

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)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2015-00411
BILLING PERIOD ENDING OCTOBER 31, 2015)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
APPENDIX B OF COMMISSION'S ORDER
DATED DECEMBER 21, 2015
AND
AMENDED ORDER DATED JANUARY 7, 2016

FILED: JANUARY 15, 2016

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Derek A. Rahn**, being duly sworn, deposes and says that he is Manager - Revenue Requirement 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.



Derek A. Rahn

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 15th day of January 2016.



(SEAL)
Notary Public

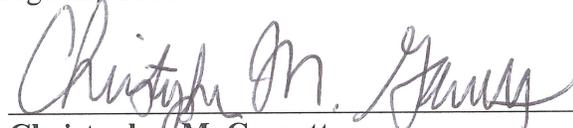
My Commission Expires:

Notary Public, State of Kansas, KY
My commission expires July 11, 2016
Notary ID # 512241

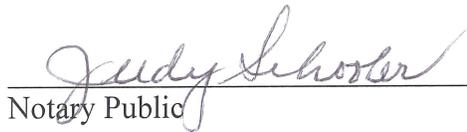
VERIFICATION

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

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 15th day of January 2016.

 (SEAL)
Notary Public

My Commission Expires:
JUDY SCHOOLER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

Question No. 1

Witness: Derek A. Rahn / Christopher M. Garrett

- Q-1. Concerning the rate of return on the 2009 and 2011 amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU jurisdictional capital structure as of October 31, 2015. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-1. See the attachment being provided in Excel format.

KU calculated the true-up adjustment to recognize changes in the cost of debt and capital structure in two steps, shown on Pages 1 and 2 of the attachment to this response. Page 1 reflects the true-up required due to the changes between the Rate Base as filed and the Rate Base as Revised through the Monthly Filings. However, during the period under review there were no revisions to reflect. Page 2 represents the true-up in the Rate of Return as filed compared to the actual Rate of Return calculations, which impacted the true-up adjustment for the period under review in this case. No further revisions to Rate Base were identified in preparation of this response.

Page 3 provides the adjusted weighted average cost of capital for the expense period ending June 30, 2015 to true-up the months in the review period utilizing the return on equity of 10.25% as agreed to for all ECR Plans and approved by the Commission in its December 20, 2012 Order in Case No. 2012-00221. Page 4 provides the adjusted weighted average cost of capital for the expense period ending August 31, 2015 to true-up the months in the review period utilizing the return on equity of 10.00% as agreed to for all ECR Plans and approved by the Commission in its June 30, 2015 Order in Case No. 2014-00371. KU calculated the short- and long-term debt rates using average daily balances and daily interest rates pursuant to the Commission's Order in Case No. 2011-00161.

KU recommends using an effective tax rate of 38.6660% in the gross-up revenue factor used in the rate of return calculation for the expense periods ended June 30, 2015 and August 31, 2015. KU will incur a tax loss in 2015 as a result of bonus depreciation and will be unable to take the Internal Revenue Code §199 manufacturing tax deduction.

Page 5 provides detail for short- and long-term debt for the expense period ending June 30, 2015. Page 6 provides detail for short- and long-term debt for the expense period ending August 31, 2015.

Attachment in Excel

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

KENTUCKY UTILITIES COMPANY

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Case No. 2015-00411

Question No. 2

Witness: Derek A. Rahn

- Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. Include the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing period under review. Include all supporting calculations and documentation for any such additional over- or under-recovery. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-2. See the attachment provided in Excel format. For the period under review, KU experienced a net under-recovery of \$1,309,732.

Attachment in Excel

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

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
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Case No. 2015-00411

Question No. 3

Witness: Christopher M. Garrett

- Q-3. Provide the calculations, assumptions, work papers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-3. Please see the attachment for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

KU calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation, bonus depreciation or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

Attachment in Excel

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file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

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Case No. 2015-00411

Question No. 4

Witness: Christopher M. Garrett

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the March 2015 through August 2015 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.
- A-4. Attached please find a schedule showing the changes in the operations and maintenance expense accounts for March 2015 through August 2015 expense months. The changes in the expense levels are reasonable and generally occurred as a part of routine plant operations and maintenance or normal testing expenses.

2009 Plan

Monthly variances in the NO_x operation expenses, account 506154 reflect normal SCR operations at E.W. Brown Unit 3 (BR3). The variances for account 506154 are driven by the purchase and delivery timing of the raw consumable material (ammonia), as well as variations in generation and coal quality. BR3 was offline for a maintenance outage in April 2015.

Fluctuations in the NO_x maintenance expenses, account 512151, are the result of routine monthly maintenance on the SCR at BR3. The increases in March, April and May 2015, are the result of maintenance required to correct the BR3 NO_x outlet and excessive vibration on the air compressor.

Landfill maintenance, account 512107, reflect landfill operations at Ghent. Increases in July and August 2015, are the result of corrective maintenance on pumps and a transformer.

2011 Plan

Fluctuations in sorbent injection operation expenses, account 506159, are the result of on-going operations of Ghent and E.W. Brown Units.

Fluctuations in sorbent injection reactant (hydrated lime) expenses, account 506152, are the result of on-going operations of all Ghent and E.W. Brown Units. The variances are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality.

Fluctuations in sorbent injection maintenance expenses, account 512152, are the result of normal system maintenance.

Fluctuations in activated carbon expenses, account 506151 are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality. Increases in April and July 2015, were the result of increases in compliance costs at Ghent Unit 4. Beginning in July 2015, two different types of activated carbon were purchased for system/unit testing and product evaluation.

Attachment in Excel

The attachment(s)
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KENTUCKY UTILITIES COMPANY

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Case No. 2015-00411

Question No. 5

Witness: Christopher M. Garrett

- Q-5. In Case No. 2000-00439,⁶ the Commission ordered KU cost of debt and preferred stock to be reviewed and reestablished during the 6-month review cases. Provide the following information as of August 31, 2015:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.
 - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
 - c. KU calculation of its weighted average cost of capital for environmental surcharge purposes.
 - d. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-5. a-d. Please see the attachments being provided in Excel format for the period ended August 31, 2015 under review. There was no preferred stock outstanding as of August 31, 2015; therefore, it is not listed in the attached schedules. KU is utilizing a return on equity of 10.00% as agreed to for all ECR Plans and approved by the Commission in its June 30, 2015 Order in Case No. 2014-00371.

KU recommends the continued use of an effective tax rate of 38.6660% in the gross-up revenue factor used in the rate of return calculation for the period ended August 31, 2015. As discussed in the response to Question No. 1, KU will incur a tax loss in 2015 as a result of bonus depreciation and will be unable to take the Internal Revenue Code §199 manufacturing tax deduction.

⁶Case No. 2000-00439, Kentucky Utilities Company (Ky. PSC Apr. 18, 2001).

Attachment in Excel

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KENTUCKY UTILITIES COMPANY

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Case No. 2015-00411

Question No. 6

Witness: Derek A. Rahn

- Q-6. Provide the actual average residential customer's usage. Based on this usage amount, provide the dollar impact the over/under recovery will have on the average residential customer's bill for the requested recovery period. Provide all supporting calculations and documentation in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-6. See the attachment being provided in Excel format.

The actual average residential customer's usage for the 12-months ending November 30, 2015 is 1,146 kWh per month. Actual average monthly usage for residential customers will vary from month to month depending upon the time period of the year.

Based upon distributing the under-recovered position of \$1,309,732 over two months (\$654,866 per month), the ECR billing factor will be higher by approximately 0.54% per month. For a residential customer using 1,146 kWh per month, the impact of the adjusted ECR billing factor would be an increase of approximately \$0.58 per month for two months, using rates and adjustment clause factors in effect for the November 2015 billing month.

Attachment in Excel

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