COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES AND FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY	**)))))**	**CASE NO. 2016-00371**

LOUISVILLE GAS AND ELECTRIC COMPANY'S
APPLICATION FOR AUTHORITY TO ADJUST ELECTRIC AND GAS RATES
AND FOR CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

Applicant, Louisville Gas and Electric Company ("LG&E"), pursuant to KRS Chapter 278 and the applicable sections of 807 KAR Chapter 5, hereby applies to the Kentucky Public Service Commission ("Commission") for authority to adjust its gas and electric rates, a Certificate of Public Convenience and Necessity ("CPCN") for the full deployment of Advanced Metering Systems ("AMS") across its electric and gas operations, and a CPCN for its Distribution Automation Project ("DA"). LG&E's Notice of Intent to File a Rate Application, required by 807 KAR 5:001, Section 16(2), stated that the Application would be supported by a fully forecasted test period, was filed with the Commission on October 21, 2016, was provided to the Attorney General of Kentucky, Office of Rate Intervention, and is attached hereto at Tab 7 of the Filing Requirements.

In support of its Application, LG&E states as follows:

1. The full name and mailing address of LG&E are: Louisville Gas and Electric Company, Post Office Box 32010, 220 West Main Street, Louisville, Kentucky 40202. LG&E may be reached by electronic mail at the electronic mail addresses of its counsel set forth below.

2. LG&E is a utility engaged in the electric and gas business. LG&E generates and purchases electricity, and distributes and sells electricity at retail in Jefferson County and portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble Counties. LG&E also purchases, stores, and transports natural gas and distributes and sells natural gas at retail in Jefferson County and portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Spencer, Trimble, and Washington Counties.

3. LG&E was incorporated in Kentucky on July 2, 1913, and is currently in good standing in Kentucky. A copy of LG&E's good standing certificate from the Kentucky Secretary of State is attached in Tab 1 of the Filing Requirements.

4. This Application constitutes notice to the Commission pursuant to KRS 278.180(1) of the changes proposed to be made to LG&E's electric and gas rates. LG&E's Statutory Notice is attached to this Application. LG&E is filing its Certificate of Notice to the public of the changes in its tariffs that result in increased rates, which Certificate is attached hereto at Tab 6 of the Filing Requirements.

5. Pursuant to 807 KAR 5:001, Section 8, on October 21, 2016, LG&E filed with the Commission notice of its intent to use electronic filing procedures in this proceeding. Copies of all orders, pleadings and other communications related to this proceeding should be directed to:

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Adjustment of Electric Rates

6. In accordance with the provisions of KRS 278.180 and 278.190, LG&E requests Commission approval of a change in existing rates, terms, conditions, and tariffs for electric service. LG&E proposes to change its existing electric rates and tariffs to those rates and charges set forth in the proposed tariffs attached hereto at Tab 4 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached

hereto at Tab 5 of the Filing Requirements. The proposed revisions in the special contracts are summarized at Tab 4 of the Filing Requirements; among those revisions is LG&E's proposal to terminate its special contract with Special Contract Customer 1,[1] which termination LG&E is asking the Commission to grant in this proceeding, and that such termination be effective as of the date on which new rates take effect following the Commission's final order in this proceeding approving new rates. The proposed adjustments in electric rates will result in an increase in revenues of approximately $93.6 million, or 8.5 percent, per year for the forecasted test period compared to the operating revenues for the forecasted test period under existing electric rates.

7. The monthly residential electric bill increase due to the proposed electric rates will be 9.5 percent, or approximately $9.65, for a customer using 957 kWh of electricity (the average monthly consumption of an LG&E residential electric customer).

Adjustment of Gas Rates

8. LG&E also requests Commission approval of a change in existing rates, terms, conditions, and tariffs for gas service. LG&E proposes to change its existing gas rates and tariffs to those rates and charges set forth in the proposed tariffs attached hereto at Tab 4 of the Filing Requirements. A comparison of the present and proposed rates and charges is attached hereto at Tab 5 of the Filing Requirements. The proposed revisions in the special contracts are summarized at Tab 5 of the Filing Requirements. The proposed adjustments in gas rates will result in an increase in revenues of approximately $13.8 million, or 4.2 percent, per year for the forecasted test period compared to the operating revenues for the forecasted test period under existing gas rates.

[1] The Company seeks confidential protection of the identity of this special contract customer as set forth in its Petition for Confidential Treatment. The identity of the customer is set forth in the confidential version of Mr. Conroy's testimony.

9. The monthly residential gas bill increase due to the proposed gas rates will be 5.0 percent, or approximately $2.99, for a customer using 55 Ccf of gas (the average monthly consumption of an LG&E residential gas customer).

Support for Changes in Existing Rates and Tariffs

10. In accordance with 807 KAR 5:001, Section 16(1)(b)(1), LG&E states that the requested change in existing rates, terms, conditions and tariffs is required to enable LG&E to continue providing safe, reasonable, and adequate service to its customers, and to afford LG&E a reasonable opportunity to earn a fair return on its investment property which is used to provide that service while attracting necessary capital at reasonable rates. LG&E's current rates and tariffs are inadequate for those purposes. Therefore, as explained in more detail in the verified testimony and exhibits identified below, the requested change in existing rates is required.

11. LG&E supports its request for a change in its existing rates and tariffs for electric and gas service with the verified testimony and exhibits of the following persons:

- Victor A. Staffieri, Chairman, Chief Executive Officer and President
- Kent W. Blake, Chief Financial Officer
- Paul W. Thompson, Chief Operating Officer
- Daniel K. Arbough, Treasurer
- Adrien M. McKenzie, Consultant, FINCAP, Inc.
- David S. Sinclair, Vice President – Energy Supply and Analysis
- John P. Malloy, Vice President – Customer Services
- Lonnie E. Bellar, Vice President – Gas Distribution
- Robert M. Conroy, Vice President – State Regulation and Rates
- William Steven Seelye, Managing Partner, The Prime Group LLC

- Christopher M. Garrett, Director – Rates
- John J. Spanos, Senior Vice President, Gannett Fleming, Inc.

12. LG&E further supports its request for a change in its existing rates and tariffs for electric and gas service with the following exhibits complying with the requirements of 807 KAR 5:001, Section 14, 16 and 17:

Tab	Filing Requirement	Description
1	807 KAR 5:001 Section 14(1)	Name, Address, Facts
1	807 KAR 5:001 Section 14(2)	Corp. - Incorporation, Good Standing
1	807 KAR 5:001 Section 14(3)	LLC - Organized, Good Standing
1	807 KAR 5:001 Section 14(4)	LP - Agreement
2	807 KAR 5:001 Section 16(1)(b)1	Reason for Rate Adjustment
3	807 KAR 5:001 Section 16(1)(b)2	Certificate of Assumed Name
4	807 KAR 5:001 Section 16(1)(b)3	Proposed Tariff
5	807 KAR 5:001 Section 16(1)(b)4	Proposed Tariff Changes
6	807 KAR 5:001 Section 16(1)(b)5	Statement about Customer Notice
6	807 KAR 5:001 Section 16(3)	Comply with 807 KAR 5:051, Section 2
7	807 KAR 5:001 Section 16(2)	Notice of Intent
8	807 KAR 5:001 Section 16(6)(a)	Financial Data
9	807 KAR 5:001 Section 16(6)(b)	Forecasted Adjustments
10	807 KAR 5:001 Section 16(6)(c)	Capital, Net Investment Rate Base
11	807 KAR 5:001 Section 16(6)(d)	No Revisions to Forecast
12	807 KAR 5:001 Section 16(6)(e)	Alternative Forecast
13	807 KAR 5:001 Section 16(6)(f)	Reconciliation of Rate Base and Capital
14	807 KAR 5:001 Section 16(7)(a)	Testimony
15	807 KAR 5:001 Section 16(7)(b)	Capital Construction Budget
16	807 KAR 5:001 Section 16(7)(c)	Factors Used in Preparing Forecast
17	807 KAR 5:001 Section 16(7)(d)	Annual and Monthly Budget
18	807 KAR 5:001 Section 16(7)(e)	Statement of Attestation
19	807 KAR 5:001 Section 16(7)(f)	Major Construction Projects
20	807 KAR 5:001 Section 16(7)(g)	Other Construction Projects
21	807 KAR 5:001 Section 16(7)(h)	Financial Forecasts
22	807 KAR 5:001 Section 16(7)(h)(1)	Operating Income Statement
23	807 KAR 5:001 Section 16(7)(h)(2)	Balance Sheet
24	807 KAR 5:001 Section 16(7)(h)(3)	Statement of Cash Flows
25	807 KAR 5:001 Section 16(7)(h)(4)	Revenue Requirement

26	807 KAR 5:001 Section 16(7)(h)(5)	Load Forecast
27	807 KAR 5:001 Section 16(7)(h)(6)	Access Line Forecast (Telephone)
28	807 KAR 5:001 Section 16(7)(h)(7)	Mix of Generation (Electric)
29	807 KAR 5:001 Section 16(7)(h)(8)	Mix of Gas Supply (Gas)
30	807 KAR 5:001 Section 16(7)(h)(9)	Employee Level
31	807 KAR 5:001 Section 16(7)(h)(10)	Labor Cost Changes
32	807 KAR 5:001 Section 16(7)(h)(11)	Capital Structure Requirements
33	807 KAR 5:001 Section 16(7)(h)(12)	Rate Base
34	807 KAR 5:001 Section 16(7)(h)(13)	Gallons of Water Projected (Water)
35	807 KAR 5:001 Section 16(7)(h)(14)	Customer Forecast (Gas, Water)
36	807 KAR 5:001 Section 16(7)(h)(15)	Sales Volume Forecasts (Gas)
37	807 KAR 5:001 Section 16(7)(h)(16)	Toll and Access Forecast (Telephone)
38	807 KAR 5:001 Section 16(7)(h)(17)	Detailed Explanation of Other Info
39	807 KAR 5:001 Section 16(7)(i)	FERC Audit Reports
40	807 KAR 5:001 Section 16(7)(j)	Stock or Bond Prospectuses
41	807 KAR 5:001 Section 16(7)(k)	FERC Form 1, 2
42	807 KAR 5:001 Section 16(7)(l)	Annual Reports to Shareholders
43	807 KAR 5:001 Section 16(7)(m)	Current Chart of Accounts
44	807 KAR 5:001 Section 16(7)(n)	Monthly Managerial Reports
45	807 KAR 5:001 Section 16(7)(o)	Monthly Budget Variance Reports
46	807 KAR 5:001 Section 16(7)(p)	SEC Reports (10-Ks, 8-Ks, 10-Qs)
47	807 KAR 5:001 Section 16(7)(q)	Independent Auditor’s Annual Opinion
48	807 KAR 5:001 Section 16(7)(r)	Quarterly Reports to Stockholders
49	807 KAR 5:001 Section 16(7)(s)	Summary of Latest Depreciation Study
50	807 KAR 5:001 Section 16(7)(t)	Computer, Software, Hardware, etc.
51	807 KAR 5:001 Section 16(7)(u)	Affiliate, et. al., Allocations/Charges
52	807 KAR 5:001 Section 16(7)(v)	Cost-of-Service Study
53	807 KAR 5:001 Section 16(7)(w)	Incumbent Local Exchange Carriers
54	807 KAR 5:001 Section 16(8)(a)	Financial Summaries
55	807 KAR 5:001 Section 16(8)(b)	Rate Base Summaries
56	807 KAR 5:001 Section 16(8)(c)	Operating Income Summaries
57	807 KAR 5:001 Section 16(8)(d)	Summary of Income Adjustments
58	807 KAR 5:001 Section 16(8)(e)	Federal & State Income Tax Summaries
59	807 KAR 5:001 Section 16(8)(f)	Summary of Membership Dues, etc.
60	807 KAR 5:001 Section 16(8)(g)	Analyses of Payroll Costs
61	807 KAR 5:001 Section 16(8)(h)	Gross Revenue Conversion Factor
62	807 KAR 5:001 Section 16(8)(i)	Comparative Income Statements, etc.
63	807 KAR 5:001 Section 16(8)(j)	Cost of Capital Summary

64	807 KAR 5:001 Section 16(8)(k)	Financial Data and Earnings Measures
65	807 KAR 5:001 Section 16(8)(l)	Narrative Description of Tariff Changes
66	807 KAR 5:001Section 16(8)(m)	Revenue Summary
67	807 KAR 5:001 Section 16(8)(n)	Typical Bill Comparison
68	807 KAR 5:001 Section 17(4)	Customer Notice Information
68	807 KAR 5:001 Section 17(1)	Sample Notices Posted
68	807 KAR 5:001 Section 17(2)	Method of Customer Notice
68	807 KAR 5:001 Section 17(3)	Proof of Customer Notice

13. As authorized by KRS 278.192(1), the Application for a general adjustment of gas and electric rates is supported by a twelve-month fully forecasted test period in accordance with 807 KAR 5:001, Section 16(1)(a)2 with the test period ending June 30, 2018. The Application is supported by a base period consisting of the twelve (12) months ending February 28, 2017. As authorized by KRS 278.192(2), this base period begins not more than nine (9) months prior to the date of the filing of this Application, and is a period consisting of not less than six (6) months of historical data and not more than six (6) months of estimated data. Within forty-five (45) days after the last day of the base period, LG&E will file the actual results for the estimated months of the base period as required by KRS 278.192(2)(b).

14. In support of its Application for a general adjustment of gas and electric rates supported by a fully forecasted test period, LG&E has presented its financial data for the forecasted period in the form of pro forma adjustments to the base period, has limited the forecasted adjustments to the forecasted period, and has based capitalization and net investment rate base on a thirteen-month average for the forecasted period, all as shown in Tabs 8, 9, and 10.

15. The testimony and exhibits to the application demonstrate the rates, terms, conditions and tariffs proposed for gas and electric service are fair, just, and reasonable under KRS 278.030.

Certificate of Public Convenience and Necessity for AMS

16. Pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 15(2), LG&E requests a CPCN to exchange the existing electric and gas meters in its service territory with AMS meters and related gas-meter-reading indexes. The proposed deployment is expected to begin in the third quarter of 2017 and to be completed by the end of 2019. A total of 418,000 electric meters will be replaced and 322,000 AMS gas indices will be added.[2] The AMS meters that LG&E proposes to deploy will have two-way communications capabilities that will communicate usage and other relevant data to LG&E at regular intervals and have the ability to receive information from LG&E, such as software upgrades and requests to provide meter reads in real time. The AMS electric meters will also have remote service switching capabilities. AMS equipment planned for gas service will not have such capabilities due to safety concerns. The estimated capital cost of the proposed deployment is $119.0 million for LG&E electric and $55.0 million for LG&E gas. The full AMS deployment will also result in incremental O&M cost during the deployment phase of $13.0 million for LG&E electric and $2.5 million for LG&E gas.

17. LG&E supports its request for a CPCN, including the information required by 807 KAR 5:001, Section 15(2) through the testimony of Mr. Malloy and the exhibits thereto.

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[2] More than 54,000 gas meters will have to be exchanged as part of the full deployment of AMS. 54,000 Rockwell R175 gas meters will have to be exchanged because they have a brass index that is not compatible with the AMS gas index module. There are additional gas meters concerning which LG&E will either replace the index or the entire meter because they have an odometer style index that is not compatible with the AMS gas index module.

18. Statement of Public Convenience and Necessity (807 KAR 5:001, Section 15(2)(a)): The proposed AMS deployment will achieve several operational efficiencies as well as enhance the present quality of service and provide additional benefits to and options for LG&E customers. LG&E and Kentucky Utilities ("KU") ("the Companies") estimate that the full deployment of AMS will provide net benefits of almost $470 million nominal dollars ($30.2 million net present value to 2016). (The Companies' cost-benefit analysis is in Section 7 of, and related attachments to, the Electric and Gas Advanced Metering Systems Business Case for Louisville Gas & Electric Company and Kentucky Utilities Company ("AMS Business Case") attached to Mr. Malloy's testimony as Exhibit JPM-1.) Notably, these projected savings account for removing the Companies' existing meters from service prior to the end of their useful lives. The proposed deployment will enable customers to access, through a web portal, information about their usage at any time of day or night, download consumption patterns to better understand how they use energy, and explore different products and programs that may align to their needs. It will further enable the Companies to develop time-of-day or more dynamic rate structures that may assist customers to reduce their bills. By providing access to real-time energy data, AMS deployment will enable the Companies' customer service representatives to address customers' questions and concerns regarding individual customer outages, power quality, and energy usage. It will enhance the Companies' ability to localize and resolve power outages, and thus reduce customer outage times. The proposed deployment of AMS meters will allow customers to participate in numerous programs where information is shared via outbound call, email, or text message, including information about power disruptions, voltage spikes, demand

response events, power restorations, and other notifications more specific to a customer's usage.

19. Permits or Franchises (807 KAR 5:001, Section 15(2)(b)): LG&E is not aware of any permits or franchises it must seek for the meter deployment.

20. Description of Proposed Location for Construction (807 KAR 5:001, Section 15(2)(c)): AMS will be deployed throughout LG&E's electric and gas service territories. The deployment will not compete with the facilities of any other utility, but is intended to improve the quality and reliability of the service that LG&E provides in its service territory. Section 8 of the AMS Business Case (Mr. Malloy's Exhibit JPM-1) provides the AMS deployment plan, which includes a map and deployment schedules that further describe the location and planned timing of the proposed AMS deployment.

21. Area Maps (807 KAR 5:001, Section 15(2)(d)(1)): The meter program will be implemented throughout LG&E's electric and gas service areas. The required maps showing the service territory where LG&E proposes to implement the meter program are in Section 8 of the AMS Business Case (Mr. Malloy's Exhibit JPM-1), which provides the AMS deployment plan, including a map and deployment schedules that further describe the location and planned timing of the proposed AMS deployment. LG&E believes the map satisfies 807 KAR 5:001, Section 15(2)(d)(1), but if the Commission believes it does not, LG&E requests a deviation from the same.

22. Plans and Specifications (807 KAR 5:001, Section 15(2)(d)(2)): Plans, specifications, and drawings of the proposed equipment are in AMS Business Case (Mr. Malloy's Exhibit JPM-1) attachments A-2 through A-3.8, which contain a diagram of the overall AMS system architecture and information sheets on the AMS system components.

LG&E believes this information satisfies 807 KAR 5:001, Section 15(2)(d)(1), but if the Commission believes it does not, LG&E requests a deviation from the same.

23. Financing Plans (807 KAR 5:001, Section 15(2)(e)): The total projected capital cost for the full AMS deployment for LG&E is $119.0 million for LG&E electric and $55.0 million for LG&E gas. LG&E expects to finance the costs of the full AMS deployment with a combination of new debt and equity. The mix of debt and equity used to finance the project will be determined so as to allow LG&E to maintain its strong investment-grade credit ratings. The cost details of the full AMS deployment are contained in AMS Business Case (Mr. Malloy's Exhibit JPM-1) section 7.2 and attachments A-6.1 through A-6.7.

24. Estimated Cost of Operations (807 KAR 5:001, Section 15(2)(f)): The estimated annual operating costs of the full AMS deployment are in AMS Business Case (Mr. Malloy's Exhibit JPM-1) section 7.2.

Certificate of Public Convenience and Necessity for DA

25. Pursuant to KRS 278.020(1) and 807 KAR 5:001, Section 15(2), LG&E requests a CPCN for DA. DA involves the extension of intelligent control over electrical power grid functions to the distribution system level. The intelligent control of distribution equipment can provide real-time information and allow for the remote monitoring, remote control, and automation of distribution line equipment. This project is intended to leverage distribution automation technologies to improve the customer experience through enhanced reliability performance. The DA project will affect approximately 20% of the Companies' circuits, 40% of the distribution line miles, and 50% of the Companies' customers.

26. LG&E supports its request for a CPCN, including the information required by 807 KAR 5:001, Section 15(2) through the testimony of Paul W. Thompson and the exhibits thereto.

27. Statement of Public Convenience and Necessity (807 KAR 5:001, Section 15(2)(a)): DA is necessary to benefit customers by providing greater distribution reliability and the ability of the distribution system to more quickly recover from outages, often through automatic means. Continued advancements in grid intelligence are necessary to keep pace with the industry in the implementation of smart grid technologies and to more closely align with industry best practices in distribution. The DA program will assist the Companies in delivering the level of power quality and reliability that customers expect. The DA program will also result in future cost savings in the form of reduced reliance on field crews to conduct on-site maintenance. There are two primary components to the DA project. The first involves the installation of 1,400 electronic SCADA (Supervisory Control and Data Acquisition) capable reclosers, all of which will be connected to the distribution SCADA system. The second component of the DA project involves the acquisition and deployment of a Distribution SCADA and Distribution Management System (DMS), software systems that enable intelligent control of distribution equipment, including the capability to provide real-time information, remote monitoring, remote control, circuit segmentation, and automation of distribution line equipment. The DA project is described in further detail in a paper entitled "LG&E and KU Electric Distribution Operations Distribution Reliability and Resiliency Improvement Program," attached as Exhibit PWT-5 to Mr. Thompson's testimony.

28. Permits or Franchises (807 KAR 5:001, Section 15(2)(b)): LG&E is not aware of any permits or franchises it must seek for DA.

29. Description of Proposed Location for Construction (807 KAR 5:001, Section 15(2)(c)): DA infrastructure will be installed throughout LG&E's service territory. DA will not compete with the facilities of any other utility, but is intended to improve the quality and reliability of the service that LG&E provides in its service territory.

30. Area Maps (807 KAR 5:001, Section 15(2)(d)(1)): DA will be implemented throughout the LG&E service area. The required maps showing the service territory where LG&E proposes to implement DA are attached as Exhibit PWT-3 to Mr. Thompson's testimony. LG&E believes that the maps satisfy 807 KAR 5:001, Section 15(2)(d)(1), but if the Commission believes they do not, LG&E requests a deviation from the same.

31. Plans and Specifications (807 KAR 5:001, Section 15(2)(d)(2)): Plans, specifications, and drawings of the proposed equipment are attached collectively to Mr. Thompson's testimony as PWT-4. LG&E believes that the plans satisfy 807 KAR 5:001, Section 15(2)(d)(1), but if the Commission believes they do not, LG&E requests a deviation from the same.

32. Financing Plans (807 KAR 5:001, Section 15(2)(e)): The total projected capital cost for DA is expected to be $112 million over a seven-year implementation schedule starting in 2016. $23 million of that total capital expenditure is expected to be incurred before the end of the forecast test year on June 30, 2018. LG&E expects to finance the costs of DA with a combination of new debt and equity. The mix of debt and equity used to finance the project will be determined so as to allow LG&E to maintain its strong investment-grade credit ratings

33. Estimated Cost of Operations (807 KAR 5:001, Section 15(2)(f)): The estimated Operations and Maintenance expense attributable to DA is expected to be $6 million over the seven-year implementation plan, $1.16 million of which will be incurred before the end of the forecast test year. An estimate of the annual O&M costs attributable to DA after full implementation in 2023 is set forth in Exhibit PWT-6 to Mr. Thompson's testimony.

Compliance with Case No. 2012-00428 Requirement to Identify Smart-Grid Investments

34. In its final order in Case No. 2012-00428, the Commission created a rate-case-related requirement for jurisdictional electric utilities concerning their smart-grid investments: "The jurisdictional electric utilities shall identify Smart Grid investments in each rate case."[3] A list of the Companies' smart-grid investments to satisfy this requirement is attached to the testimony of Mr. Thompson as Exhibit PWT-8.

Request for Establishment of Regulatory Asset for Retired Meters and Terminated Interest Swap

35. LG&E requests the Commission grant it authority to establish a regulatory asset for the remaining net book value of the electric meters retired as a result of the proposed AMS meter deployment may be reflected. LG&E estimates that upon completion of the proposed deployment, the amount of this regulatory asset will be approximately $12.1 million. As the proposed retirement of the Company's existing electric meters is an extraordinary and non-recurring expense that will produce savings that fully offset the costs associated with the meters' retirement, the establishment of a regulatory asset account is consistent with prior Commission decisions addressing the deployment of AMS meters.

[3] *In the Matter of: Consideration of the Implementation of Smart Grid and Smart Meter Technologies*, Case No. 2012-00428, Order at 35 (Apr. 13, 2016).

LG&E does not propose to begin amortization of this regulatory asset to recover any of the net book value of the replaced meters during the test period. Mr. Garrett discusses the proposed establishment of a regulatory asset in his testimony.

36. On November 14, 2016, LG&E filed an application requesting the Commission grant it authority to establish for accounting purposes a regulatory asset for an upcoming interest swap termination with Bank of America Merrill Lynch that is expected to result in a swap termination payment of approximately $13 million.[4] This request remains pending. LG&E further requests in this case that it be permitted to recover the costs of the amortized termination payment in rates. Mr. Arbough discusses the requested regulatory asset in his testimony, and further supports the Company's request to recover the termination payment in rates.

Request for Deviations from Certain Commission Regulations Regarding Meter Inspection and Testing

37. The advanced technology contained in the AMS metering equipment that LG&E proposes to deploy throughout its territory achieves the safety and reliability objectives that certain Commission regulations pertaining to meter inspection and testing were intended to ensure and eliminates the need for continued compliance with those regulations. To avoid the requirements that will no longer significantly enhance safety or service reliability and to eliminate the costs associated with these requirements, LG&E requests that Commission authorize a deviation from those regulations. Mr. Malloy in his testimony discusses these requests and the cost savings that will result from granting the requested relief.

[4] *In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving the Establishment of a Regulatory Asset* (Case No. 2016-00393).

38. 807 KAR 5:006, Section 7(5). Section 7(5)(a) requires a utility to read each customer's meter at least quarterly except if prevented by reasons beyond its control and excepting customer-read meters subject to Section 7(5)(b). In turn, Section 7(5)(b) requires that a meter be read manually at least once during each calendar year. Commission Staff has previously opined that solid-state metering systems that record meter readings at least daily and transmit such meter readings directly to a utility's central office comply with this regulation without requiring a manual reading.[5] LG&E therefore requests an order confirming that interpretation and declaring that LG&E will be in compliance with 807 KAR 5:006 Section 7(5)(a) and (b) even if it does not physically read AMS electric meters or gas meters equipped with AMS gas indices. In the alternative, LG&E requests a permanent deviation from this regulation because AMS metering equipment will transmit at least daily the same information to LG&E as it provides at a customer's location, eliminating the need to manually read AMS electric meters or gas meters equipped with AMS gas indices.

39. 807 KAR 5:006, Section 14(3). This regulation requires a utility to "inspect the condition of its meter and service connections before making service connections to a new customer so that prior or fraudulent use of the facilities shall not be attributed to the new customer." The proposed AMS meters are capable of sensing meter tampering and other defects and transmitting such information to LG&E. This capability renders physical inspections of meter and service connections unnecessary. Accordingly, LG&E requests a permanent deviation from 807 KAR 5:006, Section 14(3) for its AMS meters that allow for remote data communication.

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[5] Letter from Beth O'Donnell, Executive Director, Kentucky Public Service Commission, to Ron Sheets, President, Kentucky Association of Electrical Cooperatives (Sept. 27, 2006).

40. 807 KAR 5:006 Sections 26(4)(e) and 26(5)(a)(2). Section 26(4)(e) requires an electric utility to inspect its meters at least every two years. Section 26(5)(a)(2) requires a gas utility to inspect its meters at least every three years. An AMS meter provides information on its condition on a daily basis and has systems to promptly alert the utility of tampering or of malfunctions. Once receiving this information, the utility can conduct a physical inspection. An AMS gas index provides similar data concerning the gas meter in which it is installed. This capability eliminates the need for biennial or triennial physical inspections. LG&E estimates that the elimination of this requirement will result in annual savings to the Companies of $1.2 million, which are in addition to the savings the Companies have projected as resulting from the full AMS deployment. Accordingly, LG&E requests a permanent deviation from the inspection requirements of 807 KAR 5:006 Sections 26(4)(e) and 26(5)(a)(2).

41. 807 KAR 5:041, Sections 15(3) and 16; 807 KAR 5:006 Section 19. 807 KAR 5:041 Sections 15(3) and 16 require that single-phase electric meters must be tested every eight years or in accordance with a Commission-approved sample-meter testing plan; the Company has such a testing plan, which the Commission approved in Case No. 2005-00276.[6] Because LG&E proposes to replace all of its existing non-AMS single-phase meters within a two-year period with new AMS equipment, continued testing during this period appears unnecessary. LG&E therefore requests a deviation from this regulation to suspend testing immediately and to resume testing in accordance with its existing Commission-

[6] *In the Matter of: The Joint Amended Application of the Utilities: Inter-County Energy Cooperative Corp., Kentucky Power Company, Kentucky Utilities Company, Louisville Gas and Electric Company, Owen Electric Cooperative, Inc., Shelby Energy Cooperative, Inc., and the Union Light, Heat and Power Company for Approval of a Pilot Meter Testing Plan pursuant to 807 KAR 5:041, Sections 13, 15, 16, 17, and 22,* Case No. 2005-00276, Order (Nov. 10, 2005).

approved testing plan after completion of AMS deployment. The Commission has permitted other electric utilities to suspend testing for similar deployments.[7]

Similarly, Section 15(3) requires electric utilities to test metering equipment when removed from service. KU intends during its AMS deployment to remove all of its existing non-AMS meters and immediately to dispose of the vast majority of the removed meters without testing them. Testing all of the removed meters would cost approximately $3.3 million and would likely serve little or no purpose, particularly because over the last six years more than 99% of the Companies' electric meters tested have been within +-2%, and of the <1% that were fast or slow, 82% were slow and 18% were fast, meaning that less than 0.18% of electric meters tested were fast. Granting this requested waiver would result in saving the $3.3 million that would be necessary to test all the removed meters, which savings are in addition to the savings the Companies have projected as resulting from the full AMS deployment. Therefore, KU requests a deviation from Section 15(3) to permit KU's proposed meter-testing approach concerning the removed non-AMS meters, with the resumption of full compliance with Section 15(3) after the proposed AMS deployment has been completed.

Finally, the Company requests a deviation from 807 KAR 5:006 Section 19 to the extent it applies to the meters the Company will remove from service as part of its full AMS deployment. The regulation states, "A utility shall make a test of a meter upon written request of a customer if the request is not made more frequently than once each twelve (12)

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[7] *The Application of Big Sandy Rural Electric Cooperative Corporation for Deviation from the Provisions of 807 KAR 5:006, Section 6(5) and 807 KAR 5:041, Section 15(3)*, Case No. 2005-00048 (Ky. PSC Apr. 21, 2005) (approving a suspension of meter testing for four years while the AMR program was deployed); *The Application of Owen Electric Cooperative, Inc. for a Deviation from Approved Meter Testing Program,* Case No. 2006-00468 (Ky. PSC Dec. 13, 2006) (approving a deviation from its Sample Meter Testing Plan for a period of 3 years during the installation of solid-state meters); *Request of Shelby Energy Cooperative, Inc. for a Temporary Deviation from its Sample Meter Testing Plan*, Case No. 2010-00331 (Ky. PSC Aug. 3, 2011) (approving deviation from sample meter testing plan for two years during the installation of an AMI system).

months." On its face, this requirement would appear to apply only to meters still in service, not to meters already removed from service. But out of an abundance of caution, the Company asks the Commission to grant the Company a deviation from the entirety of 807 KAR 5:006 Section 19 with regard to all meters the Company removes—and only with regard to the meters it removes—as part of the full AMS deployment; the reasons for the deviation are the same as those given above for the Company's requested deviation from 807 KAR 5:041 Section 15(3) concerning testing of meters removed from service.

Gas Line Tracker Mechanism Reset and Modifications

42. LG&E requests that its Gas Line Tracker Mechanism ("GLT") rates be updated for services rendered on and after July 1, 2017. LG&E requests to remove from GLT rate base all Gas Line Program projects performed prior to July 1, 2017, the start of the future test year, and to place those projects into base rates. This action effectively resets the GLT charge to reflect only the cost of Program projects performed in the forecasted test period. Additionally, in an effort to simplify the GLT filing process, LG&E proposes to combine the annual forecast and true-up filings into one filing made each February with new rates effective for services rendered on or after April 30. As a result of this change, LG&E proposes that no change to GLT rates be made after the final decision in this proceeding until the first combined GLT filing in February 2018.

43. LG&E further requests a modification to the scope of the GLT so that two gas projects described in Mr. Bellar's testimony will be included in the GLT. The first project is the Gas Service Line Replacement Program. It has become necessary to implement a systematic replacement program of steel gas distribution customer service lines and the targeted removal of county loops and steel curbed services. The program is necessary to ensure the continued safe and reliable delivery of natural gas to customers. Under the

program, the Company will replace all targeted steel customer service lines over a 15-year period and remove all county loop and targeted curbed services during the first three years of that period. It is described in more detail in Mr. Bellar's testimony.

44. The second project sought for inclusion in the GLT is the Company's Transmission Pipeline Modernization Program. Since 1995, LG&E has been modernizing its infrastructure by replacing bare steel, cast iron, and wrought iron distribution lines. This program is the next step in that process. LG&E has identified approximately 15.5 miles of the backbone of its transmission system in need of modernization. This portion of the system was constructed between 1957 and 1972, meaning that these lines are 45 – 60 years old. At those ages, these lines are near or past the end of their useful life. This program will help to achieve compliance with existing regulations and allow for compliance with extensive new regulatory requirements while avoiding unplanned repairs, replacements, and pressure reductions which can jeopardize system reliability. It is described in more detail in Mr. Bellar's testimony.

Amortization of Regulatory Liability

45. In Case No. 2015-00264,[8] the Commission authorized the Companies to establish regulatory liabilities for the proceeds, including reservation and termination fees, from agreements related to the installation and operation of certain refined coal production facilities at the Companies' Ghent, Mill Creek, and Trimble County Generating Stations, but deferred addressing the amounts recorded in the regulatory liability account until each Company's next general rate proceeding. LG&E projects to receive approximately $522,000 of reservation and termination fees pursuant to these agreements and proposes to amortize

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[8] *Application of Louisville Gas and Electric Company and Kentucky Utilities Company Regarding Entrance Into Refined Coal Agreements, For Proposed Accounting and Fuel Adjustment Clause Treatment, and For Declaratory Ruling*, Case No. 2015-00264 (Ky. PSC Nov. 24, 2015).

this regulatory liability over three years. Mr. Garrett discusses the proposed amortization of this regulatory liability in his testimony.

Depreciation Rates

46. In support of this Application, LG&E submits Mr. Spanos' testimony and the depreciation study he prepared at LG&E's request. Maintenance of sound depreciation rates requires periodic review of those rates and four years have passed since a study was last performed for LG&E. Mr. Spanos recommends LG&E's continued use of the Average Service Life and remaining life basis methodology of depreciation and LG&E agrees with that recommendation. His study and recommendations include revised life and salvage parameters based on updated historical information, industry benchmarks and site visits to LG&E's facilities.

WHEREFORE, Louisville Gas and Electric Company respectfully requests the Kentucky Public Service Commission to enter an order:

1. Approving the revised tariff sheets for gas and electric service at Tab 4 of the Filing Requirements;

2. Granting a CPCN for the full deployment of AMS across LG&E's electric and gas operations;

3. Granting a CPCN for LG&E's proposed DA deployment;

4. Authorizing LG&E to establish a regulatory asset to reflect the remaining net book value of the electric meters that are retired as a result of the full AMS deployment;

5. Authorizing LG&E to amortize a regulatory asset for a terminated interest swap;

6. Declaring that LG&E's use of AMS to measure and monitor its customers' electricity and natural gas use satisfies the meter-reading requirements of 807 KAR 5:006,

Section 7(5), or in the alternative authorizing LG&E to deviate from the requirement of 807 KAR 5:006, Section 7(5), when a customer's usage is measured and monitored by an AMS meter;

7. Authorizing LG&E to:

a. Permanently deviate from 807 KAR 5:006, Section 14(3) for its AMS meters that allow for remote data communication;

b. Permanently deviate from the inspection requirements of 807 KAR 5:006, Sections 26(4)(e) and <u>26(5)(a)(2)</u>;

c. Suspend the testing of electric meters as required by 807 KAR 5:041, Sections 15(3) and 16 until after the proposed AMS deployment has been completed;

e. Deviate from 807 KAR 5:041, Section 15(3), as it relates to the testing of electric meters removed from service as part of the AMS deployment

f. Deviate from 807 KAR 5:006 Section 19 in its entirety concerning meters the Company removes as part of the AMS deployment;

8. Approving the reset of the GLT mechanism as of July 1, 2017 with all amounts in the GLT mechanism as of that date being included in base rates, approving new GLT rates for services rendered on an after July 1, 2017 to reflect the reset of the GLT, and approving the filing of the annual forecast and true-up GLT filings into one filing to be made each February;

9. Approving the inclusion of the Gas Service Line Replacement Program and the Transmission Modernization Program in the GLT mechanism;

10. Approving the proposed amortization of the regulatory liability resulting from LG&E's receipt of reservation and termination fees, from agreements related to the

installation and operation of certain refined coal production facilities at the Mill Creek and Trimble County Generating Stations;

11. Approving LG&E's proposed depreciation rates;

12. Terminating LG&E's electric service special contract with Special Contract Customer 1, effective as of the date on which new rates take effect following the Commission's final order in this proceeding approving new rates; and

13. Granting all other relief to which Louisville Gas and Electric Company may be entitled.

Dated: November 23, 2016

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

In accordance with 807 KAR 5:001 Section 8(7), this is to certify that Louisville Gas and Electric Company's November 23, 2016 electronic filing is a true and accurate copy of the documents being filed in paper medium; that the electronic filing has been transmitted to the Commission on November 23, 2016; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; that an original of the filing is being hand-delivered to the Commission on November 23, 2016 and a complete list of the parties and their counsel who should receive electronic notice of this electronic filing from the Commission are shown below:

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