

ORIGINAL

In the Matter of:

AN ADJUSTMENT OF THE GAS)
AND ELECTRIC RATES, TERMS) CASE NO.
AND CONDITIONS OF LOUISVILLE) 2003-00433
GAS AND ELECTRIC COMPANY)

RESPONSE TO THE INFORMATION REQUESTED IN
APPENDIX A OF COMMISSION'S ORDER
DATED JULY 26, 2004

FILED - AUGUST 2, 2004



Louisville Gas and Electric Company
220 West Main Street (40202)
P.O. Box 32010
Louisville, Kentucky 40232

August 2, 2004

RECEIVED

AUG 02 2004

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Ms. Elizabeth O'Donnell
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

**RE: AN ADJUSTMENT OF THE GAS AND ELECTRIC RATES, TERMS AND
CONDITIONS OF LOUISVILLE GAS AND ELECTRIC COMPANY
CASE NO. 2003-00433**

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and ten (10) copies of the Response of Louisville Gas and Electric Company to the Information Requested in Appendix A of Commission's Order dated July 26, 2004, in the above-referenced matter.

Please confirm the receipt of these responses by placing the File Stamp of your Office on the additional copy.

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

Sincerely,

John Wolfram
Manager, Regulatory Affairs

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE GAS AND ELECTRIC) CASE NO.
RATES, TERMS AND CONDITIONS OF) 2003-00433
LOUISVILLE GAS AND ELECTRIC COMPANY)

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
INFORMATION REQUESTED IN
APPENDIX A OF COMMISSION'S ORDER
DATED JULY 26, 2004

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LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

**Response to Information Requested in Appendix A of Commission's Order
Dated July 26, 2004**

Question No. 1

Responding Witness: S. Bradford Rives

Q-1. What was the amount of Indiana tax paid on LG&E's off-system sales during the test year?

A-1. Indiana taxes have historically been based on both receipts and on taxable income. The Indiana Corporation Income Tax paid in calendar year 2002 totaled \$108,699, which was comprised of \$91,953 related to off-system sales "receipts" and \$16,746 based on Indiana apportioned taxable income at a 3.4% rate.

Effective with the 2003 Indiana return, the Indiana Corporation Income Tax will be based solely on apportioned taxable income at a new 8.5% tax rate. The 2003 return will be filed prior to its October 2004 due date, however, the Company estimates its Indiana apportionment will decrease slightly and the 2003 liability will be approximately \$81,000. We expect any change in the effective tax rate to be minimal.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

**Response to Information Requested in Appendix A of Commission's Order
Dated July 26, 2004**

Question No. 2

Responding Witness: S. Bradford Rives

- Q-2. If the effective state income tax rate were utilized, explain how the payment of Indiana taxes on LG&E's off-system sales should be reflected when determining:
- a. The state income taxes as of test-year end.
 - b. The income tax rate applied to the adjustments approved by the Commission in the June 30, 2004 Order.
 - c. The income tax rate applied to determine the interest synchronization adjustment.
 - d. The income tax rate used in the "gross-up" factor.
- A-2. If an effective state tax rate were utilized (see also attachment to PSC No. 2):
- a. State income taxes would be determined based on LG&E's total income, apportioned for Kentucky and Indiana payroll, property, and receipts factors. The combined 8.07% Kentucky and Indiana rate, would increase Electric Net Operating Income by \$316,118.
 - b. The effective state tax rate of 8.07% would reduce the tax benefits associated with the Electric approved adjustments by \$68,973.
 - c. The effective state tax rate of 8.07% would reduce the tax benefits associated with the Electric interest synchronization adjustment by \$659.
 - d. The effective state tax rate of 8.07% would impact the "gross-up" factor, decreasing the Electric revenue requirements by \$258,111. The combined federal and Kentucky income tax used in the "gross-up" factor would be 40.246%.

Louisville Gas & Electric Company
Appendix A Case No. 2003-00433
Effective State Income Tax Rate Analysis

<u>State Tax Rate</u>	<u>PSC Order</u> <u>8.25%</u>	<u>Co Eff Rate</u> <u>8.07%</u>	<u>Difference</u>
1 Net Operating Income per books	108,683,393	108,999,511	316,118
2 PSC ordered adjustments	(58,951,423)	(58,951,423)	-
3 Federal and State income tax on adjustments	23,794,268	23,725,295	(68,973)
4 Other tax adjustments	286,095	285,436	(659)
5 Total Rate Case Adjustments (Line 2+3+4)	<u>(34,871,060)</u>	<u>(34,940,693)</u>	<u>(69,633)</u>
6 Adjusted Net Operating Income (Line 1+5)	73,812,333	74,058,818	246,485
7 Net Operating Income found Reasonable	100,829,155	100,829,155	
8 Adjusted Net Operating Income (Line 6)	<u>73,812,333</u>	<u>74,058,818</u>	
9 Net Operating Income Deficiency (Line 7-8)	27,016,822	26,770,337	
10 Gross Up	<u>59.2366%</u>	<u>59.3528%</u>	
11 Overall Revenue Deficiency (Line 9/10)	<u>45,608,365</u>	<u>45,103,769</u>	<u>504,596</u>
12 Incremental "gross-up" adjustment (Line 11-6)			<u>258,111</u>