

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) 2016-00214
BILLING PERIOD ENDING APRIL 30, 2016)**

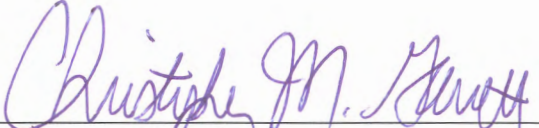
**RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
APPENDIX B OF COMMISSION'S ORDER
DATED JULY 14, 2016**

FILED: JULY 28, 2016

VERIFICATION

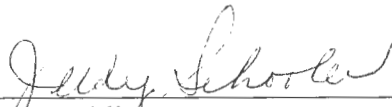
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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 18th day of July 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, **Heather D. Metts**, being duly sworn, deposes and says that she is Director – Regulatory Accounting & Reporting for LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Heather D. Metts
Heather D. Metts

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 22nd day of July 2016.

Judy Schooler (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 July 14, 2016**

Case No. 2016-00214

Question No. 1

Witness: 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's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure as of February 29, 2016. 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 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 February 29, 2016 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 March 16, 2016 Order in Case No. 2015-00411. 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 period ended February 29, 2016. KU expects to have a significant taxable loss for 2015 due primarily to 50% bonus tax depreciation on environmental projects and Cane Run 7 going into service. KU projects to carry forward the 2015 loss to 2016 to offset all 2016 taxable income. Due to the projected

taxable loss in 2015 and taxable income for 2016 being reduced to zero by the net operating loss carry-forward, KU will be unable to take the Internal Revenue Code §199 manufacturing tax deduction for 2015 or 2016.

Page 4 provides detail for short- and long-term debt for the expense period ending February 29, 2016.

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
To Appendix B of Commission's Order Dated July 14, 2016**

Case No. 2016-00214

Question No. 2

Witness: Christopher M. Garrett

- 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 expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for 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 over-recovery of \$561,550.

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
To Appendix B of Commission's Order Dated July 14, 2016**

Case No. 2016-00214

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. 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.

See the attachment provided in Excel format for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

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
To Appendix B of Commission's Order Dated July 14, 2016**

Case No. 2016-00214

Question No. 4

Witness: Heather D. Metts

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the September 2015 through February 2016 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. See the attachment provided in Excel format for changes in the operations and maintenance expense accounts for September 2015 through February 2016 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 Selective Catalytic Reduction (SCR) operations at E.W. Brown Unit 3 (BR3). The variances for account 506154 were driven by the purchase and delivery timing of the raw consumable material (ammonia), as well as variations in generation and coal quality. The credits to this account in October and November represent pricing adjustments. BR3 was offline 7 weeks during this period for a maintenance outage.

Fluctuations in the NO_x maintenance expenses, account 512151, were the result of routine monthly maintenance on the SCR at BR3. The increases in October and November 2015, are the result of 5 year recertification of the ammonia safety valves, yearly ash screen inspections and catalyst sampling for testing. Sootblower air compressors were inspected in January 2016.

Landfill maintenance, account 512107, reflects new landfill maintenance at Ghent. The increase in February was for maintenance to replace the hydrocyclone line, repair intake valves, dewatering pump rental, blower motor bearing replacement and various other corrective maintenance.

2011 Plan

Fluctuations in sorbent injection operation expenses, account 506159, were 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. BR3 was offline in October and November 2015.

Fluctuations in sorbent injection maintenance expenses, account 512152, were the result of normal system maintenance. The increase in February 2016 is the result of the timing of dust filter replacements.

Fluctuations in baghouse maintenance expenses, account 512156, are the result of normal system maintenance on BR3. The system was placed in service in December 2015 and did not require maintenance until February 2016.

Fluctuations in activated carbon expenses, account 506151 were the result of on-gong operation of the Ghent 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. From September through December 2015, the product was used on units Ghent 1 and Ghent 4. Product usage commenced on Ghent 2 in 2016, after the baghouse was placed in-service. Calibration and testing to achieve optimum usage levels continued beyond the review period.

Attachment in Excel

The attachment(s)
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KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated July 14, 2016**

Case No. 2016-00214

Question No. 5

Witness: Christopher M. Garrett

- Q-5. In Case No. 2000-00439,⁶ the Commission ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the 6-month review case. Provide the following information as of February 29, 2016:
- 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'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. See the attachment provided in Excel format for the period ended February 29, 2016 under review. There was no preferred stock outstanding as of February 29, 2016; therefore, it is not listed in the attached schedules.

For the period ended February 29, 2016, KU proposes utilizing a return on equity of 10.00% as agreed to for all ECR Plans and approved by the Commission in its March 16, 2016 Order in Case No. 2015-00411.

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 February

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

29, 2016. As discussed in the response to Question No. 1, KU expects to offset all taxable income in 2016 by a net operating loss carry-forward and will be unable to take the Internal Revenue Code §199 manufacturing tax deduction.

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
To Appendix B of Commission's Order Dated July 14, 2016**

Case No. 2016-00214

Question No. 6

Witness: Christopher M. Garrett

- 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 provided in Excel format.

The actual average residential customer's usage for the 12-months ending April 30, 2016 is 1,119 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 \$561,550 in one month, the ECR billing factor will be lower by approximately 0.48% for one month. For a residential customer using 1,119 kWh per month, the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.51 per month for one month, using rates and adjustment clause factors in effect for the June 2016 billing month.

Attachment in Excel

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