

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**ELECTRONIC APPLICATION OF )**  
**KENTUCKY UTILITIES COMPANY FOR AN ) CASE NO. 2018-00294**  
**ADJUSTMENT OF ITS ELECTRIC RATES )**

**RESPONSE OF**  
**KENTUCKY UTILITIES COMPANY**  
**TO**  
**SECOND REQUESTS FOR INFORMATION**  
**OF THE KROGER COMPANY'S AND WALMART INC.'S**  
**DATED DECEMBER 13, 2018**

**FILED: JANUARY 2, 2019**

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 )  
COUNTY OF JEFFERSON )

The undersigned, **Christopher M. Garrett**, being duly sworn, deposes and says that he is Controller 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.

  
Christopher M. Garrett

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 28th day of December 2018.

  
Notary Public

My Commission Expires:  
**Judy Schooler**  
**Notary Public, ID No. 603967**  
**State at Large, Kentucky**  
**Commission Expires 7/11/2022**

**KENTUCKY UTILITIES COMPANY**

**Response to Second Requests for Information of the Kroger Company and Walmart  
Inc.**

**Dated December 13, 2018**

**Case No. 2018-00294**

**Question No. 1**

**Responding Witness: Christopher M. Garrett**

- Q-1. Refer to KU response to Kroger and Walmart's first RFI, A-6 (c)
- a. Refer to A-6 (c), parts (i) and (iii). According to KU's response regarding the difference between capitalization and rate base, one difference "is related to the fact that capitalization includes the funding for working capital," and "the Commission does not recognize a lead lag study (income statement analyses) cash working capital adjustment in the calculation of capitalization."
    - i. Please explain the statement that capitalization includes the funding for working capital.
      - 1. Does KU believe that rate base does not include the funding for working capital?
    - ii. What is the total amount of all cash working capital that is included in KU's proposed capitalization?
    - iii. What is the total amount of all cash working capital that is included in KU's proposed rate base?
    - iv. What is the reason for the difference in the amount of cash working capital between capitalization and rate base? In other words, what are the drivers of the difference between the cash working capital amounts determined by the income statement analyses and the balance sheet analyses?
  - b. Refer to A-6 (c), part (iv). According to KU's response, Line 42 of the reconciliation of rate base and capitalization uses different methodologies in calculating jurisdictional amounts between capitalization and rate base. "Capitalization utilizes the overall rate base jurisdictional factor shown in line 1 whereas the calculation of rate base utilizes multiple, varying jurisdictional factors."

- i. Please explain how the overall rate base jurisdictional factor for capitalization, shown on line 1, was calculated.
  - ii. Please provide a list or schedule of the multiple varying jurisdictional factors used to calculate the jurisdictional rate base.
  - iii. Please provide a justification or explanation regarding why the overall rate base jurisdictional factor for capitalization, and the jurisdictional percentage of rate base should be different.
  - iv. Please explain why KU does not to use the jurisdictional percentage of rate base as the overall rate base jurisdictional factor for capitalization?
- c. Refer to the reconciliation between the capitalization and rate base as required by 807 KAR 5:001 Section 16(6)(f).
- i. Line 41 Cash Working Capital (Income Statement) indicates \$52,552,424 on a Kentucky jurisdictional basis. Please explain how this amount was derived.
    1. Please reconcile this amount with the working capital allowances in Schedule B-5 of the KU's Jurisdictional Rate Base Summary.
    2. Please reconcile this amount with the working capital amounts in response to question Q-1(a)(i) and Q-1(a)(ii).

A-1.

- a.
  - i. Capitalization utilizes the overall balance sheet approach as discussed in the Rate Case and Audit Manual prepared by NARUC Staff Subcommittee of Accounting and Finance. Therefore, capitalization includes all assets and liabilities, including current assets and current liabilities, which primarily make up working capital. As a result, capitalization includes the funding of working capital.
    1. No. Rate base includes the funding of working capital. The completion of a lead/lag study accounts for a portion of the Company's cash working capital requirements, but this methodology does not adequately identify all sources of investor capital, unlike the overall balance sheet approach used by capitalization.

- ii.- iv. See attachment being provided in Excel format for cash working capital for capitalization and rate base as well as an explanation of drivers of the differences between these amounts.
  
- b.
  - i. The calculation of the overall rate base jurisdictional factor is shown on Filing Requirement 807 KAR 5:001 Section 16(8)(j) Schedule B-1.1.
  
  - ii. See Filing Requirement 807 KAR 5:001 Section 16(8)(b) Schedule B-7. See attachment for subpart a. being provided in excel format for additional information concerning the allocation difference.
  
  - iii. As shown on Filing Requirement 807 KAR 5:001 Section 16(8)(j) Schedule B-1.1, these factors are the same.
  
  - iv. As discussed in subpart i., the overall rate base jurisdictional factor on Filing Requirement 807 KAR 5:001 Section 16(8)(j) Schedule B-1.1 is utilized on Filing Requirement 807 KAR 5:001 Section 16(8)(j) Schedule J-1 to determine Kentucky Jurisdictional capitalization.
  
- c.
  - i. See attachment for subpart a. being provided in excel format which shows how amounts are derived and reconciled.

The attachment is being provided in a separate file in Excel format.

**KENTUCKY UTILITIES COMPANY**

**Response to Second Requests for Information of the Kroger Company and Walmart  
Inc.**

**Dated December 13, 2018**

**Case No. 2018-00294**

**Question No. 2**

**Responding Witness: Christopher M. Garrett**

- Q-2. Refer to the Direct Testimony of Christopher M. Garrett, page 37.
- a. Please describe the outage(s) and events that resulted in the \$1.9 million regulatory liability.
- A-2. The \$1.9 million forecasted regulatory liability balance as of April 30, 2019 is primarily driven by Brown units 1 and 2 included in the calculation of the eight-year average outage normalization. The decision was made to retire Brown units 1 and 2 which resulted in cancellation of their planned major outages.