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Elizabeth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
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JUL 10 2006

**PUBLIC SERVICE
COMMISSION**

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July 10, 2006

Re: *In the Matter of:* Joint Petition by Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Enlargement of Time to File Depreciation Studies – **Case No. 2006-00283**

Dear Ms. O'Donnell:

Enclosed for filing are an original and five (5) copies of Louisville Gas and Electric Company and Kentucky Utilities Company response to the First Data Request of Commission Staff dated June 28, 2006, in the above-cited case.

Should you have any questions regarding the enclosed, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Kent Blake".

Kent Blake

cc: David F. Boehm
Michael L. Kurtz
Elizabeth E. Blackford

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT PETITION BY APPLICATION OF)
LOUISVILLE GAS AND ELECTRIC)
COMPANY AND KENTUCKY UTILITIES) CASE NO. 2006-00283
COMPANY FOR ENLARGEMENT OF)
TIME TO FILE DEPRECIATION STUDIES)

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY
TO
FIRST DATA REQUEST OF COMMISSION STAFF
DATED JUNE 28, 2006

FILED: JULY 10, 2006

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

Response to First Data Request of Commission Staff dated June 28, 2006

Case No. 2006-00283

Question No. 1

Witness: Shannon L. Charnas

- Q-1 The Commission has pending before it two applications for approval of new depreciation studies performed for electric generating utilities. Both depreciation studies are based upon plant in service as of December 31, 2005 and both applications were filed during June 2006. In this proceeding, LG&E and KU state that in their most recent base rate cases they were willing to file new depreciation studies by the earlier of their next general rate cases or June 30, 2007. LG&E and KU now request in this proceeding that this due date be moved to December 31, 2007. In addition, LG&E and KU note that they are currently performing asset life assessment studies for their generating fleets, which are expected to be completed in the fourth quarter of 2006.
- a. Explain in detail what has changed since mid-year 2004 that now makes it necessary for LG&E and KU to seek a 6-month delay in the filing of their new depreciation studies.
 - b. If the asset life assessment studies are due to be completed by the end of the current calendar year, do LG&E and KU contend that these studies are impacting the ability of the utilities to perform and complete the new depreciation studies by June 30, 2007? Explain the response.
 - c. In the two applications pending before the Commission, the time between the plant in service date used in the depreciation study and the filing of the application is within 6 months. Explain in detail why LG&E and KU could not have their new depreciation studies completed by June 30, 2007 based on plant in service as of December 31, 2006.
- A-1
- a. Under the terms of the Partial Settlement Agreement, Stipulation and Recommendation, LG&E and KU agreed to file new depreciation studies by the earlier of their next general rate case or June 30, 2007 based on "plant in service as of a date no earlier than one year prior to filing". Therefore, the

plant in service date for a June 30, 2007 depreciation study filing could be as early as June 30, 2006, thereby providing LG&E and KU 12 months to complete the studies and file with the Commission. The Commission's Order dated June 30, 2004 found this proposal to be reasonable and accepted by the Commission.¹ The approval requested in the Companies' Joint Application in this proceeding affords the Companies the same time interval of 12 months to complete the new depreciation studies as approved in the Commission's June 30, 2004 Order.

Since mid-year 2004, the Companies filed their 2005 joint integrated resource plan² ("IRP") with the Commission. On February 15, 2006, the Commission Staff issued its report on the 2005 IRP which included a recommendation to conduct a feasibility study to support decisions to retire any unit(s). (Staff Report at 24). The Companies have subsequently implemented asset life assessment studies for their generation units in 2006. The results of the asset life assessment studies are expected to impact the depreciation studies and must be completed before commencing the depreciation studies in order to use the information from the studies to assess the remaining lives of assets for the depreciation studies.

- b. See response to a.
- c. The two pending depreciation study applications for electric generating utilities cited in the Data Request show the time between the plant in service date and the filing of the application for each utility is less than six months. These examples however are not comparable to the circumstances of LG&E and KU for three reasons. First, the Companies' depreciation studies will cover both LG&E and KU. While the Companies expect efficiencies from concurrently performing depreciation studies for the two legal entities, it is not reasonable to expect that the studies could be performed as quickly as a depreciation study for a single electric generating utility. Second, the amount and type of plant in service to be reviewed and analyzed influences the amount of time required to complete and file the depreciation study. LG&E and KU have a total of 20 steam generating units, 23 combustion turbine units, hydroelectric plants, and total depreciable electric plant in service of approximately \$3,200,000,000 for LG&E and \$3,500,000,000 for KU to be reviewed in the process of conducting depreciation studies. The two studies cited in the Data Request involved 4 steam generating units and 7 combustion turbines and 2 steam generating units and 6 combustion turbines, respectively. The value of the depreciable plant studied in these two applications totaled

¹ *In the Matter of: An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Louisville Gas and Electric Company*, Case No. 2003-00433, Order at 34-35 (June 30, 2004); *In the Matter of: An Adjustment of the Gas and Electric Rates, Terms, and Conditions of Kentucky Utilities Company*, Case No. 2003-00434, Order at 30 (June 30, 2004).

² *In the Matter of: The 2005 Integrated Resource Plan of Louisville Gas and Electric Company and Kentucky Utilities Company*, Case No. 2005-00162.

approximately \$1,986,000,000 and \$1,045,000,000, respectively, significantly less than those of LG&E or KU. Finally, in addition to KU's depreciation study for its electric utility plant, LG&E's depreciation study will be for electric and gas utility plant, as well as common assets. Therefore, the depreciation consultant will conduct three distinct depreciation studies for LG&E involving electric, gas and common utility plant in addition to a separate depreciation study for KU.

As a final point of reference, the most recent depreciation studies completed for the Companies with a plant in service as of December 31, 2002, were filed on December 29, 2003, nearly 12 months to the date from the plant in service date. The Companies' prior depreciation studies with a plant in service as of December 31, 1999, were filed at the end of February 2001, almost 14 months from the plant in service date. These actual time intervals as experienced by the Companies are consistent with the time interval incorporated into the proposal to file depreciation studies based on plant in service as of a date no earlier than one year prior to filing.