

Attachment O Formula Rate Protocols

Section II.D The Annual Update shall:

1. Include a workable data-populated Formula Rate Template and underlying workpapers in native format with all formulas and links intact;

Response: LG&E/KU’s 2015 Updated Attachment O Formula Rate Template, named “Att O 2015 Posted.xlsx” can be located on the LG&E/KU OASIS under the “Transmission Rates” folder.

2. Be based on LG&E/KU’s applicable FERC Form No. 1 for the prior calendar year;

Response: LG&E/KU FERC Form 1 data can be located on the LG&E/KU OASIS under the “Transmission Rates > Supporting Documents” folder.

3. Provide the formula rate calculations and all inputs thereto, as well as supporting documentation and workpapers for data that are used in the formula rate that are not otherwise available in the FERC Form No. 1;

Response: LG&E/KU formula rate calculations and all inputs thereto are included in the document referenced in response to Item #1. Supporting documentation and workpapers for data that are used in the formula rate that are not otherwise available in the FERC Form No. 1 can be located on the LG&E/KU OASIS under the “Transmission Rates > Supporting Documents” folder.

4. Provide sufficient information to enable Interested Parties (as that term is defined in Section II.E of these protocols) to replicate the calculation of the formula Louisville Gas and Electric Company Exhibit I Protocols results using the FERC Form No. 1 and any data not otherwise available in the FERC Form No. 1;

Response: See the documents referenced in response to Items #1 and #3.

5. Identify any changes in the formula references (page and line numbers) to the FERC Form No. 1;

Response: LG&E/KU identified the following changes in the formula references (page and line numbers) to the FERC Form No. 1.

- a. Updated Form 1 references for the following cells on the OATT Input Data tab:

- 1) B197 - changed page # to 351
- 2) B198 - changed line # for KU to L.13
- 3) B234 - added separate line # for KU since different from LG&E's line # in 2015 Form 1
- 4) B225 - changed line # to L.14
- 5) B227 - added line # references for KU (L.15) and LG&E (L.14) since amounts are components of total misc. taxes
- 6) B229 - changed line # for LG&E to L.17

- b. OATT Input Data tab - Updated Form 1 references for Page 330 inputs to agree to the 2015 Form 1 amounts disclosed. Updated Form 1 references for the following cells on the OATT Input Data tab:
 - 1) B198 - changed page # to 351
 - 2) B199 - changed page # to 351
 - c. OATT Input Data tab - Row 154: Updated line description to "Network Upgrade" rather than "LSE Direct Assignment"
 6. Identify all material adjustments made to the FERC Form No. 1 data in determining formula inputs, including relevant footnotes to the FERC Form No. 1 and any adjustments not shown in the FERC Form No. 1;
Response: LGE/KU did not identify any adjustments made to the FERC Form No. 1 data in determining formula inputs, including relevant footnotes to the FERC Form No. 1 and any adjustments not shown in the FERC Form No. 1.
 7. Provide underlying data for formula rate inputs that provide greater granularity than is required for the FERC Form No. 1;
Response: See the documents referenced in the response to Item #3.

8. With respect to any change in accounting that affects inputs to the formula rate or the resulting charges billed under the formula rate ("Accounting Change"):

- a. Identify any Accounting Changes, including

- i. The initial implementation of an accounting standard or policy;

Response: LG&E/KU reports the following implementation of new accounting policies:

- **In KPSC Case No. 2014-00372 & No. 2014-00371, LGE & KU received Order authorization, respectively, to provide regulatory asset treatment for the difference between pension expense currently recorded in accordance with LG&E's and KU's pension accounting policy and pension expense using a 15 year amortization period for actuarial gains and losses.**
- **In KPSC Case No. 2014-00371 KU received Order authorization to provide regulatory asset treatment for deferred recovery of costs incurred by the Green River Units 3 and 4 during the July 2015 to June 2016 period through retirement of these units. The regulatory asset will be amortized over a three year period beginning with an effective date of July 2015.**
- **With the implementation of the KPSC Orders for Case No. 2014-00372 & No. 2014-00371, LGE & KU changed their**

accounting policies related to capitalization of property taxes to be limited to capital projects that have projected costs of \$500,000 or greater and are constructed over a period of greater than 12 months. There are specific exclusions within this policy related to blanket and annual projects, respectively.

- ii. the initial implementation of accounting practices for unusual or unconventional items where FERC has not provided specific accounting direction;

Response: LG&E/KU did not identify any changes.

- iii. correction of errors and prior period adjustments that impact the revenue requirement;

Response: LG&E/KU reports the following adjustments.

- **LG&E/KU routinely reviews charges to capital projects to ensure accurate classification and makes reclassifications to O&M for previous year charges where appropriate. Such reclassifications may impact the determination of the Attachment O revenue requirement, depending on accounts impacted and type of charges being reclassified.**
- **Letter of Credit fees from a LG&E/KU affiliate were under-accrued at 12/31/14 and a true-up of the 4th Quarter amounts were made to FERC Account No. 921 in January 2015.**
- **SNL software license fees were recorded as a prepaid in October 2014 to FERC Account No. 165, but were never subsequently amortized to FERC Account No. 921 until September 2015.**
- **LG&E/KU recorded settlements to its Bluegrass Power counterparty for reactive power (MVAR) outside the bandwidth. These expenses were charged to FERC Account No. 566 with corresponding interest being charged to FERC Account No. 431.**
- **LG&E/KU recorded settlements to its Trimble County Unit 2 partners, IMEA and IMPA for reactive power (MVAR) outside the bandwidth for the years 2012-2014. These expenses were charged to FERC Account No. 566.**
- **LG&E/KU received a usage rebate related to prior year from its purchasing card provider, US Bank. The refund was credited to FERC Account No. 921.**
- **The Company prefunded flexible spending accounts with their third-party provider, ADP, to a withholding payroll liability, FERC Account No. 232. These prefunded amounts have been recorded as prepaids to FERC Account No. 165.**

- iv. the implementation of new estimation methods or policies that change prior estimates; and

Response: LG&E and KU Services Company (“LKS”) received approval in 2015 for its amended Cost Allocation Manual from the Virginia State Corporation Commission in Case No. PUE-2015-00126. LKS provides administrative, technical, management, engineering, legal, accounting, and other services to affiliates, primarily LG&E/KU.

- v. changes to income tax elections;

Response: LG&E/KU did not identify any changes. LG&E/KU continue to make the bonus depreciation election.

- a. Identify items included in the formula rate at an amount other than on a historic cost basis (e.g., fair value adjustments);

Response: LG&E/KU did not have any formula rate at an amount other than on a historic cost basis (e.g., fair value adjustments).

- b. Identify any reorganization or merger transaction during the previous year and explain the effect of the accounting for such transaction(s) on inputs to the formula rate;

Response: LG&E/KU did not have any reorganization or merger transaction during the previous year.