

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>THE APPLICATION OF LOUISVILLE GAS AND</b>	)	
<b>ELECTRIC COMPANY FOR CERTIFICATES</b>	)	
<b>OF PUBLIC CONVENIENCE AND NECESSITY</b>	)	
<b>AND APPROVAL OF ITS 2016 COMPLIANCE</b>	)	<b>CASE NO. 2016-00027</b>
<b>PLAN FOR RECOVERY BY ENVIRONMENTAL</b>	)	
<b>SURCHARGE</b>	)	

**LOUISVILLE GAS AND ELECTRIC COMPANY**  
  
**RESPONSE TO THE**  
**KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**  
**FIRST SET OF DATA REQUESTS**

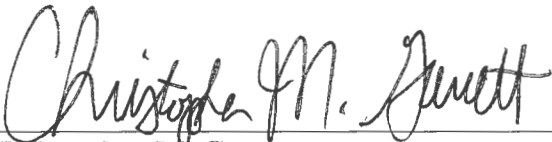
**DATED MARCH 11, 2016**

**FILED: MARCH 24, 2016**

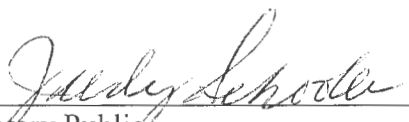
VERIFICATION

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.

 (SEAL)  
Notary Public

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

VERIFICATION

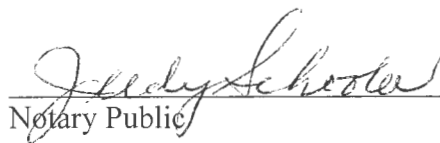
COMMONWEALTH OF KENTUCKY )  
  ) SS:  
COUNTY OF JEFFERSON                     )

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 24<sup>th</sup> day of March \_\_\_\_\_ 2016.

  
\_\_\_\_\_ (SEAL)  
Notary Public

My Commission Expires:

**JUDY SCHOOLER**

**Notary Public, State at Large, KY**

~~My commission expires July 11, 2016~~

Notary ID # 512743

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA )
)
COUNTY OF CUMBERLAND ) SS:

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.

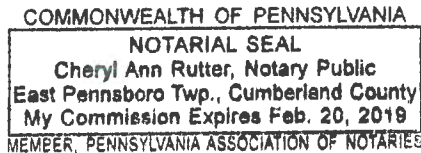
John J. Spanos
John J. Spanos

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



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Kentucky Industrial Utility Customers, Inc.**

**First Set of Data Requests Dated March 11, 2016**

**Case No. 2016-00027**

**Question No. 1-1**

**Witness: Christopher M. Garrett**

Q.1-1 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.1-1 LG&E has recorded asset retirement obligations (“ARO”) for the following projects:

(in Millions)

<b>ECR Project</b>	<b>Plant</b>	<b>Facility</b>	<b>Account 230-ARO balance as of 12/31/2015</b>
LGE 29	Mill Creek	CCR - Ash Pond Capping	\$41.2
LGE 29	Mill Creek	CCR - Clearwell Pond Cleanout	\$25.2 <sup>a</sup>
LGE 29	Mill Creek	CCR - Construction Pond Cleanout	
LGE 29	Mill Creek	CCR - Dead Storage Pond Cleanout	
LGE 29	Mill Creek	CCR - Emergency Pond Cleanout	
LGE 30	Trimble County	CCR - Ash Pond Capping (net, LG&E 52%)	\$37.8
LGE 30	Trimble County	CCR - Gypsum Pond Capping (net, LG&E 52%)	\$12.6

<sup>a</sup>ARO balance also includes minor amounts for environmental ponds deemed not to be part of the CCR rule.

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

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 LG&E’s Fixed Asset accounting system.

AROs have not been recorded for the new process water 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.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Kentucky Industrial Utility Customers, Inc.**

**First Set of Data Requests Dated March 11, 2016**

**Case No. 2016-00027**

**Question No. 1-2**

**Witness: Derek A. Rahn**

Q.1-2 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 LG&E's 2014 base-rate case (Case No. 2014-00372), 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.1-2 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 LG&E's 2014 base-rate case (Case No. 2014-00372), 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 LG&E's 2014 base-rate case (Case No. 2014-00372). This clarification has no change to the calculation.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Kentucky Industrial Utility Customers, Inc.**

**First Set of Data Requests Dated March 11, 2016**

**Case No. 2016-00027**

**Question No. 1-3**

**Witness: Derek A. Rahn / Christopher M. Garrett**

Q.1-3 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.1-3 a. See the response to PSC 1-18.

- b. 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. LG&E 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. LG&E 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 LG&E is able to take the Section 199 deduction in a future year, LG&E will appropriately reflect the impact in either the six-month or two-year ECR review cases.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Kentucky Industrial Utility Customers, Inc.**

**First Set of Data Requests Dated March 11, 2016**

**Case No. 2016-00027**

**Question No. 1-4**

**Witness: Derek A. Rahn**

Q.1-4 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.1-4 a-d. See KU's response to KIUC 1-6 for information regarding KU Project 39.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Kentucky Industrial Utility Customers, Inc.**

**First Set of Data Requests Dated March 11, 2016**

**Case No. 2016-00027**

**Question No. 1-5**

**Witness: John J. Spanos**

- Q.1-5 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, including, but not limited to, all studies, analyses, and correspondence with LG&E.
- A.1-5 There are no LG&E impoundments proposed to have a 4-year amortization period for the impoundment closure costs. All LG&E impoundment closure costs are to be recovered over the remaining life of the specific generating unit.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Kentucky Industrial Utility Customers, Inc.**

**First Set of Data Requests Dated March 11, 2016**

**Case No. 2016-00027**

**Question No. 1-6**

**Witness: John J. Spanos / Christopher M. Garrett**

- Q.1-6 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.1-6 a. The example shown relates only to KU. 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 impoundments 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. LG&E is open to considering alternative forms of recovery of its costs through the environmental surcharge mechanism provided LG&E is allowed to earn a recovery of and a return on the impoundment closure costs.