

ORIGINAL

In the Matter of:

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

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

FILED - FEBRUARY 17, 2004



LG&E Energy LLC
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

August 2, 2004

VIA HAND DELIVERY

RECEIVED

AUG 02 2004

**PUBLIC SERVICE
COMMISSION**

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

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

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and ten (10) copies of the Response of Kentucky Utilities 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 ELECTRIC
RATES, TERMS AND CONDITIONS OF
KENTUCKY UTILITIES COMPANY**

**) CASE NO.
) 2003-00434
)**

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

FILED: AUGUST 2, 2004

KENTUCKY UTILITIES COMPANY

CASE NO. 2003-00434

**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 Virginia taxes paid on KU's out-of-state activities?

A-1. KU was included in the LG&E Energy Corp. and Subsidiaries 2002 Virginia Corporation Income Tax Return. As part of that combined filing group, KU paid \$362,956 in Virginia corporation income taxes in 2002.

KENTUCKY UTILITIES COMPANY

CASE NO. 2003-00434

**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 Virginia taxes on KU's out-of-state activities 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. Virginia taxable income and the related taxes would be excluded from the computation. The income exclusion would be determined using Virginia payroll, property, and receipts factors. Using KU's effective Kentucky income tax rate of 7.98%, rather than the 8.25% statutory Kentucky rate, would increase Net Operating Income by \$234,472.
 - b. The Kentucky effective tax rate of 7.98% (combined federal/Kentucky rate 40.187%) would reduce the tax benefits associated with the approved adjustments by \$72,276.
 - c. The Kentucky effective tax rate of 7.98% (combined federal/Kentucky rate 40.187%) would reduce the tax benefits associated with the interest synchronization adjustment by \$1,332.
 - d. The Kentucky effective tax rate of 7.98% would impact the "gross-up" factor, decreasing the revenue requirement by \$255,245. The combined federal and Kentucky income tax rate used in the "gross-up" factor would be 40.187%.

Kentucky Utilities Company
Appendix A Case No. 2003-00434
Effective State Income Tax Rate Analysis

<u>State Tax Rate</u>	<u>PSC Order</u> 8.25%	<u>Co Eff Rate</u> 7.98%	<u>Difference</u>
1 Net Operating Income per books	86,167,531	86,402,003	234,472
2 PSC ordered adjustments	(41,182,942)	(41,182,942)	-
3 Federal and State income tax on adjustments	16,622,465	16,550,189	(72,276)
4 Other tax adjustments	<u>(375,531)</u>	<u>(376,863)</u>	<u>(1,332)</u>
5 Total Rate Case Adjustments (Line 2+3+4)	(24,936,008)	(25,009,616)	(73,608)
6 Adjusted Net Operating Income (Line 1+5)	61,231,523	61,392,387	160,864
7 Net Operating Income found Reasonable	90,793,892	90,793,892	
8 Adjusted Net Operating Income (Line 6)	<u>61,231,523</u>	<u>61,392,387</u>	
9 Net Operating Income Deficiency (Line 7-8)	29,562,369	29,401,505	
10 Gross Up	<u>59.3916%</u>	<u>59.5664%</u>	
11 Overall Revenue Deficiency (Line 9/10)	<u>49,775,328</u>	<u>49,359,219</u>	416,109
12 Incremental "gross-up" adjustment (Line 11-6)			<u>255,245</u>