public interest because they will be made only when necessary to ensure the continued safe and reliable operation of the Companies' systems and will allow the Companies to avoid the increased delay of purchasing a suitable asset on the market or obtaining pre-approval from the Commission on a transaction-by-transaction basis.

The Companies will keep the Commission apprised of such transfers by including information about them in the Companies' annual reporting required by the Commission's final order in Case No. 2010-00204.⁴ Granting pre-approval for such transfers would be consistent with the approach approved in the Commission's orders in Case Nos. 2007-00012 and 2007-

² Case No. 2010-00204, Order (Ky. Pub. Serv. Comm'n Sept. 30, 2010).

³ See Case No. 97-300, Order at 25-26 (Ky. Pub. Serv. Comm'n Sept. 12, 1997).

⁴ Case No. 2010-00204, Order Appendix C at 2 (Ky. Pub. Serv. Comm'n Sept. 30, 2010)(Regulatory Commitment 3(c): "Each of LG&E and KU shall file on an annual basis an affiliated interest report including an organization

00023, which pre-approved an agreement whereby participating utilities across the country allocated a spare transformer(s) that could be transferred to another participating utility if an act of terrorism resulted in the destruction or long-term disabling of that utility's electric transmission substations.⁵

In support of this Application, the Companies state as follows:

1. Applicant KU's full name and business address are: Kentucky Utilities Company, One Quality Street, Lexington, Kentucky 40507. KU's mailing address is Kentucky Utilities Company c/o Louisville Gas and Electric Company, 220 West Main Street, Post Office Box 32010, Louisville, Kentucky 40202.

2. Applicant LG&E's full name and post office address are: Louisville Gas and Electric Company, 220 West Main Street, Post Office Box 32010, Louisville, Kentucky 40202.

3. The Companies may be reached by electronic mail at the electronic mail addresses of their counsel set forth below.

4. KU is incorporated in the Commonwealth of Kentucky and the Commonwealth of Virginia. KU attests that it is in good corporate standing in both states. KU was incorporated in Kentucky on August 17, 1912, and in Virginia on November 26, 1991.

5. LG&E is incorporated in the Commonwealth of Kentucky and LG&E attests that it is in good corporate standing. LG&E was incorporated in Kentucky on July 2, 1913.

chart, narrative description of each affiliate, revenue for each affiliate and *transactions with each affiliate.*"(emphasis added)).

⁵ *In the Matter of: Joint Petition of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of a Spare Transformer Sharing Agreement and Transactions Entered Into Under Said Agreement*, Case No. 2007-00012, Order (Ky. Pub. Serv. Comm'n March 6, 2007); *In the Matter of: Petition of Kentucky Power Company for Approval of Spare Transformer Sharing Agreement and Transactions Agreement*, Case No. 2007-00023, Order (Ky. Pub. Serv. Comm'n Feb. 7, 2007).

6. KU is a public utility, as defined in KRS 278.010(3)(a), engaged in the electric business. KU generates and purchases electricity, and distributes and sells electricity at retail in the following counties in Central, Northern, Southeastern, and Western Kentucky:

Adair	Edmonson	Jessamine	Ohio
Anderson	Estill	Knox	Oldham
Ballard	Fayette	Larue	Owen
Barren	Fleming	Laurel	Pendleton
Bath	Franklin	Lee	Pulaski
Bell	Fulton	Lincoln	Robertson
Bourbon	Gallatin	Livingston	Rockcastle
Boyle	Garrard	Lyon	Rowan
Bracken	Grant	Madison	Russell
Bullitt	Grayson	Marion	Scott
Caldwell	Green	Mason	Shelby
Campbell	Hardin	McCracken	Spencer
Carlisle	Harlan	McCreary	Taylor
Carroll	Harrison	McLean	Trimble
Casey	Hart	Mercer	Union
Christian	Henderson	Montgomery	Washington
Clark	Henry	Muhlenberg	Webster
Clay	Hickman	Nelson	Whitley
Crittenden	Hopkins	Nicholas	Woodford
Daviess			

7. LG&E is a public utility, as defined in KRS 278.010(3)(a), engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble Counties. LG&E also purchases, stores and transports natural gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington Counties.

8. LG&E and KU are wholly owned by LG&E and KU Energy LLC, a first tier wholly-owned subsidiary of PPL. Since their merger in 1998, LG&E and KU have planned and operated their respective electric systems as an integrated utility system.⁶

⁶ Case No. 2010-00204, Order (Ky. Pub. Serv. Comm'n Sept. 30, 2010).

9. Pursuant to KRS 278.380, the Companies waive any right to service of Commission orders by mail for purposes of this proceeding only. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

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The Legislative History of KRS 278.218 Shows that It Was Not Intended to Apply to Transactions between Commission Regulated Utilities, But Rather to Asset Transfers from Utilities to Merchants

10. The General Assembly enacted KRS 278.218 to prevent Commission-regulated utilities from transferring their assets to entities not regulated by the Commission. Because LG&E and KU are Kentucky public-utility companies subject to the Commission's jurisdiction and are under the ultimate common control and ownership of PPL, transfers of assets between the Companies do not implicate the concerns which led to KRS 278.218's enactment and therefore should not be subject to the requirements of KRS 278.218.

11. Prior to KRS 278.218's enactment, Kentucky's Governor, legislators, and this Commission became increasingly concerned with the growing unregulated energy market in Kentucky and surrounding states and the potential effects on Kentucky's electric customers and regulated energy market.⁷ In California, insufficient electric generation was causing widespread shortages, blackouts, and price increases.⁸ In Kentucky, regulators were faced with an increase in applications for "merchant" power plants.⁹ These plants would be located in Kentucky and strain Kentucky's transmission system but would not be regulated by the Commission and would mostly sell electricity to customers in other states, where electric restructuring presented opportunities to sell electricity at higher prices.¹⁰ As a result of these concerns, Governor Paul Patton issued an executive order on June 11, 2001, imposing a 180-day moratorium on power-plant applications.¹¹ The moratorium was intended to give the legislature, the newly-created Energy Advisory Board, and this Commission adequate time to develop and implement a strategy for power-plant development to ensure that Kentucky customers continued to benefit from the Commission's regulation of electric utilities, continued to have access to reliable and affordable electricity, and were not negatively affected by increased strains on Kentucky's transmission system.¹² On January 11, 2002, Governor Patton issued an executive order extending the moratorium.¹³

⁷ See, e.g., Kristen Haukebo, *Power firms make case for Kentucky plants; State concerned about potential cost, pollution*, The Courier-Journal (Sep. 26, 2001); *In the Matter of: A Review of the Adequacy of Kentucky's Generation Capacity and Transmission System*, Admin. Case No. 387, Order (Ky. Pub. Serv. Comm'n July 2, 2001).

⁸ Admin. Case No. 387, Order at 1 (Ky. Pub. Serv. Comm'n July 2, 2001).

⁹ Joe Walker, *Electric Cooperative Back Kentucky Governor's Moratorium on New Power Plants*, The Paducah Sun (Oct. 4, 2001); Admin. Case No. 387, Order at 2-3 (Ky. Pub. Serv. Comm'n July 2, 2001).

¹⁰ *Id.*

¹¹ Admin. Case No. 387, Order at 1 (Ky. Pub. Serv. Comm'n Dec. 20, 2001); Haukebo; Walker.

¹² *Id.*

¹³ Bill Bartleman, *Kentucky Legislative Votes May Sway Plan for Coal-Fired Plant*, The Paducah Sun (Jan. 31, 2002).

12. The General Assembly moved rapidly in its 2002 General Session to address the energy-market and energy-supply concerns discussed above by introducing, amending, and passing on an emergency basis a single bill that Governor Patton signed and that went into effect on April 24, 2002—less than two months after the bill was originally introduced in the Senate. That bill included provisions to create the Kentucky State Board on Electric Generation and Transmission Siting (“Siting Board”) and its related statutes (KRS 278.700 – 278.716), as well as KRS 278.218. On their face, the Siting Board statutes address and regulate primarily the construction of merchant generating facilities and non-regulated electric transmission lines, not the facilities of regulated utilities. Indeed, when the Siting Board considers whether to approve a proposed merchant generating facility, KRS 278.710(1)(f) requires the board to consider “Whether the additional load imposed upon the electricity transmission system by use of the merchant electric generating facility will adversely affect the reliability of service for retail customers of electric utilities regulated by the Public Service Commission”; the focus of concern is how merchant facilities might adversely impact regulated utilities’ customers, not on transactions between Commission-regulated electric utilities. That places KRS 278.218 in its proper context and shows the General Assembly’s intent that the statute prevent Commission-regulated utilities from transferring their assets to entities not regulated by the Commission, thereby preventing merchants from avoiding Siting Board jurisdiction; indeed, the Kentucky Senate found KRS 278.218 to be so integral to its overall strategy to address merchant entities that the first Senate Committee Amendment to the bill creating the Siting Board was the amendment to create KRS 278.218. This legislative history further illuminates why KRS 278.218 is explicitly framed as concerning asset transfers solely *from* regulated utilities; it is not explicitly framed as concerning asset transfers solely *to* regulated utilities. In short, this history shows the General Assembly had no intent to address KRS 278.218 to asset transfers between

two Commission-regulated utilities, particularly between two such utilities whose common control the Commission has repeatedly approved, as the Commission has done for the Companies.¹⁴

**Declaring that KRS 278.218 Does Not Apply to Asset Transfers between the Companies
Would Be Consistent with Commission Precedent**

13. Since 2002, the Commission has routinely used KRS 278.218 to review and regulate the transfer of ownership or control of assets owned by a utility, as defined by KRS 278.010(3)(a), to such non-jurisdictional entities, if the assets had an original book value of \$1,000,000 or more and were being transferred for reasons other than obsolescence or would continue to be used to provide the same or similar service to the utility or its customers. For example, the Commission asserted its jurisdiction under KRS 278.218 to determine whether the Companies' proposed transfer of operational control of their transmission system from one entity to two other entities was for a proper purpose and in the public interest.¹⁵ But the Companies are not aware of a single instance where the Commission has required pre-approval of an asset transfer from one Commission-regulated utility to another Commission-regulated utility. This absence of Commission orders concerning utility-to-utility transfers among Commission-regulated utilities is fully consistent with the legislative intent of KRS 278.218. Moreover, it shows that issuing an order declaring that KRS 278.218 does not apply to asset transfers between the Companies is fully consistent with the Commission's own past orders.

¹⁴ Case No. 97-300, Order (Ky. Pub. Serv. Comm'n Sept. 12, 1997); Case No. 2000-095, Order (Ky. Pub. Serv. Comm'n May 15, 2000); Case No. 2001-104, Order (Ky. Pub. Serv. Comm'n Aug. 6, 2001); Case No. 2010-00204, Order (Ky. Pub. Serv. Comm'n Sept. 30, 2010).

¹⁵ See, e.g., *In the Matter of: The Application of Louisville Gas and Electric Company and Kentucky Utilities Company to Transfer Functional Control of their Transmission Facilities*, Case No. 2005-00471, Order at 4 (July 6, 2006).

**Declaring that KRS 278.218 Does Not Apply to Asset Transfers between the Companies
Would Help Ensure the Companies' Continuing Ability to Provide Safe and Reliable
Service**

14. As discussed above, there is no legislative history showing the General Assembly intended KRS 278.218 to apply to asset transfers between Commission-regulated utilities; but there *is* legislative history demonstrating that the legislature intended it to ensure merchant generators and operators of non-regulated transmission lines could not avoid Siting Board jurisdiction by simply buying existing utility assets. And there is certainly no evidence the General Assembly intended to erect barriers to transfers between Commission-regulated utilities or to their ability to transfer assets among themselves when needed to ensure the continuing provision of safe and reliable electric service, particularly when the continuing provision of such service depends on relatively rapid asset transfers that could not await Commission review and approval. Such instances are not hypothetical: indeed, the Commission recognized the need to make rapid asset transfers for service safety and reliability reasons without seeking Commission approval for each such transfer in its recent orders pre-approving transfers of spare transformers between electric utilities when the need for the transfers arises from acts of terrorism.¹⁶

15. Similarly, the Companies recently needed to transfer rapidly a spare transmission-level transformer from KU to LG&E to help ensure the ongoing provision of safe and reliable service. On October 5, 2016, a transmission-level transformer failed at LG&E's Beargrass Substation in Jefferson County. Fortunately, LG&E did not experience any drop in load as a result of the equipment failure, but it was necessary to take immediate action to mitigate the reliability risks to the transmission system by not having the transformer in service. KU had a suitable transformer in inventory. LG&E purchased the transformer from KU at the

¹⁶ Case No. 2007-00012, Order (Ky. Pub. Serv. Comm'n March 6, 2007); Case No. 2007-00023, Order (Ky. Pub. Serv. Comm'n Feb. 7, 2007).

transformer's net book value (\$1,118,133.00),¹⁷ moved it to the Beargrass Substation, and installed and energized it by November 23, 2016. LG&E considered purchasing a replacement for the transformer on the open market, but determined that the acquisition could take up to one year because such transformers are not off-the-shelf components, but rather are manufactured to utilities' specifications upon request, resulting in long lead times. Operating LG&E's transmission system for up to one year without a transmission-level transformer in service at that location presented significant reliability risks to the transmission system. Because of risks to the reliability of the transmission system, the Companies moved quickly to ensure ongoing safe and reliable service—especially as the heating season approached—by proceeding with the asset transfer.

16. A fair reading of the legislative record of KRS 278.218 gives no reason to believe the General Assembly ever intended the statute to apply to such asset transfers or to do anything that might imperil Commission-regulated utilities' ability to provide safe and reliable service; indeed, as noted above, the General Assembly explicitly included in the Siting Board statutes—enacted in the same bill enacting KRS 278.218—a requirement that the Siting Board consider “Whether the additional load imposed upon the electricity transmission system by use of the merchant electric generating facility will adversely affect the reliability of service for retail customers of electric utilities regulated by the Public Service Commission[.]”¹⁸ Therefore, it would be fully consistent with the General Assembly's clear intent to protect safe and reliable service by issuing a declaratory order that KRS 278.218 does not apply to asset transfers between the Companies.

¹⁷ See Exhibit 1 for the accounting entries showing the cost of the transformer on KU's accounting records and the cost of the transformer as transferred to LG&E on LG&E's accounting records. Exhibit 1 depicts the accounting entries for this transaction only; subsequent transactions might affect different accounts depending on the asset transferred.

¹⁸ KRS 278.710(1)(f).

**Declaring that KRS 278.218 Does Not Apply to Asset Transfers between the Companies
Would Not Deprive the Commission of Any Existing Authority to Regulate the Companies'
Rates and Service**

17. Declaring that KRS 278.218 does not apply to transfers of assets between the Companies would in no way wholly exempt such transactions from Commission authority. To the contrary, the Commission retains broad jurisdiction over transactions between the Companies, as well as the Companies in general. First, all transactions between the Companies are subject to the Commission's orders approving the Companies' mergers and acquisitions, which in part require that transactions between the Companies be made at net book value and reported annually to the Commission.¹⁹ Second, all costs related to these transactions are subject to review pursuant to the Commission's plenary jurisdiction over the Companies' rates and service.²⁰ In addition, transfers of assets to non-jurisdictional entities must be pre-approved by the Commission pursuant to KRS 278.218, *e.g.*, transfers of assets to regional transmission-system operators or other non-jurisdictional entities. And transfers of utilities themselves must be approved by the Commission pursuant to KRS 278.020. Therefore, issuing a declaratory order that KRS 278.218 does not apply to asset transfers between the Companies would accurately reflect the General Assembly's clear intent while preserving the Commission's broad existing authority over the Companies' rates and service, as well as transactions between the Companies.

¹⁹ Case No. 97-300, Order at 25-26 (Ky. Pub. Serv. Comm'n Sept. 12, 1997) (The *Guidelines* require that transfers or sales of assets between KU and LG&E be priced at cost "to ensure that neither utilities' customers are disadvantaged by transfers between the utilities."); Case No. 2000-095, Order at Appendix B (Ky. Pub. Serv. Comm'n May 15, 2000); Case No. 2001-104, Order at Appendix A (Ky. Pub. Serv. Comm'n Aug. 6, 2001); Case No. 2010-00204, Order at Appendix C (Ky. Pub. Serv. Comm'n Sept. 30, 2010).

²⁰ *See, e.g.*, KRS 278.030 and 278.040.

In the Alternative, the Commission Should Grant the Companies Standing Authority to Transfer Assets at Net Book Value When Necessary to Restore or Maintain Safe and Reliable Service and When There Is Inadequate Time to Seek Commission Approval Prior to the Transfer.

18. If the Commission determines that KRS 278.218 applies to transfers of assets between the Companies, the Companies request that the Commission issue an order pre-approving transfers of assets between the Companies at net book value when necessary to restore or maintain safe and reliable service and when there is inadequate time to seek Commission approval prior to the transfer. KRS 278.218 requires prior approval for transfers of electric utility assets if the assets have an original book value of \$1,000,000 or more and are being transferred for reasons other than obsolescence or will continue to be used to provide the same or similar service to the utility or its customers. The Commission is required to grant approval if the transfer is for a proper purpose and consistent with the public interest. The Companies anticipate that situations could arise when (1) reliability and safety concerns would require immediate action and (2) procuring assets from the market or obtaining pre-approval from the Commission would present reliability risks or challenges to operating the Companies' systems. As discussed above concerning the recent need to transfer rapidly a transmission-level transformer from KU to LG&E to ensure ongoing service reliability, these situations are not merely hypothetical. Such transfers will be for a proper purpose and consistent with the public interest because they will only be made when necessary to ensure the continued safe and reliable operation of the Companies' systems and allow the Companies to avoid the increased delay and concerns of purchasing a suitable asset on the market. And because time is of the essence when safety and reliability concerns are present, obtaining standing approval will permit the Companies to make these necessary transfers without obtaining approval from the Commission on a transaction-by-transaction basis.

19. The Commission previously granted the Companies authority to transfer spare transformers to non-affiliated entities in the event of a terrorist attack.²¹ Pursuant to the agreement at issue, LG&E, KU, and other participating utilities across the country allocated a spare transformer that could be transferred to another participating utility if an act of terrorism resulted in the destruction or long-term disabling of that utility's electric transmission substations.²² The Commission approved the agreement pursuant to KRS 278.218, finding that "the proposed transfers, replacements, acquisitions, and related accounting treatment of and for spare transformers as noted in the Agreement are for a proper purpose and consistent with the public interest and should be approved."²³ The pre-approval authority the Companies are requesting in the alternative would likewise be necessary to ensure the continued safe and reliable operation of their electrical systems.

20. The Companies propose to make all such transfers at net book value in accordance the Companies' *Corporate Policies and Guidelines for Intercompany Transactions* ("*Guidelines*"). In the KU and LG&E merger proceeding, the Commission approved the merger of the holding companies for KU and LG&E, noting that "integrated system planning may be the single most important benefit of the merger."²⁴ Indeed, one of the ongoing benefits of the merger is that each of the Companies maintains lower inventories of spare parts, including transformers, than each would have to maintain as a stand alone utility, which results in savings over time for both Companies' customers. In addition to acknowledging the mutual benefits of integrated system planning between LG&E and KU, in the LG&E-KU merger proceeding the Commission approved the *Guidelines*, which would govern KU and LG&E's merged activities. The *Guidelines* require that transfers or sales of assets between KU and LG&E be priced at net book

²¹ Case No. 2007-00012, Order (Ky. Pub. Serv. Comm'n March 6, 2007).

²² *Id.* at 1.

²³ *Id.* at 3.

value “to ensure that neither utilities' customers are disadvantaged by transfers between the utilities.”²⁵ The Commission required the Companies to comply with the *Guidelines* following the merger.²⁶ For the nearly two decades following their merger, the Companies have transferred assets at net book value to support their operations. The *Guidelines* have been incorporated in all subsequent merger and acquisition proceedings involving the Companies.²⁷ In addition, the proposal to make such transfers at net book value is in accordance with the Companies' Cost Allocation Manual, most recently filed with the Commission in connection with the Companies' base-rate proceedings.²⁸ Therefore, the Companies' request that the Commission pre-approve asset transfers at net book value between the Companies when necessary to restore or maintain safe and reliable service and when there is inadequate time to seek Commission approval prior to the transfer is entirely consistent with the Companies' *Guidelines* and the Cost Allocation Manual.

21. The Companies' annual reporting required by the Commission's final order in Case No. 2010-00204 ensures the Commission will be made aware of transfers made pursuant to the requested authority.²⁹ All costs related to these transactions will continue to be subject to review pursuant to the Commission's plenary jurisdiction over the Companies' rates and service.

²⁴ Case No. 97-300, Order at 21 (Ky. Pub. Serv. Comm'n Sept. 12, 1997).

²⁵ *Id.* at 25-26.

²⁶ *Id.* at 39.

²⁷ Case No. 2000-095, Order at Appendix B (Ky. Pub. Serv. Comm'n May 15, 2000); Case No. 2001-104, Order at Appendix A (Ky. Pub. Serv. Comm'n Aug. 6, 2001); Case No. 2010-00204, Order at Appendix C (Ky. Pub. Serv. Comm'n Sept. 30, 2010).

²⁸ See, *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Its Rates and for Certificates of Public Convenience and Necessity*, Case No. 2016-00370, Application Tab 51 at 31 (Ky. PSC Nov. 23, 2016) and *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates and for Certificates of Public Convenience and Necessity*, Case No. 2016-00371, Application Tab 51 at 31 (Ky. Pub. Serv. Comm'n Nov. 23, 2016) (“[Transfers] of assets between regulated affiliates shall be priced at no more than cost less depreciation.”)

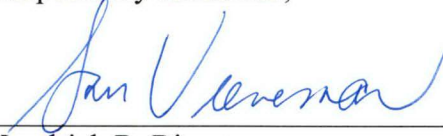
²⁹ Case No. 2010-00204, Order Appendix C at 2 (Ky. Pub. Serv. Comm'n Sept. 30, 2010)(Regulatory Commitment 3(c): “Each of LG&E and KU shall file on an annual basis an affiliated interest report including an organization chart, narrative description of each affiliate, revenue for each affiliate and *transactions with each affiliate.*”(emphasis added)).

22. Therefore, if the Commission determines that KRS 278.218 applies to transfers of assets between the Companies, the Companies respectfully ask the Commission to issue an order pre-approving asset transfers at net book value between the Companies when necessary to restore or maintain safe and reliable service and when there is inadequate time to seek Commission approval, finding that such transfers will be for a proper purpose and consistent with the public interest, and should therefore be approved pursuant to KRS 278.218.

WHEREFORE, Kentucky Utilities Company and Louisville Gas and Electric Company respectfully ask the Commission to issue an Order by February 28, 2017, declaring that KRS 278.218 does not apply to asset transfers between the Companies. In the alternative, the Companies respectfully ask the Commission to issue an Order by February 28, 2017 pre-approving asset transfers at net book value between the Companies when necessary to restore or maintain safe and reliable service and when there is inadequate time to seek Commission approval.

Dated: January 10, 2017

Respectfully submitted,



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*Counsel for Kentucky Utilities Company and
Louisville Gas and Electric Company*

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the above and foregoing Verified Application was served upon the following individuals by first class United States mail, postage prepaid, on the 10th day of January 2017:

Rebecca W Goodman
Lawrence W Cook
Kent Chandler
Assistant Attorneys General
Office of the Attorney General
Office of Rate Intervention
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Frankfort, KY 40601

Michael L. Kurtz
Kurt J. Boehm
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 E. Seventh Street, Suite 1510
Cincinnati, OH 45202



*Counsel for Kentucky Utilities Company and
Louisville Gas and Electric Company*

Kentucky Utilities Company

Accumulated Provision for Depreciation (108)	\$ 1,218,453	
Electric Plant in Service (101)		\$ 1,218,453

Record retirement of transformer at original cost.

Intercompany Receivable from LG&E (146)	\$ 1,118,133	
Accumulated Provision for Depreciation (108)-Salvage		\$ 1,118,133

Record the proceeds from the sale of the transformer at net book cost from KU to LG&E.

Louisville Gas and Electric Company

Construction Work in Progress (107)	\$ 1,118,133	
Intercompany Payable to KU (234)		\$ 1,118,133

Record purchase of transformer from KU.