



Kent W. Blake
Director
State Regulation and Rates

LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202
502-627-2573
502-217-2442 FAX
kent.blake@lgeenergy.com

November 2, 2005

RECEIVED

NOV 02 2005

PUBLIC SERVICE
COMMISSION

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: *The Plan of Kentucky Utilities Company for the Value Delivery Surcredit Mechanism*
Case No. 2005-00351

Dear Ms. O'Donnell:

Enclosed please find an original and seven (7) copies of Kentucky Utilities Company's ("KU") response to the Commission Staff's Initial Data Request dated October 21, 2005, in the above-referenced docket.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Kent W. Blake

cc: Elizabeth E. Blackford
Michael L. Kurtz

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF KENTUCKY UTILITIES COMPANY) CASE NO.
FOR THE VALUE DELIVERY SURCREDIT MECHANISM) 2005-00351

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
COMMISSION STAFF'S INITIAL DATA REQUEST
DATED OCTOBER 21, 2005

FILED: NOVEMBER 2, 2005

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Initial Data Request Dated October 21, 2005

Question No. 1

Responding Witness: Kent W. Blake

- Q-1. Refer to pages 14-15 of the Testimony of Kent W. Blake ("Blake Testimony") and Reference Schedule 1.12 of Blake Exhibit 1. Provide the supporting workpapers for the proposed adjustments to KU's demand-side management revenues and expenses, including all calculations and assumptions. Show the revenue and expense amounts by month for the 12 months ended June 30, 2005 and identify the specific accounts in which the amounts were recorded.
- A-1. Please see the attached.

DSM BILLED REVENUE
Reference Schedule 1.12

Billed DSM Revenues														
KU	Account	Jul-2004	Aug-2004	Sep-2004	Oct-2004	Nov-2004	Dec-2004	Jan-2005	Feb-2005	Mar-2005	Apr-2005	May-2005	Jun-2005	Total
	440010 Residential	374,381.09	339,863.05	327,281.35	254,275.48	246,248.88	373,377.82							1,915,427.67
	442025 Commercial	30,864.12	29,428.98	29,344.07	25,849.78	24,324.75	28,470.03							168,281.73
	442035 Industrial	1,280.32	1,273.12	1,255.03	1,280.31	1,301.94	1,505.78							7,896.50
	442065 Mine Power	1,074.85	1,145.48	1,054.95	1,158.19	1,145.99	1,311.40							6,890.86
	444010 Street Lighting	137.49	131.59	135.23	135.71	145.69	157.94							843.65
	445010 Public Authority	4,343.67	4,164.06	4,371.68	3,788.77	3,461.19	4,051.68							24,181.05
	445030 Municipal Pumping	441.19	416.97	421.76	408.82	384.55	450.27							2,523.56
	440101 Residential							376,682.86	347,878.68	322,155.57	214,303.12	179,772.57	211,779.18	1,652,571.98
	442201 Commercial							30,679.91	28,970.51	28,434.05	25,850.06	22,886.51	26,901.67	163,722.71
	442301 Industrial							1,419.14	1,356.96	1,383.86	1,118.48	1,030.92	1,029.39	7,338.75
	442601 Mine Power							1,118.98	1,105.23	1,148.02	904.17	854.01	846.88	5,977.29
	444101 Street Lighting							148.32	118.84	103.13	74.44	59.75	61.17	565.65
	445101 Public Authority							4,225.87	4,048.46	3,919.81	3,907.32	3,667.77	4,129.13	23,898.36
	445301 Municipal Pumping							469.54	441.53	434.04	400.45	379.55	404.70	2,529.81
		412,522.73	376,423.25	363,864.07	286,897.06	277,012.99	409,324.92	414,744.62	383,920.21	357,578.48	246,558.04	208,651.08	245,152.12	3,982,649.57

DSM EXPENSE
Reference Schedule 1.12

KU DSM Analysis
July 2004 - June 2005

	Jul-2004	Aug-2004	Sep-2004	Oct-2004	Nov-2004	Dec-2004	Jan-2005	Feb-2005	Mar-2005	Apr-2005	May-2005	Jun-2005	Total
908005	412,522.73	376,423.25	363,864.07	286,897.06	277,012.99	409,324.92	414,744.62	383,920.21	277,078.74	246,558.04	153,277.04	272,967.27	3,874,590.94
DSM Expenses (908005)	412,522.73	376,423.25	363,864.07	286,897.06	277,012.99	409,324.92	414,744.62	383,920.21	277,078.74	246,558.04	153,277.04	272,967.27	3,874,590.94

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Initial Data Request Dated October 21, 2005

Question No. 2

Responding Witness: Valerie L. Scott

- Q-2. Refer to pages 3-4 of the Direct Testimony of Valerie L. Scott ("Scott Testimony") and Reference Schedule 1.13 of Blake Exhibit 1.
- a. Provide the supporting workpapers for the proposed adjustments to eliminate the impact of revenues accrued but not billed associated with Environmental Cost Recovery and the Fuel Adjustment Clause for the 12 months ended June 30, 2005, including all calculations and assumptions.
 - b. Describe how these accrued amounts and these adjustments do or do not relate to the adjustment to eliminate unbilled revenues shown on Reference Schedule 1.20 of Blake Exhibit 1.
- A-2. a. The accruals discussed in Reference Schedule 1.13 consist of two types of transactions. First, there exists a two month lag between the month an expense is incurred and the applicable recovery of the expense through the billing of the Fuel Adjustment Clause ("FAC") or the Environmental Cost Recovery Surcharge ("ECR"). Additionally, differences between actual revenues and historical 12 month average revenues contribute to an over or under billed ECR position. Monthly an accrual is made for each company to reduce revenues when it is in an over billed ECR position and increase revenues when that company is in an under billed ECR position. Please see the attached.

In reviewing the support for the FAC accrual adjustment it was discovered that an FAC amount in December 2004 was incorrect by \$119,078. Line number 4 of Reference Schedule 1.13 should have been \$20,632,000 instead of the filed \$20,751,078. The total accrued revenues on Reference Schedule 1.13 line 8 should have been a credit of \$22,409,358 instead of the filed credit of \$22,528,436. The change would increase adjusted net operating income and increase the return on common equity of the Company by a minor amount.

- b. The accruals discussed in Reference Schedule 1.13 consist of two types of transactions. First, there exists a two month lag between the month an expense is incurred and the applicable recovery of the expense through the billing of the Fuel Adjustment Clause ("FAC") or the Environmental Cost Recovery

Surcharge ("ECR"). Additionally, differences between actual revenues and historical 12 month average revenues contribute to an over or under billed ECR position. Monthly an accrual is made for the Company to reduce revenues when it is in an over billed ECR position and increase revenues when the Company is in an under billed ECR position. These accruals are removed in the proforma adjustment detailed in Reference Schedule 1.13. Such accruals are not included in unbilled revenues which are removed in the proforma adjustment detailed in Reference Schedule 1.20. Unbilled revenues as of June 30, 2005 only include amounts to be billed in July 2005 for service rendered in June 2005 and a reversal of amounts billed in July 2004 for service rendered in June 2004. Thus billed revenues plus unbilled revenues plus accrued revenues equal total revenue.

KENTUCKY UTILITIES

To Eliminate ECR and FAC Accruals
For the Twelve Months Ended June 30, 2005

1. ECR Accrued Revenue in Account 449	\$ 2,494,082	Page 2
2. FAC Accrued Revenue in Account 449	(488,683)	Page 2
3. ECR Accrued Revenue in Accounts 440-445	(773,713)	Page 3
4. FAC Accrued Revenue in Accounts 440-445	<u>20,751,078</u>	Page 4
5. Total Accrued Revenues	\$ 21,982,764	
6. Less ODP FAC Revenue included in Line 2	<u>(545,672)</u>	Page 2
7. Kentucky Jurisdictional Accrued Revenues	<u>\$ 22,528,436</u>	
8. Adjustment	<u>\$ (22,528,436)</u>	

ECR AND FAC ACCRUED REVENUE IN ACCOUNT 449
Reference Schedule 1.13

Rate Refund		Jul-2004	Aug-2004	Sep-2004	Oct-2004	Nov-2004	Dec-2004	Jan-2005	Feb-2005	Mar-2005	Apr-2005	May-2005	Jun-2005	Total
449105	J505	457,017.00	754,654.00	358,737.00	886,477.00	298,465.00	(261,268.00)	-	-	-	-	-	-	2,494,082.00
449105	J509	(16,154.00)	212,824.00	93,031.00	469,293.00	424,568.00	(1,126,373.00)	-	-	-	-	-	-	56,985.00
449105	J579	-	-	(175,237.00)	-	-	(370,435.00)	-	-	-	-	-	-	(645,672.00)
		440,863.00	967,278.00	276,531.00	1,355,770.00	723,033.00	(1,758,076.00)	-	-	-	-	-	-	2,005,395.00

ECR ACCRUED REVENUE IN ACCOUNTS 440-445
Reference Schedule 1.13

Accrued ECR Revenues		Jul-2004	Aug-2004	Sep-2004	Oct-2004	Nov-2004	Dec-2004	Jan-2005	Feb-2005	Mar-2005	Apr-2005	May-2005	Jun-2005	Total
KU	Account													
	440111 Residential	-	-	-	-	-	-	(93,781.00)						(93,781.00)
	442211 Commercial	-	-	-	-	-	-	(51,434.00)						(51,434.00)
	442311 Industrial	-	-	-	-	-	-	(46,450.00)						(46,450.00)
	442611 Mine Power	-	-	-	-	-	-	(5,920.00)						(5,920.00)
	444111 Street Lighting	-	-	-	-	-	-	(1,873.00)						(1,873.00)
	445111 Public Authority	-	-	-	-	-	-	(14,458.00)						(14,458.00)
	445311 Municipal Pumping	-	-	-	-	-	-	(880.00)						(880.00)
	440111 Residential	-	-	-	-	-	-	-	(228,218.00)	(221,324.00)	(328,663.00)	534,137.74	(16,875.89)	(260,943.15)
	442211 Commercial	-	-	-	-	-	-	-	(126,932.00)	(129,547.00)	(201,988.00)	493,524.51	(80,242.68)	(45,185.17)
	442311 Industrial	-	-	-	-	-	-	-	(115,402.00)	(130,358.00)	(206,256.00)	390,630.73	(138,715.50)	(200,100.77)
	442611 Mine Power	-	-	-	-	-	-	-	(15,119.00)	(15,675.00)	(24,639.00)	46,421.23	(18,787.38)	(27,799.15)
	444111 Street Lighting	-	-	-	-	-	-	-	(4,716.00)	(4,291.00)	(7,008.00)	30,760.15	(479.50)	14,265.65
	445111 Public Authority	-	-	-	-	-	-	-	(35,848.00)	(33,099.00)	(54,559.00)	116,245.26	(29,527.09)	(36,787.83)
	445311 Municipal Pumping	-	-	-	-	-	-	-	(2,164.00)	(2,221.00)	(3,494.00)	7,406.23	(1,894.18)	(2,366.95)
		-	-	-	-	-	-	(214,796.00)	(528,399.00)	(536,515.00)	(826,607.00)	1,619,125.85	(286,522.22)	(773,713.37)

FAC ACCRUED REVENUE IN ACCOUNTS 440-445
Reference Schedule 1.13

Account	Jul-2004	Aug-2004	Sep-2004	Oct-2004	Nov-2004	Dec-2004	Jan-2005	Feb-2005	Mar-2005	Apr-2005	May-2005	Jun-2005	Total
449105	-	-	-	-	-	-	-	-	-	-	-	-	7,055,812.02
440104 Residential	-	-	-	-	-	-	2,121,000.00	-	-	-	-	-	2,121,000.00
442204 Commercial	-	-	-	-	-	-	1,181,000.00	-	-	-	-	-	1,181,000.00
442304 Industrial	-	-	-	-	-	-	1,433,000.00	-	-	-	-	-	1,433,000.00
442604 Mine Power	-	-	-	-	-	-	160,000.00	-	-	-	-	-	160,000.00
444104 Street Lighting	-	-	-	-	-	-	18,000.00	-	-	-	-	-	18,000.00
445104 Public Authority	-	-	-	-	-	-	386,000.00	-	-	-	-	-	386,000.00
445304 Municipal Pumping	-	-	-	-	-	-	22,000.00	-	-	-	-	-	22,000.00
440104 Residential	-	-	-	-	-	-	-	(136,343.12)	(357,930.00)	621,174.00	456,061.00	1,795,736.00	2,378,697.88
442204 Commercial	-	-	-	-	-	-	-	(75,603.20)	(198,474.00)	463,493.00	391,558.00	1,514,001.00	2,094,974.80
442304 Industrial	-	-	-	-	-	-	-	(94,384.23)	(247,779.00)	640,546.00	525,578.00	2,020,026.00	2,843,986.77
442604 Mine Power	-	-	-	-	-	-	-	(11,063.50)	(29,044.00)	69,203.00	58,621.00	193,822.00	281,538.50
444104 Street Lighting	-	-	-	-	-	-	-	(1,042.88)	(2,738.00)	5,758.00	4,648.00	14,843.00	21,268.12
445104 Public Authority	-	-	-	-	-	-	-	(24,901.70)	(65,372.00)	159,201.00	130,197.00	517,436.00	716,560.30
445304 Municipal Pumping	-	-	-	-	-	-	-	(1,395.39)	(3,663.00)	8,625.00	7,337.00	26,336.00	37,239.61
	-	-	-	-	-	-	5,321,000.00	(344,734.02)	(905,000.00)	5,468,000.00	4,774,000.00	6,437,812.02	20,751,078.00

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Initial Data Request Dated October 21, 2005

Question No. 3

Responding Witness: Valerie L. Scott

- Q-3. Refer to page 5 of the Scott Testimony and Reference Schedule 1.30 of Blake Exhibit 1 concerning the adjustment to normalize storm damage expense. The 12 months ended June 30, 2005 and calendar year 2004 both include the last 6 months of 2004. Provide a breakdown of the calendar year 2004 expense that separately identifies the amounts incurred during the first 6 months and the last 6 months of the year.
- A-3. The breakdown of adjustments to normalize storm damage expenses incurred in the 2004 calendar year are as follows: January through June, \$2,501,000 and July through December, \$1,619,000.

The existence of an overlap in calculating average storm damage expense is consistent with the methodology used to normalize storm damage expense and injuries and damages expense in Case No. 2003-00434. In that case, use of the test year ended September 30, 2003 resulted in a 3 month overlap.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Initial Data Request Dated October 21, 2005

Question No. 4

Responding Witness: Valerie L. Scott

- Q-4. Refer to page 6 of the Scott Testimony and Reference Schedule 1.31 of Blake Exhibit 1 concerning the adjustment for injuries and damages expense. The 12 months ended June 30, 2005 and calendar year 2004 both include the last 6 months of 2004. Provide a breakdown of the calendar year 2004 expense that separately identifies the amounts incurred during the first 6 months and the last 6 months of the year.
- A-4. The breakdown of adjustments for injuries and damages expenses incurred in the 2004 calendar year are as follows: January through June, \$813,553 and July through December, \$267,179.

The existence of an overlap in calculating average injuries and damages expense is consistent with the methodology used to normalize storm damage expense and injuries and damages expense in Case No. 2003-00434. In that case, use of the test year ended September 30, 2003 resulted in a 3 month overlap.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Initial Data Request Dated October 21, 2005

Question No. 5

Responding Witnesses: Martyn Gallus / Kent W. Blake

- Q-5. Refer to page 18 of the Blake Testimony and Reference Schedule 1.32 of Blake Exhibit 1 concerning the adjustment to normalize Off-System Sales ("OSS") to a 5-year level (2001 - June 30, 2005). The testimony cites the high plant availability and wholesale power prices during the period ended June 30, 2005 as the basis for the adjustment.
- a. The testimony identifies the Equivalent Forced Outage Rates ("EFOR") for the combined KU and Louisville Gas and Electric Company ("LG&E") systems during calendar year 2004 and the 12 months ended June 30, 2005. There is an overlap of 6 months in these two periods. Provide the EFOR for the combined systems for calendar year 2004 that separately identifies the levels during the first 6 months and the last 6 months of the year.
 - b. Provide the EFORs for the combined systems for each of the years 2001, 2002 and 2003.
 - c. Explain why 5 years was selected as the length of time on which to base the proposed adjustment.
 - d. Provide KU's OSS margins and the combined systems' EFORs for the years 1998, 1999, and 2000.
- A-5. The adjustment to normalize OSS was based on the principle that this item can fluctuate significantly from year to year; the period ended June 30, 2005, included an unusually high level of OSS margins which have not been experienced historically and are not expected to continue. The Company noted two reasons for this in the cited testimony. Other factors contributed to this including the existence of term coal supply agreements at prices below current market levels.
- a. The EFOR for the combined LG&E and KU systems during the requested periods are shown below.

Period	EFOR
January – June 2004	3.0%
July – December 2004	2.6%
January – December 2004	2.8%

- b. The EFOR for the combined LG&E and KU systems during the requested periods are shown below.

Period	EFOR
2001	5.4%
2002	10.5%
2003	4.7%

- c. The Commission has traditionally allowed a 10-year or 5-year time period for purposes of normalizing income statement items that can fluctuate significantly from year to year (see page 36-37 of the Commission's order in Case No. 2003-00434). The Company did not believe that a 10-year time period was reasonable given the impact on off-system sales of the KU and LG&E merger in 1998. Therefore, the Company utilized a five-year time period.
- d. KU's OSS margins and the combined systems' EFORs are shown below for the years 1998, 1999, and 2000.

Period	KU's OSS Margin	EFOR
1998	\$30,224,067	6.2%
1999	\$24,751,804	6.8%
2000	\$27,711,695	4.1%

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Initial Data Request Dated October 21, 2005

Question No. 6

Responding Witness: Kent W. Blake

- Q-6. Refer to page 19 of the Blake Testimony and Reference Schedule 1.40 of Blake Exhibit 1 concerning the adjustments to annualize revenues and expenses based on actual customers at June 30, 2005. Provide the supporting workpapers for the proposed adjustments, including all calculations and assumptions.
- A-6. Please see the attached.

KENTUCKY UTILITIES COMPANY
Adjustment to Annualize Year-End Customers

Rate Class		(1) Average Customers for 13 Months Ending 6-30-05	(2) Customers Served at 6-30-05	(3) Excess Year End Over Average (2) - (1)	(4) 12 Months Ended 6-30-05 kWh	(5) Average kWh per Customer (4) / (1)	(6) Year End kWh Adjustment (5) x (3)	(7) 12 Months Ended 6-30-05 Revenue	(8) Average Revenue per Customer (7) / [(1) x 12]	(9) Adjustment to Revenue (8) x (3) x 11
Residential	RS	223,774	223,819	45	2,647,863,803	11,833	532,485	\$ 129,707,444	\$ 48.30	23,909
	FERS	174,699	177,771	3,072	3,028,253,424	17,334	53,250,048	143,454,922	68.43	2,312,387
	CWH	2,438	3	(2,435)	3,076,733	1,262	(3,072,970)	132,391	4.53	(121,336)
	Sub-total	400,912	401,593	682	5,679,193,960	14,166	50,709,563	273,294,757	\$ 56.81	2,214,959
General Service	GS-Secondary	72,197	73,773	1,576	1,293,146,344	17,911	28,227,736	77,582,779	89.55	1,552,439
	GS-Primary	86	82	(4)	43,268,260	503,570	(2,014,280)	2,245,959	2,178.26	(95,843)
	Sub-total	72,283	73,855	1,572	1,336,414,604	18,489	26,213,456	79,828,737	92.03	1,456,595
All Electric Schools		291	293	2	107,833,706	370,269	740,538	4,554,442	1,303.22	28,671
Large Power	Secondary	11,169	10,706	(463)	4,115,263,184	368,469	(170,601,147)	174,378,691	1,301.12	(6,626,604)
	Primary	340	357	17	1,702,198,898	5,012,137	85,206,329	60,673,457	14,887.79	2,784,017
	Transmission	2	2	-	19,479,485	9,379,011	-	694,138	27,851.20	-
	Sub-total	11,510	11,065	(446)	5,836,941,567	507,109	(85,394,818)	235,746,286	1,706.79	(3,842,587)
Large Commercial/Industrial Time of Day	Primary	30	31	1	2,255,928,145	75,197,605	75,197,605	72,874,925	202,430.35	2,226,734
	Transmission	6	6	-	757,052,395	129,495,804	-	23,858,525	340,088.63	-
	Sub-total	36	37	1	3,012,980,540	84,053,105	75,197,605	96,733,450	224,881.05	2,226,734
Small Time of Day	Secondary	44	48	4	109,315,028	2,490,722	9,962,888	3,634,363	6,900.69	303,630
	Primary	-	-	-	-	-	-	-	-	-
	Transmission	-	-	-	-	-	-	-	-	-
	Sub-total	44	48	4	109,315,028	2,490,722	9,962,888	3,634,363	6,900.69	303,630
Mine Power	Primary	23	24	1	127,106,060	5,601,284	5,601,284	5,371,214	19,724.80	216,973
	Transmission	15	15	-	146,817,932	10,045,437	-	5,288,747	30,155.14	-
	Sub-total	37	39	1	273,923,992	7,342,293	5,601,284	10,659,961	23,810.91	216,973
Large Mine Time of Day	Primary	2	2	-	62,006,400	36,640,145	-	2,314,432	113,968.23	-
	Transmission	3	3	-	124,223,385	41,407,795	-	4,589,526	127,486.83	-
	Sub-total	5	5	-	186,229,785	39,688,315	-	6,903,958	122,611.27	-
Street Lighting		68,856	67,369	(1,487)	41,136,424	597	(887,739)	6,323,517	7.65	(125,131)
Decorative Street Lighting		4,825	4,624	(201)	2,146,122	445	(89,445)	649,749	11.22	(24,807)
Private Outdoor Lighting		26,505	26,820	315	28,763,824	1,085	341,775	3,176,863	9.99	34,615
Outdoor Lighting		53,829	54,257	428	45,635,734	848	362,944	4,828,801	7.48	35,216
	Sub-total	154,016	153,070	(945)	117,682,104	764	(272,465)	14,978,930	8.10	(80,107)
Grand Total		639,134	640,005	871				\$ 726,334,884		\$ 2,524,868
Deduct Expenses at 54.89% Operating Ratio										(1,385,900)
Net Before Tax Adjustment to Operating Income										\$ 1,138,968
Determination of Operating Ratio:										
Total Operating Expenses (Ky retail jurisdiction only)					573,703,238					
Less Wages and Salaries					62,438,070					
Operating Expenses Net of Wages and Salaries					511,265,168					
Total Electric Operating Revenues (Kentucky retail jurisdiction only)					931,455,754					
Operating Ratio					54.89%					

