



S T O L L · K E E N O N · O G D E N
P L L C

2000 PNC PLAZA
500 WEST JEFFERSON STREET
LOUISVILLE, KY 40202-2828
MAIN: (502) 333-6000
FAX: (502) 333-6099
www.skofirm.com

KENDRICK R. RIGGS
DIRECT DIAL: (502) 560-4222
DIRECT FAX: (502) 627-8722
kendrick.riggs@skofirm.com

October 13, 2008

RECEIVED

OCT 15 2008

PUBLIC SERVICE
COMMISSION

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: Application of Kentucky Utilities Company for an Adjustment of Base Rates
Case No. 2008-00251

Application of Kentucky Utilities Company to File Depreciation Study
Case No. 2007-00565

Application of Louisville Gas and Electric Company for an Adjustment of Its
Electric and Gas Base Rates
Case No. 2008-00252

Application of Louisville Gas and Electric Company to File Depreciation Study
Case No. 2007-00564

Dear Ms. Stumbo:

Enclosed please find and accept for filing two originals and ten copies of the Reply of Kentucky Utilities Company and Louisville Gas and Electric Company to Objection of Attorney General to Motion for Reconsideration and Reinstatement of Procedural Orders and Response of Louisville Gas and Electric Company to Motion of Association of Community Ministries and People Organized and Working for Energy Reform to Amend Procedural Schedule in the above-referenced matters. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Stephanie L. Stumbo
October 13, 2008
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Should you have any questions please contact me at your convenience.

Yours very truly,

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kendrick R. Riggs

KRR:ec
Enclosures
cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN)	CASE NO. 2008-00251
ADJUSTMENT OF BASE RATES)	

In the Matter of:

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY TO FILE)	CASE NO. 2007-00565
DEPRECIATION STUDY)	

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC)	
AND GAS RATES, TERMS AND)	CASE NO. 2008-00252
CONDITIONS OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY)	

In the Matter of:

APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY TO FILE)	CASE NO. 2007-00564
DEPRECIATION STUDY)	

**REPLY OF KENTUCKY UTILITIES COMPANY AND LOUISVILLE GAS AND
ELECTRIC COMPANY TO OBJECTION OF ATTORNEY GENERAL TO MOTION
FOR RECONSIDERATION AND REINSTATEMENT OF PROCEDURAL ORDERS
AND RESPONSE OF LOUISVILLE GAS AND ELECTRIC COMPANY TO MOTION
OF ASSOCIATION OF COMMUNITY MINISTRIES AND PEOPLE ORGANIZED AND
WORKING FOR ENERGY REFORM TO AMEND PROCEDURAL SCHEDULE**

Kentucky Utilities Company (“KU”) and Louisville Gas and Electric Company (“LG&E”) (collectively, the “Companies”) for their Reply and Response state as follows:

The Attorney General’s (“AG”) Objection fails to demonstrate good cause why, with reasonable accommodations, the hearing originally scheduled to begin on December 9, 2008 cannot proceed. To the extent the AG’s expert witnesses on rate of return and cost of service are not available on December 9 or for the month of December 2008, the Commission can schedule

further evidentiary hearings during the week of January 5, 2009 to take their testimony and permit the continued cross-examination of the Companies' witnesses on the same subject.¹ Reasonable accommodations could also be provided through the scheduling of the AG's witnesses by deposition at mutually convenient times.² The public hearings can also proceed during the weeks of January 5th and 12th, 2009.³ The unavailability of two witnesses should not cause more than 1,233,000 electric or gas customers to pay rates subject to refund when, with reasonable accommodations, the cases can be heard and the AG provided a full and meaningful opportunity to participate, so that a decision can be rendered in early February 2009.

When the Companies filed their cases on July 29, 2008, it was evident to all that the hearing would likely be scheduled during the second or third week of December 2008. The complexity of rescheduling the hearing is vividly demonstrated by the Motion of Association of Community Ministries and People Organized and Working for Energy Reform. Having made plans in reliance that the hearing would be held in December 2008, the representatives have made other commitments for the month of January 2009. The motion if granted would extend the procedural schedule for at least 90 days after the expiration of the five-month suspension period. If the Commission must accommodate the availability of all the witnesses to the cases without requiring the parties to make reasonable accommodations in order to achieve a hearing in the cases, then the Commission will have to balance the plans made by the parties in reliance

¹ The AG's assertion that the AG informed the Company's counsel that two of his witnesses could not be available for the December hearing, is simply a red herring. The AG is responsible for resolving the scheduling conflicts of the AG's witnesses. The AG first disclosed the conflict to the Commission at the October 6, 2008 Informal Conference. Since that date, Companies' counsel has repeatedly offered to the AG to discuss any reasonable accommodations to resolve the scheduling issues. The AG has declined these offers.

² 807 KAR 5:0001, Section 3(6) permits the taking of testimony by deposition.

³ Contrary to the assertion in the AG's Objection, the procedural schedule established by the October 6, 2008 Order does not include dates for the public hearings. At the October 6, 2008 Informal Conference, the parties were advised that the Commission was considering scheduling four public hearings during the month of January 2009. To suggest, as the AG's Objection asserts, that the public cannot attend public hearings during the period following Thanksgiving holiday and the end of the year holidays simply sells the consumers short in their ability to attend and participate. Indeed, Commission could also schedule public hearings during the month of December 2008.

on the December hearing date with the existing commitments for other engagements. This will prove to be very problematic. Their Motion demonstrates why the Companies' Motion to reinstate the procedural schedule should be granted and order restored to the proceedings.

While other utilities may have placed their proposed rates into effect subject to refund in rate cases, with respect to these Companies, the Commission has been able to render a timely order prior to the expiration of the five-month suspension period in their rate cases for the last 18 years. The departure from this well-established practice could be viewed with questions by the bond and general capital markets during a period when raising capital through the sale of bonds has become problematic. The issues in the credit market, along with the increasing and significant investor skepticism with regard to all investments strongly indicate that the Commission should proceed with the original schedule and avoid the confusion and uncertainty that will necessarily result from the changes in rates caused by this procedure. The inability to raise capital in a timely fashion could impact the Companies' current construction program.

Of at least equal concern is the failure of the AG to take position on the resolution of conflict issue involving Vice-Chairman Gardner's participation in the KU rate case. As demonstrated in the Companies' Motion, delay of the hearing will not resolve the issue though the Companies have offered two different approaches that would allow the Vice-Chairman to participate in the KU case. The Commission should require the AG to show whether a theoretical conflict affects his interests, and if so, to state whether he will waive that conflict.

Conclusion

For all these reasons, the original procedural schedules should be reinstated and these cases should proceed accordingly.

Dated: October 13, 2008

Respectfully submitted,

By: 

Kendrick R. Riggs
W. Duncan Crosby III
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202-2828
Telephone: (502) 333-6000

Robert M. Watt III
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000

Allyson K. Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202
Telephone: (502) 627-2088

Counsel for Kentucky Utilities Company and
Louisville Gas and Electric Company

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Reply was served via U.S. mail, first-class, postage prepaid, this 13th day of October 2008 upon the following persons:

Dennis G. Howard II
Lawrence W. Cook
Assistant Attorneys General
Office of the Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

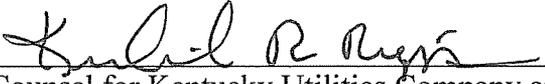
David C. Brown
Stites & Harbison, PLLC
400 West Market Street, Suite 1800
Louisville, KY 40202

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202

Joe F. Childers
Getty & Childers, PLLC
1900 Lexington Financial Center
250 West Main Street
Lexington, KY 40507

Willis L. Wilson
Leslye M. Bowman, Director of Litigation
Lexington-Fayette Urban County Government
Department of Law
200 East Main Street
P. O. Box 34028
Lexington, KY 40588-4028

Lisa Kilkelly
Legal Aid Society
416 West Muhammad Ali Blvd.
Suite 300
Louisville, KY 40202



Counsel for Kentucky Utilities Company and
Louisville Gas and Electric Company