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.

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

Notary Public – Kitty Turner

QUESTION NO. 1

Refer to the Direct Testimony of Jeffry Pollock ("Pollock Testimony"), page 9. lines 12 and 13, which state “[f]urther, if properly implemented. it would not violate generally accepted accounting principles." Explain what the proper implementation of the amortization of the surplus depreciation entails.

RESPONSE:

A short amortization period for surplus depreciation is effectively a mid-course correction to re-establish a reasonable allocation of capital recovery to the customers using the electrical facilities. It is considered an acceptable practice by NARUC Subcommittee on Depreciation, as discussed in its *Depreciation Practices Manual* at pages 187-189 (attached to this response).

Implementation requires temporarily reducing the depreciation rate(s) for applicable functions (*i.e.*, steam production, hydro production, other production, transmission, distribution, general and intangible plant), which reduces depreciation expense. The lower depreciation expense will slow the increase in accumulated depreciation so that it will eventually converge to the theoretical depreciation reserve for the applicable functions. Temporarily reducing depreciation expense allows the utility to recover increases in other (non-depreciation related) costs while keeping revenues and earnings constant.

Mr. Pollock made similar proposals in regulatory proceedings in Florida and Minnesota, which were adopted by these commissions. He also supported the use of surplus depreciation by Alabama Power Company to mitigate future rate increases and by Georgia Power Company to avert filing a rate case. The Alabama, Florida, Georgia and Minnesota commissions all follow generally accepted accounting principles.

RESPONDING WITNESSES:
Jeffry Pollock

QUESTION NO. 2

Refer to the Pollock Testimony. Exhibit JP-1. Explain the basis of the theoretical reserve listed in the exhibit and provide its source.

RESPONSE:

The theoretical reserve amounts by function were calculated by summing Production Unit and FERC account level amounts listed in Part IX of KU's depreciation study (Exhibit-JJS-KU-1). The theoretical reserve amounts are the "Calculated Accrued" amounts listed on the reports in Part IX. These amounts are listed by vintage and total and represent the theoretical reserve levels based on KU's proposed lives and net salvage at December 31, 2015.

RESPONDING WITNESSES:
Jeffry Pollock

QUESTION NO. 3

Refer to the Direct Testimony of Kentucky Industrial Utility Customers, Inc.'s ("KIUC") witness Lane Kollen ("Kollen Testimony"), beginning at page 27, regarding depreciation expense related to projected net terminal salvage value for generation assets.

a. What position does KLC have with respect to the Kollen Testimony which requires the projected terminal net salvage value be removed from generation asset depreciation rates and expense?

b. State whether KLC is of the opinion that, should the Commission deny Mr. Kollen's proposal to remove the terminal net salvage value from generation asset depreciation rates and expense, it would create an intergenerational inequity with respect to the recovery of depreciation expense on generation assets.

c. Explain how KLC would reconcile its position on surplus depreciation with Mr. Kollen's proposal to remove projected terminal net salvage value from generation asset depreciation rates and expense if both proposals were approved by the Commission

RESPONSE:

a. KLC is reviewing Mr. Kollen’s recommendation and does not have an opinion at this time.

b. KLC does not believe that an explicit adjustment to a utility’s proposed depreciation rate necessarily means that the cost of removal is not being recovered. Accordingly, the proposed adjustment may or may not necessarily impact generational equity.

c. Terminal net salvage is normally a legitimate component in determining the appropriate depreciation rates assuming that there is no other mechanism for recovering plant dismantlement costs. In either circumstance, the amount to be recovered must be well documented in a comprehensive study of each facility that determines the scope, timing and estimated net removal cost of any required dismantlement activities. The mere fact that no allowance is made for terminal net salvage in setting depreciation rates does not necessarily create intergenerational inequity if the proposed allowance is not properly supported.

RESPONDING WITNESSES:
Jeffry Pollock

QUESTION NO. 4

Refer to the Pollock Testimony, pages 47-48. Beginning at the bottom of page 47, it states that the proposed increase should be measured by removing adjustment clauses and embedded fuel charges. Confirm that excluding these charges when measuring the rate impact overstates the impact on the customer bill. If this cannot be confirmed, explain.

RESPONSE:

Expressing the impact of a rate increase excluding adjustment clauses and embedded fuel cost charges is not intended to measure or convey the impact of a rate increase on a customer's bill. It is a way to measure whether rates are moving directionally to cost when the purpose of the rate increase is to recover increases in cost other than the costs recovered in adjustment clause and fuel cost charges. As Mr. Pollock discusses on page 50 of his testimony, a class that is providing a below-average rate of return should receive an above-average increase where the average increase is measured excluding adjustment clause and fuel cost charges.

RESPONDING WITNESSES:
Jeffry Pollock