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November 23, 2005

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PUBLIC SERVICE COMMISSION

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***The Plan of Kentucky Utilities Company for the Value Delivery Surcredit Mechanism***
Case No. 2005-00351

Dear Ms. O'Donnell:

Enclosed please find an original and five (5) copies of Kentucky Utilities Company's ("KU") response to the Commission Staff's Supplemental Data Request dated November 14, 2005, in the above-referenced case.

Also enclosed are an original and ten (10) copies each of KU's Motion for Leave to File an Amended Application and its Amended Application in the above-referenced case. The Amended Application is necessary to correct the reference to the most recent Articles of Incorporation.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Kent W. Blake

Kent W. Blake

cc: Elizabeth E. Blackford
Michael L. Kurtz
David F. Boehm

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF KENTUCKY UTILITIES COMPANY	**)**	**CASE NO.**
FOR THE VALUE DELIVERY SURCREDIT MECHANISM	**)**	**2005-00351**

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
COMMISSION STAFF'S SUPPLEMENTAL DATA REQUEST
DATED NOVEMBER 14, 2005

FILED: NOVEMBER 23, 2005

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 1

Responding Witness: Valerie L. Scott

Q-1. Refer to the response to Item 2 of the Commission Staff's October 21, 2005 data request ("Staff's initial request") which identifies an error in Reference Schedule 1.13 of Blake Exhibit 1. The response states that correcting the error "would increase adjusted net operating income and increase the return on common equity of the Company by a minor amount." Calculate and provide the changes referenced in this quote from the response.

A-1. Upon further analysis, the total adjustment on Reference Schedule 1.13 of Blake Exhibit 1, of $22,528,436, is correct and no adjustment to net operating income is necessary. There is no impact on net operating income or return on common equity as previously indicated in the Company's response to Item 2 of the Commission Staff's October 21, 2005 request.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 2

Responding Witness: Valerie L. Scott

Q-2. Refer to the response to Item 3 of Staff's initial request and Reference Schedule 1.30 of Blake Exhibit 1. Based on the information contained in the response, provide a revised schedule 1.30 reflecting a 5 and one-half year average of storm damage expenses.

A-2. Please see the attached.

Revised Blake Exhibit 1
Reference Schedule 1.30
Sponsoring Witness: Valerie Scott

KENTUCKY UTILITIES

Adjustment to Reflect Normalized Storm Damage Expense
For the Twelve Months Ended June 30, 2005

1. Storm damage provision based upon five and one-half year average	$	1,971,408
2. Storm damage expenses incurred during the 12 months ended June 30, 2005		2,673,000
3. Total adjustment		(701,592)
4. Kentucky Jurisdiction		93.930%
5. Kentucky Jurisdictional adjustment	$	(659,005)

Year		Expense *	CPI-All Urban Consumers		Amount
2005	$	1,054,000	1.0000	$	1,054,000
2004		4,120,000	1.0296		4,241,952
2003		1,534,000	1.0571		1,621,591
2002		1,460,495	1.0812		1,579,087
2001		1,102,683	1.0982		1,210,966
2000		1,005,000	1.1295		1,135,148
Total				$	10,842,744
Five and One-Half Year Average				$	1,971,408

* NOTE: 2005 expenses are for the months January 1, 2005 through June 30, 2005. All other years expenses are for the calendar year. 2003 expenses exclude ice storm.

KU storm damage expenses are available for a five and one-half year period only.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 3

Responding Witness: Valerie L. Scott

Q-3. Refer to the response to Item 4 of Staff's initial request and Reference Schedule 1.31 of Blake Exhibit 1. Based on the information contained in the response, provide a revised schedule 1.31 reflecting a 9 and one-half year average of injuries and damages expenses.

A-3. Please see the attached.

Revised Blake Exhibit 1
Reference Schedule 1.31
Sponsoring Witness: Valerie Scott

KENTUCKY UTILITIES

Adjustment for Injuries and Damages FERC Account 925
For the Twelve Months Ended June 30, 2005

1. Injury/Damage provision based upon nine and one-half year average	$	2,638,091
2. Injury/Damage expenses incurred during the 12 months ended June 30, 2005		1,171,514
3. Adjustment		1,466,577
4. Kentucky Jurisdiction		88.870%
5. Kentucky Jurisdictional adjustment	$	1,303,347

Year	Amount *	CPI-All Urban Consumers	Adjusted Amount
2005	$ 904,335	1.0000	$ 904,335
2004	1,080,732	1.0296	1,112,722
2003	1,776,006	1.0571	1,877,416
2002	2,510,515	1.0812	2,714,369
2001	1,609,827	1.0982	1,767,912
2000	1,637,520	1.1295	1,849,579
1999	2,126,017	1.1675	2,482,125
1998	2,187,039	1.1933	2,609,794
1997	3,355,659	1.2118	4,066,388
1996	4,579,884	1.2396	5,677,224
Total			$ 25,061,864
Nine and One-Half Year Average			$ 2,638,091

* NOTE: 2005 expenses are for the months January 1, 2005 through June 30, 2005.
All other years expenses are for the calendar year.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 4

Responding Witness: Kent W. Blake

Q-4. Refer to the responses to Items 3 and 5 of Staff's initial request and Reference Schedules 1.30 and 1.32 of Blake Exhibit 1.

a. The response to Item 5 refers to the Commission having "traditionally allowed a 10-year or 5-year time period for purposes of normalizing income statement items that fluctuate significantly from year to year." However, the proposed adjustment to storm damage expense, which is covered in the response to Item 3 and schedule 1.30, departs from this approach, as it is based on a 6-year period.1 Explain why KU did not adhere to a 5-year period for this adjustment.

b. Contrary to the proposed adjustment for storm damage expense, KU adhered to using a 5-year period for the proposed adjustment to off-system sales even though, post-merger, it has off-system sales data available for 8 years. Explain why KU did not use the 8 years of available data to calculate the proposed adjustment to off-system sales margins.

c. Using the information contained in the response to Item 5, provide a revised schedule 1.32 based on the off-system sales from 1998 through June 30, 2005.

A-4. a. As discussed in the Company's previous general rate case (Case No. 2003-00434) the use of a 10-year average to normalize storm damages and injuries and damages expense is a more appropriate representation of normal expenses for those two items. However, in that case, KU only had four years of separately identifiable storm damages expenses and not the full ten years. KU now has 6 years of separately identifiable storm damages expense to utilize for the normalization adjustment. In future cases KU will continue to update the historical data until it reaches ten years of historical storm damages expense to utilize for the normalization adjustment.

b. The Company did not use 8 years of data because of the two periods traditionally used by the Commission (i.e. 10 years or 5 years) the shorter time period is more appropriate for normalizing off-system sales. Off-system sales margins are dependent upon the Company's supply portfolio, unit availability, and system demand and energy requirements among other factors. Using the shorter period (5 years) is more reflective of the near term trends in these factors.

c. Please see the attached. The Company has prepared the revised schedule 1.32 both with an 8-year average of off-system sales margins (consistent with the methodology contained in the original filing) and a 7 and one-half year average of off-system sales margins (to avoid the double counting of the 6-month period ending December 2004 consistent with the Commission's Questions 2 and 3).

Revised Blake Exhibit 1
Reference Schedule 1.32
Sponsoring Witness: Kent Blake

KENTUCKY UTILITIES

Adjustment to Reflect Representative Level of Off-System Sales Margins
For the Twelve Months Ended June 30, 2005

1. Off-System Sales margin based upon eight year average	$	23,589,815
2. Off-System Sales margin incurred during the 12 months ended June 30, 2005		33,196,139
3. Adjustment		(9,606,324)
4. Kentucky Jurisdiction		86.199%
5. Kentucky Jurisdictional adjustment	$	(8,280,555)

	OSS Revenue	OSS Expenses	MISO Net RSG Margin		OSS Margin
2005	126,903,290	89,155,933	4,551,218		33,196,139
2004	103,694,523	81,511,670			22,182,853
2003	85,624,402	67,451,694			18,172,708
2002	52,822,684	47,213,917			5,608,767
2001	100,816,905	73,946,416			26,870,489
2000	90,376,628	62,664,933			27,711,695
1999	103,276,909	78,525,105			24,751,804
1998	102,009,393	71,785,326			30,224,067
Total				$	188,718,522
Eight Year Average				$	23,589,815

NOTE: 2005 values are for the 12 months ended June 30, 2005.
All other years values are for the calendar year.

Revised Blake Exhibit 1
Reference Schedule 1.32
Sponsoring Witness: Kent Blake

KENTUCKY UTILITIES

Adjustment to Reflect Representative Level of Off-System Sales Margins
For the Twelve Months Ended June 30, 2005

1. Off-System Sales margin based upon seven and one-half year average	$	23,711,355
2. Off-System Sales margin incurred during the 12 months ended June 30, 2005		33,196,139
3. Adjustment		(9,484,784)
4. Kentucky Jurisdiction		86.199%
5. Kentucky Jurisdictional adjustment	$	(8,175,789)

	OSS Revenue	OSS Expenses	MISO Net RSG Margin		OSS Margin
2005	74,148,649	47,284,649	4,551,218		22,312,782
2004	103,694,523	81,511,670			22,182,853
2003	85,624,402	67,451,694			18,172,708
2002	52,822,684	47,213,917			5,608,767
2001	100,816,905	73,946,416			26,870,489
2000	90,376,628	62,664,933			27,711,695
1999	103,276,909	78,525,105			24,751,804
1998	102,009,393	71,785,326			30,224,067
Total				$	177,835,165
Seven and One-Half Year Average				$	23,711,355

NOTE: 2005 values are for the months January 1, 2005 through June 30, 2005.
All other years values are for the calendar year.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 5

Responding Witness: Valerie L. Scott

Q-5. Refer to the responses to Items 7, 8, and 9 of Staff's initial request in which KU provided amounts for September 2005 to update the information through August 2005, contained in its application, for (1) administrative expenses related to the Midwest Independent System Operator's ("MISO") "Day 2" operations; (2) revenue neutrality uplift charges associated with MISO's "Day 2" operations; and (3) revenue sufficiency guarantee make-whole payments and the related charges associated with MISO's "Day 2" operations.

a. Provide the amounts for each of the three items listed above for the month of October 2005.

b. Consider this a continuing request. Provide on a monthly basis as they become available, the amounts for each of the three items listed above, for the remainder of this proceeding until directed otherwise.

A-5. a. The requested information for the month of October 2005 is shown below.

Schedule 16 – expense	$24,828.19
Schedule 17 – expense	$173,112.17
Revenue Neutrality Uplift – expense	$1,487,199.46
RSG Make Whole Payment – revenue	$1,765,757.65
RSG Distribution Amount – expense	$1,689,560.27
Production cost for RSG payment – expense	$1,108,170.88

As the Company indicated in its response to Item 8 of the Staff's initial data request, MISO changed its methodology for determining over-collected losses which impacted the revenue neutrality uplift charge. This change was retroactive to the inception of Day 2 and its impact on the revenue neutrality uplift charge and corresponding offset to other line items continues to flow through the MISO settlement statements. These corresponding changes to other line items on the MISO settlement statement continue to impact the Company's cost of providing service.

b. The Company will provide monthly updates as requested.

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 6

Responding Witness: S. Bradford Rives / Kent W. Blake

Q-6. Refer to the responses to Items 1 through 4 of this request and the response to Item 12(b) of Staff's initial request. Provide a second revised Blake Exhibit 4 that incorporates the results provided in all 5 of these responses.

A-6. Please see the attached. In preparing the revised Blake Exhibit 4, for Item 4 of this request, the Company used the 7 and one-half year average of off-system sales to be consistent with the Staff's request in Items 2 and 3 to eliminate the double counting of the 6-month period ending December 2004.

The Company has performed the revisions as requested by the Staff; however, as previously stated in the Company's response to Item 12 of Staff's initial request, KU believes that an adjustment is *not* needed for capitalization because the accounting for the AROs, consistent with the Commission's December 23, 2003 Order in Case No. 2003-00427, effectively removes all impacts of ARO accounting from the income statement and net assets in the balance sheet. Accordingly, there is no impact on common equity or other capitalization accounts under this approach because the recorded regulatory assets, liabilities and credits offset the effects of the ARO accounting. KU removed the AROs from rate base in Blake Exhibit 3, in accordance with the December 23, 2003 Order.

KENTUCKY UTILITIES

Calculation of Overall Revenue Deficiency/(Sufficiency) at June 30, 2005

	(1) ROE RANGE 10.00%	-	10.50%	-	11.00%
SECTION I - VALUE DELIVERY SURCREDIT EFFECTIVE					
1. Adjusted Kentucky Jurisdictional Capitalization (Exhibit 2, Col 14)	$ 1,362,393,309		$ 1,362,393,309		$ 1,362,393,309
2. Total Cost of Capital (Exhibit 2, Col 17)	7.28%	-	7.56%	-	7.83%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$ 99,182,233	-	$ 102,996,934	-	$ 106,675,396
4. Pro-forma Net Operating Income prior to Value Delivery Surcredit expiration	89,494,770		89,494,770		89,494,770
5. Net Operating Income Deficiency/(Sufficiency) prior to Value Delivery Surcredit expiration	$ 9,687,463	-	$ 13,502,164	-	$ 17,180,626
6. Gross Up Revenue Factor - Blake Exhibit 1, Reference Schedule 1.74	0.60252327		0.60252327		0.60252327
7. Overall Revenue Deficiency/(Sufficiency) prior to Value Delivery Surcredit expiration	$ 16,078,156	-	$ 22,409,365	-	$ 28,514,461
SECTION II - VALUE DELIVERY SURCREDIT EXPIRED					
1. Adjusted Kentucky Jurisdictional Capitalization (Exhibit 2, Col 14)	$ 1,362,393,309		$ 1,362,393,309		$ 1,362,393,309
2. Total Cost of Capital (Exhibit 2, Col 17)	7.28%	-	7.56%	-	7.83%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$ 99,182,233	-	$ 102,996,934	-	$ 106,675,396
4. Pro-forma Net Operating Income for expiration of Value Delivery Surcredit	101,379,618		101,379,618		101,379,618
5. Net Operating Income Deficiency/(Sufficiency) for expiration of Value Delivery Surcredit	$ (2,197,385)	-	$ 1,617,316	-	$ 5,295,778
6. Gross Up Revenue Factor - Blake Exhibit 1, Reference Schedule 1.74	0.60252327		0.60252327		0.60252327
7. Overall Revenue Deficiency/(Sufficiency) for expiration of Value Delivery Surcredit	$ (3,646,971)	-	$ 2,684,238	-	$ 8,789,334

KENTUCKY UTILITIES COMPANY

CASE NO. 2005-00351

Response to the Commission Staff's Supplemental Data Request Dated November 14, 2005

Question No. 7

Responding Witness: Kent W. Blake

Q-7. Refer to KU's response to Item 11 of Staff's initial request. In KU's last general rate case it proposed adjustments to the test-year labor and labor-related costs and the pension and post-retirement expenses.

a. Did the labor and labor-related costs included in KU's last general rate case reflect the impact and effects of the Workforce Separation Program ("WSP")?

b. Did the pension and post-retirement expenses included in KU's last general rate case reflect the impact and effects of the WSP?

c. Would KU agree that in determining its proposed revenue requirement in its last general rate case, it reflected the impacts and effects of the WSP? Explain the response.

d. If the response to parts (a) or (b) above is no, explain in detail what levels of workforce and workforce-related costs were incorporated into KU's proposed revenue requirements.

A-7. a. Yes.

b. Yes.

c. The savings associated with the WSP and related value delivery initiatives were reflected in the Company's net operating income for the test year ended September 30, 2003, which was used in determining the revenue requirement in the Company's last general rate case. The test year also reflected the amortization of the costs to achieve those savings and the sharing of those savings between customers and the shareholder.

d. Not applicable.