

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY AND)
APPROVAL OF ITS 2016 COMPLIANCE PLAN) **CASE NO. 2016-00026**
FOR RECOVERY BY ENVIRONMENTAL)
SURCHARGE)

KENTUCKY UTILITIES COMPANY
RESPONSE TO THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
FIRST SET OF DATA REQUESTS

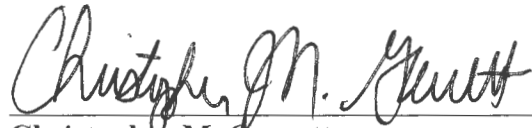
DATED MARCH 11, 2016

FILED: MARCH 24, 2016

VERIFICATION

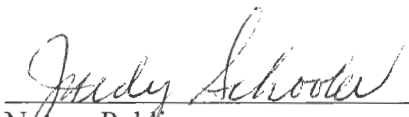
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Director – Rates 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 24th day of March 2016.




Notary Public (SEAL)

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

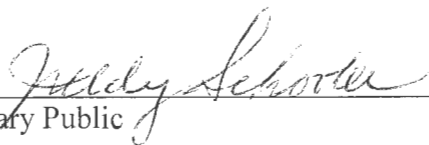
VERIFICATION

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 24th day of March 2016.

 (SEAL)
Notary Public _____


My Commission Expires:

JUDY SCHOULER
Notary Public, State at Large, KY
My commission expires July 11, 2018
Notary ID # 512743

VERIFICATION

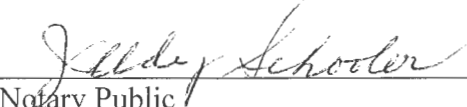
COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Gary H. Revlett**, being duly sworn, deposes and says that he is Director – Environmental Affairs 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.



Gary H. Revlett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 24th day of March 2016.

 (SEAL)

Notary Public

My Commission Expires:

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

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA)
) SS:
COUNTY OF CUMBERLAND)

The undersigned, **John J. Spanos**, being duly sworn, deposes and says that he is a Senior Vice President, of Gannett Fleming Valuation and Rate Consultants, LLC, 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.

John J. Spanos

John J. Spanos

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 16th day of March 2016.

Cheryl Ann Rutter (SEAL)

Notary Public

My Commission Expires:

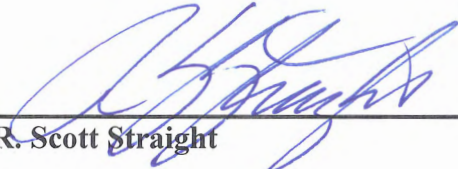
February 20, 2019

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2019
MEMBER, PENNSYLVANIA ASSOCIATION OF NOTARIES

VERIFICATION

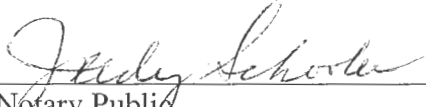
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **R. Scott Straight**, being duly sworn, deposes and says that he is the Director of Project Engineering for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, 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.



R. Scott Straight

Subscribed and sworn to before me, a Notary Public in and before said County and State,
this 24th day of March 2016.



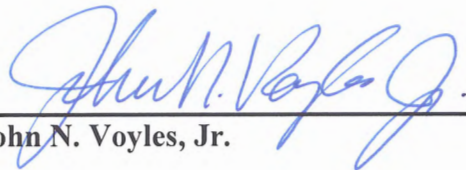
Notary Public (SEAL)

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

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **John N. Voyles, Jr.**, being duly sworn, deposes and says that he is the Vice President, Transmission and Generation Services for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of LG&E and KU Services Company, 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.



John N. Voyles, Jr.

Subscribed and sworn to before me, a Notary Public in and before said County and State,
this 24th day of March 2016.



Notary Public (SEAL)

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

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-1

Witness: John N. Voyles, Jr.

Q.1-1 Refer to pages 16-18 of Mr. Voyles' Direct Testimony wherein he addresses KU Project 39, the proposed surface impoundment projects for the retired Tyrone 3, Green River 3, and Pineville 3 plant sites. Mr. Voyles asserts that the projects are not required by CCR, but that they are "prudent" for various reasons and "that compliance with ELG could lead to the mandatory closure of these impoundments under state law." Please confirm that these projects are not presently required by state law. If that is not correct, then cite the specific requirement pursuant to state law that mandates these projects and on the timetable proposed by the Company.

A.1-1 See KU's response to PSC 1-22.

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-2

Witness: Gary H. Revlett

- Q.1-2 Please refer to the testimony of Mr. Revlett at pages 20-21 with respect to KU Project 39.
- a. Please confirm that under Kentucky state law there is no current legal requirement to construct the closure of impoundments at Green River, Pineville and Tyrone.
 - b. Mr. Revlett states that “it is possible that compliance with ELG could lead to the mandatory closure of these impoundments under state law.” Please confirm that as of today that possibility has not occurred and that there is no mandatory closure requirement under state law.
 - c. Mr. Revlett lists four reasons why he believes that it is prudent to proceed with closure at this time. Assuming that environmental surcharge recovery is not permissible because there is no current “environmental requirement” to construct the closure of impoundments, would KU nevertheless proceed with Project 39 and seek base rate recovery?
- A.1-2
- a. See KU’s response to PSC 1-22.
 - b. See KU’s response to PSC 1-22.
 - c. See KU’s response to PSC 1-22. Environmental surcharge recovery is permissible for the proposed surface-impoundment closures at Green River, Tyrone, and Pineville and is entirely consistent with the Commission’s repeated approvals of such cost recovery of CCR-disposal projects since the Companies’ 2009 ECR cases. If the Commission departs from its past orders by denying ECR cost recovery for Project 39, KU will assess the facts and circumstances at that time and will pursue the most prudent course of action after that assessment.

KENTUCKY UTILITIES COMPANY**Response to Kentucky Industrial Utility Customers, Inc.****First Set of Data Requests Dated March 11, 2016****Case No. 2016-00026****Question No. 1-3****Witness: Christopher M. Garrett**

Q.1-3 Please indicate if the Company has recorded asset retirement obligations (“ARO”) for any of the new projects proposed in this proceeding. If so, then please provide the actual accounting entries for each project and all of the supporting documentation relied on to determine the scope of the legal obligation and the calculation of the ARO amounts. If the Company has not recorded an ARO for any of the proposed projects, then please provide a detailed explanation of why it has not done so.

A.1-3 KU has recorded asset retirement obligations (“ARO”) for the following projects:

(millions)

ECR Project	Plant	Facility	Account 230-ARO balance as of 12/31/2015
KU 36	E.W. Brown	Landfill Phase II	\$7.6 ^a
KU 39	Green River	CCR - Main Ash Pond Capping	\$54.2
KU 39	Green River	CCR - ATB #2 Capping	
KU 39	Pineville	CCR - Ash Pond Capping	\$7.2
KU 39	Tyrone	CCR - Ash Pond Capping	\$12.1
KU 40	Ghent	CCR - ATB #1 Capping	\$190.3
KU 40	Ghent	CCR - ATB #2 Capping	
KU 40	Ghent	CCR - Secondary Pond Cleanout	
KU 40	Ghent	CCR - Reclaim Pond Cleanout	\$5.0 ^b
KU 41	Trimble County	CCR - Ash Pond Capping (net, KU 48%)	\$34.9
KU 41	Trimble County	CCR - Gypsum Pond Capping (net, KU 48%)	\$11.6
KU 42	E.W. Brown	CCR - Aux Pond Capping	\$21.8

^aKU is not seeking recovery of the landfill closure costs in the 2016 ECR filing.

^bARO balance also includes minor amounts for environmental ponds deemed not to be part of the CCR rule.

See attachment being provided in Excel format. The attachment contains supporting documentation of the ARO amounts included in the table on the preceding page.

See Exhibit CMG-1 of the direct testimony of Christopher M. Garrett for the sample journal entries which have been recorded for each project. ARO calculations and entries are an automated function in KU's Fixed Asset accounting system.

AROs have not been recorded for the process water system, Ghent 2 WFGD improvement or mercury-related control system projects as no legal asset retirement obligation has been identified for those projects.

Attachment in Excel

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

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-4

Witness: Derek A. Rahn

Q.1-4 Refer to page 5 of Mr. Rahn's Direct Testimony wherein he states:

ES Form 3.00 will be modified to change the name of column (4) from "Fuel Clause Revenues," to "Fuel Clause Revenues Including Off-System Sales Tracker." Similarly, ES Form 3.10 Item (2) "Fuel Adjustment Clause" is being renamed "Fuel Adjustment Clause including Off System Sales Tracker." These changes reflect the settlement agreement in KU's 2014 base-rate case (Case No. 2014-00371), which implemented the off-system sales adjustment clause factor as a credit to customers through the Fuel Adjustment Clause.

Please provide a detailed explanation of this change and a description of the step by step process employed to include the effects of the off-system sales tracker. In addition, please indicate if this will change the calculation of the ES rate, and if so, please describe how it will change.

A.1-4. ES Form 3.00 will be modified to change the name of column (4) from "Fuel Clause Revenues," to "Fuel Clause Revenues Including Off-System Sales Tracker." Similarly, ES Form 3.10 Item (2) "Fuel Adjustment Clause" is being renamed "Fuel Adjustment Clause including Off System Sales Tracker."

These changes reflect the settlement agreement in KU's 2014 base-rate case (Case No. 2014-00371), which implemented the off-system sales adjustment clause factor as a credit to customers through the Fuel Adjustment Clause. Since this implementation, the line "Fuel Clause Revenues" on the ECR ES Form 3.00 has included "Off-System Sales Tracker" revenues. The update in this filing further clarifies the settlement specifics of KU's 2014 base-rate case (Case No. 2014-00371). This clarification has no change to the calculation.

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-5

Witness: Derek A. Rahn / Christopher M. Garrett

Q.1-5 Refer to Exhibit DAR-5.

- a. Please provide this exhibit in electronic spreadsheet format with all formulas intact. In addition, please provide all supporting calculations and electronic spreadsheets with all formulas intact, including, but not limited to, the calculation of the accumulated deferred income tax (“ADIT”) amounts subtracted from rate base.
- b. Please provide the calculation of the 9.99% rate of return for each project reflected in this exhibit. Show the calculation of all gross-ups applied to each capitalization component for income taxes and other expenses. In addition, provide the calculation of the income tax rate(s) used for this purpose, including the effects of the Section 199 deduction.

A.1-5 a. See attachment being provided in Excel format.

- b. The spreadsheet referenced a rate of return of 9.99% when the reference should have been 10.15% for KU. This correction has been made in the attachment provided in response to part a. For the calculations of the rate of return and income tax rate(s) used for this purpose, see the attachment Exhibit DAR-5 project specific tab and references back to the tab “Input” in electronic spreadsheet format. KU has used an effective tax rate of 38.6660% in the gross-up revenue factor used in the rate of return calculation for this filing. KU does not anticipate being able to take the Section 199 deduction for the next few years as a result of tax losses attributable to bonus depreciation. However, to the extent KU is able to take the Section 199 deduction in a future year, KU will appropriately reflect the impact in either the six-month or two-year ECR review cases.

Attachment in Excel

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

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-6

Witness: Derek A. Rahn / R. Scott Straight / Christopher M. Garrett

Q.1-6 Refer to Project 39 on Exhibit DAR-5.

- a. Please provide a schedule showing projected monthly expenditures for each plant site and each impoundment closure project at each plant site and the expected completion date for each closure project.
- b. Please confirm that the Company's proposal will recover expenditures before they are incurred and before the projects are completed until late 2018.
- c. Please confirm that the Company will deduct the closure costs for income tax purposes in the year that the expenditures are made. If this is not correct, then describe the timing of the income tax deductions for these costs.
- d. Please confirm that the Company's proposal to collect costs before they are incurred results in taxable income and income tax expense, and thus, an increase in the revenue requirement.

A.1-6 a. The compliance plan contained in the filing is based on the Company's interpretation of the current and proposed regulations discussed in the Application and Testimony. KU continuously reviews obligations related to environmental compliance and evaluate the need for additional compliance measures when proposed regulations are known. KU cannot at this time with reasonable certainty develop details associated with projected monthly expenditures. KU, however, must comply with the environmental regulations identified in their Applications by the corresponding deadlines.

- b. KU's proposal requests the CCR impoundment closure costs at the retired generation sites be recovered over a four-year period effective with the expense month of July 2016. This proposal provides recovery of the costs of removal associated with the ash pond closures through depreciation expense which is similar to the treatment provided to other generation assets whereby future costs of removal are recovered through depreciation expense over the life of the underlying assets.

- c. Yes, KU will deduct the closure costs for income tax purposes in the year the expenditures are made.

- d. To the extent book depreciation exceeds the costs paid for closure activities, a deferred tax asset is recorded resulting in an increase in rate base, and thus, an increase in the revenue requirement. There is no increase in total tax expense associated with this temporary difference as the increase in current tax expense is offset by a decrease in deferred tax expense.

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-7

Witness: John J. Spanos

Q.1-7 Refer to page 6 of Mr. Spanos' Direct Testimony wherein he proposes an amortization period of 4 years for the impoundment closure costs at the retired plant sites. Please provide all documentation relied on for the proposed 4 year amortization period

A.1-7. The 4-year amortization period is consistent with the timing of the impoundment closure costs. These costs are to be incurred through 2019 for Green River, Pineville, and Tyrone. All other facilities have a recovery period consistent with the probable retirement date of the generating unit.

KENTUCKY UTILITIES COMPANY

Response to Kentucky Industrial Utility Customers, Inc.

First Set of Data Requests Dated March 11, 2016

Case No. 2016-00026

Question No. 1-8

Witness: John J. Spanos / Christopher M. Garrett

Q.1-8 Refer to Exhibit JJS-2 showing how the proposed depreciation rates were developed for the active and retired plants.

- a. Please describe the nature of the original cost investment shown for unit in each plant account. For example, the exhibit shows \$4.563 million for Trimble County Unit 2 in plant account 311 and \$4.611 million for Trimble County Unit 2 in plant account 312. What are the original costs reflected in each plant account and how do the projected impoundment closure costs relate to the costs for this unit reflected in each plant account?
- b. Please confirm that the depreciation accruals for the active plants reflect recovery of the remaining net plant before the proposed impoundment closure costs plus the recovery of the impoundment closure costs.
- c. Please confirm that the depreciation rates for the active plants are calculated by dividing the proposed depreciation accruals by the existing gross plant investment recorded in plant accounts 311 and 312.
- d. Please confirm that these depreciation rates will be applied to all plant additions to these accounts as well as the existing plant. If this is not correct, then please describe how the gross plant investment recorded in plant accounts 311 and 312 will be separated between plant additions and existing plant. In addition, please provide the depreciation rates that will be applied to plant accounts 311 and 312 for all plant additions to these accounts in the future.
- e. Please confirm that if the Company is not required to incur the impoundment closure costs or if they are less than projected that the depreciation rates will be overstated.
- f. Please indicate if the Company would oppose the deferral of actual impoundment closure costs and subsequent amortization of those costs in lieu of recovery through depreciation rates. If so, then please provide all reasons for opposing this approach.

- A.1-8 a. In each plant account of Exhibit JJS-2, the original cost represents the investment that has been placed into service prior to December 31, 2015 related to ash ponds for each unit listed. These assets have been placed in service and identified by unit consistent with the property records. The amounts shown are a subset of the rest of the plant in service by unit and plant account. The projected impoundment closure costs relate to the capping and closing of these facilities and are separate and distinct from the original construction costs.
- b. The original cost in Exhibit JJS-2 reflects only assets related to the impoundments at each location. The active plants or generating units have separate original cost and depreciation rates. The amount of plant and associated accumulated depreciation for the impoundments have been segregated from the active plants.
- c. Depreciation rates for both the impoundments in Exhibit JJS-2 and the active plants (generating units) are calculated using the remaining life method. Therefore, rates are determined based on gross plant minus the accumulated depreciation and the net salvage component. In other words, future accruals divided by the composite remaining life.
- d. The amounts set forth in Exhibit JJS-2 only represent original cost for the impoundments; therefore, these rates will only apply to the impoundments. There are no expected additions to these impoundments, so no change for any other asset classes. The plant in service for the generating units in Accounts 311 and 312 will maintain the existing approved rates until another depreciation study is conducted.
- e. The Commission reviews and approves new depreciation rates under Kentucky practice every four to five years to reflect changes in circumstances and current information. Any difference created by a change in circumstances between depreciation studies will be reflected in the next depreciation study for Commission review.
- f. KU is open to considering alternative forms of recovery of its costs through the environmental surcharge mechanism provided KU is allowed to earn a recovery of and a return on the impoundment closure costs. However, alternative forms of recovery may increase the accounting complexity should another jurisdiction take a different approach.