RECEIVED

JUL 2 3 2004

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

and

AN ADJUSTMENT OF THE ELECTRIC RATES, TERMS AND CONDITIONS OF KENTUCKY UTILITIES COMPANY	)	**CASE NO: 2003-00434**

Attorney General's Petition for Rehearing

On June 30, 2004, the Public Service Commission ("Commission") issued its Orders in the above styled actions rejecting various adjustments proposed by the Attorney General ("AG") for the electric operations of Louisville Gas and Electric Company ("LG&E") and the operations of Kentucky Utilities Company ("KU") and establishing revenue requirements for the Companies of $43,400,000[1] and $46,100,000,[2] respectively, the amounts agreed upon by and between the Companies and all parties other than the Attorney General in the Partial Settlement Agreement, Stipulation and Recommendation.[3] On July 15, 2004, the Commission, *sua sponte*, re-opened the evidentiary record of both cases, but it did not stay or otherwise hold its Orders of June 30, 2004, in abeyance. Because the statutory and regulatory schemes delineated in KRS Chapter 278 and implemented through 807 KAR Chapter 5 do not expressly recognize a re-

---

[1] LG&E Order of June 30, 2004, p. 68.
[2] KU Order of June 30, 2004, p. 59.
[3] LG&E and KU Orders, Appendix C, p. 4.

opening of the record and the impact of such an event on outstanding Orders, this Petition for Rehearing is filed under the provisions of KRS 278.400.

I. The Commission should reconsider its Orders and require the use of an effective tax rate for LG&E and KU.

The Attorney General has recommended the use of an effective tax rate for LG&E of 7.87%, the highest effective tax rate paid by LG&E over the last four years, rather than the statutory rate of 8.25%..[4] The same recommendation was made by the Attorney General for KU.[5] By way of response, LG&E and KU urged the Commission to reject the proposal because it has used the state statutory tax rate in the past rate cases of these Companies and consistent treatment would require that the same be done in this case.[6] This contention is disingenuous as the last cases to consider LG&E's and KU's electric rates, PSC Case No. 98-426 and 98-474, respectively, were filed only four months after the LG&E/KU merger had occurred and prior to the PowerGen and E.ON mergers and the filing of the first consolidated tax returns.[7] As the Commission noted, it is membership in the E.ON US Investment Corporation consolidated group has made the lower effective tax rate arising from the filing of consolidated returns available.

Continued utilization of the statutory tax rate to be consistent with a practice established when consolidated returns were not utilized by LG&E and KU in the face of the lower effective tax rate produced by the filing of consolidated returns awards LG&E and KU phantom expenses

[4] Henkes Direct, pp. 24-26. Proper utilization of an effective tax rate would (1) lower the unadjusted test year electric income taxes; (2) require a restatement of all of the Company's proposed pro forma operating income adjustments to reflect the effective state income tax rate; (3) would require restating the pro forma test year electric after-tax operating income adjustments to reflect the effective tax rate, and (4) would require restatement of the income tax rate in the development of the Revenue Conversion Factor applied to the revenue deficiency to arrive at a grossed-up revenue requirement to reflect the effective tax rate.
[5] Majoros Direct Accounting, pp. 16-17.
[6] Rives Rebuttal, p. 9.

– expenses that they might once have incurred, but which, as a result of the mergers, they no longer incur. Thus, continued utilization of a tax rate that is higher than that the Companies have experienced since the mergers charges ratepayers a phantom expense and results in over recoveries. Therefore, the shareholders benefit, at the expense of the ratepayers, over and above the substantial amounts built into the rates that assure that the shareholders receive their fair share of the merger benefits.

By way of rebuttal, the Companies noted that if the effective tax rate is to be used, the taxes paid in Indiana should be included in the determination of the effective tax rate for LG&E. This results in an effective tax rate of 8.07% for LG&E for 2002.[8] Likewise, by way of rebuttal, the Companies noted that if the effective tax rate is to be used for KU, it should not be the 7.64% shown in response to PSC 2-15 (e) (3) as the effective rate for 2002, but rather should include taxes paid in Virginia and Tennessee and should exclude Virginia property, payroll and receipts, resulting in an effective tax of 7.98%.[9] For both Companies, the effective rate is lower than the statutory rate with or without the inclusion of other taxes and allocations the Companies believe to be appropriately included.

The Commission noted in its Order that use of the effective tax rate for ULH&P was requested by that Company and has been opposed by these Companies in support of its refusal to utilize an effective tax rate for these Companies. Simply stated, in seeking the use of the effective tax rate, ULH&P got it right. In this case, the Companies bear the burden of proving the need for rate increases under KRS 289.190 (3) and therefore bear the burden of justifying the use

---

[7] See, 7 January 2000 Order in *In the Matter of: Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation*, p. 3.
[8] Rives Rebuttal, p. 10.
[9] Rives Rebuttal p. 10. The response to PSC 2-15 (e) (3) showed that for KU, as for LG&E, 2002 was the highest effective tax rate since 1999.

of a tax rate that is higher than they actually pay. There is nothing in the record to warrant the use of the higher 8.25% statutory tax rate in the face of the actual experience of the Companies since their merger. Accordingly, the Commission should grant rehearing and should utilize the Companies' effective tax rates.

II. The Commission should reconsider its decision to continue use of the depreciation rates currently used by LG&E and KU because those rates fail to reflect service lives upon which both the Companies and the Attorney General are agreed in this action and because they contain the double count for future inflation decried by the Commission.

The Commission concludes, "Concerning the AGs study, except for its recognition of LG&E's double counting of inflation, the Commission finds little justification for the AG's position and cannot accept his proposals as reasonable."[10] It also says, "the AG's extension of certain transmission and distribution lives asset service lives appears to be arbitrary rather than based on objective data."[11] These statements by the Commission ignore the fact that the depreciation experts for both the AG and the Companies were agreed on service lives for 46 accounts that represent 87% of the recommendations made pertaining KU and on service lives for 45 accounts that represent 92% of the recommendations made pertaining to LG&E. There is nothing in the record that would warrant the use of depreciation rates that fail to reflect the matters upon which the only experts in the case were in agreement. Their agreement militates against a finding that those matters to which they are in agreement are in any way arbitrary.

Further, the Commission is in error in labeling AGs position to be arbitrary rather than based on objective data with reference to those lives on which the parties are disagreed because

[10] See, LG&E Order, p. 32. The same conclusion is presented at page 27 of the KU Order.
[11] See, LG&E Order, p. 32. The same conclusion is presented at page 29 of the KU Order.

"deprecation estimates are just that – estimates" and it is "not reasonable to always select the service life that produces the lowest depreciation rates." The record shows that the AG did not always select the service life that produces the lowest depreciation rates. Not only did the AG's expert agree with the Companies' witness on many of the lives based on his own analysis,[12] he did not adjust the life spans proposed by the Companies for the electric production plant despite his opinion that those life spans were too short (with the consequence of producing excessive depreciation rates) because the AG had agreed to those rates in an earlier settlement. The record clearly reflects that the Attorney General did not always propose the longest possible service life or simply adopt a results-oriented approach and the Commission should modify its language to reflect that he did not do so.

The Commission's assertions that the AG's witness engaged in an "arbitrary" and "results-oriented" recommendations reflect poorly upon Mr. Majoros and his firm, both of whom have extensive experience and a sound reputation. Further, it seems somewhat ironic that in rejecting the AG's recommendations the Commission accused him of being "results-oriented." It appears to be acceptance of the Companies' position as espoused by its witnesses on rebuttal during which they repeatedly castigated the AG's witnesses for being "results-oriented." That position seems hollow at best as the record contains inadvertently revealed information that the Companies then sought to suppress that shows that the Companies approach to these rate cases was unquestionably results-oriented.[13] Mr. Majoros's study and recommendations for those accounts on which he disagreed with the Companies' witness are no less objective than are those on which they were in agreement, and his approach is no more results-oriented that was his

---

[12] Majoros Direct, Depreciation, pp. 6-7.
[13] See, LG&E response to KIUC 1-78, p. 428 of 441.

approach where agreement occurred or where he accepted the recommendation despite disagreement.

At a bare minimum, the Commission should have adopted the AG's position for those accounts on which both the AG and the Companies were in agreement. Given that agreement, there is simply no basis on which to reject those recommendations as to service lives. Further, given that the Commission agreed that Mr. Majoros properly identified double accounting for inflation in the future net salvage calculations[14] and as his rates were recalculated to remove the effects of the double-counted inflation, the AG's rates for the 45 LG&E accounts and the 46 KU accounts on which the parties were agreed about the service lives should have been accepted.

Moreover, by agreeing with Mr. Majoros that the rates double count inflation and that they should not do so, but then rejecting his depreciation study and implementing rates already in effect that include the double counted inflation,[15] the Commission is continuing to perpetrate the very problem that has resulted in the combined company $456 million excess reserve. Double counted inflation in the depreciation rates charges the ratepayers phantom expenses, expenses that do not exist in fact. The Commission should reconsider using depreciation rates that double charge inflation.

III. The Commission should reconsider use of an average of experienced salvage expense in lieu of a future net salvage estimate and, should at a minimum, clarify what future net salvage is being used.

The AG recommended an annual net salvage allowance to be added to the Companies' depreciation accrual. This allowance was based on the Companies' actual experience for the last 5 years. The Commission rejected the 5-year allowance by accepting the Companies' claim that

---

[14] LG&E Order, p. 32; KU Order, p. 27.

"the 5-year average is not appropriate because of inter-company transfers between LG&E and KU."[16] The Commission concluded, "therefore, it is not reasonable to use a 5-year average that contains unrepresentative data, but rather it would be more reasonable to use a longer period in which such anomalies are likely to be averaged out."[17] On behalf of the Companies, Mr. Robinson provided an alternative 5-year allowance "eliminating the inter-company transactions."[18] This was available to the Commission, in lieu of Majoros's calculations. Also,available to the Commission was the complete history of net salvage if it desired a longer study period to smooth out anomalies.[19]

Rather than using the AG's recommendations or any of the alternatives, the Commission threw the baby out with the bathwater by reverting to over-inflated net salvage ratios. In so doing, it did not specify how much future net salvage it will charge to ratepayers as a result of its decision. At a minimum, the Commission should clarify what net salvage is being charged as the amount giving rise to the combined Company excess reserve of $456 million is many times what the Companies are actually spending.

IV. The Commission should reconsider its refusal to return over collections of depreciation to the ratepayers via a 10 year amortization.

In its Orders the Commission says,

> The AG's claim that LG&E/KU likely would never incur, or had no legal obligation to incur, the included retirement costs is irrelevant. The real question is whether it is reasonable to capitalize the cost of removal in order to recover those costs over the life of the investment.

---

[15] See, Transcript of Evidence ("TE"), Volume III, pp. 146-148. at which Mr. Majoros explains to Chairman Goss that the depreciation rates now in effect include the double counted inflation.
[16] LG&E Order, p. 32; KU Order, p. 27.
[17] LG&E Order, p. 32; KU Order, p. 27.
[18] Robinson Rebuttal, p. 16.
[19] Robinson Depreciation Studies, Section 7.

This statement misses the point altogether. Before one can determine the appropriate treatment of an expense, it must first be determined that there is a real expense to be treated. If the only expense is a phantom expense resulting from mathematical estimations that do not correspond to fact, then it should not be recognized, included, or treated at all. Instead, it should be excluded entirely and no recovery should be permitted.

The Commission goes on to reject the AG's recommendation that the over-stated depreciation reserve should be amortized back to ratepayers over 10 years saying,

> What the AG seems to have not recognized is that when the remaining life technique is utilized, one of the early steps in the process of calculating remaining life rates is to calculate a theoretical reserve. The amount of deviation, whether positive or negative, of the actual reserves from the calculated theoretical reserves is then spread over the remaining life of the investment. Amortizing the deviation from the theoretical reserve over the remaining life of the investment is reasonable and is normally incorporated into the depreciation rates. The performance of depreciation studies on a regular basis, including the determination of the current deviation from the theoretical depreciation reserve is a reasonable alternative to an amortization over a fixed period of years.[20]

This statement presupposes that the expenses that are included in the theoretical reserve are expenses in fact or relatively accurate estimates of expenses that will be experienced by the Companies in fact and not phantom expenses; over-inflated expenses that will never be experienced by the Companies. To create a theoretical reserve comprised of expenses that neither existed in the past nor will exist in the future is simply to charge the ratepayer for phantom expenses and to give the shareholders the benefit of the increased cash flow resulting from those phantom expenses.

The process of amortizing the theoretical reserve over the life of the asset merely gets the matter off the books and does nothing to change the fact that the phantom expense was collected

[20] LG&E Order, p. 33; KU Order, p.28.

through the depreciation rates in error in the first place. Instead, those phantom expenses that should never have been collected in the first place need to be returned to those from whom they were collected, the ratepayers.

The AG's position as set forth in its post-hearing brief is more aggressive than Mr. Majoros's regarding the $456 million liability to ratepayers. Mr. Majoros left this amount in accumulated depreciation for the purposes of his calculations. As the Commission seems to recognize, this approach returns the $456 million excess to ratepayers over the remaining lives of existing plant. Mr. Majoros also opined, however, that one could choose to use a shorter period, 10 years for example, to return the excess, but he did not include those calculations in his study. AG believes that in addition to reducing the ongoing charges to levels commensurate with actual experience, the excess previously collected should be returned sooner rather later. Therefore, AG continues to recommend a 10-year amortization of the excess. The Commission's Order points to the fact that the excess reserve figures presented by the AG in the post-hearing brief (which divided the combined Companies' total excess into individual presentations for LG&E and KU, and which further sorted out the gas from the electric for LG&E) have not been specifically calculated at least twice. The AG agrees that those calculations were not included with its recommendation in the brief and, therefore, attaches the relevant calculations as Attachment 1 and Attachment 2.

V. The Attorney General reserves the right to challenge any or all of the Orders as may be appropriate should the investigation pursuant to the re-opened evidentiary record under the Commission's Order of July 15, 2004, give grounds to do so.

The Commission issued an Order on July 15 to re-open the evidentiary record in these cases. The Attorney General reserves the right to challenge any or all portions of the Orders of the Commission in these cases based on any information disclosed or discovered pursuant to the investigation conducted before the Commission under the Orders of July 15.

For the foregoing reasons, the Attorney General seeks Rehearing of the Orders of June 30, 2004, in the above-styled actions.

Respectfully submitted,

Gregory. D. Stumbo
Attorney General

Elizabeth E. Blackford
Dennis G. Howard II
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204
(502) 696-5453
betsy.blackford@ky.ag.gov
dennis.howard@ky.ag.gov

NOTICE OF FILING AND CERTIFICATE OF SERVICE

I hereby give notice that I have filed the original and 10 true copies of the foregoing Petition for Rehearing with the Executive Director of the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, KY 40601 this the 23rd day of July, 2004 and certify that I have served the parties to these actions by mailing a true copy this same day to the following:

Michael S. Beer
Vice President, Rates & Regulatory
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

Kent W. Blake
Director, Regulatory Initiatives
Kentucky Utilities Company
c/o Louisville Gas & Electric Co.
P. O. Box 32010
Louisville, KY 40232

John Wolfram
Manager, Regulatory Policy/Strategy
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

Honorable Linda S. Portasik
Senior Corporate Attorney
Louisville Gas and Electric Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

Honorable David C. Brown, Esq.
Sites & Harbison, PLLC
1800 Aegon Center
400 West Market Street
Louisville, KY 40202

Honorable Joe F. Childers
201 West Short Street
Suite 310
Lexington, KY 40507

Honorable Lisa Kilkelly
Legal Aid Society
425 West Muhammad Ali Boulevard
Louisville, KY 40202

Honorable Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 2110
Cincinnati, OH 45202

Michael A. Laros
Managing Director/Co-President
Barrington-Wellesley Group, Inc.
2479 Lanam Ridge Road
Nashville, IN 47448
laros@bwgi.com

David A. McCormick
DAJA-RL 4118
901 N. Stuart Street, Room 700
Arlington, VA 22203-1837

Honorable Iris Skidmore
Office of Legal Services
Natural Resources and Environmental
Protection Cabinet
5th Floor, Capital Plaza Tower
500 Mero Street
Frankfort, KY 40601

Honorable Kendrick R. Riggs
Ogden, Newell & Welch, PLLC
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY 40202

Honorable Allyson K. Sturgeon
Attorney at Law
Ogden, Newell & Welch, PLLC
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY 40202

Honorable Robert M. Watt, III
Attorney At Law
Stoll, Keenon & Park, LLP
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

David Jeffrey Barberie
Corporate Counsel
LFUGC Department Of Law
200 East Main Street
Lexington, KY 40507

Honorable Walter L. Sales
Ogden, Newell & Welch, PLLC
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY 40202

Honorable J. Gregory Cornett
Ogden, Newell & Welch, PLLC
1700 Citizens Plaza
500 West Jefferson Street
Louisville, KY 40202

Honorable Richard S. Taylor
Attorney at Law
Capital Link Consultants
225 Capital Avenue
Frankfort, KY 40601

Kentucky Utilities
Annualized Depreciation
at September 30, 2003
Snavely King Recommendation
Based Upon Separate 10-Year Amortization of Prior Non-Legal ARO Collections

	Depreciable Plant 9/30/2003	Current Rates Implemented 1-Jan-01	Snavely King Recommended Rates	Depreciation Under Current Rates	Depreciation Under Recommended Rates	Net Difference Current/Recommended Rates
INTANGIBLE PLANT						
301 Organization	44,456	0.00%	0.00%	-	-	-
302 Franchises and Consents	83,453	0.00%	0.00%	-	-	-
303 Misc. Intangible Plant	21,631,290	20.00%	20.00%	4,326,258	4,326,258	-
Total Intangible Plant	21,759,199			4,326,258	4,326,258	-
STEAM PRODUCTION						
Land	10,475,562	0.00%	0.00%	-	-	-
Brown Unit 1	45,247,316	2.90%	2.19%	1,312,172	990,916	(321,256)
Brown Unit 2	38,238,854	2.88%	2.51%	1,101,279	959,795	(141,484)
Brown Unit 3	116,091,020	3.91%	2.26%	4,539,159	2,623,657	(1,915,502)
Ghent Unit 1	138,894,035	3.12%	2.59%	4,333,494	3,597,356	(736,138)
Ghent Unit 2	144,169,095	1.84%	1.60%	2,652,711	2,306,706	(346,006)
Ghent Unit 3	276,892,827	2.22%	2.25%	6,147,021	6,230,089	83,068
Ghent Unit 4	271,961,803	2.16%	2.25%	5,874,375	6,119,141	244,766
Green River Units 1 & 2	20,081,091	0.00%	0.00%	-	-	-
Green River Unit 3	16,872,163	1.94%	0.93%	327,320	156,911	(170,409)
Green River Unit 4	35,240,942	3.10%	1.64%	1,092,469	577,951	(514,518)
Pineville	226,833	2.28%	0.00%	5,172	-	(5,172)
Tyrone Units 1 & 2	6,639,170	0.00%	3.12%	-	207,142	207,142
Tyrone Unit 3	18,792,326	2.13%	0.96%	400,277	180,406	(219,870)
System Laboratory						
1311	805,716	4.22%	2.32%	34,001	18,693	(15,309)
1316	1,965,213	4.22%	2.90%	82,932	56,991	(25,941)
Coal Cars	7,647,232	4.59%	1.90%	351,008	145,297	(205,711)
Pollution Control Equipment	114,781,009	5.67%	3.58%	6,508,083	4,109,160	(2,398,923)
Total Steam Production Plant	1,265,022,207			34,761,473	28,280,211	(6,481,262)
HYDRAULIC PLANT						
Land	13,479	0.00%	0.00%	-	-	-
Dix Dam	9,914,306	1.59%	1.02%	157,637	101,126	(56,512)
Lock # 7	840,028	2.46%	13.74%	20,665	115,420	94,755
Total Hydraulic Plant	10,767,813			178,302	216,546	38,244
OTHER PRODUCTION PLANT						
Land	98,603	0.00%	0.00%	-	-	-
Haefling	5,296,000	0.00%	2.80%	-	148,288	148,288
Brown CT 5	20,296,408	3.43%	3.82%	696,167	775,323	79,156
Brown CT 6	36,701,293	3.39%	3.98%	1,244,174	1,460,711	216,538
Brown CT 7	38,256,129	3.28%	3.92%	1,254,801	1,499,640	244,839
Brown CT 8	27,638,671	3.51%	3.18%	970,117	878,910	(91,208)
Brown CT 9	36,697,794	3.39%	3.76%	1,244,055	1,379,837	135,782
Brown CT 10	27,720,786	3.48%	3.79%	964,683	1,050,618	85,934
Brown CT 11	42,757,087	3.55%	4.17%	1,517,877	1,782,971	265,094
Brown CT 9 Gas Pipeline	8,364,109	3.39%	3.64%	283,543	304,454	20,910
Paddy's Run Generator 13	29,973,105	3.43%	3.79%	1,028,078	1,135,981	107,903
Trimble County CT 5	39,045,125	3.43%	3.88%	1,339,248	1,514,951	175,703
Trimble County CT 6	39,024,692	3.43%	3.88%	1,338,547	1,514,158	175,611
Trimble County CT Pipeline	4,474,853	3.43%	3.67%	153,487	164,227	10,740
Total Other Production Plant	356,344,655			12,034,777	13,610,068	1,575,291
TRANSMISSION PLANT						
350.10 Land Rights	23,341,271	1.34%	1.88%	312,773	438,816	126,043
350.20 Land	1,162,528	0.00%	0.00%	-	-	-
352.00 Struct. and Improvements	7,758,006	2.65%	2.14%	205,587	166,021	(39,566)
353.10 Station Equipment	154,930,533	2.21%	1.79%	3,423,965	2,773,257	(650,708)
353.20 Syst Control/Microwave Equip.	14,789,869	6.18%	2.66%	914,014	393,411	(520,603)
354.00 Towers and Fixtures	62,743,597	2.84%	1.72%	1,781,918	1,079,190	(702,728)
355.00 Poles and Fixtures	80,841,658	4.03%	1.70%	3,257,919	1,374,308	(1,883,611)
356.00 Overhead Conductors and Devices	125,832,855	3.25%	1.56%	4,089,568	1,962,993	(2,126,575)
357.00 Underground Conduit	448,760	2.01%	2.02%	9,020	9,065	45
358.00 Underground Conductors and Devices	1,114,762	3.52%	3.44%	39,240	38,348	(892)
359.00 Transmission AROs	-					
TOTAL TRANSMISSION PLANT	472,963,839			14,034,003	8,235,408	(5,798,596)
DISTRIBUTION PLANT						
360.1 Land Rights	1,423,182	1.14%	1.13%	16,224	16,082	(142)
360.2 Land	1,713,366	0.00%	0.00%	-	-	-
361.00 Structures and Improvements	4,126,448	1.89%	1.71%	77,990	70,562	(7,428)
362.10 Station Equipment	96,700,056	2.24%	1.77%	2,166,081	1,711,591	(454,490)
364.00 Poles, Towers and Fixtures	176,881,754	3.52%	2.19%	6,226,238	3,873,710	(2,352,527)
365.00 Overhead Conductors and Devices	165,135,703	3.02%	1.53%	4,987,098	2,526,576	(2,460,522)
366.00 Underground Conduit	1,664,173	1.75%	1.63%	29,123	27,126	(1,997)
367.00 Underground Conductors and Devices	56,772,724	3.29%	2.49%	1,867,823	1,413,641	(454,182)
368.00 Line Transformers	219,930,197	2.41%	2.10%	5,300,318	4,618,534	(681,784)

Kentucky Utilities
Annualized Depreciation
at September 30, 2003
Snavely King Recommendation
Based Upon Separate 10-Year Amortization of Prior Non-Legal ARO Collections

	Depreciable Plant 9/30/2003	Current Rates Implemented 1-Jan-01	Snavely King Recommended Rates	Depreciation Under Current Rates	Depreciation Under Recommended Rates	Net Difference Current/Recommended Rates
369.00 Services	82,837,019	3.75%	1.57%	3,106,388	1,300,541	(1,805,847)
370.10 Meters	62,508,577	2.79%	2.06%	1,743,989	1,287,677	(456,313)
371.00 Installations on Customer Premises	18,268,926	6.27%	5.29%	1,145,462	966,426	(179,035)
373.00 Street Lighting & Signal Systems	50,814,837	3.85%	3.23%	1,956,371	1,641,319	(315,052)
TOTAL DISTRIBUTION PLANT	938,776,962			28,623,105	19,453,786	(9,169,319)
GENERAL PLANT						
389.2 Land	2,825,417	0.00%	0.00%	-	-	-
390.1 Structures and Improvements	30,511,481	1.76%	1.65%	537,002	503,439	(33,563)
390.2 Improvements to Leased Property	756,079	0.00%	2.67%	-	20,187	20,187
391.1 Office Furniture and Equipment	6,631,398	5.82%	5.64%	385,947	374,011	(11,937)
391.2 Non PC Computer Equipment	13,732,616	20.00%	20.00%	2,746,523	2,746,523	-
391.3 Cash Processing Equipment	817,575	10.00%	4.74%	81,758	38,753	(43,004)
391.4 Personal Computer Equipment	11,716,009	33.33%	33.33%	3,904,946	3,904,946	-
392.00 Transportation Equipment	23,749,239	20.00%	20.00%	4,749,848	4,749,848	-
393.00 Stores Equipment	674,815	2.87%	2.09%	19,367	14,104	(5,264)
394.00 Tools, Shop and Garage Equipment	4,637,322	2.74%	2.53%	127,063	117,324	(9,738)
395.00 Laboratory Equipment	3,307,714	3.16%	2.60%	104,524	86,001	(18,523)
396.00 Power Operated Equipment	225,500	3.56%	2.75%	8,028	6,201	(1,827)
397.00 Communications Equipment	13,113,712	3.55%	4.41%	465,537	578,315	112,778
398.00 Miscellaneous Equipment	463,335	5.19%	3.60%	24,047	16,680	(7,367)
TOTAL GENERAL PLANT	113,162,212			13,154,589	13,156,332	1,743
TOTAL PLANT excl. ARO ASSETS	3,178,796,887					
ARO Assets excluded from Plant in Service	8,608,030					
TOTAL PLANT IN SERVICE	3,187,404,917					
TOTAL ANNUAL DEPRECIATION				107,112,508	87,278,608	(19,833,899)
Less Amounts Not Included in Income Statement Depreciation						
Coal Cars				351,008	145,297	(205,711)
Brown Gas Pipeline				283,543	304,454	20,910
TC Gas Pipeline				153,487	164,227	10,740
Account 139200 Transportation Equipment				4,749,848	4,749,848	-
Subtotal				5,537,887	5,363,826	(174,061)
Less ECR Depreciation				194,434	223,677	29,243
TOTAL ANNUALIZED DEPRECIATION				101,380,187	81,691,105	(19,689,082)
Five Year Average Net Salvage Allowance				-	-	-
TOTAL ANNUALIZED DEPRECIATION & NET SALVAGE ALLOWANCE				101,380,187	81,691,105	(19,689,082)
10-Year Amortization of Prior Non-Legal ARO Collections				-	(24,855,199)	(24,855,199)
TOTAL ANNUALIZED DEPRECIATION, NET SALVAGE AND AMORTIZATION OF NON-LEGAL ARO COLLECTIONS				101,380,187	56,835,906	(44,544,281)

Kentucky Utilities
Electric Division

Summary of Original Cost of Utility Plant in Service and Calculation of Annual Depreciation Rates and Depreciation Expense Based Upon Utilization of Book Deprecation Reserve and Average Remaining Lives as of December 31, 2002
Snavely King Recommendation
Based Upon Separate 10-Year Amortization of Prior Non-Legal ARO Collections

Account No. (a)	Description (b)	Original Cost 12/31/02 (c)	Estimated Future Net Salvage % (d)	Estimated Future Net Salvage Amount (e)	Original Cost Less Salvage (f)	Book Depreciation Reserve (g)	Net Original Cost Less Salvage (h)		A.S.L./ Survivor Curve (i)	Average Remaining Life (j)	Annual Depreciation Accrual (k)	Annual Depreciation Rate (l)
	DEPRECIABLE PLANT											
	STEAM PLANT											
311.00	Structures and Improvements	154,711,332	0.0%	-	154,711,332	97,912,623	56,798,709	(1)	90-S1.5	21.1	2,691,882	1.74%
312.00	Boiler Plant Equipment	961,472,088	0.0%	-	961,472,088	455,960,228	505,511,861	(1)	70-L1.5	19.6	25,791,421	2.68%
314.00	Turbogenerator Units	191,722,845	0.0%	-	191,722,845	122,070,374	69,652,471	(1)	60-S1.5	20.1	3,465,297	1.81%
315.00	Accessory Electric Equipment	81,289,114	0.0%	-	81,289,114	52,196,746	29,092,368	(1)	75-S2	22.9	1,270,409	1.56%
316.00	Miscellaneous Power Plant Equipment	20,719,081	0.0%	-	20,719,081	10,778,369	9,940,713	(1)	60-S1	20.6	482,559	2.33%
	Total Steam Production Plant	1,409,914,461	0.0%	-	1,409,914,461	738,918,340	670,996,122				33,701,568	2.39%
	HYDRAULIC PLANT											
330.10	Land Rights	879,311	0.0%	-	879,311	879,311	-		50-R2.5	7.8	-	0.00%
331.00	Structures and Improvements	497,427	0.0%	-	497,427	311,613	185,814	(1)	140-L1	16.9	10,995	2.21%
332.00	Reservoirs, Dams and Waterways	8,142,176	0.0%	-	8,142,176	5,441,849	2,700,327	(1)	150-L1.5	17.9	150,856	1.85%
333.00	Waterwheel, Turbines and Generators	532,629	0.0%	-	532,629	532,629	-	(1)	150-L1.5	14.5	-	0.00%
334.00	Accessory Electric Equipment	349,869	0.0%	-	349,869	216,646	133,224	(1)	55-L1	3.1	42,975	12.28%
335.00	Miscellaneous Power Plant Equipment	163,126	0.0%	-	163,126	84,776	78,351	(1)	55-R3	8.7	9,006	5.52%
336.00	Roads, Railroads and Bridges	48,146	0.0%	-	48,146	39,007	9,139	(1)	80-R5	15.6	586	1.22%
	Total Hydraulic Plant	10,612,686	0.0%	-	10,612,686	7,505,831	3,106,854				214,418	2.02%
	OTHER PRODUCTION PLANT											
340.10	Land Rights	176,409	0.0%	-	176,409	26,569	149,840		50-R2.5	43.9	3,413	1.93%
341.00	Structures and Improvements	21,174,957	0.0%	-	21,174,957	3,064,501	18,110,455	(1)	45-R0.5	21.8	830,755	3.92%
342.00	Fuel Holders, Producers and Accessory	18,325,891	0.0%	-	18,325,891	3,187,379	15,138,512	(1)	55-R1	22.6	669,846	3.66%
343.00	Prime Movers	251,279,024	0.0%	-	251,279,024	29,458,701	221,820,323	(1)	40-R0.5	22.2	9,991,906	3.98%
344.00	Generators	47,479,932	0.0%	-	47,479,932	10,549,870	36,930,062	(1)	42-R5	24.0	1,538,753	3.24%
345.00	Accessory Electric Equipment	19,116,796	0.0%	-	19,116,796	3,409,866	15,706,930	(1)	45-R5	25.5	615,958	3.22%
346.00	Miscellaneous Power Plant Equipment	4,681,001	0.0%	-	4,681,001	586,018	4,094,983	(1)	30-R1	21.4	191,354	4.09%
	Total Other Production Plant	362,234,010	0.0%	-	362,234,010	50,282,905	311,951,105				13,841,985	3.82%
	TRANSMISSION PLANT											
350.10	Land Rights	22,991,433	0%	-	22,991,433	13,091,787	9,899,646		50-R2.5	22.9	432,299	1.88%
	Structures and Improvements											
352.10	Struct. and Improve. - Non Sys. Control/Com.	6,426,547	0%	-	6,426,547	2,756,562	3,669,985		45-R3	28.0	131,071	2.04%
352.20	Struct. and Improve. - Sys. Control/Com.	1,166,434	0%	-	1,166,434	571,692	594,743		40-R3	19.1	31,138	2.67%
	Total Account 352	7,592,981	0.0%	-	7,592,981	3,328,254	4,264,727				162,209	2.14%
	Station Equipment											
353.10	Station Equipment - Non Sys. Control/Com.	146,527,337	0%	-	146,527,337	51,729,684	94,797,653	(2)	54-R4	36.2	2,618,720	1.79%
353.20	Station Equip - Sys.Control/Com. (Microwave)	14,284,914	0%	-	14,284,914	3,309,753	10,975,162	(2)	38-L1.5	28.9	379,763	2.66%
	Total Account 353	160,812,252	0.0%	-	160,812,252	55,039,437	105,772,815				2,998,483	1.86%

Kentucky Utilities
Electric Division

Summary of Original Cost of Utility Plant in Service and Calculation of Annual Depreciation Rates and Depreciation Expense Based Upon Utilization of Book Deprecation Reserve and Average Remaining Lives as of December 31, 2002
Snavely King Recommendation
Based Upon Separate 10-Year Amortization of Prior Non-Legal ARO Collections

Account No. (a)	Description (b)	Original Cost 12/31/02 (c)	Estimated Future Net Salvage % (d)	Estimated Future Net Salvage Amount (e)	Original Cost Less Salvage (f)	Book Depreciation Reserve (g)	Net Original Cost Less Salvage (h)	A.S.L./ Survivor Curve (i)	Average Remaining Life (j)	Annual Depreciation Accrual (k)	Annual Depreciation Rate (l)
354.00	Towers and Fixtures	60,533,459	0%	-	60,533,459	26,039,734	34,493,725	55-R4	33.2	1,038,968	1.72%
355.00	Poles and Fixtures	74,915,940	0%	-	74,915,940	18,982,594	55,933,347 (2)	58-L1.5	43.8	1,277,017	1.70%
356.00	Overhead Conductors and Devices	122,030,094	0%	-	122,030,094	43,506,934	78,523,160 (2)	62-R3	41.3	1,901,287	1.56%
357.00	Underground Conduit	435,927	0%	-	435,927	91,102	344,825	50-R3	39.2	8,797	2.02%
358.00	Underground Conductors and Devices	1,114,762	0%	-	1,114,762	524,897	589,865	30-R3	15.4	38,303	3.44%
	Total Transmission Plant	450,426,848	0.0%	-	450,426,848	160,604,738	289,822,110			7,857,363	1.74%
	DISTRIBUTION PLANT										
360.10	Land Rights	1,423,182	0%	-	1,423,182	1,070,622	352,560	50-R2.5	21.9	16,099	1.13%
361.00	Structures and Improvements	3,798,329	0%	-	3,798,329	1,438,703	2,359,627	50-R2.5	36.4	64,825	1.71%
362.00	Station Equipment	92,514,069	0%	-	92,514,069	30,277,561	62,236,508	50-R1.5	37.9	1,642,124	1.77%
364.00	Poles, Towers and Fixtures	167,558,547	0%	-	167,558,547	57,658,096	109,900,451	40-S0	29.9	3,675,600	2.19%
365.00	Overhead Conductors and Devices	160,511,632	0%	-	160,511,632	34,836,771	125,674,861 (2)	61-R0.5	51.3	2,449,802	1.53%
366.00	Underground Conduit	1,551,967	0%	-	1,551,967	823,251	728,716	50-R3	28.8	25,303	1.63%
367.00	Underground Conductors and Devices	49,804,065	0%	-	49,804,065	10,482,330	39,321,735 (2)	38-L3	31.7	1,240,433	2.49%
368.00	Line Transformers	209,705,231	0%	-	209,705,231	74,198,985	135,506,245	42-S0.5	30.8	4,399,553	2.10%
369.00	Services	81,680,931	0%	-	81,680,931	11,736,429	69,944,501 (2)	61-O1	54.4	1,285,036	1.57%
370.00	Meters	61,133,035	0%	-	61,133,035	20,564,080	40,568,956	44-R1	32.2	1,259,905	2.06%
371.00	Installations on Customers' Premises	18,270,303	0%	-	18,270,303	7,935,531	10,334,772	16-R0.5	10.7	965,867	5.29%
373.00	Street Lighting and Signal Systems	45,406,623	0%	-	45,406,623	14,735,975	30,670,648	28-R1	20.9	1,467,495	3.23%
	Total Distribution Plant	893,357,915	0.0%	-	893,357,915	265,758,334	627,599,580			18,492,043	2.07%
	GENERAL PLANT										
	Structures and Improvements										
390.10	Struct.. And Improve. To Owned Property	28,987,368	0%	-	28,987,368	10,637,866	18,349,502	50-R1.5	38.3	479,099	1.65%
390.20	Improvements to Leased Property	694,489	0%	-	694,489	469,860	224,629	20-R1	12.1	18,564	2.67%
	Total Account 390	29,681,857	0.0%	-	29,681,857	11,107,726	18,574,131			497,664	1.68%
	Office Furniture and Equipment										
391.10	Office Equipment	6,168,472	0%	-	6,168,472	2,167,501	4,000,971	15-L1	11.5	347,911	5.64%
391.30	Cash Processing Equipment	369,384	0%	-	369,384	253,868	115,516	12-R4	6.6	17,502	4.74%
	Total Account 391	6,537,856	0.0%	-	6,537,856	2,421,369	4,116,487			365,413	5.59%
393.00	Stores Equipment	571,858	0%	-	571,858	357,585	214,273	30-R3	17.9	11,971	2.09%
394.00	Tools, Shop and Garage Equipment	3,700,721	0%	-	3,700,721	1,652,063	2,048,658	30-R2.5	21.9	93,546	2.53%
395.00	Laboratory Equipment	3,306,886	0%	-	3,306,886	1,805,017	1,501,869	27-L3	17.5	85,821	2.60%
396.00	Power Operated Equipment	200,677	0%	-	200,677	149,839	50,838	18-S5	9.2	5,526	2.75%

Kentucky Utilities
Electric Division

Summary of Original Cost of Utility Plant in Service and Calculation of
Annual Depreciation Rates and Depreciation Expense Based Upon Utilization of
Book Deprecation Reserve and Average Remaining Lives as of December 31, 2002
Snavely King Recommendation
Based Upon Separate 10-Year Amortization of Prior Non-Legal ARO Collections

Account No. (a)	Description (b)	Original Cost 12/31/02 (c)	Estimated Future Net Salvage % (d)	Estimated Future Net Salvage Amount (e)	Original Cost Less Salvage (f)	Book Depreciation Reserve (g)	Net Original Cost Less Salvage (h)	A.S.L./ Survivor Curve (i)	Average Remaining Life (j)	Annual Depreciation Accrual (k)	Annual Depreciation Rate (l)
	Communication Equipment										
397.10	Carrier Communication Equipment	3,093,195	0%	-	3,093,195	1,370,291	1,722,904	19-S6	13.8	124,848	4.04%
397.20	Remote Control Communication Equipment	3,889,911	0%	-	3,889,911	1,320,879	2,569,032	20-L5	15.8	162,597	4.18%
397.30	Mobile Communication Equipment	4,579,896	0%	-	4,579,896	1,224,617	3,355,278	18-S5	15.1	222,204	4.85%
	Total Account 397	11,563,001	0.0%	-	11,563,001	3,915,787	7,647,213			509,649	4.41%
398.00	Miscellaneous Equipment	457,349	0%	-	457,349	251,378	205,971	19-L1.5	12.5	16,478	3.60%
	Total General Plant	56,020,205	0.0%	-	56,020,205	21,660,766	34,359,439			1,586,067	2.83%
	Sub-Total Depreciable Plant	3,182,566,124	0.0%	-	3,182,566,124	1,244,730,914	1,937,835,210			75,693,444	2.38%
	Five-Year Average Net Salvage Allowance									-	
	Total Depreciation and Net Salvage									75,693,444	
	10-Year Amortization of Prior Non-Legal ARO Collections (3)									(24,855,199)	
	Total Depreciation, Net Salvage and Amortization of Prior Non-Legal ARO Collections									50,838,245	
	Other Plant (Not Studied)										
391.20	Non PC Computer Equipment	9,611,731				4,014,864					
391.40	Personal Computers	9,814,322				8,848,466					
392.00	Transportation Equipment - Cars & Trucks	23,749,239				14,807,091					
	Total Other Plant (Not Studied)	43,175,292				27,670,420					
	Total Depreciable Plant	3,225,741,416				1,272,401,334					

(1) Life Span Method Utilized. Interim Retirement Rate. Service Lives Vary.
(2) Snavely King changed ASL/Survivor Curve.
(3) Company response to PSC Question No. 56(c), pages 48 and 51.