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	**)**	**2016-00215**
BILLING PERIOD ENDING APRIL 30, 2016	**)**	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC 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

Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28th 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

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

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2016-00215

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

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 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. 2015-00412. 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 period ended February 29, 2016. LG&E expects to have a taxable loss in both 2015 and 2016. The losses are primarily due to 50% bonus tax depreciation on environmental projects and Cane Run 7 going into service. Due to the projected taxable losses, LG&E will be unable to take the Internal Revenue Code §199 manufacturing tax deduction in 2015 and 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Request for Information
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Case No. 2016-00215

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 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 under-recovery of $4,702,532.

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 July 14, 2016

Case No. 2016-00215

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. 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.

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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2016-00215

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.

<u>2011 Plan</u>

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

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 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. TC1 was offline for a maintenance outage for most of October and all of November.

Fluctuations in baghouse operations during November and December 2015, account 506156, are the result of accounting misclassification.

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, is the result of initially filling the tank at Mill Creek in February 2016. In order to meet compliance standards, use of activated carbon was effective February 2016.

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 July 14, 2016

Case No. 2016-00215

Question No. 5

Witness: Christopher M. Garrett

Q-5. In Case No. 2000-00386,[6] the Commission ordered that LG&E'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. 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. 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, LG&E 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. 2015-00412.

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 February

[6] Case No. 2000-00386, Louisville Gas and Electric Company (Ky. PSC Apr. 18, 2001).

29, 2016. As discussed in the response to Question No. 1, LG&E will incur a tax loss in 2016 as a result of bonus depreciation 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Request for Information
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Case No. 2016-00215

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 943 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 collecting the under-recovered position of $4,702,532 over six months ($783,755 per month for four months and $783,756 per month for two months), the ECR billing factor will be higher by approximately 0.95% per month for six months. For a residential customer using 943 kWh per month, the impact of the adjusted ECR billing factor would be an increase of approximately $0.88 per month for six months, 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.