



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

April 30, 2004

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APR 30 2004

PUBLIC SERVICE
COMMISSION

Mr. Thomas Dorman, Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

**RE: KENTUCKY UTILITIES COMPANY'S ANNUAL EARNINGS SHARING
MECHANISM FILING FOR CALENDAR YEAR 2003
CASE NO. 2004-00070**

Dear Mr. Dorman:

Please find enclosed and accept for filing the original and seven (7) copies of the Response of Kentucky Utilities Company ("KU") to the First Data Request of Commission Staff dated April 15, 2004, in the above-referenced matter.

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

Sincerely,

Robert M. Conroy
Manager, Rates

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY UTILITIES COMPANY'S ANNUAL)	
EARNINGS SHARING MECHANISM)	CASE NO.
FILING FOR CALENDAR YEAR 2003)	2004-00070

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE COMMISSION'S FIRST DATA REQEUST
DATED: APRIL 15, 2004

FILED: APRIL 30, 2004

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KENTUCKY UTILITIES COMPANY

CASE NO. 2004-00070

**Response to the Commission's First Data Request
Dated: April 15, 2004**

Question No. 3

Responding Witness: Valerie L. Scott

- Q-3. When determining the net operating income for the 2004 ESM Filing, explain how KU treated expenses associated with the February 2003 ice storm.
- A-3. Operating expenses for the February 2003 ice storm net of insurance recoveries were recorded as an expense in calculation of net operating income.

KENTUCKY UTILITIES COMPANY

CASE NO. 2004-00070

**Response to the Commission's First Data Request
Dated: April 15, 2004**

Question No. 4

Responding Witness: Doug Leichty

- Q-4. Refer to the 2004 ESM Filing, Form 3(b). Explain why it is necessary to adjust the determination of the cost of long-term debt for the "Environmental Compliance Rate Base" in Column 7 and the "Environmental Interest Expense" in Column 8. Include with the explanation the reason(s) supporting the environmental-related adjustments.
- A-4. The environmental-related adjustments on Form 3(b) to the determination of the cost of long-term debt in the ESM Filing for Calendar Year 2003 are consistent with the ESM Filings for Calendar Years' 2000, 2001, and 2002. The environmental-related adjustments made in the determination of the cost of long-term debt are pursuant to the Commission's Order in Case No. 98-474 issued June 1, 2000, on page 5 where it states, "The Commission has considered the arguments made by KU and agrees that the blended interest rate calculations should have recognized the assignment of the environmental surcharge adjustment to long-term debt, at an interest rate equal to the rate of return provided in the environmental surcharge mechanism." The ESM reporting requirements provide that the cost rates for debt shall be presented in a manner consistent with that adopted by the Commission in Case No. 98-474.

KENTUCKY UTILITIES COMPANY

CASE NO. 2004-00070

Response to the Commission's First Data Request

Dated: April 15, 2004

Question No. 5

Responding Witness: Carol A. Foxworthy / Doug Leichty

Q-5. Refer to the 2004 ESM Filing, Form 3(f), pages 2 and 3 of 3.

- a. On page 2 of 3, in the "1994 Plan" section, Column E, the amount shown for March 2003 for Emission Allowances does not agree with the corresponding amount included in KU's monthly environmental surcharge report. Indicate which amount for the March 2003 Emission Allowances is correct. If the amount shown on page 2 of 3 is incorrect, resubmit all schedules impacted by the correction of the Emission Allowances amount.
- b. On page 3 of 3, reference is made to Exhibit CAF-3 from Case No. 2003-00068.² Provide copies of Exhibit CAF-3 as submitted in Case No. 2003-00068.

A-5. a. KU's April environmental surcharge report included revisions to the January, February, and March emission allowance inventory. Please see the attached revised schedules impacted by changing the Emission Allowance inventory balance as shown:

Month	Inventory as Filed	Inventory as Revised
Jan 2003	\$66,651	\$70,130
Feb 2003	\$62,872	\$66,352
Mar 2003	\$60,473	\$63,953

b. Please see the attached Exhibit CAF-3 from Case No. 2003-00068.

² Case No. 2002-00068, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending January 31, 2001, July 31, 2001, January 31, 2002, and January 31, 2003 and for the Two-Year Billing Periods Ending July 31, 2000 and July 31, 2002.

KENTUCKY UTILITIES COMPANY

Form 1

Comparison of Net Operating Income to Equity Limits and Determination of Earnings Sharing Mechanism Factor
Current Reporting Period - Calendar Year 2003

	1	2	3	4
		Return on Capital (From Form 1b)	Jurisdictional Capitalization (From Form 3, Col 9)	Revenue Requirement
1	Upper Limit of Net Operating Income based on Return on Equity of 12.5%	8.08%	\$1,238,295,141	\$100,054,247 (a)
2	Actual Jurisdictional Net Operating Income			\$62,275,256 (b)
3	Lower Limit of Net Operating Income based on Return on Equity of 10.5%	6.98%	\$1,238,295,141	\$86,433,001 (a)
4	Net Operating Income is Less Than the Lower Equity Limit. Earnings Deficit			\$24,157,745 (c)
5	Sharing of Earnings Deficit at 40% to the Customer			\$9,663,098 (d)
6	Gross Up Revenue Factor			0.595288 (e)
7	Revenue Adjustment			\$16,232,649 (f)
8	Actual Jurisdictional Revenues for the Current Reporting Period (Excluding ESM Revenues)			\$685,735,400
9	Earnings Sharing Mechanism Factor			2.367% (g)

Notes: (a) - Column 2 times Column 3
 (b) - From Form 2
 (c) - Line 2 minus Line 3
 (d) - Line 4 times 40%
 (e) - From Form 1d
 (f) - Line 5 divided by Line 6
 (g) - Line 7 divided by Line 8

KENTUCKY UTILITIES COMPANY

Form 1a

Determination of Balancing Adjustment and Earnings Sharing Mechanism Factor
 Prior Adjustment Year - April 2003 through March 2004
 Current Adjustment Year - April 2004 through March 2005

1	Revenue Adjustment Authorized for Prior Adjustment Year	\$11,599,389	(a)
2	Balancing Adjustment Authorized for Prior Adjustment Year	\$179,586	(b)
3	Total Adjustment to Revenues Authorized for Prior Adjustment Year	<u>\$11,778,975</u>	(c)
4	Actual Earnings Sharing Mechanism Revenues for Prior Adjustment Year	\$12,015,210	
5	Balancing Adjustment for Current Adjustment Year	<u>(\$236,235)</u>	(d)
6	Revenue Adjustment for Current Reporting Period	\$16,232,649	(e)
7	Estimated Revenue Adjustment for First Month of Current Adjustment Year (1/12 of Line 6)	\$1,352,721	
8	Estimated Revenue Adjustment for Last Eleven Months of Current Adjustment Year	<u>\$14,879,928</u>	(f)
9	Total Revenue Adjustment Plus Balancing Adjustment for Last Eleven Months of Current Adjustment Year	\$14,643,693	(g)
10	Actual Jurisdictional Revenue for the Current Reporting Period	\$685,735,400	(h)
11	Estimated Jurisdictional Revenue for First Month of Current Adjustment Year (1/12 of Line 10)	<u>\$57,144,617</u>	
12	Estimated Jurisdictional Revenue for Last Eleven Months of Current Adjustment Year	<u>\$628,590,783</u>	
13	Earnings Sharing Mechanism Factor for Last Eleven Months of Current Adjustment Year	2.330%	(i)

- Notes:
- (a) - From Form 1 filing for Prior Reporting Period
 - (b) - From Form 1a filing for Prior Reporting Period
 - (c) - Line 1 plus Line 2
 - (d) - Line 3 minus Line 4
 - (e) - From Form 1 filing for Current Reporting Period
 - (f) - Line 6 minus Line 7
 - (g) - Line 5 plus Line 8
 - (h) - From Form 1 filing for Current Reporting Period
 - (i) - Line 9 divided by Line 12

KENTUCKY UTILITIES COMPANY

Form 1b

Upper and Lower Point Rate of Return
Weighted Average Cost of Capital
13-Month Average for 2003

Upper Limit					
1	2	3	4	5	
	Adjusted Kentucky Jurisdictional Capitalization <small>(From Form 3, Col 9)</small>	Percent of Total	Annual Cost Rate	Weighted Cost of Capital <small>(Col 3 x Col 4)</small>	
1	Short Term Debt	\$91,366,693	7.38%	1.16% (a)	0.09%
2	A/R Securitization	\$39,730,905	3.21%	1.51% (a)	0.05%
3	Long Term Debt	\$396,335,648	32.01%	2.93% (b)	0.94%
4	Preferred Stock	\$32,284,797	2.61%	5.68% (c)	0.15%
5	Common Equity	\$678,577,097	54.79%	12.50% (d)	6.85%
6		<u>\$1,238,295,141</u>			<u>8.08%</u>

Lower Limit					
1	2	3	4	5	
	Adjusted Kentucky Jurisdictional Capitalization <small>(From Form 3, Col 9)</small>	Percent of Total	Annual Cost Rate	Weighted Cost of Capital <small>(Col 3 x Col 4)</small>	
1	Short Term Debt	\$91,366,693	7.38%	1.16% (a)	0.09%
2	A/R Securitization	\$39,730,905	3.21%	1.51% (a)	0.05%
3	Long Term Debt	\$396,335,648	32.01%	2.93% (b)	0.94%
4	Preferred Stock	\$32,284,797	2.61%	5.68% (c)	0.15%
5	Common Equity	\$678,577,097	54.79%	10.50% (e)	5.75%
6		<u>\$1,238,295,141</u>			<u>6.98%</u>

Notes: (a) - From Form 3d
 (b) - From Form 3b
 (c) - From Form 3c
 (d) - Baseline Return on Equity of 11.5% plus 100 basis points
 (e) - Baseline Return on Equity of 11.5% minus 100 basis points

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Adjusted Jurisdictional Rate of Return on Common Equity
 Weighted Average Cost of Capital
 13-Month Average for 2003

1	2	3	4	5	
	Adjusted Kentucky Jurisdictional Capitalization <small>(From Form 3, Col 9)</small>	Percent of Total	Annual Cost Rate	Weighted Cost of Capital <small>(Col 3 x Col 4)</small>	
1	Short Term Debt	\$91,366,693	7.38%	1.16% (a)	0.09%
2	A/R Securitization	\$39,730,905	3.21%	1.51% (a)	0.05%
3	Long Term Debt	\$396,335,648	32.01%	2.93% (b)	0.94%
4	Preferred Stock	\$32,284,797	2.61%	5.68% (c)	0.15%
5	Common Equity	\$678,577,097	54.79%	6.94% (d)	3.80% (e)
6		<u>\$1,238,295,141</u>			<u>5.03%</u>
7	Net Operating Income			\$62,275,256 (f)	
8	Net Operating Income / Total Capitalization			5.03% (g)	

- Notes:
- (a) - From Form 3d
 - (b) - From Form 3b
 - (c) - From Form 3c
 - (d) - Column 5 / Column 3
 - (e) - Column 5, Line 6 - Line 1 - Line 2 - Line 3 - Line 4
 - (f) - From Form 2
 - (g) - Column 5, Line 7 divided by Column 2, Line 6

KENTUCKY UTILITIES COMPANY

Form 2

Adjusted Jurisdictional Net Operating Income
Current Reporting Period - Calendar Year 2003

1	2	3	4	5	6
Title of Account	No.	Total Kentucky Utilities (From Form 4)	Kentucky Retail Jurisdictional (From Form 4)	Adjustments (From Form 2a)	Adjusted Ky Retail Jurisdictional (Col 4 + Col 5)
Operating Income					
1 Total Sales to Ultimate Consumers	440-445	\$739,211,587	\$693,841,485	(\$59,421,690)	\$634,419,795
2 Sales for Resale	447	\$138,003,066	\$65,281,968	(\$612,933)	\$64,669,035
3 Sub-Total Sales of Electricity		\$877,214,653	\$759,123,453	(\$60,034,622)	\$699,088,831
4 Less Provision for Refund	449.1	\$8,534,280	\$8,129,579	(\$8,129,579)	(\$0)
5 Sub-Total Revenues Net of Provision for Refund		\$868,680,373	\$750,993,874	(\$51,905,043)	\$699,088,831
6 Plus Other Operating Revenues	451-456	\$23,097,978	\$18,894,823		\$18,894,823
7 Total Operating Income		\$891,778,351	\$769,888,697	(\$51,905,043)	\$717,983,654
Operating Expenses					
8 Operation Expenses	401	\$551,889,934	\$479,732,615	(\$3,097,106)	\$476,635,509
9 Maintenance Expenses	402	\$60,270,511	\$52,763,931		\$52,763,931
10 Depreciation Expense	403	\$101,980,375	\$88,925,955	(\$4,360,655)	\$84,565,300
11 Amortization of Limited-Term Electric Plant	404	Included Above			
12 Regulatory Credits	407	(\$11,322,695)	(\$9,738,956)	\$8,537,951	(\$1,201,005)
13 Taxes Other Than Income Taxes	408.1	\$15,888,440	\$14,144,401	(\$232,427)	\$13,911,974
14 Income Taxes - Federal	409.1	\$31,082,440	Total		
15 Income Taxes - State	409.1	\$11,457,238	Income Taxes		
16 Provision for Deferred Income Taxes	410.1	\$61,968,967	\$47,731,000	(\$19,748,795)	\$27,982,205
17 Provision for Deferred Income Taxes - Credit	411.1	(\$45,841,806)			
18 Accretion Expense	411.1	\$1,221,312	\$1,050,483		\$1,050,483
19 Investment Tax Credit - Net	411.4	\$0	\$0		\$0
20 Losses/(Gains) from Disposition of Allowances	411.8	(\$286,166)	(\$246,139)	\$246,139	(\$0)
21 Total Operating Expense		\$778,308,550	\$674,363,290	(\$18,654,892)	\$655,708,398
22 Net Operating Income		\$113,469,801	\$95,525,407	(\$33,250,151)	\$62,275,256

KENTUCKY UTILITIES COMPANY

Adjustments to Revenues and Expenses
Current Reporting Period - Calendar Year 2003

1	2	3	4	5	
Description	Source	Total Kentucky Utilities	Allocator	Ky Retail Jurisdictional	
Operating Revenues:					
1	Elimination of Environmental Surcharge Revenue	Form 3f	(\$22,981,691)	100.000%	(\$22,981,691)
2	Revenue Adjustment for Off-System Sales Environmental Surcharge	Form 2b(1)	(\$858,048)	100.000%	(\$858,048)
3	Elimination of Provision for Refund - ECR, FAC, and ESM	Form 2b(3)	\$8,129,579	100.000%	\$8,129,579
4	Elimination of Actual ESM Revenue		(\$8,106,085)	100.000%	(\$8,106,085)
5	Elimination of FAC Revenues	Form 2b(4)	(\$28,333,913)	100.000%	(\$28,333,913)
6	Elimination of Brokered Sales Transactions-Net	Form 2b(5)	\$285,266	85.925%	\$245,115
7	TOTAL OPERATING REVENUES		<u>(\$51,864,891)</u>		<u>(\$51,905,043)</u>
Operating Expenses:					
8	Elimination of Environmental Surcharge Operating Expenses.	Form 3f	(\$4,522,332)	85.440%	(\$3,863,865)
9	Elimination of Environmental Surcharge Depreciation Expense	Form 3f	(\$5,069,763)	86.013%	(\$4,360,655)
10	Elimination of Environmental Surcharge Property Taxes	Form 3f	(\$265,509)	87.540%	(\$232,427)
11	Elimination of Proceeds from Allowance Sales	Form 3f	\$286,166	86.013%	\$246,139
12	Elimination of Proceeds from By-Product Sales	Form 3f	\$477,401	86.013%	\$410,627
13	Elimination of FAC Expenses	Form 2b(4)	(\$21,012,583)	100.000%	(\$21,012,583)
14	Shareholder Merger Savings	Form 2b(6)	\$17,869,521	100.000%	\$17,869,521
15	VDT Net Savings to Shareholders	Form 2b(7)	\$3,540,000	100.000%	\$3,540,000
16	Elimination of Advertising Expense	Form 2b(8)	(\$43,079)	94.724%	(\$40,806)
17	Elimination of Cumulative Effect included in Account 407, Regulatory Credit	Form 2b(9)	\$9,926,350	86.013%	\$8,537,951
18	TOTAL OPERATING EXPENSES		<u>\$1,186,172</u>		<u>\$1,093,903</u>
Income Taxes:					
19	Federal and State Income Taxes on above adjustments @40.3625% effective rate	Calculated			(\$21,391,699)
20	Federal and State Income Taxes Interest Tax Expense Adjustment	Form 2b(10)			\$1,642,905
21	TOTAL INCOME TAXES				<u>(\$19,748,795)</u>

ENTUCKY UTILITIES COMPANY

Interest Tax Expense Adjustment
Current Reporting Period - Calendar Year 2003

1	2	3	4
	From Form 3e		
1	Adjustments to Total Co. Capitalization Short-Term Debt Component	(\$672,813)	
2	Jurisdictional Rate Base Percentage	<u>87.77%</u>	
3	KY Juris. Adjustments to Total Co. Capitalization Short-Term Debt Component (Line 1 x Line 2)	(\$590,528)	
4	Applicable Cost of Debt Rate		1.16% (a)
5	Interest Expense Increase (Decrease) (Line 3 x Line 4)		<u>(\$6,857)</u>
6	Adjustments to Total Co. Capitalization A/R Securitization Component	(\$296,024)	
7	Jurisdictional Rate Base Percentage	<u>87.77%</u>	
8	KY Juris. Adjustments to Total Co. Capitalization A/R Securitization Component (Line 6 x Line 7)	(\$259,820)	
9	Applicable Cost of Debt Rate		1.51% (a)
10	Interest Expense Increase (Decrease) (Line 8 x Line 9)		<u>(\$3,921)</u>
11	Adjustments to Total Co. Capitalization Long-Term Debt Component	(\$3,464,292)	
12	Jurisdictional Rate Base Percentage	<u>87.77%</u>	
13	KY Juris. Adjustments to Total Co. Capitalization Long-Term Debt Component (Line 11 x Line 12)	(\$3,040,609)	
14	Adjustments to KY Juris. Adjustments Capitalization Long-Term Debt Component (Environmental Surcharge 2001 Plan)	<u>(\$37,295,093)</u>	
15	Total Adjustments to Long-Term Debt Component (Line 13+Line 14)	(\$40,335,702)	
16	Applicable Cost of Debt Rate		3.10% (b)
17	Interest Expense Increase (Decrease) (Line 15 x Line 16)		<u>(\$1,248,750)</u>
18	Adjustments to KY Juris. Adjustments Capitalization Long-Term Debt Component (Environmental Surcharge 1994 Plan)	(\$65,256,823)	
19	Applicable Cost of Debt Rate		4.31% (b)
20	Interest Expense Increase (Decrease) (Line 18 x Line 19)		<u>(\$2,810,846)</u>
21	TOTAL INTEREST EXPENSE INCREASE (DECREASE)		(\$4,070,374)
22	INCREASE (DECREASE) TO JURISDICTIONAL INCOME TAXES (@40.3625% effective rate)		<u>\$1,642,905</u>

Notes: (a) - From Form 3d
(b) - From Form 3b (Annual Interest/Principal Amount)

Adjusted Jurisdictional Capitalization
13-Month Average for 2003

1	2	3	4	5	6	7
	Total Company 13-Month Average (From Form 3, Page 3)	Adjustments to Total Co. Capitalization (From Form 3, Page 3)	Adjusted Total Company Capitalization (Col 2 + Col 3)	Capital Structure (Col 4 / Col 4, Line 6)	Jurisdictional Rate Base Percentage (From Form 3e)	KY Juris. Capitalization (Col 4 x Col 6)
1	Short Term Debt	\$113,182,644	(\$672,813)	\$112,509,831	7.01%	\$98,749,879
2	A/R Securitization	\$49,223,077	(\$296,024)	\$48,927,053	3.05%	\$42,943,275
3	Long Term Debt	\$571,867,579	(\$3,464,292)	\$568,403,287	35.41%	\$498,887,565
4	Preferred Stock	\$40,000,000	(\$240,602)	\$39,759,398	2.48%	\$34,896,823
5	Common Equity	\$848,366,226	(\$12,775,431)	\$835,590,795	52.05%	\$733,398,041
6	Total Capitalization	\$1,622,639,527	(\$17,449,162)	\$1,605,190,364	100.00%	\$1,408,875,583

1	7	8	9	10	
	KY Juris. Capitalization	Adjustments to KY Juris. Capitalization (From Form 3e)	Adjusted KY Jurisdictional Capitalization (Col 7 + Col 8)	Capital Structure (Col 9 / Col 9, Line 6)	
1	Short Term Debt	\$98,749,879	(\$7,383,186)	\$91,366,693	7.38%
2	A/R Securitization	\$42,943,275	(\$3,212,370)	\$39,730,905	3.21%
3	Long Term Debt	\$498,887,565	(\$102,551,917)	\$396,335,648	32.01%
4	Preferred Stock	\$34,896,823	(\$2,612,026)	\$32,284,797	2.61%
5	Common Equity	\$733,398,041	(\$54,820,944)	\$678,577,097	54.79%
6	Total Capitalization	\$1,408,875,583	(\$170,580,442)	\$1,238,295,141	100.00%

KENTUCKY UTILITIES COMPANY

Adjustments to Kentucky Jurisdictional Capitalization
13-Month Average for 2003

1	2	3	4	5	6	
	Kentucky Jurisdictional Capitalization (From Form 3, Cd 7)	Percent of Total	Environmental Surcharge 1994 Plan (Direct to LTD)	Environmental Surcharge 2001 Plan (Col 3 x Cd 5, Line 6)	Adjustments to KY Juris. Capitalization (Col 4 + Cd 5)	
1	Short Term Debt	\$98,749,879	7.01%		(\$7,383,186)	(\$7,383,186)
2	A/R Securitization	\$42,943,275	3.05%		(\$3,212,370)	(\$3,212,370)
3	Long Term Debt	\$498,887,565	35.41%	(\$65,256,823)	(\$37,295,093)	(\$102,551,917)
4	Preferred Stock	\$34,896,823	2.48%		(\$2,612,026)	(\$2,612,026)
5	Common Equity	\$733,398,041	52.05%		(\$54,820,944)	(\$54,820,944)
6		<u>\$1,408,875,583</u>		<u>(\$65,256,823) (a)</u>	<u>(\$105,323,619) (b)</u>	<u>(\$170,580,442)</u>

Notes: (a) - From Form 3f, Col. 6

(b) - From Form 3f, Col. 7

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Form 3b

Cost of Long-Term Debt
13-Month Average for 2003

1	2	3	4	5	6	7	8	9	10	11
	Principal Amount	Interest Expense	Amortized Loss	Total Cost (Col 3+Col 4)	Embedded Cost (Col 5+Col 6)	Environmental Compliance Rate Base (1) (Form 31, Page 2, Col. K)	Environmental Interest Expense (1) (Form 31, Page 2, Col. M)	Adjusted Principal Amount (Col 2+Col 7)	Adjusted Total Cost (Col 4+Col 8)	Adjusted Embedded Cost (Col 10+Col 9)
Dec-02	\$484,830,000	\$14,770,235	\$890,568	\$15,660,803	3.23%	\$101,791,421	\$6,382,322	\$383,038,579	\$9,278,481	2.42%
Jan-03	\$484,830,000	\$14,369,890	\$890,568	\$15,260,458	3.15%	\$101,207,049	\$6,345,682	\$383,622,951	\$8,914,776	2.32%
Feb-03	\$484,830,000	\$14,012,345	\$890,568	\$14,902,913	3.07%	\$100,727,278	\$6,315,600	\$384,102,722	\$8,587,313	2.24%
Mar-03	\$484,830,000	\$14,070,025	\$890,568	\$14,960,593	3.09%	\$100,129,153	\$6,278,098	\$384,700,847	\$8,682,495	2.26%
Apr-03	\$584,830,000	\$18,593,120	\$890,568	\$19,483,688	3.33%	\$99,570,722	\$6,243,084	\$485,259,278	\$13,240,604	2.73%
May-03	\$584,830,000	\$18,809,096	\$890,568	\$19,699,664	3.37%	\$99,011,960	\$6,208,050	\$485,818,040	\$13,491,614	2.78%
Jun-03	\$522,830,000	\$14,485,773	\$730,188	\$15,215,961	2.91%	\$98,386,528	\$6,168,835	\$424,443,472	\$9,047,126	2.13%
Jul-03	\$522,830,000	\$14,061,931	\$730,188	\$14,792,119	2.83%	\$97,827,438	\$6,133,780	\$425,002,562	\$8,658,359	2.04%
Aug-03	\$597,830,000	\$17,960,587	\$730,188	\$18,690,775	3.13%	\$97,271,631	\$6,098,931	\$500,558,369	\$12,591,844	2.52%
Sep-03	\$597,830,000	\$17,914,584	\$730,260	\$18,644,844	3.12%	(\$10,856,652)	(\$4,895,457)	\$608,686,652	\$23,540,301	3.87%
Oct-03	\$597,830,000	\$18,157,152	\$730,260	\$18,887,412	3.16%	(\$11,562,520)	(\$4,904,210)	\$609,392,520	\$23,791,622	3.90%
Nov-03	\$597,830,000	\$16,879,304	\$730,260	\$17,609,564	2.95%	(\$12,232,577)	(\$4,912,518)	\$610,062,577	\$22,522,082	3.69%
Dec-03	\$672,830,000	\$18,867,668	\$809,484	\$19,677,152	2.92%	(\$12,932,730)	(\$4,921,200)	\$685,762,730	\$24,598,352	3.59%
13-Month Average	\$555,291,538	\$16,380,901	\$810,326	\$17,191,227	3.10%	\$65,256,823	\$2,810,846	\$490,034,715	\$14,380,381	2.93%

Notes: (1) - Environmental Surcharge Rolled-In to Base Rates Pursuant to Commission's Order in Case No 2003-00068.

KENTUCKY UTILITIES COMPANY

Form 3f

Environmental Surcharge Components - Rate Base and Operating Statement
Current Reporting Period - Calendar Year 2003

1	2	3	4	5	6	7
Title of Account	Total Company 13-Month Average (1994 Plan)	Total Company 13-Month Average (2001 Plan)	Allocation Title	Allocation Factor	Kentucky Jurisdictional 13-Month Average (1994 Plan)	Kentucky Jurisdictional 13-Month Average (2001 Plan)
Rate Base Items:						
1 Pollution Control Utility Plant	\$123,206,878	\$6,767,682	DEMPROD	86.013%	\$105,973,932	\$5,821,087
Add:						
2 Pollution Control CWIP excluding AFUDC	\$68,114	\$115,938,764	PRODSYS	86.013%	\$58,587	\$99,722,409
3 Spare Parts (13-Month Average)	\$940,970	\$0	PRODPLT	84.922%	\$799,091	\$0
4 Limestone (13-Month Average)	\$47,649	\$0	PRODPLT	84.922%	\$40,465	\$0
5 Emission Allowances	\$28,881	\$0	DEMPROD	86.013%	\$24,841	\$0
6 Subtotal	\$1,085,614	\$115,938,764			\$922,984	\$99,722,409
Deduct:						
7 Accum. Depreciation on Pollution Control Utility Plant	\$48,411,394	\$255,632	STMSYS	86.013%	\$41,640,093	\$219,877
8 Accum. Defer. Taxes	\$11,532,507	\$281,701	PRODSYS	86.013%	\$9,919,455	\$242,300
9 Investment Tax Credit	(\$123,631)	\$0	PRODPLT	84.922%	(\$104,990)	\$0
10 Subtotal	\$59,820,270	\$537,333			\$51,454,557	\$462,177
11 NET ORIGINAL COST RATE BASE	\$64,472,223	\$122,169,113			\$55,442,359	\$105,081,319
Operating Statement Items:	1994 and 2001 Plan				1994 and 2001 Plan	
12 Surcharge Revenues	\$22,981,691		KY RETAIL	100.000%	\$22,981,691	
13 Proceeds from Allowance and By-Product Sales	\$763,567		DEMPROD	86.013%	\$656,767	
14 Total Revenues	\$23,745,258				\$23,638,458	
Expenses:						
15 Account No. 502006	\$1,349,528		STMPLT	84.683%	\$1,142,820	
16 Account No. 506001	\$617,414		STMPLT	84.683%	\$522,844	
17 Account Nos. 512005, 512011, and 512017	\$2,475,204		ENERGY	86.022%	\$2,129,220	
18 Depreciation Expense	\$5,069,763		STMSYS	86.013%	\$4,360,655	
19 Property Taxes	\$265,509		NETPLANT	87.540%	\$232,427	
20 Insurance Expense	\$49,784		PLANT	86.843%	\$43,234	
21 Emission Allowance Expense	\$30,403		STMPLT	84.683%	\$25,746	
22 Total Expenses	\$9,857,604				\$8,456,946	

Notes: Environmental Surcharge Rolled-In to Base Rates Pursuant to Commission's Order in Case No 2003-00068.

KENTUCKY UTILITIES COMPANY

Environmental Surcharge Components - Rate Base and Operating Statement
Current Reporting Period - Calendar Year 2003

1994 PLAN	SOURCE: FILED ES FORM 2.00 PER EXPENSE MONTH 13-MONTH AVERAGE RATE BASE	(A) Pollution Control Utility Plant	(B) Pollution Control CWIP	(C) Spare Parts	(D) Limestone Allowances	(E) Emission Allowances	(F) Working Capital	(G) Accum. Depreciation	(H) Accum. Defer Taxes	(I) Investment Tax Credit	(J) Rate Base per ECR Filing (A+B+C+D+E+F+G+H-I)	(K) Environmental Surcharge Capitalization Adjustment to LTD (1) (A+B+C+D+E+G)*85.999%	(L) Authorized Rate of Return (2)	(M) Environmental Interest Expense (3) (K * L)
		\$ 177,048,560	\$ 792,731	\$ 1,296,219	\$ 118,121	\$ 74,853	\$ 557,066	\$ 60,966,695	\$ 17,869,042	\$ -	\$ 101,051,813	\$ 101,791,421	6.27%	\$ 6,382,322
		\$ 177,048,560	\$ 793,029	\$ 1,332,238	\$ 92,316	\$ 70,130	\$ 556,715	\$ 61,651,997	\$ 17,812,728	\$ -	\$ 100,428,263	\$ 101,200,049	6.27%	\$ 6,345,682
		\$ 177,048,560	\$ 910,945	\$ 1,331,594	\$ 96,532	\$ 66,352	\$ 582,662	\$ 62,327,653	\$ 17,756,414	\$ -	\$ 99,952,644	\$ 100,727,278	6.27%	\$ 6,315,600
		\$ 177,048,560	\$ 910,945	\$ 1,298,590	\$ 112,353	\$ 63,953	\$ 591,453	\$ 63,003,309	\$ 17,695,700	\$ -	\$ 99,326,645	\$ 100,129,153	6.27%	\$ 6,278,098
		\$ 177,048,560	\$ 910,945	\$ 1,317,182	\$ 133,056	\$ 60,412	\$ 599,002	\$ 63,686,611	\$ 17,699,386	\$ -	\$ 98,741,160	\$ 99,570,722	6.27%	\$ 6,243,084
		\$ 177,048,560	\$ 910,945	\$ 1,366,348	\$ 103,846	\$ 56,734	\$ 592,497	\$ 64,354,621	\$ 17,583,072	\$ -	\$ 98,141,237	\$ 99,011,960	6.27%	\$ 6,208,050
		\$ 177,645,273	\$ 315,162	\$ 1,351,451	\$ 69,666	\$ 53,280	\$ 603,774	\$ 65,030,277	\$ 17,573,845	\$ -	\$ 97,484,484	\$ 98,386,528	6.27%	\$ 6,168,835
		\$ 177,645,273	\$ 315,162	\$ 1,346,661	\$ 69,855	\$ 83,423	\$ 603,316	\$ 65,705,933	\$ 17,467,531	\$ -	\$ 96,890,226	\$ 97,827,438	6.27%	\$ 6,133,780
		\$ 177,960,896	\$ -	\$ 1,343,655	\$ 109,554	\$ 75,629	\$ 627,562	\$ 66,381,589	\$ 17,411,217	\$ -	\$ 96,324,490	\$ 97,271,631	6.27%	\$ 6,098,931
		\$ 257,531,425	\$ -	\$ 1,326,402	\$ 76,474	\$ 69,415	\$ 842,038	\$ 95,542,979	\$ 29,265,186	\$ -	\$ 135,037,769	\$ 140,574,404	1.24%	\$ 1,743,123
	Case No. 2003-00068 Roll-in at May-02 (4)	\$ (176,531,889)	\$ (1,243,596)	\$ (1,261,319)	\$ (158,245)	\$ (117,310)	\$ (833,850)	\$ (26,493,999)	\$ (12,677,294)	\$ (401,801)	\$ (105,329,666)	\$ (105,878,460)	0.00%	\$ (6,638,579)
	Case No. 2003-00068 Roll-in at May-02 (Pre-1993)	\$ (79,462,882)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (26,493,999)	\$ (12,677,294)	\$ (401,801)	\$ (39,889,788)	\$ (40,552,596)	0.00%	\$ -
	Case No. 2003-00068 Roll-in at May-02 (4)	\$ (176,531,889)	\$ (1,243,596)	\$ (1,316,666)	\$ 75,377	\$ 63,922	\$ 854,520	\$ 96,347,261	\$ 29,160,583	\$ -	\$ 134,334,066	\$ 139,868,536	1.24%	\$ 1,734,370
	Case No. 2003-00068 Roll-in at May-02 (Pre-1993)	\$ (79,462,882)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (26,493,999)	\$ (12,677,294)	\$ (401,801)	\$ (39,889,788)	\$ (40,552,596)	0.00%	\$ -
	Case No. 2003-00068 Roll-in at May-02 (4)	\$ (176,531,889)	\$ -	\$ 1,333,991	\$ 90,105	\$ 57,184	\$ 832,915	\$ 97,151,723	\$ 29,055,980	\$ -	\$ 133,637,917	\$ 139,198,479	1.24%	\$ 1,726,061
	Case No. 2003-00068 Roll-in at May-02 (Pre-1993)	\$ (79,462,882)	\$ -	\$ (1,261,319)	\$ (158,245)	\$ (117,310)	\$ (853,850)	\$ (56,196,133)	\$ (18,640,410)	\$ -	\$ (105,329,666)	\$ (105,878,460)	0.00%	\$ (6,638,579)
	Case No. 2003-00068 Roll-in at May-02 (4)	\$ (176,531,889)	\$ -	\$ 1,317,094	\$ 105,100	\$ 49,404	\$ 839,885	\$ 97,956,185	\$ 28,952,717	\$ -	\$ 132,949,325	\$ 138,498,325	1.24%	\$ 1,717,379
	Case No. 2003-00068 Roll-in at May-02 (Pre-1993)	\$ (79,462,882)	\$ (1,243,596)	\$ (1,261,319)	\$ (158,245)	\$ (117,310)	\$ (853,850)	\$ (56,196,133)	\$ (18,640,410)	\$ -	\$ (105,329,666)	\$ (105,878,460)	0.00%	\$ (6,638,579)
	Total	\$ 1,601,689,418	\$ 885,480	\$ 12,232,615	\$ 619,441	\$ 375,451	\$ 5,268,005	\$ 629,948,125	\$ 149,922,585	\$ (1,601,801)	\$ 843,406,904	\$ 848,538,704	0.00%	\$ 36,540,999
	13-Month Average (Total/13)	\$ 123,206,878	\$ 68,114	\$ 940,970	\$ 47,649	\$ 28,881	\$ 405,251	\$ 48,411,594	\$ 11,552,507	\$ (123,631)	\$ 64,877,454	\$ 65,256,823	0.00%	\$ 2,810,946

2001 PLAN	SOURCE: FILED ES FORM 2.00 PER EXPENSE MONTH 13-MONTH AVERAGE RATE BASE	(A) Pollution Control Utility Plant	(B) Pollution Control CWIP	(C) Spare Parts	(D) Limestone Allowances	(E) Emission Allowances	(F) Working Capital	(G) Accum. Depreciation	(H) Accum. Defer Taxes	(I) Investment Tax Credit	(J) Rate Base per ECR Filing (A+B+C+D+E+F+G+H-I)	(K) Environmental Surcharge Capitalization Adjustment (1) (A+B+C+D+E+G)*96.013%	(L) Authorized Rate of Return (2)	(M) Environmental Interest Expense (3) (K * L)
		\$ 9,775,541	\$ 59,920,721	\$ -	\$ -	\$ -	\$ -	\$ 178,412	\$ 208,560	\$ -	\$ 69,309,290	\$ 59,794,388	6.27%	\$ 4,315,600
		\$ 9,775,541	\$ 61,822,416	\$ -	\$ -	\$ -	\$ -	\$ 194,615	\$ 224,927	\$ -	\$ 71,178,415	\$ 61,416,157	6.27%	\$ 3,845,682
		\$ 9,775,541	\$ 83,112,479	\$ -	\$ -	\$ -	\$ -	\$ 210,818	\$ 241,294	\$ -	\$ 92,435,908	\$ 79,714,442	6.27%	\$ 4,878,098
		\$ 9,775,541	\$ 85,047,529	\$ -	\$ -	\$ -	\$ -	\$ 227,021	\$ 257,661	\$ -	\$ 94,338,388	\$ 81,364,900	6.27%	\$ 5,133,780
		\$ 9,775,541	\$ 97,649,203	\$ -	\$ -	\$ -	\$ -	\$ 243,224	\$ 274,028	\$ -	\$ 106,907,492	\$ 92,190,041	6.27%	\$ 6,243,084
		\$ 9,775,541	\$ 100,860,858	\$ -	\$ -	\$ -	\$ -	\$ 259,427	\$ 290,395	\$ -	\$ 110,086,577	\$ 94,938,545	6.27%	\$ 6,998,931
		\$ 9,775,541	\$ 115,449,269	\$ -	\$ -	\$ -	\$ -	\$ 275,630	\$ 306,762	\$ -	\$ 124,642,418	\$ 107,472,538	6.27%	\$ 7,638,579
		\$ 9,775,541	\$ 143,198,967	\$ -	\$ -	\$ -	\$ -	\$ 291,833	\$ 323,129	\$ -	\$ 142,366,312	\$ 122,731,469	6.27%	\$ 8,444,442
		\$ 9,775,541	\$ 150,180,458	\$ -	\$ -	\$ -	\$ -	\$ 308,036	\$ 339,496	\$ -	\$ 152,326,976	\$ 131,313,013	6.27%	\$ 9,444,442
		\$ 9,775,541	\$ (8,787,082)	\$ -	\$ -	\$ -	\$ -	\$ 324,239	\$ 355,863	\$ -	\$ 159,275,897	\$ 137,304,066	6.27%	\$ 9,444,442
		\$ 9,775,541	\$ 161,604,449	\$ -	\$ -	\$ -	\$ -	\$ 340,442	\$ 372,230	\$ -	\$ 170,667,318	\$ 147,116,246	6.27%	\$ 10,100,566
		\$ 9,775,541	\$ (8,787,082)	\$ -	\$ -	\$ -	\$ -	\$ 356,645	\$ 388,597	\$ -	\$ 172,902,048	\$ 149,052,482	6.27%	\$ 10,100,566
		\$ 9,775,541	\$ 163,871,749	\$ -	\$ -	\$ -	\$ -	\$ 364,993	\$ 404,963	\$ -	\$ 184,416,183	\$ 168,440,223	6.27%	\$ 11,100,566
		\$ 9,775,541	\$ (8,787,082)	\$ -	\$ -	\$ -	\$ -	\$ 372,847	\$ 404,963	\$ -	\$ 195,426,159	\$ 168,440,223	6.27%	\$ 11,100,566
		\$ 9,775,541	\$ 186,428,428	\$ -	\$ -	\$ -	\$ -	\$ 381,447	\$ 404,963	\$ -	\$ 206,426,159	\$ 184,416,183	6.27%	\$ 13,100,566
		\$ 87,979,869	\$ 1,507,203,931	\$ -	\$ -	\$ -	\$ -	\$ 3,323,217	\$ 3,662,117	\$ -	\$ 1,588,198,466	\$ 1,369,207,043	6.27%	\$ 100,535,619
	13-Month Average (Total/13)	\$ 6,767,682	\$ 115,938,764	\$ -	\$ -	\$ -	\$ -	\$ 255,632	\$ 281,701	\$ -	\$ 122,169,113	\$ 105,326,823	6.27%	\$ 7,810,946

NOTES: (1) The Environmental Surcharge Capitalization Adjustment represents the sum of Pollution Control Utility Plant and Pollution Control CWIP plus Spare Parts, Limestone, and Emission Allowances, less Accum. Depreciation pursuant to the PSC Orders in Case No. 98-474 times a jurisdictional factor from Form 3f, page 1, col. 6 / Form 3f, page 1, col. 2 (1994 Plan) or Form 3f, page 1, col. 7 / Form 3f, page 1, col. 3 (2001 Plan).
(2) The Authorized Rate of Return represents the rate of return approved for the expense month and roll-in period.
(3) The Environmental Interest Expense represents the product of the Environmental Surcharge Capitalization Adjustment and Authorized Rate of Return for Interest Expense pursuant to the PSC Orders in Case No. 98-474.
(4) Pursuant to Exhibit CAF-3 in Case No. 2003-00068.

Calculation of Revenue Requirement for Roll-In:

Environmental Compliance Rate Base			
Pollution Control Plant in Service	ES Form 2.0, May 2002	176,531,889	9,775,541
Pollution Control CWIP Excluding AFUDC	ES Form 2.0, May 2002	1,243,596	8,787,082
Subtotal		<u>177,775,485</u>	<u>18,562,623</u>
Additions:			
Inventory - Spare Parts	ES Form 2.0, May 2002	1,261,319	-
Inventory - Limestone	ES Form 2.0, May 2002	158,245	-
Inventory - Emission Allowances	ES Form 2.0, May 2002	117,310	-
Cash Working Capital Allowance	ES Form 2.0, May 2002	853,850	-
Subtotal		<u>2,390,724</u>	<u>-</u>
Deductions:			
Accumulated Depreciation on Pollution Control Plant	ES Form 2.0, May 2002	56,196,133	64,993
Pollution Control Deferred Income Taxes	ES Form 2.0, May 2002	18,640,410	81,447
Pollution Control Deferred Investment Tax Credit	ES Form 2.0, May 2002	-	-
Subtotal		<u>74,836,543</u>	<u>146,440</u>
Environmental Compliance Rate Base		<u>105,329,666</u>	<u>18,416,183</u>
Rate of Return – Environmental Compliance Rate Base		6.27%	14.41%
Return on Environmental Compliance Rate Base		<u>6,604,170</u>	<u>2,653,772</u>
Pollution Control Operating Expenses			
12 Month Depreciation and Amortization Expense	See Support Schedule A	7,084,107	64,993
12 Month Taxes Other than Income Taxes	See Support Schedule A	202,572	9,375
12 Month Insurance Expense	See Support Schedule A	74,676	-
12 Month Emission Allowance Expense	See Support Schedule A	110,749	-
12 Month Operating and Maintenance Expense	See Support Schedule A	6,830,800	-
Less O&M Expenses Already Included in Base Rates	ES Form 2.1, May 2002	-	5,190,221
Total Pollution Control Operating Expenses		<u>14,302,904</u>	<u>74,368</u>
Gross Proceeds from By-Product & Allowance Sales	See Support Schedule B	<u>391,001</u>	
Total Company Environmental Surcharge Gross Revenue Requirement – Roll In Amount			
Return on Environmental Compliance Rate Base		6,604,170	2,653,772
Pollution Control Operating Expenses		14,302,904	74,368
Less Gross Proceeds from By-Product & Allowance Sales		(391,001)	-
Roll In Amount		<u>20,516,073</u>	<u>2,728,140</u>
Jurisdictional Allocation Ratio – Roll In	See Support Schedule C	<u>77.1941%</u>	<u>77.1941%</u>
Jurisdictional Revenues for 12 Months for Roll In	See Support Schedule C	<u>591,220,529</u>	<u>591,220,529</u>
Roll In Jurisdictional Environmental Surcharge Factor:			
Total Company Environmental Surcharge Gross Revenue Requirement – Roll In Amount		20,516,073	2,728,140
Jurisdictional Allocation Ratio – Roll In		<u>77.1941%</u>	<u>77.1941%</u>
Jurisdictional Environmental Surcharge Gross Revenue Requirement – Roll In Amount		15,837,192	2,105,962
Base Rate Increase		2.6787%	0.3562%
			3.0349%

KENTUCKY UTILITIES COMPANY

CASE NO. 2004-00070

**Response to the Commission's First Data Request
Dated: April 15, 2004**

Question No. 6

Responding Witness: Valerie L. Scott

- Q-6. Refer to the 2004 ESM Filing, Appendix B.
- a. For both employee labor costs and contractor costs, provide the capitalized amounts, the expensed amounts, and the total amounts (capitalized plus expensed) for 2002 and 2003. Also provide the capitalization ratios for employee labor and contractor costs for 2002 and 2003.
 - b. The employee headcount was 1,280 at December 31, 2002 and 1,283 at December 31, 2003, an increase of 0.23 percent. Explain why employee labor costs increased from \$84,596,426 in 2002 to \$93,294,055 in 2003, an increase of 10.28 percent.
 - c. Identify the types of costs included in the burdened labor costs and provide the specific percentage increases in the various components of burdened labor costs between 2002 and 2003.
 - d. Identify whether changes in the ratios of capitalized costs and expensed costs impacted the percentage increase for employee labor.
 - e. Contractor costs increased from \$55,065,901 in 2002 to \$57,322,911 in 2003, an increase of 4.10 percent.
 - (1) Provide a schedule summarizing the increases or decreases in operation and maintenance contractor costs by functional areas.
 - (2) Provide a detailed explanation for the decrease in contractor costs between 2002 and 2003, including the extent to which changes in the capitalization ratios impacted the magnitude of the decrease.
- A-6. a. Employee labor cost and contractor cost capitalized and O&M amounts and the labor total for 2002 and 2003:

	2002	2003	Difference
EMPLOYEE LABOR			
Capital	\$23,128,056	\$25,469,902	\$2,341,846
O&M	84,596,426	93,294,055	8,697,629
Total	\$107,724,482	\$118,763,957	\$11,039,475
CONTRACTOR			
Capital	\$83,739,723	\$197,963,491	\$114,223,768
O&M	55,065,901	57,322,911	2,257,010
Total	\$138,805,624	\$255,286,402	\$116,480,778

Employee and contract labor costs are not allocated to capital and O&M based on ratios but charged directly based upon the actual work performed.

- b. Direct employee labor cost increased in 2003 by approximately \$4.3 million due to wage increases and other employee changes (i.e., changes between labor charged to capital versus expense). The remaining O&M labor increase is from the overall increase in burdens of \$4,349,493 in 2003 as identified in response to c.
- c. Employee burden cost by type for 2002 and 2003:

	2002	2003	Difference	Percent
Vacation and Holiday	\$6,249,035	\$5,820,063	(\$428,972)	(6.9)
Hospitalization	5,723,777	4,902,777	(821,000)	(14.3)
Thrift Plan	1,516,485	1,867,928	351,443	23.2
Off Duty and Sick	1,694,836	1,856,877	162,041	9.6
Workers Compensation	866,303	864,520	(1,783)	(0.2)
Pensions, Dental, Post Retirement, Group Life Insurance, and Post Employment Benefits	9,288,643	14,693,628	5,404,985	58.2
Team Incentive Award	5,089,063	4,771,842	(317,221)	(6.2)
Total	\$30,428,142	\$34,777,635	\$4,349,493	14.3

- d. Employee and contract labor costs are not allocated to capital based on ratios but upon the actual work projects performed.
- e. (1) Listed below is the summary of the increase in O&M contractor costs for functional areas.

FUNCTION	2003 vs. 2002 Contractor O&M Increase/(Decrease)
Steam	(\$3,757,688)
Hydraulic	12,294
Other Power Generation	(634,157)
Other Power Supply	11,413
Electric Transmission	(39,051)
Electric Distribution	13,363,431
Customer Accounts	(3,212,714)
Customer Service and Informational	650,872
Sales Expenses	120,250
A&G Total	(4,257,641)

Total	\$2,257,009

- e. (2) Steam generation contractor O&M expenses decreased in 2003 versus 2002 due to decreased outage repairs at Ghent and E W Brown steam generating plants.

Electric distribution increase is due to \$9.85 million in O&M charges for the KU ice storm. The remaining increase was primarily due to the reclassification of contractor meter charges from Customer Accounts in 2003.

Customer accounts decreased due to the reclassification of charges for contractor meter expenses to electric distribution in 2003.

Administrative and general expenses primarily decreased due to the amortization of merger expenses for only a half of year in 2003 compared to a full year in 2002. This amortization was charged to contractor costs in error, the decrease in 2003 was \$2 million. The remaining decrease was due to decreased legal expenses incurred in 2003 as compared to 2002 for legal expenses associated with the E. W. Brown combustion turbine litigation.

The contractor charges are directly assigned to O&M and capital based on work performed. Allocations are not used to charge capital or O&M.