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February 10, 2017

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PUBLIC SERVICE  
COMMISSION

**VIA HAND DELIVERY**

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

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

Dear Dr. Mathews:

Please find enclosed and accept for filing the original and ten (10) copies of Kentucky Utilities Company's ("KU") and Louisville Gas and Electric Company's ("LG&E") (collectively "Companies") responses to the Commission Staff's requests made during the informal conference in this proceeding on February 3, 2017.

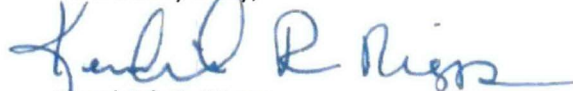
Please confirm your receipt of these filings by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me via our office courier.

Also, the Companies would like to supplement their remarks made during the Informal Conference on February 3, 2017, in this proceeding. As the Commission Staff's Intra-Agency Memorandum dated February 8, 2017, in this proceeding accurately states, "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 ...." In addition to that transfer, the Companies reported to the Commission on June 30, 2015, as part of their Annual Accounting Information Filing in compliance with the reporting requirements arising from Case No. 2010-00204 that "[i]n October 2014, capital costs of the London Avenue spare transformer from the KU project on which it was purchased were transferred for \$1,148,020.39 to the LG&E project on which it will be used." KU's original purchase price for the transformer was less than \$1,000,000. But when it became necessary to transfer the transformer from KU to LG&E to ensure ongoing service reliability, the total cost recorded on

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KU's books related to the transformer—including the cost to move the transformer to LG&E's substation—came to \$1,148,020.39, which was the amount of the "KU project" that the Companies transferred to the "LG&E project." The Companies are noting this transfer to ensure a complete record in this proceeding.

Yours very truly,



Kendrick R. Riggs

KRR:ec

Enclosures as mentioned

cc: Lawrence W. Cook, Rebecca W. Goodman and Kent A. Chandler, Asst Attorneys General,  
Office of the Kentucky Attorney General

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

**In the Matter of:**

**JOINT APPLICATION OF KENTUCKY UTILITIES )  
COMPANY AND LOUISVILLE GAS AND )  
ELECTRIC FOR A DECLARATORY ORDER )**

**CASE NO.  
2017-00038**

**RESPONSE OF  
KENTUCKY UTILITIES COMPANY AND  
LOUISVILLE GAS AND ELECTRIC COMPANY  
TO  
INFORMAL CONFERENCE REQUEST FOR INFORMATION OF  
COMMISSION STAFF  
DATED FEBRUARY 8, 2017**

**FILED: FEBRUARY 10, 2017**

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says that she is Controller for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

**Valerie L. Scott**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10<sup>th</sup> day of February 2017.

  
(SEAL)  
Notary Public

My Commission Expires:

**SUSAN M. WATKINS**  
Notary Public, State at Large, KY  
My Commission Expires Mar. 19, 2017  
Notary ID # 485723

**KENTUCKY UTILITIES COMPANY AND  
LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2017-00038**

**Response to Informal Conference Request for Information of Commission Staff  
Dated February 8, 2017**

**Question No. 1**

**Responding Witness: Valerie L. Scott**

Q-1. The depreciable life for a transmission-level transformer.

A-1. Transmission assets are depreciated using group depreciation. Under group depreciation, lives for individual assets are not maintained, rather all assets are depreciated using a composite, or group, rate for all the assets within the group.

Transmission assets have a group depreciable life of 60 years on KU and 72 years on LG&E. The group depreciation rate is based on the historical lives of the assets in the group, which will vary depending on the mix of assets within the group.

**KENTUCKY UTILITIES COMPANY AND  
LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2017-00038**

**Response to Informal Conference Request for Information of Commission Staff  
Dated February 8, 2017**

**Question No. 2**

**Responding Witness: Valerie L. Scott**

- Q-2. A response to Commission Staff's questions about the proper accounting treatment of the transfer.
- A-2. Exhibit 1 to the application depicts the accounting entries for the transfer of the cost of a transformer owned by KU to LG&E. The entries are provided for this transaction only since the entries may differ depending on the nature of the assets transferred. The FERC Uniform System of Accounts prescribes how electric plant acquisitions should be recorded in Title 18 CFR Ch. I, Pt. 101, Electric Plant Instructions, 2. Electric Plant To Be Recorded at Cost. A., which states:

“All amounts included in the accounts for electric plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service. **All other electric plant shall be included in the accounts at the cost incurred by the utility**, except for property acquired by lease which qualifies as capital lease property under General Instruction 19. *Criteria for Classifying Leases*, and is recorded in Account 101.1, Property under Capital Leases, or Account 120.6, Nuclear Fuel under Capital Leases. Where the term *cost* is used in the detailed plant accounts, it shall have the meaning stated in this paragraph.” (Emphasis added.)

A search of Title 18 CFR Ch. I, Pt. 101 provided no definition of the terms “operating unit or system”, “operating”, “unit” or “system”. Based on the language in the Electric Plant Instructions, LG&E believes FERC does not expect all property acquired will be an operating unit or system. LG&E considered the transformer acquired an individual capitalized part, versus an operating unit or system. Accordingly, the cost recorded by LG&E was made at KU's net book value of the transformer since that was the cash paid by LG&E to KU for the transformer.