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PUBLIC SERVICE COMMISSION

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Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

October 19, 2009

RE: ***THE JOINT APPLICATION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF DEPRECIATION RATES FOR TRIMBLE COUNTY UNIT 2 – Case No. 2009-00329***

Dear Mr. DeRouen:

Enclosed please find an original and seven (7) copies of the Response of Kentucky Utilities Company and Louisville Gas and Electric Company to the Second Data Request of the Commission Staff dated October 8, 2009, in the above-referenced proceeding.

Please contact me if you have any questions concerning this filing.

Sincerely,

Robert M. Conroy

Enclosure

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF DEPRECIATION RATES FOR TRIMBLE COUNTY UNIT 2	)))))	CASE NO. 2009-00329

RESPONSE OF
KENTUCKY UTILITIES COMPANY
AND
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
SECOND DATA REQUEST OF COMMISSION STAFF
DATED OCTOBER 8, 2009

FILED: October 19, 2009

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., and 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.

Lonnie E. Bellar

Lonnie E. Bellar

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 16th day of October 2009.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 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 Commonwealth, this 9th day of October, 2009.

(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

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

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

Shannon L Charnas
Shannon L. Charnas

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 16th day of October 2009.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Second Data Request of Commission Staff
Dated October 8, 2009

Case No. 2009-00329

Question No. 1

Witness: Lonnie E. Bellar/ John J. Spanos

Q-1. Refer to paragraph 7 of LG&E's and KU's joint application and the responses to Items 1 and 4 of the Commission Staff's September 18, 2009 data request ("Staff's First Request").

a. Paragraph 7 refers to the companies using the rates sought to be approved in this proceeding until the Commission approves new depreciation rates, while the response to Item 1 indicates that Trimble County 2 ("TC2") is expected to go into commercial service in June 2010. Explain whether it is LG&E's and KU's intent to file rate applications in 2010 to reflect the impact of TC2 on their operations.

b. Explain whether the companies intend that the depreciation rates sought to be approved in this case be used on an interim basis until new depreciation rates are approved in conjunction with the potential rate applications related to TC2.

c. Explain whether the use of interim survivor curves for TC2 should, in any way, be considered indicative of the proposed depreciation rates for the unit being interim rates.

A-1. a. Yes. LG&E and KU expect to file rate applications in 2010. Such rate applications will likely reflect the impact of TC2 on their operations. The effect of TC2 on their operations, however, is one of many factors considered in conjunction with the preparation of these rate applications.

b. The depreciation rates sought to be approved in this case are not intended to be used on an interim basis. As noted in paragraph 7 of LG&E's and KU's joint application, subject to the requested approval in this proceeding, the depreciation rates set forth in the Application Exhibit 1 will be used to depreciate their TC2-related assets when commissioning of the unit for operational purposes begins. Thereafter, the Companies will use such depreciation rates until a new depreciation study is performed and Commission approval is received.

The current depreciation rates were just approved on February 5, 2009. As such, the Companies do not anticipate that a new depreciation study will be necessary in 2010.

c. No. The reference to interim survivor curves for TC2 is not utilized for the purpose of a temporary unit rate. Interim survivor curve is defined as the survivor curve for life characteristics of assets that do not survive to final retirement. All accounts for production plant utilize the life span technique; therefore, the survivor curve is referred to as an interim survivor curve. Consequently, the interim survivor curve, net salvage percent, probable retirement date and resultant depreciation rate that are proposed in the joint application will be in use until the next depreciation study is performed and these estimates are reviewed again.

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Second Data Request of Commission Staff
Dated October 8, 2009**

Case No. 2009-00329

Question No. 2

Witness: Lonnie E. Bellar / Shannon L. Charnas

Q-2. Refer to the responses to Items 1 and 3 of Staffs First Request.

a. Explain whether the companies' depreciation accruals during the period from December 2009 until TC2 is planned to be placed in service in June 2010 will be expensed or capitalized.

b. Provide the basis, from a regulatory accounting perspective, for the treatment (expense versus capitalized) of the depreciation accruals contained in the response to part a. of this request.

A-2. a. Depreciation is currently, and will continue to be expensed for assets as they are utilized for TC1. When KU's ownership portion of the jointly used assets is transferred from LG&E to KU in December 2009, as referenced in Mr. Bellar's July 30, 2009 letter to the Executive Director, these assets will be recorded as plant held for future use in account 105 and the related depreciation will be charged to account 421 until TC2 is placed in service. LG&E's ownership portion of the jointly used assets will remain in service for TC1; and consistent with historical practice at other Company stations, the portion of these assets used for TC2 will not be assigned to the separate unit.

b. The basis for this regulatory accounting treatment for the transferred assets is found in *18 CFR Chapter 1, Subchapter C – Accounts, Account 105 – Electric Plant Held for Future Use*, which states "this account shall include the cost of electric plant (except land and land rights) owned and held for future use in electric service under a definite plan for such use, to include: (1) Property acquired (except land and land rights) but never used by the utility in electric service, but held for such service in the future under a definite plan, and (2) property (except land and land rights) previously used by the utility in service, but retired from such service and held pending its reuse in the future, under a definite plan, in electric service." In this case, the assets are being retired from LG&E and transferred to KU with a definite plan to be used in the operation of TC2. The related depreciation will be charged to account 421 as indicated in Account 108 – Accumulated provision for depreciation of electric utility plant, which states "A. This account shall be credited with the following: ...(3) Amounts charged to account 421, Miscellaneous Nonoperating Income, for depreciation expense on property included in account 105, Electric Plant Held for Future Use."

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Second Data Request of Commission Staff
Dated October 8, 2009

Case No. 2009-00329

Question No. 3

Witness: John J. Spanos

Q-3. Refer to LG&E's and KU's joint application and the response to Item 5 of Staffs First Request.

a. Explain why the Ghent units and Trimble County 1 ("TC1") have, for some accounts, different depreciation rates for their flue gas desulfurization ("FGD") systems than for the units' remaining components, while a single set of rates is intended to apply to the entire TC2 unit, including the FGD system.

b. It is obvious that the life spans of TC1 and TC2 differ; however, the survivor curves and net salvage percentages are identical for the two units except for the survivor curves for Account 312, Boiler Plant Equipment. Explain (1) why this one item for TC2 differs from the same item for TC1 and (2) how this difference impacts the depreciation rate for TC2's Account 312 assets.

A-3. a. Depreciation rates are based on many factors; and each of these factors can affect the depreciation rate. Factors include life parameters, probable retirement date, net salvage percent, plant to reserve ratio, age distribution of surviving plant and past levels of recovery. As shown in the most recent depreciation study, the life and salvage parameters, as well as probable retirement date are the same for flue gas desulfurization (FGD) systems as the other remaining components of the units; yet the rates are different. This is due to the other factors listed above.

In the case of TC2, none of the other factors above come into play, since no plant is in service and no past recovery has occurred. Therefore, the FGD systems will have the same projected rates as the remaining components of the unit.

b. (1) The parameters utilized in determining the recommended depreciation rates for TC2 were based on a review of LG&E and KU facilities. Based on Mr. Spanos' review and understanding of the new TC2, he recommends parameters similar to TC1, except for Account 312. The life parameter for Account 312 was recommended to be longer than TC1, because Mr. Spanos believes interim retirements for TC2 will be better represented by a 60-R1.5 than the TC1 estimate of 45-R1.5.

(2) If the recommended survivor curve for Account 312 was consistent with TC1, then the recommended rate for TC2 would be higher.

KENTUCKY UTILITIES COMPANY
LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Second Data Request of Commission Staff
Dated October 8, 2009

Case No. 2009-00329

Question No. 4

Witness: John J. Spanos

Q-4. Refer to LG&E's and KU's joint application and the response to Item 6 of Staffs First Request. Although TC2 is larger than TC1, the response appears to infer that such a difference in their sizes does not impact their depreciation rates.

a. Explain why, except for Account 311 for the FGD systems, the rates proposed for TC2 are consistently greater than the comparable TC1 rates.

b. Explain whether any consideration was given to proposing to use TC1's current depreciation rates for TC2. As they were not proposed, explain why it would not be appropriate to use the TC1 rates for TC2.

A-4. a. As discussed in the response to Commission Staff Second Data Request, Question No. 3a, the depreciation rate is affected by many factors. All of these factors affect the deprecation rate for TC1 which has had assets in place since 1990 and an accumulated depreciation reserve that has been developed based on multiple rates over that time. The recommended rates for TC2 have been developed based on the true statistical bases of the established parameters.

b. There was consideration given to proposing depreciation rates for TC2 that are currently being used for TC1. However, because the rates are different the TC1 rates are inappropriate. Basically, the current depreciation rates for TC1 are affected by plant to reserve ratio, age distribution of surviving plant, past levels of recovery and past rates which have not been consistent from 1990 with the current parameters.