

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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2015-00412
BILLING PERIOD ENDING OCTOBER 31, 2015)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC 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

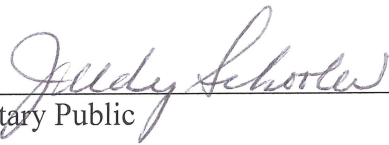
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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

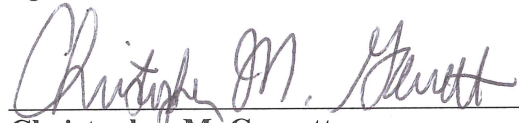
My Commission Expires:

JUDY SCHODLER
Notary Public, State of Kentucky, KY
My commission expires on 11/30/16
Notary ID # 97731

VERIFICATION

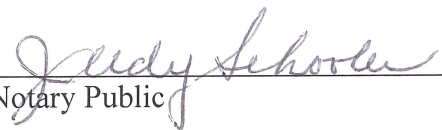
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2015-00412

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 LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's 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.

LG&E 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, 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. 2012-00222. 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. 2014-00372. LG&E 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. 2011-00162.

LG&E 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. LG&E 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Case No. 2015-00412

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 LG&E 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, LG&E experienced a net over-recovery of \$1,702,207.

Attachment in Excel

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

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
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Case No. 2015-00412

Question No. 3

Witness: Christopher M. Garrett

- Q-3. Provide the calculations, assumptions, work papers, and other supporting documents used to determine the amounts LG&E 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.

LG&E 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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provided in separate
file(s) in Excel format.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Case No. 2015-00412

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.

2011 Plan

The variances in scrubber operations expenses, account 502056, are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality. Effective July 2015, these expenses were included in base rates resulting in their removal from the ECR mechanism.

Fluctuations in scrubber maintenance expenses, account 512055, are the result of normal system maintenance of the new scrubbers at Mill Creek Units 1, 2 and 4 (MC1, MC2 and MC4). MC1 and MC2 were placed in service in July 2015.

Fluctuations in sorbent injection operations expenses, account 506159, are the result of on-going operation of Trimble County Unit 1 (TC1).

Fluctuations in sorbent injection reactant (hydrated lime) expenses, account 506152, are the result of on-going operation of TC1 and the new operation of the hydrated lime system at Mill Creek. 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 baghouse operations during July and August 2015, account 506156, are the result of accounting corrections.

Fluctuations in baghouse maintenance expense, account 512156, are the result of normal system maintenance on baghouses for MC1, MC2 and MC4.

Fluctuation in activated carbon expenses, account 506151, are the result of accounting corrections.

Attachment in Excel

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

LOUISVILLE GAS AND ELECTRIC COMPANY

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Case No. 2015-00412

Question No. 5

Witness: Christopher M. Garrett

- Q-5. In Case No. 2000-00386,⁶ the Commission ordered LG&E's 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. LG&E's 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.

LG&E 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. 2014-00372.

LG&E 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 Question No. 1, LG&E 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. 2000-00386, Louisville Gas and Electric Company (Ky. PSC Apr. 18, 2001).

Attachment in Excel

The attachment(s)
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LOUISVILLE GAS AND ELECTRIC COMPANY

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Case No. 2015-00412

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 976 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 over-recovered position of \$1,702,207 over three months (\$567,402 per month for two months and \$567,403 for one month), the ECR billing factor will be lower by approximately 0.67% per month. For a residential customer using 976 kWh per month, the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.62 per month for three 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.