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Energy and Environment Cabinet



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Michael J. Schmitt
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Daniel E. Logsdon Jr.
Commissioner

February 8, 2017

PARTIES OF RECORD

Re: Case No. 2017-00038

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact John Park, Commission Staff Attorney, at 502-782-2589.

Sincerely,

A handwritten signature in blue ink that reads "Talina R. Mathews".

Talina R. Mathews
Executive Director

JBP/ph

Attachments

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2017-00038

FROM: John B. Park, Staff Attorney

DATE: February 8, 2017

RE: Case No. 2017-00038
Joint Application of Kentucky Utilities Company and Louisville
Gas and Electric Company for a Declaratory Order

Pursuant to Commission Staff's ("Staff") Notice of Informal Conference filed into the record on February 2, 2017, a telephonic informal conference was held in this matter on February 3, 2017. Representatives of Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") (collectively, the "Companies") participated in the conference by telephone. Representatives of the Attorney General's Office of Rate Intervention also participated in the conference by telephone. The purpose of the informal conference was to discuss issues related to the Companies' Joint Application for Declaratory Order. A list of the attendees is attached to this Memorandum.

The Companies discussed KU's transfer of a transmission-level transformer to LG&E. The Companies stated that on October 5, 2016, a transformer failed at LG&E's Beargrass Substation, in Jefferson County, Kentucky. The Companies stated that because it was unable to repair the transformer, and because of the length of time it could take LG&E to acquire a replacement for the failed transformer on the open market, LG&E purchased the transformer from KU, which had the transformer in its inventory. In total, it took LG&E seven weeks from the time the original transformer tripped to the time the new transformer was installed and energized on November 23, 2016. LG&E explained that it took approximately a week to test the original transformer to determine that it could not be repaired and the remainder of the time needed to pack and transport the new transformer as well as certain modifications needed to be made on the new transformer.

LG&E recorded the transformer on its books at its net book value of \$1,118,133. The Companies stated that the transfer of the transformer from KU to LG&E was the first instance of an intercompany transfer of an asset with an original book value of \$1,000,000 or more, and that the transfer prompted the Companies to seek Commission guidance concerning the applicability of KRS 278.218 to asset transfers

between KU and LG&E. The Companies stated that intercompany asset transfers routinely occur in lesser amounts.

Commission Staff sought clarification concerning the proper accounting treatment of intercompany asset transfers. The Companies discussed why KU's transfer of the transformer to LG&E was booked by the Companies at net book value rather than transferring the original cost of \$1,218,453 along with accumulated depreciation. Commission Staff requested the Companies to provide 1) the depreciable life for a transmission-level transformer; and 2) a response to Commission Staff's questions about the proper accounting treatment of the transfer. The Companies agreed to provide this information on or before February 10, 2017.

There being no further discussions, the informal conference adjourned.

Attachment

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF KENTUCKY)
UTILITIES COMPANY AND LOUISVILLE) CASE NO.
GAS AND ELECTRIC COMPANY FOR A) 2017-00038
DECLARATORY ORDER)

Informal Conference – February 3, 2017

Please sign in:

NAME	REPRESENTING
Larry Cook	AG - on phone
Kent Chandler	AG - on phone
Chris Whelan	PSC - FA
Ron Handziak	PSC - FA
RICHARD RAFF	PSC - LEGAL
Quang D Nguyen	PSC
John Park	PSC Legal
Sara Veeneman	KU/LGE - on phone
Hendrick Riggs	Counsel for KU/LGE - on phone
Valerie Scott	KU/LGE - on phone
Keith Steinmetz	KU/LGE - on phone
Rich Lovecamp	KU/LGE - on phone
Chris Talley	KU/LGE - on phone

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