COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE	**)**	
FUEL ADJUSTMENT CLAUSE OF LOUISVILLE GAS	**)**	**CASE NO.**
AND ELECTRIC COMPANY FROM MAY 1, 2015	**)**	**2016-00004**
THROUGH OCTOBER 31, 2015	**)**	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
INFORMATION REQUESTED IN
COMMISSION'S SECOND DATA REQUEST
DATED MARCH 1, 2016

FILED: MARCH 11, 2016

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Derek 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 Rahn

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of March 2016.

Susan M Watkins (SEAL)

Notary Public

My Commission Expires:

SUSAN M. WATKINS
Notary Public, State at Large, KY
My Commission Expires Mar. 19, 2017
Notary ID # 485723

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 Forecast 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 11th day of March 2016.

Susan M Watkins (SEAL)

Notary Public

My Commission Expires:

SUSAN M. WATKINS
Notary Public, State at Large, KY
My Commission Expires Mar. 19, 2017
Notary ID # 485723

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Mike Dotson,** being duly sworn, deposes and says that he is Manager – LG&E and KU Fuels 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.

Mike Dotson
Mike Dotson

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of March 2016.

Susan M. Watkins (SEAL)

Notary Public

My Commission Expires:

SUSAN M. WATKINS
Notary Public, State at Large, KY
My Commission Expires Mar. 19, 2017
Notary ID # 485723

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Information Requested in
Commission's Second Data Request Dated March 1, 2016

Case No. 2016-00004

Question No. 1

Witness: Mike Dotson / Derek Rahn

Q-1. State whether LG&E leases or owns any barges, railcars, or other assets related to the transportation of coal. If so, provide the following:

a) The date each purchase/lease was entered into;
b) The reason for entering into each purchase/lease, including the cost benefit;
c) The types of costs associated with the lease/ownership that are recovered through the fuel adjustment clause ("FAC");
d) By month, the amount of each cost identified in part c) above recovered through the FAC during the period under review; and
e) The advantages and disadvantages of the lease/ownership compared to not leasing/owning.

A-1. a) LG&E neither owns nor leases barges for the transportation of coal. LG&E does currently have two railcar lease agreements: 1) Trinity Industries Leasing Company, dated 8/13/07, as amended 11/18/12 and 8/15/15; and 2) JAIX Leasing Company, dated 2/25/08. LG&E owned 73 railcars which were originally purchased in 1990 and have been sold, effective February 29, 2016.

b) When replacement of railcars becomes necessary, LG&E goes through a rigorous RFP process to receive and evaluate bids for the services requested. LG&E then performs a net present value ("NPV") cash flow evaluation to determine whether the NPV of cost of ownership is lower if LG&E purchases or leases the railcars. In the above-referenced lease agreements, the NPV cash flow evaluation revealed that leasing was the least cost alternative. For the Trinity Industries Leasing Company rider (executed 8/15/15) the leasing NPV was ($3.198 million) vs. ownership ($3.445 million). For the JAIX Leasing Company negotiation in 2007, three options were evaluated for the replacement of railcars and the NPV of revenue requirements were:

- Option A – LG&E rebuilds ten steel railcars and extends the useful life by ten years, $2.622 million;

- Option B – Lease a new set of aluminum railcars and dispose of the steel railcars, $1.867 million; and
- Option C – Purchase a new set of aluminum railcars and dispose of the steel railcars, $3.358 million.

LG&E chose the least-cost alternative, Option B. The LG&E weighted average cost of capital is the discount rate applied to the NPV calculation.

c) Whether acquired by a capital expenditure or through an operating lease, the types of costs associated with coal transportation equipment that are recovered through the FAC include: depreciation expense (as applicable for owned railcars), lease expense (as applicable for leased railcars), ad valorem taxes, and operation and maintenance expenses, excluding labor costs associated with unloading coal.

Consistent with FERC accounting rules, lease payments are charged to Account 151 – Fuel Inventory, and included in the average cost of coal burned. Part 5 of the instructions for Account 151 state that "[l]ease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point" are included in the book cost of fuel on hand. Furthermore, KAR 5:056, part 6 (Fuel Adjustment Clause regulations) state "[t]he cost of fossil fuel shall include no items other than the invoice price of fuel less any cash or other discounts. The invoice price of fuel includes the cost of the fuel itself and necessary charges for transportation of the fuel from the point of acquisition to the unloading point, as listed in Account 151 of FERC Uniform System of Accounts for Public Utilities and Licensees."

Maintenance costs on the rail cars are included in FERC Account 151 – Fuel Inventory, and as such are included in the average cost of fuel burned and included in costs that flow through the FAC, consistent with FERC Account 151 instructions part 4: "Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point."

Labor costs incurred in unloading the rail cars are included in FERC Account 501, per the Uniform System of Accounts. These costs are excluded from total fuel costs in the FAC. The FERC Account 151 instructions, part 2, specify that charges of unloading fuel from the shipping medium are excluded from charges to Account 151.

d) The table below illustrates, by month (during the review period), the costs cleared from FERC Account 151 – Fuel Inventory and recovered through the FAC.

(Thousands of $)	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Depreciation	$12	$13	$5	$8	$4	$2
Lease Expense	$64	$76	$58	$71	$59	$57
Property Taxes	$0	$1	$1	$2	$2	($9)
O&M	$33	$30	$28	$44	$44	$46
Total	$109	$120	$92	$125	$109	$96

e) LG&E uses NPV of cash flow as the decision criteria for the lease vs. buy decision, whenever applicable, to acquire the necessary assets to operate the business at the lowest net present value cost. As markets evolve for the cost of capital as well as the supply and demand economics in the marketplace, sometimes capital expenditure is the lowest cost alternative, other times leasing provides the lowest overall cost option. The best product for the business at the lowest NPV cash flow are the primary decision criteria. Operationally, there are no advantages or disadvantages whether the railcars are leased or owned.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Information Requested in
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Case No. 2016-00004

Question No. 2

Witness: Charles R. Schram

Q-2. When calculating its highest-cost unit available to be dispatched for purposes of power purchase exclusion from the fuel adjustment clause, state the level of operation for the unit used in the calculation (i.e. minimum level, actual level of operation during the month, maximum level, some other level of operation) and provide the unit heat rate used in the calculation.

A-2. Shown monthly on Form B, Page 6, LG&E's highest-cost unit available for dispatch is Zorn 1. The relevant statistics are in the table below:

UNIT	LEVEL OF OPERATION	HEAT RATE
Zorn 1	Maximum level of operation	18,676

Zorn 1, LG&E's highest-cost unit, was available to be dispatched for each month during the review period. The calculation is based on the unit's heat rate (at full load on the unit) at the relevant fuel costs during the period under review. The heat rate is based on the results of semi-annual SERC testing on the unit.