

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ADJUSTMENT OF ITS)	CASE NO.
ELECTRIC RATES AND FOR CERTIFICATES)	2016-00370
OF PUBLIC CONVENIENCE AND NECESSITY)	

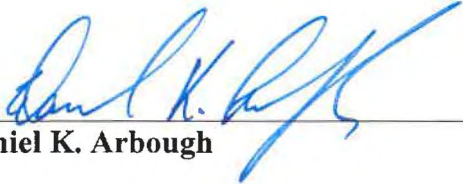
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
KROGER COMPANY'S INITIAL REQUEST FOR
INFORMATION
DATED JANUARY 11, 2017

FILED: JANUARY 25, 2017

VERIFICATION


COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Daniel K. Arbough**, being duly sworn, deposes and says that he is Treasurer for Louisville Gas and Electric Company and Kentucky Utilities Company and an employee of 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.



Daniel K. Arbough

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25th day of January 2017.



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, **Kent W. Blake**, being duly sworn, deposes and says that he is Chief Financial Officer for Kentucky Utilities Company and Louisville Gas and Electric Company and an employee of 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.

Kent W Blake
Kent W. Blake

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 25th day of January 2017.

Jammyf. Elyss (SEAL)
Notary Public

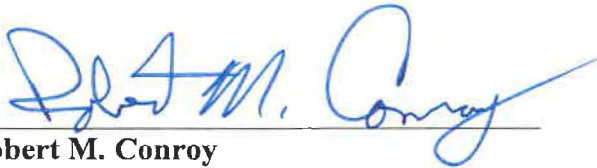
My Commission Expires:

November 9, 2018

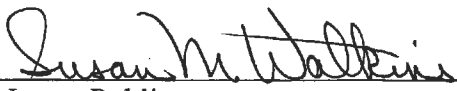
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Vice President – State Regulation and Rates for Louisville Gas and Electric Company and Kentucky Utilities Company, an employee of 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.


Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 23rd day of January 2017.

 (SEAL)
Notary Public

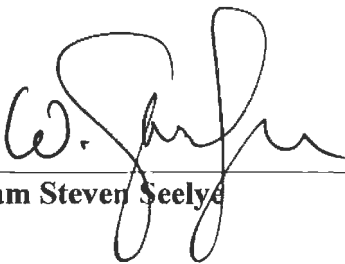
My Commission Expires:

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

VERIFICATION

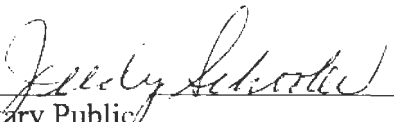
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **William Steven Seelye**, being duly sworn, deposes and states that he is a Principal of The Prime Group, 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.



William Steven Seelye

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 30th day of January 2017.

 (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

CASE NO. 2016-00370

**Response to Kroger Company Initial Data Requests for Information
Dated January 11, 2017**

Question No. 1

Responding Witness: Robert M. Conroy / Counsel

- Q-1. Please provide an electronic version of KU's filing and workpapers in this case. This should include the documents listed in parts (a) through (e) below. In supplying these materials please remove any passwords or other restrictions that may otherwise be required to open or modify the files:
- (a) KU's Application, Testimony, Exhibits and Schedules in their native electronic formats, *i.e.*, Word, Excel, etc., with working formulas and references included where applicable.
 - (b) All workpapers utilized in the preparation of KU's filing in this case, preferably in Excel format with all working formulas and links included to the extent practicable.
 - (c) A working copy of KU's Base Year and Forecast Test Year Revenue Requirement model(s) and supporting workpapers in Excel format with working formulas included. If there is any supporting documentation on the use/operation of these models, please include the documentation with this response.
 - (d) A working copy of KU's Class Cost of Service model and all supporting workpapers in Excel format with working formulas included.
 - (e) A working copy of KU's Rate Design model and all supporting workpapers in Excel format with working formulas included.
- A-1. See the Company's objection filed on January 20, 2017. Without waiving the objection, regarding the requested Excel files, see the responses to PSC 1-53, PSC 1-54 and PSC 1-66.

KENTUCKY UTILITIES COMPANY

CASE NO. 2016-00370

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Question No. 2

Responding Witness: Robert M. Conroy

- Q-2. To the extent KU files corrections, revisions, amendments, supplemental information and/or errata to its originally filed case, please provide all updated materials including KU's testimony, exhibits, schedules, workpapers and models, preferably in Excel format, with working formulas included where applicable.
- A-2. Under 807 KAR 5:001 Section 8, the Company requested, and the Commission approved, the use of electronic filing procedures in this proceeding. Kroger consented to the use of those procedures. Therefore, whenever the Company files any of the above-listed information, Kroger will receive electronic notice from the Commission, and Kroger will be responsible for accessing the Commission's Web site at <http://psc.ky.gov> to view or download the submission.

KENTUCKY UTILITIES COMPANY

CASE NO. 2016-00370

Response to Kroger Company Initial Data Requests for Information

Dated January 11, 2017

Question No. 3

Responding Witness: Daniel K. Arbough

- Q-3. Regarding non-fuel, non-labor O&M expense inflation/escalation:
- (a) Please indicate whether any inflation, price escalation, or unit cost escalation has been included in the calculation of non-labor, non-fuel O&M expenses for the estimated portion of the base period (September 1, 2016 to February 28, 2017) or the Forecasted Test Period.
 - (b) If inflation or cost escalation has been included in the calculation of nonlabor, non-fuel O&M expenses, please provide KU's best estimate of the dollar amount of inflation included in the Forecasted Test Period applicable to non-labor, non-fuel O&M expenses.
 - (c) If inflation or cost escalation has been included in the calculation of nonlabor, non-fuel O&M expenses, please explain how the inflation or cost escalation factors were derived, and provide the inflation or cost escalation factors applicable to each affected FERC account for both the estimated portion of the Base Period (September 1, 2016 to February 28, 2017) and the Forecasted Test Period, if applicable.
 - (d) If inflation or cost escalation has been included in the calculation of nonlabor, non-fuel O&M expenses, please provide detailed workpapers in Excel format with intact formulas which apply the inflation or cost escalation factors to the actual historical data. For each affected FERC account, please provide the actual historical non-labor, non-fuel O&M expense amount to which the inflation/escalation is applied, the amount of the inflation/escalation, and the projected O&M expense amount after inflation/escalation.
 - (e) If not otherwise provided in KU's response to part (d), please provide workpapers in Excel format which link the inflation/escalation amounts to the Filing Requirements schedules and/or revenue requirement model, or otherwise demonstrate how these inflation/escalation amounts are integrated into the Base Period and Forecasted Test Period revenue requirements.

A-3.

- (a) When the Company prepares its business plan it does not apply a generic inflation adjustment or unit cost escalation factor. Instead, the budget is prepared from the bottom up as described below:
1. Known contracts are factored into the BP. For example, contracts are already in place for certain segments of the business, and the escalation rates that can be derived from those contracts are included.
 2. Specific scopes of work are factored into the BP. For example, there is a power plant planned outage schedule for each year in the BP. This is based on the historical and estimated run-times and operating hours of each unit, and the work to be done is a function of where each unit is in its outage cycle, as well as other scopes of work that have been identified to address known or trending issues on that particular generating unit. The specific scopes of work for each of those segments of the outage plan are estimated by the outage planners, using the most current cost estimates for each particular scope of work, not an inflation escalation. For the Electric Distribution areas, the work order backlog at the time that the BP is prepared also factors into their costs. Depending on the extent of the backlog, contractor costs can be increased or decreased in a particular BP. Another example for Electric Distribution is the emerald ash borer and its impact on the trees in the service territories of each company. The scope of work for Electric Distribution has changed to now include additional costs for clearing dead or dying trees as a result of that insect.
 3. Variable costs are factored in based on levels of production. For example, the Generation forecast includes generation by unit by month. Each unit has a variable cost of production to cover costs such as limestone and ammonia usage.
 4. Storm outage restoration costs are based on a 10-year average of historical costs, which is then brought into “current dollars” based on a Consumer Price Index projection.
 5. Bad debt expense is based on a five-year average write-off percentage which is then applied to updated projected revenues. The five-year average look back is used as opposed to the ten-year average look back for storms in order to capture more recent economic conditions.
 6. For the remainder of the items, each area determines reasonable cost estimates based on levels of activity in the period and market conditions.

- (b) See the response to part (a) above.
- (c) See the response to part (a) above.
- (d) See the response to part (a) above.
- (e) See the response to part (a) above.

KENTUCKY UTILITIES COMPANY

CASE NO. 2016-00370

**Response to Kroger Company Initial Data Requests for Information
Dated January 11, 2017**

Question No. 4

Responding Witness: Kent W. Blake

- Q-4. Please refer to the Direct Testimony of Kent W. Blake, page 13, lines 12-23. Please confirm that the amounts presented in the Per Rate Case Settlement column of Mr. Blake's table differ from the amounts proposed by KU and Louisville Gas and Electric Company ("LG&E") in their direct filings in Case Nos. 2014-00371 and 2014-00372, respectively. If confirmed, please explain how Mr. Blake's table demonstrates that actual results were consistent with KU's and LG&E's planning process forecast used in Case Nos. 2014-00371 and 2014-00372, respectively.
- A-4. Yes, the amounts presented in the Per Rate Case Settlement column of Mr. Blake's table differ from the amounts proposed by KU and LG&E in their direct filings in Case Nos. 2014-00371 and 2014-00372, respectively. However, the differences principally relate to adjustments negotiated during the case and in the settlement agreement, as well as some minor corrections to the Company's filed schedules. These differences have no bearing on the reasonableness of the Company's forecast submitted in the last rate case. These adjustments included the settled revenue increase; the fifteen year amortization of actuarial gains and losses agreed to in the settlement agreement using the most recently available actuarial study; the establishment of a regulatory asset and associated amortization of said asset associated with operating costs at KU's Green River plant through the retirement date of that plant; the establishment of an off-system sales tracker; legislation passed after completion of the Company's forecast which extended bonus depreciation; and the Company's agreement not to seek DSM cost recovery of an industrial-DSM-EE potential study.

The comparison of the combined actual results to the projected Per Rate Case Settlement amounts include a variance column for the items shown which includes a rate of return variance of only (.02)%, thus supporting the statement that actual results were consistent with the forecast derived from the Companies' planning process.

KENTUCKY UTILITIES COMPANY

CASE NO. 2016-00370

**Response to Kroger Company Initial Data Requests for Information
Dated January 11, 2017**

Question No. 5

Responding Witness: Kent W. Blake

Q-5. Please refer to the Direct Testimony of Mr. Blake, page 13, lines 12-23. Please provide a table similar to Mr. Blake's table that provides the following information for the year ended June 30, 2016:

- (a) KU's actual Kentucky-allocated net operating income,
- (b) KU's actual Kentucky-allocated capitalization,
- (c) KU's actual Kentucky rate of return on capitalization,
- (d) KU's proposed Kentucky-allocated net operating income per its direct filing in Case No. 2014-00371,
- (e) KU's proposed Kentucky-allocated capitalization per its direct filing in Case No. 2014-00371,
- (f) KU's proposed Kentucky rate of return on capitalization per its direct filing in Case No. 2014-00371,
- (g) KU's Kentucky-allocated net operating income per the last rate case settlement,
- (h) KU's Kentucky-allocated capitalization per the last rate case settlement, and
- (i) KU's Kentucky rate of return on capitalization per the last rate case settlement.

A-5.

	As Filed	Per Rate Case Settlement	Actual Jurisdictional Results
KU:			
Net Operating Income	\$263,439,015	\$249,204,425	\$238,728,749
Capitalization	\$3,568,968,428	\$3,554,864,267	\$3,547,180,718
Rate of Return	7.38%	7.01%	6.73%
LG&E Electric:			
Net Operating Income	\$157,893,914	\$142,035,155	\$150,891,965
Capitalization	\$2,146,046,494	\$2,083,159,326	\$2,138,786,976
Rate of Return	7.36%	6.82%	7.06%
LG&E Gas:			
Net Operating Income	\$38,547,494	\$35,390,497	\$36,876,617
Capitalization	\$523,925,924	\$507,845,397	\$480,970,217
Rate of Return	7.36%	6.97%	7.67%
Total:			
Net Operating Income	\$459,880,423	\$426,630,077	\$426,497,330
Capitalization	\$6,238,940,846	\$6,145,868,990	\$6,166,937,911
Rate of Return	7.37%	6.94%	6.92%

KENTUCKY UTILITIES COMPANY

CASE NO. 2016-00370

**Response to Kroger Company Initial Data Requests for Information
Dated January 11, 2017**

Question No. 6

Responding Witness: William S. Seelye

Q-6. Please refer to the Direct Testimony of John P. Malloy, p. 15-30, regarding KU's deployment of AMS.

- (a) What method is utilized by KU to allocate the cost of AMS/AMI to Kentucky customer classes?
- (b) Please provide a workpaper, or cite to the precise location in KU's filing, that presents the allocation of AMS/AMI costs to Kentucky classes.

A-6.

- (a) AMS costs are classified as customer-related costs in the cost of service studies. See the response to KIUC 1-85.
- (b) See the functional assignment and allocation of distribution meter costs and customer information expenses in Exhibits WSS-16, WSS-17, WSS-18, and WSS-19 filed with Mr. Seelye's testimony. For the electronic versions of the exhibits, see the attachments to PSC 1-53.