

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

**In the Matter of:**

<b>ELECTRONIC APPLICATION OF</b>	)	
<b>KENTUCKY UTILITIES COMPANY FOR</b>	)	
<b>APPROVAL OF THE TRANSFER OF</b>	)	<b>CASE NO. 2020-00210</b>
<b>SUBSTATION FACILITIES TO THE CITY OF</b>	)	
<b>MADISONVILLE, KENTUCKY</b>	)	

**RESPONSE OF**  
**KENTUCKY UTILITIES COMPANY**  
**TO**  
**THE COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION**  
**DATED JULY 17, 2020**

**FILED: JULY 30, 2020**



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Initial Request for Information  
Dated July 17, 2020**

**Case No. 2020-00210**

**Question No. 1**

**Responding Witness: Christopher M. Garrett**

- Q-1. Refer to the application, page 4. The stated book value for the assets transferred is \$1,241,564.96; however, KU is projected to receive \$900,000 in return.
- a. Explain how the difference in the book value and receipt will be recorded.
  - b. Explain why KU is not receiving the full value in exchange for the utility assets.
  - c. Explain why KU is of the belief that the sale of the Madisonville substation assets is in the best interest of KU.
  - d. For the assets listed in the table on page 4, state whether any of the assets have been fully depreciated. If any of the subject assets have not been fully depreciated, provide the undepreciated amount of that particular asset.
  - e. Describe the impact that the loss on a sale of assets would have on future rates.
- A-1. The reference on page 4 of the application was to the original book value and does not reflect the accumulated provision for depreciation.
- a. The following journal entries include dollar amounts as of June 30, 2020 to illustrate how the difference in book value (i.e., original cost), accumulated provision for depreciation and the \$900,000 in proceeds will be recorded.

Debit	Account 131-Cash	\$900,000	
Credit	Account 102-Electric Plant Purchased or Sold		\$900,000
	<i>Record the net proceeds received from sale.</i>		
Debit	Account 102-Electric Plant Purchased or Sold	\$1,241,565	
Credit	Account 101-Electric Plant in Service		\$1,241,565
	<i>Reduce plant in service for the original cost.</i>		

Debit	Account 108-Accumulated Provision for Depreciation	\$510,898	
Credit	Account 102-Electric Plant Purchased or Sold		\$510,898
	<i>Reduce accumulated provision for depreciation.<sup>1</sup></i>		

Because this is considered a sale of an operating system, KU is required to make a filing with the Federal Energy Regulatory Commission (“FERC”) within six months of the sale to clear the funds from Account No. 102 per the FERC Uniform System of Accounts (“USofA”) instructions. KU will propose the following entry be recorded in its application to the FERC:

Debit	Account 102-Electric Plant Purchased or Sold	\$169,333	
Credit	Account 421.1-Gain on Disposition of Electric Plant (approx.)	\$169,333	
	<i>Record the difference between the net proceeds and the net book value. Amounts will be updated to reflect updated accumulated depreciation balances at the date of the sale.</i>		

- b. Taking into account the effects of depreciation, the sale of these assets will result in a gain. See the response to part (e) below.
- c. See the response to Question No. 2.
- d. See the attachment being provided in Excel format for a listing of assets and the approximate accumulated provision for depreciation as of June 30, 2020 being used to calculate the gain on the transaction.
- e. The sale of these assets will result in a gain. The gain will be recorded below the line in Account 421.1 consistent with the FERC USofA pending FERC approval described in the response to part (a) above and as such will not impact ratepayers.

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<sup>1</sup> Accumulated Depreciation amounts are as of June 30, 2020. Amounts will be updated to reflect the subsequent months of depreciation expense at the time of sale. KU follows composite and group depreciation principles and as such assets are not depreciated individually. Therefore, the accumulated provision for depreciation balances are not calculated for each asset. For purposes of recording a gain, as required by FERC guidance, an approximate accumulated provision for depreciation calculation has been made using the current approved depreciation rates for the assets being retired.

The attachment for Question No. 1(e) is being provided in a separate file in Excel format.

**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Initial Request for Information  
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**Case No. 2020-00210**

**Question No. 2**

**Responding Witness: Counsel**

- Q-2. Explain in detail how the proposed transaction is for a proper purpose and consistent with the public interest.
- A-2. Because Madisonville only receives transmission services from KU and is no longer a full requirements customer, KU has no reason to continue to own and maintain the Assets to be transferred and therefore the transaction is for a proper purpose and consistent with the public interest. These Assets are aging and could require capital improvements in the future. However, the risk of additional expense can be avoided through the sale of the Assets.