



a PPL company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED

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PUBLIC SERVICE
COMMISSION

Louisville Gas and
Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@lge-ku.com

January 12, 2011

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-
MONTH BILLING PERIOD ENDING OCTOBER 31, 2010
CASE NO. 2010-00475***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Direct Testimony of Robert M. Conroy and the Response of Louisville Gas and Electric Company to the Information Requested in Appendix B of the Commission's Order dated December 27, 2010, in the above-referenced matter.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2010-00475
BILLING PERIOD ENDING OCTOBER 31, 2010)	

DIRECT TESTIMONY OF

ROBERT M. CONROY
DIRECTOR - RATES
LG&E AND KU SERVICES COMPANY

Filed: January 12, 2011

1 **Q. Please state your name, title, and business address.**

2 A. My name is Robert M. Conroy. I am the Director – Rates for LG&E and KU
3 Services Company, which provides services to Louisville Gas and Electric Company
4 (“LG&E”) and Kentucky Utilities Company (“KU”) (collectively “the Companies”).
5 My business address is 220 West Main Street, Louisville, Kentucky, 40202. A
6 complete statement of my education and work experience is attached to this testimony
7 as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified before this Commission in proceedings concerning
10 the Companies’ most recent rate cases, fuel adjustment clauses, and environmental
11 cost recovery (“ECR”) surcharge mechanisms.

12 **Q. What is the purpose of this proceeding?**

13 A. The purpose of this proceeding is to review the past operation of LG&E’s
14 environmental surcharge during the six-month billing period ending October 31, 2010
15 (expense months of March 2010 through August 2010) and determine whether the
16 surcharge amounts collected during the period are just and reasonable.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to summarize the operation of LG&E’s
19 environmental surcharge during the billing period under review, demonstrate the
20 amounts collected during the period were just and reasonable, present and discuss
21 LG&E’s proposed adjustment to the Environmental Surcharge Revenue Requirement
22 based on the operation of the surcharge during the period and explain how the
23 environmental surcharge factors were calculated during the period under review.

1 Q. **Please summarize the operation of the environmental surcharge for the billing**
2 **period included in this review.**

3 A. LG&E billed an environmental surcharge to its customers from May 1, 2010 through
4 October 31, 2010. For purposes of the Commission's examination in this case, the
5 monthly LG&E environmental surcharges are considered as of the six-month billing
6 period ending October 31, 2010. In each month of the period, LG&E calculated the
7 environmental surcharge factors in accordance with its tariff ECR and the
8 requirements of the Commission's previous orders concerning LG&E's
9 environmental surcharge.

10 Q. **What costs were included in the calculation of the environmental surcharge**
11 **factors for the billing period under review?**

12 A. The capital and operating costs included in the calculation of the environmental
13 surcharge factors for the billing period were the costs incurred each month by LG&E
14 from March 2010 through August 2010, as detailed in the attachment in response to
15 Question No. 2 of the Commission Staff's Request for Information, incorporating all
16 required revisions.

17 The monthly environmental surcharge factors applied during the billing period
18 under review were calculated consistent with the Commission's orders in LG&E's
19 previous applications to assess or amend its environmental surcharge mechanism and
20 plan, as well as orders issued in previous review cases. The monthly environmental
21 surcharge reports filed with the Commission during this time reflect the various
22 changes to the reporting forms ordered by the Commission from time to time.

1 **Q. Has the Commission recently approved changes to LG&E's ECR Compliance**
2 **Plan?**

3 A. Yes. In Case No. 2009-00549, LG&E's most recent rate case, the Commission
4 approved the elimination of LG&E's 2001 and 2003 ECR Compliance Plans from the
5 monthly environmental surcharge filings. Effective with the August 2010 expense
6 month, the monthly environmental surcharge includes only costs associated with the
7 2005, 2006 and 2009 Compliance Plans.

8 **Q. Has the Commission recently approved changes to the environmental surcharge**
9 **mechanism and the monthly ES Forms?**

10 A. Yes. In Case No. 2009-00311, LG&E's most recent ECR two-year review, the
11 Commission approved changes to the environmental surcharge mechanism that
12 include the calculation of the monthly billing factor using a revenue requirement
13 method instead of a percentage method (eliminating the use of the Base
14 Environmental Surcharge Factor ("BESF")), the elimination of the monthly true-up
15 adjustment, and revisions to the monthly reporting forms to reflect the approved
16 changes. Pursuant to the Commission's December 2, 2009 Order in that case, the
17 changes were implemented with the December 2009 expense month that was billed in
18 February 2010. The approved changes only impact the timing and accuracy of the
19 revenue collection, not the total revenues LG&E is allowed to collect through the
20 ECR. The previous six-month review proceeding included the transition from the
21 percentage method to the new revenue requirement method. The six-month period
22 under review is the first to include all months calculated using the new revenue
23 requirement method.

1 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
2 **expense months?**

3 A. No. During the period under review, there were no changes to Rate Base from the
4 originally filed billing period as summarized in LG&E's response to the Commission
5 Staff's Request for Information, Question No. 1. In addition, there were no changes
6 identified as a result of preparing responses to the requests for information in this
7 review.

8 **Q. Are there any changes necessary to the jurisdictional revenue requirement**
9 **(E(m))?**

10 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
11 Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of
12 return on capitalization that is used in the determination of the return on
13 environmental rate base. The details of and support for this calculation are shown in
14 LG&E's response to Question No. 1 of the Commission Staff's Request for
15 Information.

16 **Q. As a result of the operation of the environmental surcharge during the billing**
17 **period under review, is an adjustment to the revenue requirement necessary?**

18 A. Yes. LG&E experienced a cumulative over-recovery of \$1,419,514 for the billing
19 period ending October 31, 2010. LG&E's response to Question No. 2 of the
20 Commission Staff's Request for Information shows the calculation of the cumulative
21 over-recovery. However, LG&E is adjusting this over-recovery position for a
22 correction made in the review period in this proceeding that affected the February
23 2010 expense month. A prior period adjustment of \$941,134 was included in the

1 April 2010 expense month filing submitted to the Commission on May 17, 2010. The
2 net over-recovery position which LG&E is submitting in this proceeding is \$478,380.
3 Therefore, an adjustment to the revenue requirement is necessary to reconcile the
4 collection of past surcharge revenues with actual costs for the billing period under
5 review.

6 **Q. Why is LG&E making the adjustment discussed above to the recovery position**
7 **contained in this review period?**

8 A. In the April 2010 expense month filing submitted to the Commission on May 17,
9 2010, LG&E identified an error in the amount of ECR revenue reported as collected
10 through base rates for the February 2010 expense month filing. This reporting error
11 resulted in an under-collection of \$941,134 of February 2010 expenses through the
12 April 2010 ECR billing factor. This under-collection was included in the April 2010
13 expense month filing and recovered through the June 2010 billing factor. Because
14 LG&E made an adjustment to its monthly filings, the effect of the reporting error
15 must be eliminated from the calculation of the current over-recovery position.

16 **Q. Did LG&E include an adjustment in its previous six-month review case?**

17 A. Yes. In Case No. 2010-00242, LG&E included an adjustment as part of the
18 calculation of the under-recovery in that proceeding. As previously stated, because
19 LG&E made an adjustment to its monthly filings, the effect of the reporting error
20 must be eliminated from both the previous and current recovery positions.

21 Without an adjustment in the previous and current review periods, the
22 correction amount would have over-stated the under-recovery position in the previous

1 review period and over-stated the over-recovery position in the current review period
2 as shown on the following table.

3

	Six-Month Review Expense Period Sep09-Feb10	Six-Month Review Expense Period Mar10-Aug10
Cumulative Over/(Under) Recovery	(\$5,714,763)	\$1,419,514
Feb10 Expense Month Correction	<u>\$941,134</u>	<u>(\$941,134)</u>
Net Over/(Under) Recovery	(\$4,773,629)	\$478,380

4

5 **Q. Has LG&E identified the causes of the net over-recovery during the billing**
6 **period under review?**

7 A. Yes. LG&E has identified the components that make up the net over-recovery during
8 the billing period under review. The components are (1) changes in overall rate of
9 return as previously discussed, and (2) the use of 12 month average revenues to
10 determine the billing factor. In addition, as discussed above, the error contained in
11 the February 2010 expense month filing that was identified in April 2010 and
12 considered in the previous review proceeding is contributing to the over-recovery
13 position in this period. The details and support of the components that make up the
14 net over-recovery during the billing period under review are shown in LG&E's
15 response to Question No. 2 of the Commission Staff's Request for Information.

16 With the transition to the revenue requirement method in the previous review
17 period, the BESF is no longer impacting the calculation of the over/(under) recovery
18 position. As previously discussed, the monthly billing factors for the billing period
19 under review were calculated using the revenue requirement method.

1 **Q. Please explain how the function of the ECR mechanism contributes to the net**
2 **over-recovery in the billing period under review?**

3 A. The use of 12-month average revenues to calculate the monthly billing factor and
4 then applying that same billing factor to the actual monthly revenues will result in an
5 over or under-collection of ECR revenues. Typically it will result in an over-
6 collection during the summer or winter months when actual revenues will generally
7 be greater than the 12-month average and an under-collection during the shoulder
8 months when actual revenues will generally be less than the 12-month average. The
9 use of 12-month average revenues contributed to the net over-recovery as shown in
10 LG&E's response to Question No. 2 of the Commission Staff's Request for
11 Information.

12 During the period under review, LG&E's actual revenues were significantly
13 greater than the 12-month historical average due to the warmer than normal
14 temperatures during the summer period. The table below shows a comparison of the
15 12-month average revenues used in the monthly filings to determine the ECR billing
16 factor and the actual revenues which the ECR billing factor was applied in the billing
17 month.

Expense Month	12-month Average Revenue	Billing Month	Actual Revenue ECR applied to
March 2010	\$63,776,579	May 2010	\$56,850,605
April 2010	\$64,004,468	June 2010	\$80,270,508
May 2010	\$64,093,415	July 2010	\$93,021,435
June 2010	\$64,794,282	August 2010	\$90,875,356
July 2010	\$65,947,483	September 2010	\$88,756,203
August 2010	\$67,236,254	October 2010	\$69,773,058

18

1 **Q. What kind of adjustment is LG&E proposing in this case as a result of the**
2 **operation of the environmental surcharge during the billing period?**

3 A. LG&E is proposing that the net over-recovery be refunded in one month following
4 the Commission's Order in this proceeding. Specifically, LG&E recommends that
5 the Commission approve a decrease to the Environmental Surcharge Revenue
6 Requirement of \$478,380 for one month, beginning in the second full billing month
7 following the Commission's Order in this proceeding. This method is consistent with
8 the method of implementing previous over- or under-recovery positions in prior ECR
9 review cases.

10 **Q. What is the bill impact on a residential customer for the proposed refund of the**
11 **over-recovery?**

12 A. The inclusion of the refund in the determination of the ECR billing factor will
13 decrease the billing factor by approximately 0.68%. For a residential customer using
14 1,000 kWh the ECR billing factor will decrease by approximately \$0.57 per month
15 for one month (using rates and adjustment clause factors in effect for the January
16 2011 billing month).

17 **Q. What rate of return is LG&E proposing to use for all ECR Plans upon the**
18 **Commission's Order in this proceeding?**

19 A. LG&E is recommending an overall rate of return on capital of 11.31%, including the
20 currently approved 10.63% return on equity and adjusted capitalization, to be used to
21 calculate the environmental surcharge. This is based on capitalization as of August
22 31, 2010 and the Commission's Order of July 30, 2010 in Case No. 2009-00549.

23 **Q. What is your recommendation to the Commission in this case?**

- 1 A. LG&E makes the following recommendations to the Commission in this case:
- 2 a) The Commission should approve the proposed decrease to the Environmental
- 3 Surcharge Revenue Requirement of \$478,380 for one month beginning in the
- 4 second full billing month following the Commission's decision in this
- 5 proceeding;
- 6 b) The Commission should determine environmental surcharge amount for the
- 7 six-month billing period ending October 31, 2010 to be just and reasonable;
- 8 c) The Commission should approve the use of an overall rate of return on capital
- 9 of 11.31% using a return on equity of 10.63% beginning in the second full
- 10 billing month following the Commission's Order in this proceeding.

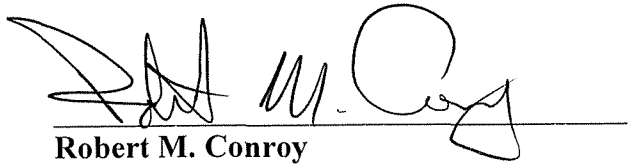
11 **Q. Does this conclude your testimony?**

12 A. Yes.

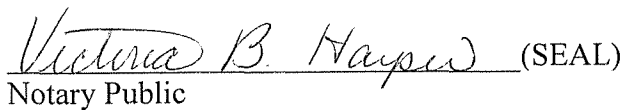
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.


Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of January 2011.

 (SEAL)
Notary Public

My Commission Expires:

September 22, 2014

APPENDIX A

Robert M. Conroy

Director - Rates
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3324

Education

Masters of Business Administration
Indiana University (Southeast campus), December 1998. GPA: 3.9.
Bachelor of Science in Electrical Engineering;
Rose Hulman Institute of Technology, May 1987. GPA: 3.3
Essentials of Leadership, London Business School, 2004.
Center for Creative Leadership, Foundations in Leadership program, 1998.
Registered Professional Engineer in Kentucky, 1995.

Previous Positions

Manager, Rates	April 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2010-00475
BILLING PERIOD ENDING OCTOBER 31, 2010)	

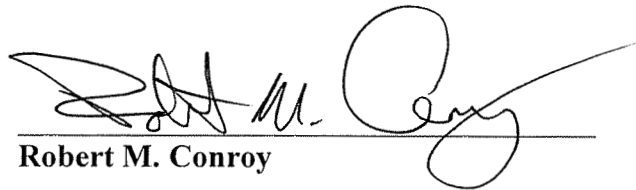
RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED DECEMBER 27, 2010

FILED: January 12, 2011

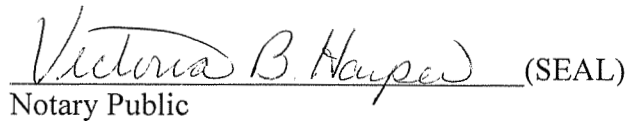
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for 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.


Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of January 2011.

 (SEAL)
Notary Public

My Commission Expires:

September 22, 2014

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is Director – Utility Accounting and Reporting for LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Shannon L. Charnas
Shannon L. Charnas

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of January 2011.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

September 22, 2014

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00475

Question No. 1

Witness: Robert M. Conroy / Shannon L. Charnas

Q-1. Concerning the rate of return on the five amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review.

A-1. Please see the attachment.

LG&E calculated the true-up adjustment to recognize changes in the cost of debt and capital structure in two steps, shown on Pages 1 and 2 of the attachment to this response. Page 1 reflects the true-up required due to the changes between the Rate Base as filed and the Rate Base as Revised through the Monthly Filings. However, during the period under review there were no revisions to reflect. Page 2 represents the true-up in the Rate of Return as filed compared to the actual Rate of Return calculations. No further revisions to Rate Base were identified during this review period.

Page 3 provides the adjusted weighted average cost of capital for the period under review.

LG&E did not engage in accounts receivable financing or have any preferred stock during the period under review.

Louisville Gas & Electric Company
Overall Rate of Return True-up Adjustment - Revised Rate Base
Impact on Calculated E(m)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base (5) - (4)	True-up Adjustment (3) * (6) / 12	Jurisdictional Allocation, ES Form 1.00	Jursidictional True up Adjustment (7) * (8)
May-10	Mar-10	11 18%	\$239,208,510	\$239,208,510	\$ -	\$ -	88.90%	\$ -
Jun-10	Apr-10	11 18%	238,586,409	238,586,409	-	-	84.15%	-
Jul-10	May-10	10 97%	238,012,541	238,012,541	-	-	85.36%	-
Aug-10	Jun-10	10 97%	238,182,734	238,182,734	-	-	93.53%	-
Sep-10	Jul-10	10 97%	237,736,661	237,736,661	-	-	92.29%	-
Oct-10	Aug-10	10 97%	69,783,654	69,783,654	-	-	92.56%	-
						\$ -		\$ -
Cumulative Impact of Changes in Rate Base						\$ -		\$ -

Louisville Gas & Electric Company
 Overall Rate of Return True-up Adjustment - Revised Rate of Return
 Impact on Calculated E(m)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return (4) - (3)	Rate Base as Revised	True-up Adjustment (5) * (6) / 12	Jurisdictional Allocation, ES Form 1 00	Jurisdictional True up Adjustment (7) * (8)
May-10	Mar-10	11.18%	11.22%	0.04%	\$ 239,208,510	7,974	88.90%	7,089
Jun-10	Apr-10	11.18%	11.22%	0.04%	238,586,409	7,953	84.15%	6,692
Jul-10	May-10	10.97%	11.22%	0.25%	238,012,541	49,586	85.36%	42,327
Aug-10	Jun-10	10.97%	11.22%	0.25%	238,182,734	49,621	93.53%	46,411
Sep-10	Jul-10	10.97%	11.22%	0.25%	237,736,661	49,528	92.29%	45,710
Oct-10	Aug-10	10.97%	11.22%	0.25%	69,783,654	14,538	92.56%	13,457
						179,201		161,685
Cumulative Impact of Changes in Rate of Return						\$ 179,201		\$ 161,685

LOUISVILLE GAS AND ELECTRIC COMPANY

**Adjusted Electric Rate of Return on Common Equity
As of October 31, 2010**

	Per Books 10-31-10 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 17) (5)	Adjusted Electric Capitalization (Col 4 + Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
1. Short Term Debt	\$ 142,309,400	6.04%	79.540%	\$ 113,192,897	\$ 1,640,890	\$ 114,833,787	6.04%	0.25%	0.02%
2. Long Term Debt	896,104,000	38.05%	79.540%	712,761,122	10,337,065	723,098,187	38.05%	5.15%	1.96%
3. Common Equity	1,316,862,926	55.91%	79.540%	1,047,432,771	15,189,101	1,062,621,872	55.91%	10.63%	5.94%
4. Total Capitalization	<u>\$ 2,355,276,326</u>	<u>100.000%</u>		<u>\$ 1,873,386,790</u>	<u>\$ 27,167,056</u>	<u>\$ 1,900,553,846</u>	<u>100.000%</u>		<u>7.92%</u>

5. Weighted Cost of Capital Grossed up for Income Tax Effect: $(ROR - DR) \times [TR / (1 - TR)]$

11.22%

ELECTRIC

	Capitalization (Col 4) (10)	Capital Structure (11)	Trimbale County Inventories (a) (Col 11 x Col 12, Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13, Line 4) (13)	JDIC (Col 11 x Col 14, Line 4) (14)	Environmental Surcharge (Net of ECR Roll-in) (Col 11 x Col 15, Line 4) (15)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 16, Line 4) (16)	Total Adjustments To Capital (17)
1. Short Term Debt	\$ 113,192,897	6.04%	\$ (312,903)	\$ (36,612)	\$ 1,297,144	\$ (741,239)	\$ 1,434,500	\$ 1,640,890
2. Long Term Debt	712,761,122	38.05%	(1,971,184)	(230,646)	8,171,577	(4,669,557)	9,036,875	10,337,065
3. Common Equity	1,047,432,771	55.91%	(2,896,423)	(338,907)	12,007,171	(6,861,365)	13,278,625	15,189,101
4. Total Capitalization	<u>\$ 1,873,386,790</u>	<u>100.000%</u>	<u>\$ (5,180,510)</u>	<u>\$ (606,165)</u>	<u>\$ 21,475,892</u>	<u>\$ (12,272,161)</u>	<u>\$ 23,750,000</u>	<u>\$ 27,167,056</u>

(a) As of October 31, 2010

Trimbale County Inventories	\$ 4,943,035
Materials and Supplies	837,049
Stores Expense	14,645,510
Coal	141,791
Limestone	153,865
Fuel Oil	789
Emission Allowances	20,722,039
Total Trimbale County Inventories	\$ 20,722,039
Multipled by Disallowed Portion	25.00%
Trimbale County Inv. Disallowed	<u>\$ 5,180,510</u>

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00475

Question No. 2

Witness: Robert M. Conroy

Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings LG&E has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount LG&E believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

A-2. Please see the attachment to this response for the summary schedule and cumulative components which make up the net over-recovery.

For the period under review, LG&E experienced a cumulative over-recovery of \$1,419,514. However LG&E is adjusting this over-recovery position for a correction made in this review period that affected the February 2010 expense month as shown on page 2 of 3 on the attached schedule. The original February 2010 expense month filing included an overstatement of the ECR revenue collected through base rates, resulting in an under-recovery of \$941,134. The adjustment to correct the overstatement was shown as a prior period adjustment in the April 2010 expense month filing and was recovered through the June 2010 billing factor. Since an adjustment was made in the monthly filings, LG&E made an adjustment in the previous review period (Case No. 2010-00242) and a corresponding adjustment in this review period to eliminate the effect of the correction. The result is a net over-recovery of \$478,380 for the 6-month billing period under review.

Louisville Gas & Electric Company
Calculation of E(m) and Jurisdictional Surcharge Billing Factor
Summary Schedule for Expense Months March 2010 through October 2010

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Expense Month	Rate Base as Revised ES Form 2.00	Monthly Rate Base as Revised (2) / 12	Rate of Return as Revised	Operating Expenses (net of allowance proceeds) ES Form 2.00	Total E(m) (3) * (4) + (5)	Retail Allocation Ratio ES Form 1.10	Retail E(m) (6) * (7)
Mar-10	\$239,208,510	19,934,043	11.22%	\$1,328,722	3,565,322	88.90%	3,169,571
Apr-10	238,586,409	19,882,201	11.22%	1,718,933	3,949,716	84.15%	3,323,686
May-10	238,012,541	19,834,378	11.22%	1,222,271	3,447,688	85.36%	2,942,947
Jun-10	238,182,734	19,848,561	11.22%	1,258,869	3,485,878	93.53%	3,260,341
Jul-10	237,736,661	19,811,388	11.22%	1,252,517	3,475,355	92.39%	3,207,405
Aug-10	69,783,654	5,815,305	11.22%	179,605	832,083	92.56%	770,176
	1,261,510,509	105,125,876					

(1) Expense Month	(2) Retail E(m)	(3) Adjustment to Retail E(m) for Under-Collection	(4) Retail E(m) Including all Adjustments to be billed as ECR	(5) Average Monthly Retail Revenues	(6) Monthly Billing Factor	(7) ECR Revenue Recovered Through Base Rates	(8) Billing Period	(9) ECR Billing Factor Revenues	(10) Combined Total Over/(Under) Recovery
				ES Form 1.10	As Filed				(4) - (7) - (9)
Mar-10	3,169,571	0	3,169,571	63,776,579	0.90%	2,590,497	May-10	572,800	(6,274)
Apr-10	3,323,686	0	3,323,686	64,004,468	3.04%	2,310,726	Jun-10	2,482,673	1,469,713
May-10	2,942,947	390,130	3,333,077	64,093,415	1.53%	2,309,086	Jul-10	1,519,099	495,109
Jun-10	3,260,341	0	3,260,341	64,794,282	-0.11%	3,104,271	Aug-10	(125,080)	(281,150)
Jul-10	3,207,405	0	3,207,405	65,947,483	-0.60%	3,559,513	Sep-10	(520,026)	(167,918)
Aug-10	770,176	0	770,176	67,236,254	-2.50%	2,407,196	Oct-10	(1,726,986)	(89,965)
	16,674,126		17,064,256		Sub Total	16,281,290		2,202,480	1,419,514
								Correcton to Feb10 expense month filed with Apr10 monthly filing	(941,134)
					Grand Total				478,380

Louisville Gas & Electric Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2010 through August 2010

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return (4) - (3)	Rate Base as Revised	Impact of change in Rate of Return (5) * (6) / 12	Jurisdictional Allocation, ES Form 1.00	Jursisdictional Impact (7) * (8)
May-10	Mar-10	11.18%	11.22%	0.04%	\$239,208,510	(7,974)	88.90%	(7,089)
Jun-10	Apr-10	11.18%	11.22%	0.04%	238,586,409	(7,953)	84.15%	(6,692)
Jul-10	May-10	10.97%	11.22%	0.25%	238,012,541	(49,586)	85.36%	(42,327)
Aug-10	Jun-10	10.97%	11.22%	0.25%	238,182,734	(49,621)	93.53%	(46,411)
Sep-10	Jul-10	10.97%	11.22%	0.25%	237,736,661	(49,528)	92.29%	(45,710)
Oct-10	Aug-10	10.97%	11.22%	0.25%	69,783,654	(14,538)	92.56%	(13,457)
Cumulative Impact of Changes in Rate of Return						\$ (179,201)		\$ (161,685)

(1)	(2)	(3)	(4)	(5)	(6)
Recovery Position Explanation - Over/(Under)					
Billing Month	Expense Month	Combined Total Over/(Under) Recovery (Q2, pg 2, Col 10)	ROR Trueup	Use of 12 Month Average Revenues	Correction to Feb10 Expense Month Filing / Included in Apr10 Expense Month
May-10	Mar-10	(6,274)	(7,089)	815	
Jun-10	Apr-10	1,469,713	(6,692)	535,271	941,134
Jul-10	May-10	495,109	(42,327)	537,436	
Aug-10	Jun-10	(281,150)	(46,411)	(234,739)	
Sep-10	Jul-10	(167,918)	(45,710)	(122,209)	
Oct-10	Aug-10	(89,965)	(13,457)	(76,509)	
		1,419,514	(161,685)	640,065	941,134
Feb10 Expense Mo Correction		(941,134)			
Net Over/(Under) Recovery		478,380			

OVER/UNDER RECONCILIATION	
Combined Over/(Under) Recovery	1,419,514
Due to Change in ROR	(161,685)
Use of 12 Month Average Revenues	640,065
Due to Feb10 Expense Mo Correction	941,134
Subtotal	1,419,514
Unreconciled Difference	-

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00475

Question No. 3

Witness: Shannon L. Charnas

Q-3 Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported during each billing period under review for Pollution Control Deferred Income Taxes.

A-3. LG&E calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

In LG&E's most recent rate case, Case No. 2009-00549, the Commission approved the elimination of the 2001 and 2003 ECR Compliance Plans effective with the August 2010 expense month. Therefore, the attachment includes the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes for the 2001 and 2003 projects as reported each month through the July 2010 expense month.

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 11 -- Special Waste Landfill Expansion - MC

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							191,948	
Mar-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	197,509	22,369
Apr-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	203,070	22,369
May-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	208,631	22,369
Jun-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	214,192	22,369
Jul-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	219,753	22,369
Aug-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	225,313	22,369

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 12 -- Special Waste Landfill Expansion - CR

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							214,148	
Mar-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	220,593	536
Apr-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	227,038	536
May-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	233,483	536
Jun-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	239,928	536
Jul-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	246,373	536
Aug-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	252,819	536

Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 13 -- Scrubber Refurbishment - TC1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							63,104	
Mar-10	850,100	2,564	7,840	5,276	38.9000%	2,052	65,156	73,550
Apr-10	850,100	2,564	7,840	5,276	38.9000%	2,052	67,208	73,550
May-10	850,100	2,564	7,840	5,276	38.9000%	2,052	69,260	73,550
Jun-10	850,100	2,564	7,840	5,276	38.9000%	2,052	71,312	73,550
Jul-10	850,100	2,564	7,840	5,276	38.9000%	2,052	73,364	73,550
Aug-10	850,100	2,564	7,840	5,276	38.9000%	2,052	75,420	73,550

Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 14 -- Scrubber Refurbishment - CR6

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							17,006	
Mar-10	308,507	1,147	1,587	440	38.9000%	171	17,177	9,075
Apr-10	308,507	1,147	1,587	440	38.9000%	171	17,348	9,075
May-10	308,507	1,147	1,587	440	38.9000%	171	17,519	9,075
Jun-10	308,507	1,147	1,587	440	38.9000%	171	17,690	9,075
Jul-10	308,507	1,147	1,587	440	38.9000%	171	17,861	9,075
Aug-10	308,507	1,147	1,587	440	38.9000%	171	18,031	9,075

Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 15 -- Scrubber Refurbishment - CR5

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-10	-	-	-	-	38.9000%	-	-	-
Apr-10	-	-	-	-	38.9000%	-	-	-
May-10	-	-	-	-	38.9000%	-	-	-
Jun-10	-	-	-	-	38.9000%	-	-	-
Jul-10	-	-	-	-	38.9000%	-	-	-
Aug-10	-	-	-	-	38.9000%	-	-	-

Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 16 -- Scrubber Improvements - TC1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							913,706	
Mar-10	7,361,078	22,206	65,986	43,780	38.9000%	17,030	930,736	26,166
Apr-10	7,361,078	22,206	65,986	43,780	38.9000%	17,030	947,766	26,166
May-10	7,361,078	22,206	65,986	43,780	38.9000%	17,030	964,796	26,166
Jun-10	7,361,078	22,206	65,986	43,780	38.9000%	17,030	981,826	26,166
Jul-10	7,361,078	22,206	65,986	43,780	38.9000%	17,030	998,856	26,166
Aug-10	7,361,078	22,206	65,986	43,780	38.9000%	17,030	1,015,890	26,166

Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan

Project 18 -- Trimble County 2 AQCS

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-10	-	-	-	-	38.9000%	-	-	-
Apr-10	-	-	-	-	38.9000%	-	-	-
May-10	-	-	-	-	38.9000%	-	-	-
Jun-10	-	-	-	-	38.9000%	-	-	-
Jul-10	-	-	-	-	38.9000%	-	-	-
Aug-10	-	-	-	-	38.9000%	-	-	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 19 -- Sorbent Injection, Mill Creek & Trimble 1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							158,040	
Mar-10	3,440,076	9,777	32,090	22,313	38.9000%	8,680	166,720	-
Apr-10	3,440,076	9,777	32,090	22,313	38.9000%	8,680	175,400	-
May-10	3,440,076	9,777	32,090	22,313	38.9000%	8,680	184,080	-
Jun-10	3,440,076	9,777	32,090	22,313	38.9000%	8,680	192,760	-
Jul-10	3,440,076	9,777	32,090	22,313	38.9000%	8,680	201,440	-
Aug-10	3,440,076	9,777	32,090	22,313	38.9000%	8,680	210,118	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 20 -- Mercury Monitors, all plants

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							31,018	
Mar-10	2,050,346	8,867	13,500	4,633	38.9000%	1,802	32,820	-
Apr-10	2,050,346	8,867	13,500	4,633	38.9000%	1,802	34,622	-
May-10	2,050,346	8,867	13,500	4,633	38.9000%	1,802	36,424	-
Jun-10	2,050,346	8,867	13,500	4,633	38.9000%	1,802	38,226	-
Jul-10	2,050,346	8,867	13,500	4,633	38.9000%	1,802	40,028	-
Aug-10	2,050,346	8,867	13,500	4,633	38.9000%	1,802	41,835	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 21 -- Particulate Monitors, Mill Creek

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							63,057	
Mar-10	397,151	1,361	4,027	2,666	38.9000%	1,037	64,094	-
Apr-10	397,151	1,361	4,027	2,666	38.9000%	1,037	65,131	-
May-10	397,151	1,361	4,027	2,666	38.9000%	1,037	66,168	-
Jun-10	397,151	1,361	4,027	2,666	38.9000%	1,037	67,205	-
Jul-10	397,151	1,361	4,027	2,666	38.9000%	1,037	68,242	-
Aug-10	397,151	1,361	4,027	2,666	38.9000%	1,037	69,282	-

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00475

Question No. 4

Witness: Shannon L. Charnas

Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the March 2010 through August 2010 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

A-4. Please find the attached schedule showing the changes in the operations and maintenance expense accounts for March 2010 through August 2010 expense months. The changes in the expense levels are reasonable and generally occurred as a part of routine plant operations and maintenance or normal annual testing expenses.

Monthly variances within accounts 506104 and 506105, NOx operation expenses, reflect normal SCR operations. The variances for account 506104 are caused by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality.

Fluctuations in the NOx maintenance expenses, account 512101, are the result of routine SCR monthly maintenance. Expenses in April 2010 and June 2010 are higher than typical months due to annual NOx testing at Trimble County and the timing of preventative maintenance on the SCR, respectively.

The 2001 Plan was eliminated from the ECR beginning August 2010 per Kentucky Commission Order No. 2009-00549.

Fluctuations in the scrubber operation expenses, account 502006, are the result of regular operation of the Trimble County Unit 1 FGD. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate.

Expenses for Mill Creek ashpond dredging, account 501201, were fully amortized in April 2010. No additional expenses will be included in the ECR for this account.

Fluctuations in sorbent injection operation expenses, account 506109, result from on-going system operation of Trimble County Unit 1. April 2010 is higher due to extra deliveries received in preparation for the start up of Trimble County Unit 2.

Fluctuations in sorbent injection maintenance expenses, account 512102, are the result of normal system maintenance.

The Mercury Monitor Maintenance Account 512103 includes expenses in June and July for the purchase of a 12-month maintenance support agreement to provide post installation service at Mill Creek (June) and Cane Run (July).

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	% Change from Prior Period	% Change from Prior Period	% Change from Prior Period
2001 Plan									
506104 NOx Operation -- Consumables	165,409.88	266,861.95	240,421.45	202,659.86	259,200.06	-	-16%	28%	-100%
506105 NOx Operation -- Labor and Other	8,344.43	14,559.01	9,248.84	9,841.76	9,850.36	-	6%	0%	-100%
512101 NOx Maintenance	36,040.91	80,169.32	14,346.57	58,705.96	7,696.74	-	309%	-87%	-100%
Total 2001 Plan O&M Expenses	209,795.22	361,590.28	264,016.86	271,207.58	276,747.16	-	3%	2%	-100%
2005 Plan									
502006 Scrubber Operations	43,087.59	39,926.08	36,992.82	19,518.71	26,881.15	10,904.45	-47%	38%	-59%
512005 Scrubber Maintenance	-	-	-	-	-	-	0%	0%	0%
501201 Ashpond Dredging Expense	171,471.16	171,471.16	-	-	-	-	0%	0%	0%
Total 2005 Plan O&M Expenses	214,558.75	211,397.24	36,992.82	19,518.71	26,881.15	10,904.45	-47%	38%	-59%
2006 Plan									
506109 Sorbent Injection Operation	71,514.31	123,147.44	88,398.15	94,801.41	83,161.94	97,615.56	7%	-12%	17%
512102 Sorbent Injection Maintenance	43.74	527.24	53.54	260.79	2,810.97	91.58	-90%	978%	-97%
506110 Mercury Monitors Operation	-	-	-	-	-	-	0%	0%	0%
512103 Mercury Monitors Maintenance	-	-	-	40,271.00	30,203.00	2,083.19	0%	-25%	-93%
502006 Scrubber Operations	-	-	-	-	-	-	0%	0%	0%
512005 Scrubber Maintenance	-	-	-	-	-	-	0%	0%	0%
506104 Nox Operation -- Consumables	-	-	-	-	-	-	0%	0%	0%
506105 Nox Operation -- Labor and Other	-	-	-	-	-	-	0%	0%	0%
512101 Nox Maintenance	-	-	-	-	-	-	0%	0%	0%
506001 Precipitator Operation	-	-	-	-	-	-	0%	0%	0%
506111 Activated Carbon	-	-	-	-	-	-	0%	0%	0%
512011 Precipitator Maintenance	-	-	-	-	-	-	0%	0%	0%
Total 2006 Plan O&M Expenses	71,558.05	123,674.68	88,451.69	135,333.20	116,175.91	99,790.33	-28%	-14%	-14%
2009 Plan									
502012 Precipitator Operation	-	-	-	-	-	-	0%	0%	0%
512105 Activated Carbon	-	-	-	-	-	-	0%	0%	0%
Adjustment for CCP Disposal in Base Rates (ES Form 2.51)	-	-	-	-	-	-	0%	0%	0%
Total 2009 Plan O&M Expenses	-	-	-	-	-	-	0%	0%	0%

The 2001 Plan was eliminated from ECR recovery in August 2010 per PSC Order No. 2009-00549.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00475

Question No. 5

Witness: Shannon L. Charnas

- Q-5. In Case No. 2000-00439, the Commission ordered that LG&E's cost of debt and preferred stock would be reviewed and reestablished during the six-month review case. Provide the following information as of August 31, 2010:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.
 - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
 - c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-5. LG&E assumes the Commission is referring to Case No. 2000-00386, where it ordered the cost of debt and preferred stock to be reviewed and reestablished in review cases.
- a. Please see the attachment. There was no preferred stock as of August 31, 2010, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of August 31, 2010, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. LG&E is utilizing a return on equity of 10.63% as agreed to and approved by the Commission in its July 30, 2010 Order in Case No. 2009-00549.

Louisville Gas and Electric Company
Outstanding Balances - Capitalization
As of August 31, 2010

1	2	3
	Outstanding Balance Total Company	Outstanding Balance Electric Only 79.54%
1 Long-Term Debt	896,104,000	712,761,122
2 Short-Term Debt	118,326,400	94,116,819
3 Common Equity	1,304,172,571	1,037,338,863

Louisville Gas and Electric Company
Blended Interest Rates
As of August 31, 2010

	1	Blended Interest Rate Total Company
1 Long-Term Debt		5.17%
2 Short-Term Debt		0.28%

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2010

LONG-TERM DEBT									
Due	Rate	Principal	Annualized Cost				Letter of Credit and other fees	Total	Embedded Cost
			Interest/(Income)	Amortized Debt Issuance Expense	Amortized Loss-Reacquired Debt	Loss			
Pollution Control Bonds -									
Jefferson Co 2000 Series A	05/01/27	5.375% *	\$ 25,000,000	\$ 1,343,750	\$ -	\$ 117,881	\$ -	\$ 1,461,631	5.847%
Trimble Co 2000 Series A	08/01/30	0.425% *	83,335,000	354,174	38,707	143,700	305,898	842,479	1.011%
Jefferson Co 2001 Series A	09/01/27	0.325% *	10,104,000	32,838	20,393	-	35,516	88,747	0.878%
Jefferson Co 2001 Series A	09/01/26	1.000% *	22,500,000	225,000	9,924	77,424	22,500	334,848	1.488%
Trimble Co 2001 Series A	09/01/26	0.550% *	27,500,000	151,250	10,790	65,400	27,500	254,940	0.927%
Jefferson Co 2001 Series B	11/01/27	1.350% *	35,000,000	472,500	10,995	49,056	35,000	567,551	1.622%
Trimble Co 2001 Series B	11/01/27	1.350% *	35,000,000	472,500	10,997	48,864	35,000	567,361	1.621%
Trimble Co 2002 Series A	10/01/32	0.603% *	41,665,000	251,240	37,221	55,812	176,056	520,329	1.249%
Louisville Metro 2003 Series A	10/01/33	0.300% *	128,000,000	384,000	-	313,727	127,299	825,026	0.645%
Louisville Metro 2003 Series A	10/01/33	0.300% *	(128,000,000)	(384,000)	-	-	-	(384,000)	0.300%
Louisville Metro 2005 Series A	02/01/35	5.750% *	40,000,000	2,300,000	-	96,444	-	2,396,444	5.991%
Trimble Co 2007 Series A	06/01/33	4.600% *	60,000,000	2,760,000	47,534	6,615	18,270	2,832,419	4.721%
Louisville Metro 2007 Series A	06/01/33	5.625% *	31,000,000	1,743,750	-	41,718	-	1,785,468	5.760%
Louisville Metro 2007 Series B	06/01/33	0.400% *	35,200,000	140,800	-	27,526	10,718	179,044	0.509%
Louisville Metro 2007 Series B	06/01/33	0.400% *	(35,200,000)	(140,800)	-	-	-	(140,800)	0.400%
Called Bonds			-	-	-	167,868	-	167,868	0.000%
Total External Debt			\$ 411,104,000	\$ 10,107,002	\$ 186,561	\$ 1,212,035	\$ 793,757	\$ 12,299,355	1.373%
Interest Rate Swaps:									
JP Morgan Chase Bank	11/01/20		\$ 4,197,025	\$ -	\$ -	\$ -	\$ -	\$ 4,197,025	
Morgan Stanley Capital Services	10/01/33		1,063,437	-	-	-	-	1,063,437	
Morgan Stanley Capital Services	10/01/33		1,059,725	-	-	-	-	1,059,725	
Bank of America	10/01/33		1,075,191	-	-	-	-	1,075,191	
Interest Rate Swaps External Debt			\$ 7,395,378	\$ -	\$ -	\$ -	\$ -	\$ 7,395,378	0.825%
Notes Payable to Fidelia Corp	01/16/12	4.330%	\$ 25,000,000	\$ 1,082,500	\$ -	\$ -	\$ -	\$ 1,082,500	4.330%
Notes Payable to Fidelia Corp	04/30/13	4.550%	100,000,000	4,550,000	-	-	-	4,550,000	4.550%
Notes Payable to Fidelia Corp	08/15/13	5.310%	100,000,000	5,310,000	-	-	-	5,310,000	5.310%
Notes Payable to Fidelia Corp	11/23/15	6.480%	50,000,000	3,240,000	-	-	-	3,240,000	6.480%
Notes Payable to Fidelia Corp	07/25/18	6.210%	25,000,000	1,552,500	-	-	-	1,552,500	6.210%
Notes Payable to Fidelia Corp	11/26/22	5.720%	47,000,000	2,688,400	-	-	-	2,688,400	5.720%
Notes Payable to Fidelia Corp	04/13/31	5.930%	68,000,000	4,032,400	-	-	-	4,032,400	5.930%
Notes Payable to Fidelia Corp	04/13/37	5.980%	70,000,000	4,186,000	-	-	-	4,186,000	5.980%
Total Internal Debt			\$ 485,000,000	\$ 26,641,800	\$ -	\$ -	\$ -	\$ 26,641,800	2.973%
Total			\$ 896,104,000	\$ 44,144,180	\$ 186,561	\$ 1,212,035	\$ 793,757	\$ 46,336,533	5.171%

SHORT TERM DEBT									
Maturity	Rate	Principal	Annualized Cost				Premium	Total	Embedded Cost
			Interest	Expense	Loss	Loss			
Notes Payable to Associated Company	NA	0.280% *	\$ 118,326,400	\$ 331,314	\$ -	\$ -	\$ -	\$ 331,314	0.280%
Total			\$ 118,326,400	\$ 331,314	\$ -	\$ -	\$ -	\$ 331,314	0.280%

Embedded Cost of Total Debt **\$ 1,014,430,400** **\$ 44,475,494** **\$ 186,561** **\$ 1,212,035** **\$ 793,757** **\$ 46,667,847** **4.600%**

* Composite rate at end of current month

1 Additional Interest due to Swap Agreements:

Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Fixed LG&E Swap Position	Fixed LG&E Swap Position	Variable Counterparty Swap Position
Series Z - PCB	83,335,000	11/01/20	5.495%	5.495%	BMA Index
Series GG - PCB	32,000,000	10/01/33	3.657%	3.657%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	3.645%	3.645%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	3.695%	3.695%	68% of 1 mo LIBOR
	179,335,000				

2 Call premium and debt expense is being amortized over the remaining life of bonds due 6/1/15, 7/1/13 and 8/1/17

3 Reacquired bonds, which net to zero as they are also included in Short Term Debt Notes Payable to Associated Company

4 Remarketed bonds, issued at long term fixed rate

Louisville Gas and Electric Company
 Outstanding Balances - Adjusted Electric Capitalization
 August 31, 2010

1	2	3	4	5	6	7
	Electric Only	Capital Structure	Cost Rate	Weighted Average Cost of Capital	Tax Gross-up Factor	Weighted Average Cost of Capital with Equity Gross-up
1	Long-Term Debt	723,812,195	38.65%	5.17%	2.00%	2.00%
2	Short-Term Debt	95,575,046	5.10%	0.28%	0.01%	0.01%
3	Common Equity	1,053,422,249	56.25%	10.63%	5.98%	9.30%
4	Total	1,872,809,491			7.99%	11.31%

Rate of Return (ROR) Grossed Up: 11.31%

Weighted Cost of Capital Grossed up for Income Tax Effect $\{ROR + (ROR - Debt\ rate) \times [TR/(1-TR)]\}$

See tax rate (TR) calculation on 5(c) page (2)

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2010**

	2010 Federal & State Production Credit W/ 6% 2010 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	<u>5.6604</u>	(37)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.3396	(1) - (3)
(7) a. Production Rate	9%	
(8) b. Allocation to Production Income	100%	
(9) c. Allocated Production Rate (a x b)	9.00%	
(10)		
(11) Less: Production tax credit	<u>8.4906</u>	(6) * (9)
(12)		
(13) Taxable income for Federal income tax	85.8490	(6) - (8)
(14)		
(15) Federal income tax	<u>30.0472</u>	(10) * 35%
(16)		
(17) Total State and Federal income taxes		
(18)	<u>\$ 35.7076</u>	(3) + (12)
(19)		
(20) Gross-up Revenue Factor	<u><u>64.2924</u></u>	100 - (15)
(21)		
(22) Therefore, the composite rate is:		
(23) Federal	30.0472%	(12) / 100
(24) State	<u>5.6604%</u>	(3) / 100
(25) Total	<u><u>35.7076%</u></u>	(20) + (21)
(26)		
(27)		
(28)		
(29)		
(30)		
(31) <u>State Income Tax Calculation</u>		
(32) Assume pre-tax income of	\$ 100.0000	
(33)		
(34) Production credit @ 6%	<u>5.6604</u>	(8)
(35)		
(36) Taxable income for State income tax	94.3396	(29) - (31)
(37)		
(38) State Tax Rate	<u>6.0000%</u>	
(39)		
(40) State Income Tax	<u><u>5.6604</u></u>	(33) * (35)

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00475

Question No. 6

Witness: Robert M. Conroy

- Q-6. Provide the dollar impact the over-/under-recovery will have on the average residential customer's bill for the requested recovery period.
- A-6. Based upon refunding the net over-recovered position of \$478,380 in one month, the ECR billing factor for a residential customer using 1,000 kWh will decrease by approximately \$0.57 per month, using rates and adjustment clause factors in effect for the January 2011 billing month.