

Verification

The undersigned, Jeffry Pollock, being duly sworn, certifies that the Responses to Requests for Information contained herein are true and accurate to the best of his knowledge, information, and belief and were formed after a reasonable inquiry.


Jeffry Pollock

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

SUBSCRIBED AND SWORN to before me by Jeffry Pollock in the aforesaid state and county on the 30th day of March, 2017.

My commission expires April 25, 2019.

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| KITTY TURNER Notary Public - Notary Seal State of Missouri Commissioned for Lincoln County My Commission Expires: April 25, 2019 Commission Number: 15390610 |
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Notary Public – Kitty Turner

Electronic Application of Kentucky Utilities Company for an Adjustment of its Electric Rates
and for Certificates of Public Convenience and Necessity

Case No. 2016-00370

Kentucky League of Cities Responses to Requests for Information from KU

QUESTION NO. 1

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Is Mr. Pollock a Certified Depreciation Professional?

RESPONSE:

Please refer to Appendix A of Mr. Pollock's testimony.

RESPONDING WITNESSES:

Jeffry Pollock

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QUESTION NO. 2

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Please provide a list of each course, training or seminar Mr. Pollock has attended related specifically to utility depreciation.

RESPONSE:

Mr. Pollock has over 40 years of experience in regulatory matters. In those 40 years, he has taken classes, attended seminars and participated in many regulatory proceedings that address regulatory issues, including (but not specifically limited to) depreciation in his more than 40 years of experience. With respect to depreciation, Mr. Pollock supported similar proposals to amortize surplus depreciation in several rate cases in Florida and Minnesota. The Florida and Minnesota Commissions ultimately adopted modified proposals that reduce surplus depreciation. Mr. Pollock also supported the use of surplus depreciation in discussions with Alabama Power Company and the Alabama Public Service Commission to mitigate future rate increases and by Georgia Power Company to avert filing a rate case. The Alabama and Georgia Commissions adopted the concept advanced by Mr. Pollock. The Alabama, Florida, Georgia and Minnesota Commissions all follow generally accepted accounting principles.

RESPONDING WITNESSES:

Jeffry Pollock

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QUESTION NO. 3

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Each of the following is in reference to the life span method used in the depreciation study for KU's production plant accounts.

- a. What is Mr. Pollock's understanding of the life span method used for KU's steam (and other) production plants? Please include in the response Mr. Pollock's definition of the life span method as well as how average lives and depreciation expense is calculated when using the life span method.
- b. Does Mr. Pollock agree that, all else equal, interim additions to a life span location (e.g., a production unit) will have a shorter average service life than the original installation if the estimated retirement date is unchanged? For example, if a plant was installed in 1980 and an estimated retirement date of 2030, will assets added in 2010 have a shorter service life than those installed in 1980? If Mr. Pollock disagrees with this statement, please provide all support and justification for the response.

RESPONSE:

- a. The life span method is the technique used to estimate the lives for large units such as production units that have an estimated final retirement date. Most of the investment in the unit will retire concurrently with the unit's final retirement. KU's depreciation study has also included interim retirements that will occur before the final retirement date in their life estimates. For each unit / FERC account the investments are studied by year placed in service (vintage). For each vintage a remaining life is calculated based on the estimated final retirement date and interim retirements based on a selected survivor curve. The results for the vintages are weighted to determine the average for the unit / account.
- b. Yes, barring a life extension interim additions would have a shorter average service life than the original installation that is still in-service and expected to be in-service until the plant retirement date.

RESPONDING WITNESSES:

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QUESTION NO. 4

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Reference p. 2, line 18 through p. 3, line 16 of Mr. Pollock's testimony. Does Mr. Pollock believe that his recommendation with regard to the theoretical reserve imbalance (referred to by Mr. Pollock as the "surplus depreciation reserve") is consistent with the Uniform System of Accounts? If the response is "yes," please explain in detail why Mr. Pollock believes this to be the case. If the response is "no," please explain why not. Please provide all support and justification for the response.

RESPONSE:

Yes. The use of a surplus depreciation reserve has been utilized to offset rate increases in other jurisdictions as identified in Mr. Pollock's testimony. These jurisdictions also use the FERC Uniform System of Accounts.

RESPONDING WITNESSES:

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QUESTION NO. 5

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What is Mr. Pollock's understanding as to the cause(s) of the theoretical reserve imbalance for KU's assets? Please respond in detail. Additionally, please provide in the response all investigations or analyses performed by Mr. Pollock to determine the cause(s) of the theoretical reserve imbalance.

RESPONSE:

Other than his awareness that KU had surplus depreciation in its last rate case, Mr. Pollock has not reviewed past depreciation studies to determine the specific cause(s) for the current theoretical reserve imbalance.

RESPONDING WITNESSES:

Jeffrey Pollock

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QUESTION NO. 6

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What is Mr. Pollock's understanding as to the period of time over which the theoretical reserve imbalance for LG&E's assets developed? The response should include Mr. Pollock's best estimate as to the time period over which the theoretical reserve imbalance developed for each plant account. Additionally, please provide in the response all investigations or analyses performed by Mr. Pollock to determine the time period over which the theoretical reserve imbalance developed.

RESPONSE:

Please see KLC's response to Question 5.

RESPONDING WITNESSES:

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QUESTION NO. 7

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Reference the table on page 9 of Mr. Pollock's testimony. Please explain what the column titled "Years of Accruals" represents.

RESPONSE:

The Years of Accruals column represents the size of the reserve surplus compared to the annual accrual amount. It is the reserve surplus divided by the proposed annual accrual.

RESPONDING WITNESSES:

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QUESTION NO. 8

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Is Mr. Pollock aware of any regulatory commissions that have rejected a proposal to amortize a theoretical reserve imbalance over a period of time shorter than the remaining life? If the response is yes, please provide each docket number and jurisdiction

RESPONSE:

The table below summarizes the regulatory proceedings in which Mr. Pollock is aware that a regulatory commission did not approve amortizing a theoretical reserve imbalance over a shorter time period.

| Jurisdiction | Docket Number |
|---------------------|----------------------|
| Texas | 38339 |
| Texas | 40443 |

In addition, in a 2013 case before the Iowa Utilities Board (RPU-2013-0004), the Board declined to accept Mr. Pollock's recommended amortization of Mid-American Energy's surplus depreciation because it chose instead to adopt Mid-American's proposed deferred depreciation expense adjustment.

RESPONDING WITNESSES:

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QUESTION NO. 9

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Reference p. 15, line 21 through p. 16, line 2 of Mr. Pollock's testimony. Mr. Pollock states that "[i]n year 10... it then determines that the remaining life of the asset is 30 years."

- a. Does this mean that the overall useful or average life is 40 years?
- b. If the response is yes, please explain why Mr. Pollock calculates a theoretical reserve of \$33.30 for the asset in Mr. Pollock's example.

RESPONSE:

- a. No. The testimony contains an error. The sentence should state that the remaining life is 20 years.
- b. See response to a.

RESPONDING WITNESSES:

Jeffry Pollock