COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY UTILITIES COMPANY FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2015	**)))))**	**CASE NO. 2015-00221**

RESPONSE OF
KENTUCKY UTILITIES COMPANY

TO THE COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
DATED SEPTEMBER 10, 2015

FILED: SEPTEMBER 21, 2015

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Director – Accounting and Regulatory Reporting 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.

Christopher M. Garrett

Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 21st day of September 2015.

SHERI L. GARDNER
Notary Public, State at Large, KY
My Commission expires Dec. 24, 2017
Notary ID # 501600

Sheri L. Gardner (SEAL)

Notary Public

My Commission Expires:

SHERI L. GARDNER
Notary Public, State at Large, KY
My Commission expires Dec. 24, 2017
Notary ID # 501600

KENTUCKY UTILITIES COMPANY

Response to the Commission Staff's Second Request for Information
Dated September 10, 2015

Case No. 2015-00221

Question No. 1

Witness: Christopher M. Garrett

Q-1. In its response to Commission Staff's First Request for Information ("Staff's First Request"), Item 1, KU indicates that it will elect to take bonus tax depreciation for 2015, as the bonus tax depreciation will provide the greatest revenue requirement benefit to customers over the life of the assets. In addition, page 7 of KU's presentation at the August 27, 2015 informal conference indicted that electing bonus tax depreciation would provide customers the greatest net benefit. However the direct Testimony of Christopher M. Garrett in Case No 2015-00020,[1] pages 3 and 4, states that KU will opt out of bonus tax depreciation for 2015.

a. Explain fully KU's decision to now elect bonus tax depreciation for 2015, and the impact this decision will have on customers.

b. Has KU updated the Net Present Value Revenue Requirement provided in response to Commission Staff's Third Request for Information, Item 1, in Case No. 2015-00020? If so, provide the updated analysis; otherwise, explain why the previously submitted analysis is valid.

A-1. a. The initial bonus depreciation analysis performed by KU in its base rate case filing which was referenced in my direct testimony in Case No. 2015-00020 was focused solely on the question of the impact of bonus depreciation on the revenue requirement for the base period and forward-looking test period rather than over the entire life of the assets. That analysis indicated that KU should opt out of bonus depreciation in 2015 as the enhanced benefit of accelerated depreciation, which raises KU's deferred income taxes and lowers KU's capitalization, would be more than offset by the combination of an offsetting loss of its Internal Revenue Code §199 manufacturing tax deduction and an increase in deferred tax assets. However, as included in the rebuttal testimony of Kent W. Blake in Case No. 2014-00371, the decision to elect or "opt out" of bonus depreciation impacts the revenue requirement for customers over the life of the underlying asset additions and should not be based on a one year view. Such long-term investment decisions have historically been made by KU and the Commission based on the relative Net Present Value Revenue Requirement ("NPVRR") of the alternatives, with the lowest NPVRR being the best economic

[1] Case No. 2015-00020, *An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending April 30, 2014 and October 31, 2014* (Ky. PSC June 12, 2015).

answer for customers absent any operational, compliance or other considerations. Therefore, KU performed NPVRR calculation scenarios for the election and to "opt out" of the bonus depreciation deduction. The conclusion of the NPVRR analysis is that KU will elect to take the bonus depreciation deduction in 2015 as this provides the greatest revenue requirement benefit from accelerated depreciation over the life of these underlying assets with a NPVRR $32.3 million greater than it would be without this election ($46.5 million vs. $14.2 million). The NPVRR calculations are consistent with the calculations used in Case No. 2014-00371 but only include the impacts associated with ECR long-production-period projects eligible for bonus depreciation in 2015. Please see the attachment provided in Excel format for the underlying NPVRR calculations.

b. KU has not updated the NPVRR calculations for 2014. The information provided in the response to Commission Staff's Third Request for Information, Item 1, in Case No. 2015-00020 is still valid as this analysis appropriately reflects the expected benefits to be received by customers as a result of the election to take bonus tax depreciation in 2014. Furthermore, KU elected to take bonus depreciation and incurred a tax loss on the 2014 federal income tax return filed September 11, 2015.

Attachment in Excel

The attachment(s) provided in separate file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

Response to the Commission Staff's Second Request for Information
Dated September 10, 2015

Case No. 2015-00221

Question No. 2

Witness: Christopher M. Garrett

Q-2. Refer to the response to Staff's First Request, Item 6. For comparison purposes, provide the rate-of-return calculation if the Section 199 deduction is included in the tax gross-up revenue factor calculation.

A-2. Please see the attachment being provided in Excel format. The gross-up revenue factor used in the rate of return calculation for the period ended February 28, 2015 uses an effective tax rate of 35.6937%, which includes the Internal Revenue Code §199 manufacturing tax deduction.

Attachment in Excel

The attachment(s) provided in separate file(s) in Excel format.