KU an e·on company

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@eon-us.com

April 28, 2008

RE: ***APPLICATION OF KENTUCKY UTILITIES COMPANY TO FILE DEPRECIATION STUDY***
CASE NO. 2007-00565

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Kentucky Utilities Company to the Second Data Request of Commission Staff dated April 14, 2008, in the above-referenced matter.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES	)	CASE NO.
COMPANY TO FILE DEPRECIATION	)	2007-00565
STUDY	)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
SECOND DATA REQUEST OF COMMISSION STAFF
DATED APRIL 14, 2008

FILED: APRIL 28, 2008

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is the Director, Utility Accounting and Reporting for E.ON U.S. Services Inc., 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.

Shannon L Charnas
SHANNON L. CHARNAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25th day of April, 2008.

Tina Sizemore (SEAL)
Notary Public

My Commission Expires:

July 1, 2008

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director of Rates for E.ON U.S. Services Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Robert M. Conroy

ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25th day of April, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA)
) **SS:**
COUNTY OF CUMBERLAND)

The undersigned, **John J. Spanos**, being duly sworn, deposes and says that he is the Vice President, Valuation and Rate Division for Gannett Fleming, Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

John J. Spanos

JOHN J. SPANOS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 21st day of April, 2008.

________________ (SEAL)
Notary Public

My Commission Expires:

February 20, 2011

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2011
Member, Pennsylvania Association of Notaries

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 1

Witness: John J. Spanos

Q-1. Refer to the response to the Commission Staff's First Data Request dated February 18, 2008 ("Staff First Request"), Item 2. KU was requested to compare and contrast the approach used in its last depreciation study with the approach followed in the current depreciation study. KU's response only identified the difference between the approaches, instead of comparing and contrasting the two approaches. Provide the originally requested information.

A-1. The last depreciation study and this current study utilized the same methodology with regard to identifying the depreciable property, collecting and examining the historical data provided by KU and performing statistical analysis of the depreciable plant by account. With the addition of four years of data, differences in the results of the statistical analysis are to be expected. The straight line method used in both studies is the most commonly employed and accepted method for the recovery of capital. The remaining life technique used in both studies is considered more appropriate for the utility industry since it recognizes the inevitable variances between the theoretical reserve and the Accumulated Provision for Depreciation, and automatically adjusts for these variances on an annual basis. The difference between the two studies lies in the procedure used. The equal life group ("ELG") procedure is superior to the average service life or Broad Group procedure because it allocates the capital cost of a group of property to annual expense in accordance with the consumption of the property group providing service to customers. The Company's customers are more appropriately charged with the cost of the property consumed in providing them service during the applicable service. The more timely return of plant cost is accomplished by fully accruing each unit's cost during its service life, thereby reducing the risk of incomplete recovery and resulting in less return on rate base over the life of a depreciable group. The total depreciation expense is the same for all procedures which allocate the full capital cost to expense, but at any specific point in time after implementation, the depreciated original cost is less under the ELG procedure than under the average service life procedure.

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 2

Witness: Robert M. Conroy

Q-2. Refer to the Application, page 5, and the response to the Staff First Request, Item 4. Paragraph 12 of the Application states,

> In order to match the proposed changes in its depreciation rates with the possible changes in its base rates, KU respectfully requests the Commission to issue an order in this proceeding to approve KU's proposed depreciation rates for accounting and ratemaking purposes concurrent with KU's next change in base rates pursuant to a Commission Order issued in a base rate proceeding filed by KU. KU anticipates filing a new base rate application during the 2008 calendar year, so there should not be undue delay associated with implementing new depreciation rates during KU's next base rate case, and the study will be sufficiently current.

However, in the response to Item 4, Mr. Conroy states,

> The Company is requesting the Commission to defer the review of the proposed depreciation rates in order to match the change in depreciation rates with a change in base rates and to obtain administrative efficiencies with a single proceeding addressing all impacts of a change in depreciation rates. . . . KU proposes to review the depreciation rates recommended in the study during the Company's next general rate case proceeding, which the Company has indicated it anticipates filing during 2008.

The response to Item 4 does not appear to be consistent with KU's Application.

a. Does KU seek approval of the proposed depreciation rates in this proceeding or wish to defer a ruling on the proposed depreciation rates until its next general rate case proceeding? Explain the response.

b. If KU's intent was to defer the review of the proposed depreciation rates to be considered as part of a future rate case, explain why KU filed the current application stating that it was seeking approval now.

A-2. a. KU's intention in the Application and as indicated in the response to Item 4, is to defer a ruling on the proposed depreciation rates until its next general rate case proceeding.

b. The intent of KU's Application accompanying the filing of the Depreciation Study was to request the review of the proposed rates with the next general rate case and to request the Commission to issue an order approving such timing.

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 3

Witness: Robert M. Conroy

Q-3. Refer to the response to the Staff First Request, Item 5.

a. Provide the status of KU's depreciation filing before the Virginia State Corporation Commission ("Virginia SCC").

b. If the Virginia SCC has approved the proposed depreciation rates, provide copies of the documentation received by KU approving the rates.

c. If the Virginia SCC has not approved the proposed depreciation rates, indicate when KU anticipates a decision will be rendered.

A-3. a. KU's Depreciation Study filing with the Virginia SCC Staff on December 28, 2007 was not a formal application requesting an order from the Virginia SCC. The Depreciation Study was filed in Virginia pursuant to a prior request from Virginia Staff to provide depreciation studies to Virginia at the time depreciation studies were filed in Kentucky. The Virginia Staff has completed its review of the Depreciation Study and KU has received the attached letter, which provides the Staff's recommendations regarding the Depreciation Study. The letter is an administrative recommendation by the Virginia Staff's Division of Public Accounting, not an order of any kind (indeed, the Depreciation Study filing is not part of a docketed proceeding before the Virginia SCC). KU is currently reviewing the Virginia Staff recommendations and determining how to proceed in response.

b. The Virginia SCC has not approved the proposed depreciation rates, and the Virginia Staff's recommendation does not bind the Virginia SCC.

c. The Virginia SCC has not approved the proposed depreciation rates. The Virginia SCC will determine whether to approve KU's proposed depreciation rates in KU's next rate case or if KU makes a formal application to the Virginia SCC for approval of the proposed rates. KU is currently reviewing possible actions.

RONALD A. GIBSON
DIRECTOR

COMMONWEALTH OF VIRGINIA

1300 EAST MAIN STREET
FOURTH FLOOR B
P.O. BOX 1197
RICHMOND, VIRGINIA 23218
(804) 371-9950
FAX (804) 371-9447
www state va us/scc

STATE CORPORATION COMMISSION
DIVISION OF PUBLIC UTILITY ACCOUNTING

April 14, 2008

Mr. Lonnie E. Bellar
Vice-President State Regulation and Rates
Old Dominion Power Company
220 West Main St.
Post Office Box 32010
Louisville, KY 40232

Dear Mr. Bellar:

The Virginia State Corporation Commission Staff ("Staff") has completed its review of the proposed service lives, net salvage rates, and depreciation rates contained in Kentucky Utilities' 2006 depreciation study. The depreciation study covered production, transmission, distribution and general plant assets serving Kentucky and Virginia. Staff has limited its review to the depreciation rates applicable to plant for which Virginia has primary jurisdiction. As of the end of 2006, this includes $58 million of situs distribution plant and $34 million of situs transmission plant which are directly assigned to the Virginia jurisdiction. It is our understanding that the Kentucky Public Service Commission is currently conducting its own review of the depreciation study. Staff requests a copy of the rates ultimately approved for plant for which Kentucky has primary jurisdiction.

Staff accepts all of the proposed Iowa survivor curves and net salvage rates proposed in the study. However, Staff recommends maintaining the use of the average life group procedure ("ALG"). As such, Staff does not recommend Kentucky Utilities' proposed switch to the equal life group procedure ("ELG"). Staff believes that ALG is more appropriate for ratemaking in Virginia, since it tends to produce more stable rates, all other variables (i.e. service lives and net salvage rates) being equal. Further, Staff believes a switch to the ELG procedure would be imprudent for Virginia ratemaking since it can compound any inaccuracies in estimation of retirement dispersion, can introduce inter-generational inequities, and can be more costly and time-consuming to maintain. Staff's approved average life group rates are attached.

Based on December 31, 2006, directly-assigned Virginia plant of $92,933,860, the approved remaining life rates produce a composite accrual rate of 2.37%. Staff notes that since the prior study based on December 1999 plant in service, service lives have increased for 14 out of 17 accounts reviewed. The annualized depreciation accrual for the Virginia directly-assigned transmission and distribution assets as of December 2006 is $2,206,204.

Staff recommends the implementation of new remaining life depreciation rates coincident with the study date, January 1, 2007. This is consistent with the Virginia State Corporation Commission's policy established in the December 18, 2003, Final Order and January 23, 2004, Order on Reconsideration of Washington Gas Light Case No. PUE-2002-00364. It should be noted that administrative acceptance of these rates by the Staff does not preclude these rates, or those on plant allocated to Virginia, from being raised as an issue by any party in any subsequent filing with the Commission. We request that Kentucky Utilities base its next depreciation study of Virginia assets as of a date no later than December 31, 2011. Thank you for your assistance, and that of your staff, during the course of our review.

Sincerely,

Scott C. Armstrong

Scott C. Armstrong, CPA, CDP
Principal Public Utility Accountant
Division of Public Utility Accounting
Virginia State Corporation Commission

Enclosure

Cc: Ronald A. Gibson, Director of the Division of Public Utility Accounting
Cody A. Walker, Deputy Director of the Division of Energy Regulation

Kentucky Utilities
Depreciation Study as of December 31, 2006
Schedule of Approved Average Life Group Rates and Parameters

Account	Description	Virginia Directly Assigned Plant	Average Service Life	Iowa Curve Shape	Net Salvage Rate	Current Average Life Group Rates	Current Annual Average Life Group Accrual	Approved Virginia Average Life Group Rates	Virginia Annual Average Life Group Accrual
	Distribution Plant								
360.10	Land Rights	$82,622	65.0	R4	0%	1.14%	$942	0.65%	$537
361.00	Structures & Improvements	$375,228	60.0	R2.5	-10%	1.89%	$7,092	1.65%	$6,191
362.00	Station Equipment	$6,384,100	52.0	R2	-15%	2.24%	$143,004	2.28%	$145,557
364.00	Poles, Towers, and Fixtures	$14,540,258	48.0	SO	-45%	3.52%	$511,817	2.30%	$334,426
365.00	Overhead Conductors and Devices	$13,060,926	48.0	R2	-75%	3.02%	$394,440	3.38%	$441,459
367.00	Underground Conductors and Devices	$669,002	44.0	S0.5	-5%	3.29%	$22,010	2.09%	$13,982
368.00	Line Transformers	$12,490,621	40.0	R2	-20%	2.41%	$301,024	3.10%	$387,209
369.00	Services	$5,091,007	43.0	R1.5	-30%	3.75%	$190,913	1.99%	$101,311
370.00	Meters	$3,616,919	40.0	R1.5	0%	2.79%	$100,912	2.12%	$76,679
371.00	Installations on Customer Premises	$867,569	20.0	R0.5	-10%	6.27%	$54,397	2.38%	$20,648
373.00	Street Lighting and Signal Systems	$1,315,609	33.0	R1	-5%	3.85%	$50,651	2.29%	$30,127
	Total Directly Assigned Distribution Plant	**$58,493,861**				**3.04%**	**$1,777,201**	**2.66%**	**$1,558,128**
	Transmission Plant								
350.10	Land Rights	$1,501,660	60.0	R3	0%	1.34%	$20,122	0.98%	$14,716
352.10	Structures and Improvements - non Sys Control	$1,050,162	65.0	S2.5	-25%	2.65%	$27,829	1.54%	$16,172
353.10	Station Equipment - Non Sys Control	$14,387,238	60.0	R2	-20%	2.21%	$317,958	1.98%	$284,867
354.00	Towers and Fixtures	$1,969,774	70.0	R4	-25%	2.84%	$55,942	1.21%	$23,834
355.00	Poles and Fixtures	$6,219,973	50.0	R2	-60%	4.03%	$250,665	2.28%	$141,815
356.00	Overhead Conductors & Devices	$9,311,192	60.0	R3	-50%	3.25%	$302,614	1.79%	$166,670
	Total Directly Assigned Transmission Plant	**$34,439,999**				**2.83%**	**$975,130**	**1.88%**	**$648,076**
	Total Virginia Directly Assigned Plant	**$92,933,860**				**2.96%**	**$2,752,331**	**2.37%**	**$2,206,204**

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 4

Witness: John J. Spanos

Q-4. Refer to the response to the Staff First Request, Item 7. Concerning the comparable amortization periods of other utilities utilized in developing the KU amortization periods, identify the utilities included in this analysis and when the applicable amortization periods were last updated.

A-4. The detailed listing of other utilities' amortization periods was included in response to the Attorney General's Initial Request, Item 8. In all cases, the studies were as of 1992 or subsequent, however, most of the studies have had amortization periods updated within the last five or six years. Amortization periods are seldom revised unless the assets within an account change.

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 5

Witness: John J. Spanos

Q-5. Refer to the response to the Staff First Request, Item 8, Attachment page 2 of 7. Explain why the "Percentage Difference" shown for Account No. 316 – Ghent Unit 3 does not match the "Net Salvage Percent" for this account as shown in the Direct Testimony of John J. Spanos, Exhibit JJS-KU, page III-5

A-5. The explanation of why the "Percentage Difference" shown for Account No. 316 – Ghent Unit 3, has been given in response to Staff First Request, Item 14.

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 6

Witness: John J. Spanos

Q-6. Refer to the response to the Staff First Request, Item 10. Would KU agree that from a regulator's perspective it would be appropriate to use the same depreciation rates for utility plant jointly owned by two regulated utilities? Explain the response.

A-6. It would be ideal to have the same depreciation rates for jointly-owned utility plant by two regulated utilities, however, that is not possible in such cases as exists here. Depreciation in the regulated environment requires a rational and systematic manner to recover all capital investment, no more and no less, over the life of the asset. Therefore, it is impossible to maintain this methodology for two different groups of assets if they do not have the identical asset base and the same recovery patterns from the initial day of installation regardless of whether they currently have the same life and salvage parameters.

Consequently, the methodology utilized in this depreciation study considers past recovery patterns of both regulated utilities as well as future recovery rates for all asset classes.

KENTUCKY UTILITIES COMPANY

**Response to the Second Data Request of Commission Staff
Dated April 14, 2008**

Case No. 2007-00565

Question No. 7

Witness: John J. Spanos

Q-7. Refer to the response to the Staff First Request, Item 13, and the response to the Attorney General's Initial Requests for Information dated February 4, 2008 ("AG's Initial Request"), Item 8.

a. In the response to Items 13(a) through 13(d) and 13(m), reference is made to "estimates of others." For each subpart of Item 13 referencing "estimates of others" specifically identify the individual or utility providing the estimate.

b. The response to Item 13(e) states that "It has been determined that the most recent five-year period is more indicative of future expectations of net salvage, therefore, emphasis was placed on that data." Explain in detail how this determination was made and identify the individuals involved in making the determination.

c. The response to Items 13(f), 13(g), 13(k), and 13(l) states that results from the reviewed data sets were not anticipated to continue in the future. Explain in detail how this determination was made and identify the individuals involved in making the determination.

d. The response to Items 13(h) through 13(j) states that the most recent 5-year period was "the strongest indicator of the net salvage percent that should be expected in the future for each account." Explain in detail how it was determined that the 5-year period was the strongest indicator of the net salvage percentage and identify the individuals involved in making this determination.

e. Concerning the various depreciation studies referenced for the utilities included in the response to the AG's Initial Request, Item 8, indicate whether the listed studies are the most current depreciation studies for the referenced utility.

A-7. a. In all cases, the statistical analysis of other utilities is set forth in the attachment to KU's response to AG's Initial Request, Item 8. KU is providing the estimates of others as part of its filing, however, in all cases a depreciation consultant supported the results of the utility. The attachment to AG-1-8 reflects Gannett Fleming studies. However, other depreciation consultants have comparable estimates but the basis for their estimate was not always known.

b. This determination is the result of Mr. Spanos' experience with other utilities and his discussions with E.ON U.S. personnel.

c. Based on Mr. Spanos' experience within the industry, continual preparation of depreciation studies across the United States and Canada, and his discussions with E.ON U.S. personnel, his conclusions from this information was the final determination in the net salvage percent for each account. Informed judgment is always a major component in the results of life and net salvage percents.

d. This determination is the result of Mr. Spanos' experience with other utilities and his discussions with E.ON U.S. personnel.

e. The studies referenced for each utility in response to AG-1-8 are the most current depreciation studies that have been finalized and recorded by Gannett Fleming. As soon as Gannett Fleming is aware of finalized results and has the opportunity to update the schedule, it is completed.

KENTUCKY UTILITIES COMPANY

Response to the Second Data Request of Commission Staff
Dated April 14, 2008

Case No. 2007-00565

Question No. 8

Witness: John J. Spanos / Shannon L. Charnas

Q-8. Refer to the response to the AG's Initial Request, Items 73 and 75. The responses include references to increases in reported retirements being due to either a delay in recording retirements for the account or the result of a catch up to prior years due to new accounting systems.

a. Explain in detail why new accounting systems resulted in a need to catch up to prior years for the accounts included in Items 73.

b. Explain in detail why there have been delays in recording retirements for the accounts included in Items 75.

A-8. a. The Company implemented a newly developed software system for utility fixed assets from Oracle Inc. In the new system, processing retirements was an extremely slow and burdensome process, which resulted in delays in recording retirements. Eventually, an upgrade was implemented by the Company, which allowed for the smoother processing of retirements and the Company was able to process retirements in a more timely manner.

b. See the response to a.