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Governor

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Secretary
Energy and Environment Cabinet

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James W. Gardner
Chairman

Daniel E. Logsdon Jr.
Vice Chairman

J. Roger Thomas
Commissioner

February 15, 2016

PARTIES OF RECORD

Re: Case No. 2015-00411
Case No. 2015-00412

Attached is a copy of a memorandum which is being filed in the record of the above-referenced cases. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Commission Counsel, at 502/782-2581.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

James W. Gardner
Acting Executive Director

Enclosures

INTRA-AGENCY MEMORANDUM ADDENDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2015-00411
Case No. 2015-00412

FROM: Jonathan Beyer, Staff Attorney

DATE: February 15, 2016

RE: Informal Conference of February 4, 2016

Pursuant to the Commission's December 21, 2015 procedural order, an informal conference was held in this matter on February 4, 2016. A list of attendees is attached.

Beginning the conference Louisville Gas & Electric Company ("LG&E") and Kentucky Utilities ("KU") (collectively, "the Companies") distributed a presentation, a copy of which is attached, detailing their current over and under recovery positions, an update on bonus tax depreciation for 2015, and the revision of the rate of return applicable to environmental compliance projects. The Companies further stated that electing bonus tax depreciation for 2015 resulted in tax losses for both Companies.

The Companies clarified that the over/under reconciliation is calculated on a monthly basis and the total result is summed for the review period. Therefore, the over- or under-recovery related to the use of 12-month average revenues for a six-month period will not be based on the total revenue for the six months but on the difference from the average for each month. The Companies also explained that the accounting errors in operations and maintenance expense identified for LG&E had been corrected and were related to expensing items that should have been capitalized. Further, the Companies explained that the effective tax rate of 38.9 percent is used to calculate deferred taxes because it is the statutory rate and any temporary differences in the effective tax rate reverse over time.

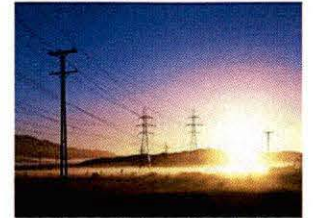
Finding that no party had any further questions the conference was adjourned.



PPL companies

ECR Review Case Nos. 2015-00411 and 2015-00412

February 4, 2016



Overview

- Review Period:
 - *Six-month review period for expense months of March 2015 through August 2015*
 - *ECR Plans in effect: 2009 and 2011*
- Bonus Tax Depreciation Update
- Revision to Rate of Return
- Next Steps

Over/(Under) Reconciliation

| | KU | LG&E |
|----------------------------------|---------------|-------------|
| Combined Over/(Under) Recovery | (\$1,309,732) | \$1,702,207 |
| Due to Change in Rate of Return | (1,661,162) | (909,789) |
| Use of 12-Month Average Revenues | 351,431 | 2,611,996 |
| Total | (\$1,309,732) | \$1,702,207 |

Over/(Under) Recovery Position

- KU: under-recovery position
 - *Total under-recovery for the 6-month period is \$1,309,732*
 - *Recommend collection over 2 months*
 - *Impact to residential customer using 1,146 kWh/mo is \$0.58 per month for two months*
- LG&E: over-recovery position
 - *Total over-recovery for the 6-month period is \$1,702,207*
 - *Recommend distribution over 3 months*
 - *Impact to residential customer using 976 kWh/mo is (\$0.62) per month for three months*

Bonus Tax Depreciation Update

- *In December 2015, the "Protecting Americans from Tax Hikes Act of 2015" was passed into law. The new law extends the 50% bonus rate to the years 2015-17 and then phases the bonus rate down to 40% for 2018 and 30% for 2019.*
 - *As a result of bonus tax depreciation, KU and LG&E incurred significant tax losses in 2015 and are unable to take the IRS Section 199 Manufacturing Tax Deduction.*
- Continued use of 38.6660% effective income tax rate for the rate of return true-up calculations; excludes Section 199 deduction
 - *Consistent with Commission's Orders in the most recent review cases*

Rate of Return

- 10.00% return on equity effective July 1
 - *Consistent with the Commission's recent Orders in Case Nos. 2014-00371 and 2014-00372 (most recent base rate cases establishing the ROE for all Plans for ECR purposes, Orders issued June 30, 2015)*
- Corrections made to data for calculation of embedded cost of capital for the month of August
 - *Revisions to response to Q1 and Q5 were submitted Wednesday February 3*
 - *No impact to over/under recovery position for 6-month period under review*
- Proposed rate of return going forward using 10% ROE
 - 10.30% for KU
 - 10.10% for LG&E

Recommendations - KU and LG&E

- Approve collection of KU's under-recovery position:
 - *Under-recovery of \$1,309,732 collected over a two month period*
- Approve distribution of LG&E's over-recovery position:
 - *Over-recovery of \$1,702,207 distributed over a three month period*
- Find environmental surcharge amounts for the billing periods ending October 2015 just and reasonable
- Approve the use of an overall rate of return on capital using a return on equity of 10.00% beginning in the second billing month following the Commission's Order
 - *10.30% for KU*
 - *10.10% for LG&E*

Next Steps

Procedural Schedule

- *All additional requests for information to KU and LG&E* February 18
- *KU and LG&E shall file responses* March 3
- *Intervenor testimony, if any, to be filed* March 14
- *All requests for information to Intervenors* March 24
- *Intervenors shall file responses* April 4
- *Last day for KU and LG&E to request a hearing or submit the case for decision based on the record.....* April 14

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF KENTUCKY) 2015-00411
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2015)

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF LOUISVILLE GAS) 2015-00412
AND ELECTRIC COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2015)

February 4, 2016

Please sign in:

| NAME | REPRESENTING |
|-------------------------|------------------|
| <u>Jonathan Boyer</u> | <u>PSC</u> |
| <u>Mary Whitaker</u> | <u>PSC-FA</u> |
| <u>Ron Handziak</u> | <u>PSC-FA</u> |
| <u>Bob Russell</u> | <u>PSC-FA</u> |
| <u>Robert M. Conroy</u> | <u>LGE/KU</u> |
| <u>Sara Veeneman</u> | <u>LGE/KU</u> |
| <u>RICHARD RAFF</u> | <u>PSC-LEGAL</u> |
| <u>Deek Babin</u> | <u>LGE/KU</u> |
| <u>Chris Carrell</u> | <u>LGE/KU</u> |

Jason Knay

LGE/KU

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