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Louisville Gas and
Electric Company
State Regulation and Rates
220 West Main Street
P.O. Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

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

Jeff DeRouen, Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

July 25, 2011

RE: ***In the Matter of: The Application of Louisville Gas and Electric Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge*** **- Case No. 2011-00162**

Dear Mr. DeRouen:

Enclosed please find an original and fifteen (15) copies of Louisville Gas and Electric Company's (LG&E) response to the Metro Housing Coalition's (MHC) First Set of Requests dated July 12, 2011, in the above-referenced matter.

The verification page for Gary H. Revlett is being filed under a separate cover letter.

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

Sincerely,

Robert M. Conroy

cc: Parties of Record

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 Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, 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 22nd day of July 2011.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **John N. Voyles, Jr.**, being duly sworn, deposes and says that he is Vice President, Transmission and Generation Services for Louisville Gas and Electric Company and an employee of LG&E and KU Services Company, 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.

John N. Voyles, Jr.

John N. Voyles, Jr.

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of July 2011.

Tammy J. Elzy (SEAL)

Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for LG&E and KU Services Company, 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.

Robert M. Conroy

Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of July 2011.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

VERIFICATION

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

The undersigned, **Charles R. Schram**, being duly sworn, deposes and says that he is Director – Energy Planning, Analysis and Forecasting for LG&E and KU Services Company, 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.

Charles R Schram

Charles R. Schram

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of July 2011.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

November 9, 2014

BCOMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY AND APPROVAL OF ITS 2011 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE	))))))	CASE NO. 2011-00162

LOUISVILLE GAS AND ELECTRIC COMPANY

RESPONSE TO THE METROPOLITAN HOUSING COALITION (MHC)
FIRST SET OF REQUESTS

DATED JULY 12, 2011

FILED: JULY 25, 2011

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 1

Witness: Lonnie E. Bellar / Gary H. Revlett

Q-1. The LG&E filing seeks Commission approval of certain certificates of public convenience and necessity, and approval of its 2011 Compliance Plan for Recovery by Environmental Surcharge, identifying the following federal rulemakings as the basis for the filing: the Clean Air Transport Rule (CATR), National Emission Standards for Hazardous Air Pollutants from Electric Generating Units (HAPs Rule), and new regulations regarding the disposal of coal combustion residuals. At the time of the filing, none of these federal rules had become final.

(a) In the absence of a final HAPS or coal combustion residual rule, what basis does LG&S have to assume that the proposed emissions limits and timeframes for incorporation of controls necessary to meet such limits, will remain unchanged?

(b) With the finalization of the Clean Air Transport Rule (CATR), has LG&E evaluated whether the requirements of the final rule are the same, greater, or lesser than those in the proposed rule? If so, please provide that assessment and comparison of limits from the proposed and final rule as it affects each LG&E generating unit.

(c) Does LG&E plan to update this filing in order to reflect any changes in compliance requirements or compliance strategy occasioned by changes from the proposed to the final rulemaking?

(d) Does the LG&E filing consider the impacts of the proposed ozone NAAQS regulation that were sent by the EPA to the OMB on July 11, 2011?

(e) If not, does LG&E plan to update this filing in order to reflect any changes in compliance requirements or compliance strategy occasioned by changes from the proposed to the final rulemaking?

A-1. (a) Although the HAPs rule is not final, the record in the rulemaking shows it is highly unlikely that the final rules will be less restrictive than the proposed rules because the EPA has repeatedly and expressly committed to further eliminate the effects of hazardous air pollutants. Clearly, the trend is to tighten, rather than loosen, emission restrictions. With regard to timeframes, it is important to remember that the EPA is required, pursuant to a court order, to publish the final rule by November 16, 2011, which is well before the Commission is statutorily required to issue a final order in this proceeding.

LG&E's environmental compliance plan does not include projects for compliance with the coal combustion residual rule.

(b) Please see the response to KPSC Question No. 50.

(c) As with all EPA proposed and final rules, LG&E will assess the final HAPs regulation and will advise the Commission of changes, if any, in compliance requirements or compliance strategy occasioned by changes from the proposed to the final rulemaking

(d) The proposed ozone NAAQS regulation was sent to the OMB on July 11, 2011, which is after LG&E filed its application in this proceeding. EPA's submission to OMB is not publically available.

(e) Please see the response to part (c).

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 2

Witness: John N. Voyles, Jr.

Q-2. Do the air quality regulations identified in the LG&E filing represent the only regulatory requirements affecting the emissions or operation of the LG&E generating units that are anticipated during the remaining useful (operating) life of the units? If not, please identify any anticipated regulatory requirements and the time frame in which it is projected that limits would be placed on emissions or operation.

A-2. Please see the response to AG Question No. 4.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 3

Witness: Lonnie E. Bellar

Q-3 Do the analyses of the cost-effectiveness of the Demand Side Management and Energy Efficiency measures that LG&E has proposed in Commission Case No. 2011-00134 incorporate the costs associated with this filing in determining whether investments in DSM or efficiency should be implemented? If not, will that filing be revised to reflect these additional costs of electric generation?

A-3. The model utilized in the DSM filing, Case No. 2011-00134, calculates energy savings using LG&E and KU system marginal cost. The other cost utilized in the DSM model is avoided capacity cost, which is used to calculate demand savings for a DSM program. Avoided capacity cost is based on delaying construction (capital investment) of future generating units. The system marginal cost and avoid capacity cost are not materially impacted by the construction of new equipment for existing generating units in order to comply with these environmental regulations. There is no need for LG&E to revise its filing in Case No. 2011-00134.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 4

Witness: John N. Voyles, Jr.

Q-4. Please provide, for each unit for which new control technologies are proposed, the remaining operational life of the facility.

A-4. Please see the response to KPSC Question No. 4.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 5

Witness: Charles R. Schram

Q-5. In evaluating whether to retire and replace capacity or to install controls for each LG&E unit, was the cost of control of carbon dioxide factored into the evaluation, and if so, identify how that cost was evaluated.

A-5. Please see the response to KPSC Question No. 2.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 6

Witness: Lonnie E. Bellar / John N. Voyles, Jr. / Charles R. Schram

Q-6. In the Staff Report on the 2008 Integrated Resource Plan for LG&E and KU, Commission Case No. 2008-00148, Staff noted on p. 14 that: "LG&E and KU demonstrated that they are actively considering the potential effects of pending climate change legislation even though there is a lot of uncertainty regarding exact legislative requirements. They should continue to actively model and incorporate the potential effects of climate change legislation into future IRP filings." That same Report noted on p. 12 that "[t]he eventual realization of some form of [stricter limits on the emission of C02 and other greenhouse gasses (sic)] could have major impacts on LG&E and KU and their customers."

(a) Please provide any assessment or analysis conducted or contracted by LG&E that discusses or quantifies the range of costs, and range of options to respond to additional controls that would be required by various climate change bills that have been proposed in Congress during the last two legislative sessions, including the House-passed bill from last Congressional Session.

(b) Please provide the results of any modeling or projection conducted by or for LG&E with respect to the potential costs of compliance with climate change legislation or EPA regulation.

(c) Please provide any comparative assessment undertaken of the costs of various demand-side, energy efficiency, or renewable energy sources relative to installation of controls on the LG&E units, with the cost of controls on emissions of CO2 incorporated into the controls.

(d) Please explain, to the extent that such an assessment has not been undertaken, how the costs proposed to be incurred for compliance with current and proposed rulemakings are prudent, in light of the acknowledgment by PSC Staff of the major effect that stricter limits could have on the existing generation capacity.

A-6. a. Please see the response to KPSC Question No. 2. Over the past several years, the Companies have been monitoring the various climate change bills proposed in legislation and evaluating the potential impact of such climate change legislation and

EPA regulations. Please see the various reports and communication material provided on the CD in the folder labeled Question 6.

b. Please see the response to part a.

c. No additional demand side management or energy efficiency analyses are available. In the 2011 IRP filing, the Companies evaluated various renewable energy options as part of the supply side screening process.

d. Potential CO_2 regulations could take many forms, but the EPA has indicated by the "Tailoring Rule" that it will impose a BACT approach. It is unclear if, or when, commercially viable and scalable technologies will become available which could impose additional costs on fossil fueled generation fleets.

The Companies agree with the KPSC 2008 IRP report that stricter limits on the emission of CO_2 could have major impacts on LG&E/KU and our customers; however, currently it is unclear as to what the impact would be on individual generating units on our system. The regulations that are the subject of this filing are known and provide very little flexibility, generally requiring retrofits for continued operation of individual units. Thus, the Companies must comply with the regulations discussed in the Application for the 2011 Environmental Compliance Plan. These regulations take effect as early as 2012 and the Company is obligated to comply while providing reliable electricity in a least-cost manner.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 7

Witness: Charles R. Schram / John N. Voyles, Jr.

Q-7. In testimony before a Kentucky legislative committee earlier this year, LG&E spokesman John Voyles indicated that the potential increase in capital costs of four billion dollars over the next ten years "does not deal with the water rules. It does not deal with renewable portfolio standards of any kind. And it certainly does not deal with any climate change rules that might still be legislated in the future.'"

(a) Please provide any assessment of the additional costs that might be incurred by LG&E to maintain compliance with the "water rules", "renewable portfolio standards" and "climate change rules" referred to in Mr. Voyles' testimony.

(b) Please explain whether LG&E believes that stricter limits on emissions of greenhouse gases (including CO2) are anticipated during the next 5, 10, or 15 years? If so, please explain why LG&E believes it is prudent to expand significant sums of additional capital for installation of new controls on coal-fired generation units rather than evaluating additional investment in demand-side and low-carbon alternative supply-side strategies, and why LG&E has considered *some* anticipated emissions limits (i.e. HAPs) and not others, such as CO2 restrictions.

A-7. a. Given the uncertainty of the regulatory requirements and timing of the regulations, no formal estimates have been prepared for the new water rules. With regard to potential climate change and renewable portfolio standards, both the details and timing are even more uncertain than the water regulations. Therefore, an estimate of additional costs has not been performed in the 2011 Compliance Plan. Please see the response to Question No. 6(a).

b. The timeline for implementing the emissions limits contemplated in the 2011 Compliance filing is considered well-established if not firm. However, the progress and timeline of the EPA's BACT approach contained in the "Tailoring Rule" to regulating CO_2 is uncertain. Please see the response to KPSC Question No. 18.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to MHC First Set of Requests Dated July 12, 2011

Case No. 2011-00162

Question No. 8

Witness: Lonnie E. Bellar / Robert M. Conroy

Q-8. Please describe the mechanism for allocation of the costs associated with the filing, and whether the cost recovery will be a fixed charge on all residential customers or will be a charge based on the amount of electricity and/or gas usage?

(a) If it is the latter, what does LG&E propose in order to address the disproportionate impact of the additional costs on fixed- and low-income customers and households?

(b) Has LG&E reviewed measures taken within the PPL system and among other utilities in the nation to adopt programs or measures that lower or moderate the costs of environmental controls to low-income consumers (such as rate reductions, fee waivers)?

A-8. The ECR mechanism has operated since its inception in 1995 pursuant to a percentage of revenue methodology. The ECR billing factor is determined based on the revenue requirement of approved environmental compliance costs divided by total jurisdictional revenue excluding ECR billings (See Exhibit RMC-3 of the Application). This ECR billing factor (expressed as a percentage) is applied to every customer's bill in the same manner.

(a) As explained above, all customers are treated in the same manner with respect to application of the ECR billing factor. Please see the response to AG Question No. 12.

(b) No. However, LG&E and KU along with PPL Electric Utilities Corporation ("PPL Electric") have begun discussions in compliance with Regulatory Commitment No. 41 in Appendix C of the Commission's Order dated September 30, 2010 in Case No. 2010-00204. The entities have discussed low-income program offerings and specifically how PPL Electric conducts promotion and outreach to inform their customer's of LIHEAP offerings.

The Pennsylvania Public Utility Commission ("PUC") through regulations, orders, and policy statements require electric distribution companies and natural gas distribution companies to provide various programs to customers. PPL Electric offers various programs for low-income customers in compliance with the applicable regulations. Each of the programs required by regulation are funded by PPL

Electric's residential customers through the Universal Service Rider, an automatic adjustment charge included on their monthly bills.

As of October 1, 2010, both LG&E and KU residential customers receiving a pledge or notice of low-income energy assistance from an authorized agency will not be assessed a late payment charge for a period of 12 months. In addition, the contribution commitments made in the Companies' most recent base rate cases (2009-00548 and 2009-00549) were extended by two years for the ACM/Metro Match, Wintercare and Home Energy Assistance ("HEA") program as part of the PPL change of control proceeding (Case No. 2010-00204).

The Companies will continue to review the programs offered to low-income customers and work in conjunction with low income advocate group's to discuss existing and potential program offerings.