BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

IN RE:	**APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES**	**)))**	**CASE NO. 2012-00221**
	APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES, A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY, APPROVAL OF OWNERSHIP OF GAS SERVICE LINES AND RISERS, AND A GAS LINE SURCHARGE	**))))))))**	**CASE NO. 2012-00222**

ERRATA

DIRECT TESTIMONY

AND EXHIBITS OF

MICHAEL J. MAJOROS, JR.

ON BEHALF OF THE

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

October 2012

Kentucky Utilities	$348,401,594	$365,054,959
Louisville Gas and Electric	$274,607,374	$286,215,127
Total	**$623,008,968**	**$651,270,086**

In other words the two companies' have collected almost $651 million of net salvage expense over and above the actual net salvage they have incurred. This includes all utility functions including LG&E gas.

Q. Where did you obtain these numbers?

A. I obtained them from page 280 of their parent Company's 2011 10-K filing to the SEC.

Q. How firm are these numbers?

A. In my opinion, they are rock solid. These are the Companies numbers. They reported these regulatory liabilities to their shareholders and the SEC. They are the Companies' numbers, and they were required to report in order to get a "clean" audit opinion. If the Companies did not believe the numbers and reporting were correct, they should not have reported them in their financial statements and they should have taken a "qualified" audit opinion.

Q. What is a regulatory liability?

A. A regulatory liability is an amount owed to ratepayers for excessive collections, not used for their intended purpose.

Q. Do you mean these Companies collectively owe almost $651 million to their ratepayers?

A. Yes, unless they spend the money on its intended purpose.

~~**Q. What is the likelihood they will spend the money on its intended purpose?**~~

~~A. In my opinion, it is not very likely because they do not have any legal obligation to spend the money on anything at all. If they want to, they can keep the money.~~

Q. What is the likelihood they will spend the money on its intended purpose?

A. In my opinion, it is not very likely. They do not have any legal obligation to spend the money on cost of removal. That is why the FERC calls these "non-legal" asset retirement obligations. The Companies do not have any legal obligation to dismantle and tear down their power plants once they are retired. Instead, it is much more likely that the retired power plants will simply be fenced off and left in place. .

XIII. <u>Replacement Costs</u>

Q. Is there a way to stem the buildup of this regulatory liability that is consistent with accrual accounting and the USoA?

A. Yes, a majority of the Companies' recorded cost of removal results from the Companies' allocation of replacement costs to "cost of removal." The USoA defines cost of removal as follows:

> 10. *Cost of removal* means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (18 CFR Ch.1, Subchapter C, Part 101, Definition 10.)

The FERC USoA also defines replacements as follows:

> 32. A. *Replacing* or *replacement*, when not otherwise indicated in the context, means the construction or installation of electric plant in place of property retired, together with the removal of the property retired.
> (*Id*., Definition 32.)