



Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
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RECEIVED  
JUL 13 2006  
PUBLIC SERVICE  
COMMISSION

**Kentucky Utilities Company**  
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July 13, 2006

**RE: AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH BILLING PERIODS ENDING JULY 31, 2003, JANUARY 31, 2004, JANUARY 31, 2005, JULY 31, 2005, AND JANUARY 31, 2006 AND FOR THE TWO-YEAR BILLING PERIOD ENDING JULY 31, 2004 - CASE NO. 2006-00129**

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Kentucky Utilities Company to the 2<sup>nd</sup> Data Request of Commission Staff dated June 29, 2006, in the above-referenced matter.

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

Sincerely,

Kent Blake

Enclosures

cc: Parties of Record

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>AN EXAMINATION BY THE PUBLIC SERVICE</b>	)	
<b>COMMISSION OF THE ENVIRONMENTAL</b>	)	
<b>SURCHARGE MECHANISM OF KENTUCKY</b>	)	<b>CASE NO. 2006-00129</b>
<b>UTILITIES COMPANY FOR THE SIX-MONTH</b>	)	
<b>BILLING PERIODS ENDING JULY 31, 2003,</b>	)	
<b>JANUARY 31, 2004, JANUARY 31, 2005,</b>	)	
<b>JULY 31, 2005, AND JANUARY 31, 2006 AND</b>	)	
<b>FOR THE TWO-YEAR BILLING PERIOD ENDING</b>	)	
<b>JULY 31, 2004</b>	)	

**RESPONSE OF**  
**KENTUCKY UTILITIES COMPANY**  
**TO**  
**SECOND DATA REQUEST OF COMMISSION STAFF**  
**DATED JUNE 29, 2006**

**FILED: JULY 13, 2006**



**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 1**

**Witness: Robert M. Conroy**

- Q-1. Refer to the Direct Testimony of Robert M. Conroy, pages 6 and 7.
- a. When performing a roll-in of the environmental surcharge or fuel clause, would KU agree that the total bill for the ratepayer after a roll-in should essentially be the same as it was before the roll-in, all other things being equal? Explain the response.
  - b. Would KU agree that if the Commission were to address the subject of inter-class rate subsidies as part of the roll-in, the total bill for any ratepayer after the roll-in would not be the same as before the roll-in, all other things being equal? Explain the response.
- A-1.
- a. Based on past practice of implementing a roll-in of the environmental surcharge or the fuel adjustment clause the total bill for a customer has been essentially the same before and after the roll-in. However, neither KRS 278.183 governing the ECR nor 807 KAR 5:056 governing the FAC specify how the roll-in will be incorporated into customer rates.
  - b. Yes. Should the Commission decide to address inter-class rate subsidies using the amount of the ECR rolled into base rates, then the customer's bill after the roll-in may be different than it was before the roll-in, all other things being equal.



**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 2**

**Witness: Steven Seelye / Robert M. Conroy**

- Q-2. Refer to the Direct Testimony of William Steven Seelye, page 2. Item 12(b) of the Commission Staff's First Data Request dated April 25, 2006 ("Staff's First Request") states:

The surcharge factor reflects a percentage of revenue approach, rather than a per kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into KU's base rates. Include any analysis that KU believes supports its position.

Explain how KU concluded that addressing the effects of the percentage of revenue approach versus the per kWh approach supports dealing with inter-class rate subsidies that KU states exists in its current rates.

- A-2. In the Commission's Data Request (cited and quoted above) the Order identified two possible approaches for incorporating the surcharge amounts into base rates, acknowledging that the surcharge factor reflects a percentage of revenue approach. Because the per kWh approach would almost certainly exacerbate inter-class base rate subsidies, KU does not believe that a per kWh approach is a reasonable methodology for incorporating the surcharge amount into base rates and thus did not present that methodology as one of its proposed alternatives. Therefore, in response to Staff's inquiry as to how the surcharge should be incorporated into base rates, KU decided to present both the alternative method which addresses inter-class subsidies and the traditional percentage of base revenue method for the Commission's consideration in this proceeding.



**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 3**

**Witness: Robert M. Conroy**

- Q-3. Using the scenarios listed below, provide a calculation of the average customer bill as of May 1, 2006 for the following rate classes: Residential, General Service, Combined Light and Power, and Large Commercial/Industrial Time of Day. The average customer bill provided for each scenario should show the components of the bill. The usage amounts for each rate class should be constant between the scenarios (i.e., the same kWh usage used for the Residential rate class in each scenario). Include all calculations, assumptions, and workpapers.
- a. Scenario A – the average customer bill as would have been issued on May 1, 2006.
  - b. Scenario B – the average customer bill as of May 1, 2006, reflecting the roll-in of the surcharge using the “revenue methodology.”
  - c. Scenario C – the average customer bill as of May 1, 2006, reflecting the roll-in of the surcharge using the “alternative methodology.”
- A-3.
- a. Please see the attachments.
  - b. Please see the attachments.
  - c. Please see the attachments.



**Kentucky Utilities Company**  
**Rate Schedule RS**  
**Illustrative Example Only -- Actual Rates Subject to Change**

Typical Energy Usage 1,000 Kwh

	<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>
(1) Customer Charge	\$5.00	\$5.00	\$5.00
(2) Energy Charge	0.04720	0.04865	0.04946
(3) Fuel Clause	0.0072	0.0072	0.0072
(4) DSM	0.00057	0.00057	0.00057
(5) Subtotal [(1) + (2) + (3) + (4)]	\$59.97	\$61.42	\$62.23
(6) ECR [rate x (5)]	3.08%	0.55%	0.55%
(7) Subtotal [(5) + (6)]	\$61.82	\$61.76	\$62.57
(8) Merger Surcredit [rate x (7)]	-2.246%	-2.246%	-2.246%
(9) Subtotal [(7) + (8)]	\$60.43	\$60.37	\$61.17
(10) Value Delivery Surcredit [rate x (9)]	-0.35%	-0.35%	-0.35%
(11) Subtotal [(9) + (10)]	\$60.22	\$60.16	\$60.95
(12) HEA	0.10	0.10	0.10
<b>TOTAL [(11) + (12)]</b>	<b>\$60.32</b>	<b>\$60.26</b>	<b>\$61.05</b>

**Kentucky Utilities Company  
Rate Schedule GS  
Illustrative Example Only -- Actual Rates Subject to Change**

Typical Energy Usage                      1,500 Kwh

	Scenario A		Scenario B		Scenario C	
(1) Customer Charge		\$10.00		\$10.00		\$10.00
(2) Energy Charge	0.05643	\$84.65	0.05820	\$87.30	0.05790	\$86.85
(3) Fuel Clause	0.0072	\$10.80	0.0072	\$10.80	0.0072	\$10.80
(4) DSM	0.00013	\$0.20	0.00013	\$0.20	0.00013	\$0.20
(5) Subtotal [(1) + (2) + (3) + (4)]		\$105.64		\$108.30		\$107.85
(6) ECR [rate x (5)]	3.08%	\$3.25	0.55%	\$0.60	0.55%	\$0.59
(7) Subtotal [(5) + (6)]		\$108.89		\$108.89		\$108.44
(8) Merger Surcredit [rate x (7)]	-2.246%	(\$2.45)	-2.246%	(\$2.45)	-2.246%	(\$2.44)
(9) Subtotal [(7) + (8)]		\$106.45		\$106.44		\$106.00
(10) Value Delivery Surcredit [rate x (9)]	-0.35%	(\$0.37)	-0.35%	(\$0.37)	-0.35%	(\$0.37)
(11) <b>TOTAL [(9) + (10)]</b>		<b>\$106.08</b>		<b>\$106.07</b>		<b>\$105.63</b>

**Kentucky Utilities Company**  
**Rate Schedule LP - Secondary**  
**Illustrative Example Only -- Actual Rates Subject to Change**

Average Energy Usage	31,151 Kwh				
Average Demand Usage	83 kw				
		<u>Scenario A</u>	<u>Scenario B</u>	<u>Scenario C</u>	
(1) Customer Charge		\$75.00	\$75.00	\$75.00	
(2) Energy Charge		0.02516 \$783.76	0.02516 \$783.76	0.02516 \$783.76	
(3) Demand Charge		6.65 \$554.61	7.18 \$598.81	6.90 \$575.46	
(4) Fuel Clause		0.0072 \$224.29	0.0072 \$224.29	0.0072 \$224.29	
(5) DSM		0.00007 \$2.18	0.00007 \$2.18	0.00007 \$2.18	
(6) STOD PCRF		0.00007 \$2.18	0.00007 \$2.18	0.00007 \$2.18	
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]		\$1,642.02	\$1,686.22	\$1,662.87	
(8) ECR [rate x (7)]		3.08% \$50.57	0.55% \$9.27	0.55% \$9.15	
(9) Subtotal [(7) + (8)]		\$1,692.59	\$1,695.49	\$1,672.01	
(10) Merger Surcredit [rate x (9)]		-2.246% (\$38.02)	-2.246% (\$38.08)	-2.246% (\$37.55)	
(11) Subtotal [(9) + (10)]		\$1,654.58	\$1,657.41	\$1,634.46	
(12) Value Delivery Surcredit [rate x (11)]		-0.35% (\$5.79)	-0.35% (\$5.80)	-0.35% (\$5.72)	
(13) <b>TOTAL [(11) + (12)]</b>		<b>\$1,648.79</b>	<b>\$1,651.61</b>	<b>\$1,628.74</b>	

**Kentucky Utilities Company  
Rate Schedule LP - Primary  
Illustrative Example Only -- Actual Rates Subject to Change**

Average Energy Usage                      395,539 Kwh  
Average Demand Usage                      835 kw

	Scenario A		Scenario B		Scenario C	
(1) Customer Charge		\$75.00		\$75.00		\$75.00
(2) Energy Charge	0.02516	\$9,951.76	0.02516	\$9,951.76	0.02516	\$9,951.76
(3) Demand Charge	6.26	\$5,227.10	6.79	\$5,669.65	6.51	\$5,435.85
(4) Fuel Clause	0.0072	\$2,847.88	0.0072	\$2,847.88	0.0072	\$2,847.88
(5) DSM	0.00007	\$27.69	0.00007	\$27.69	0.00007	\$27.69
(6) STOD PCRF	0.00007	\$27.69	0.00007	\$27.69	0.00007	\$27.69
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]		\$18,157.12		\$18,599.67		\$18,365.87
(8) ECR [rate x (7)]	3.08%	\$559.24	0.55%	\$102.30	0.55%	\$101.01
(9) Subtotal [(7) + (8)]		\$18,716.36		\$18,701.97		\$18,466.88
(10) Merger Surcredit [rate x (9)]	-2.246%	(\$420.37)	-2.246%	(\$420.05)	-2.246%	(\$414.77)
(11) Subtotal [(9) + (10)]		\$18,295.99		\$18,281.92		\$18,052.11
(12) Value Delivery Surcredit [rate x (11)]	-0.35%	(\$64.04)	-0.35%	(\$63.99)	-0.35%	(\$63.18)
(13) <b>TOTAL [(11) + (12)]</b>		<b>\$18,231.95</b>		<b>\$18,217.93</b>		<b>\$17,988.93</b>

**Kentucky Utilities Company**  
**Rate Schedule LP - Transmission**  
**Illustrative Example Only -- Actual Rates Subject to Change**

Average Energy Usage Average Demand Usage	962,291 Kwh 2027 kw		<u>Scenario A</u>		<u>Scenario B</u>		<u>Scenario C</u>	
(1) Customer Charge				\$75.00		\$75.00		\$75.00
(2) Energy Charge			0.02516	\$24,211.24	0.02516	\$24,211.24	0.02516	\$24,211.24
(3) Demand Charge			5.92	\$11,999.25	6.45	\$13,073.51	6.17	\$12,505.97
(4) Fuel Clause			0.0072	\$6,928.50	0.0072	\$6,928.50	0.0072	\$6,928.50
(5) DSM			0.00007	\$67.36	0.00007	\$67.36	0.00007	\$67.36
(6) STOD PCRF			0.00007	\$67.36	0.00007	\$67.36	0.00007	\$67.36
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]				\$43,348.71		\$44,422.96		\$43,855.43
(8) ECR [rate x (7)]			3.08%	\$1,335.14	0.55%	\$244.33	0.55%	\$241.20
(9) Subtotal [(7) + (8)]				\$44,683.85		\$44,667.29		\$44,096.64
(10) Merger Surcredit [rate x (9)]			-2.246%	(\$1,003.60)	-2.246%	(\$1,003.23)	-2.246%	(\$990.41)
(11) Subtotal [(9) + (10)]				\$43,680.25		\$43,664.06		\$43,106.22
(12) Value Delivery Surcredit [rate x (11)]			-0.35%	(\$152.88)	-0.35%	(\$152.82)	-0.35%	(\$150.87)
(13) <b>TOTAL [(11) + (12)]</b>				<b>\$43,527.37</b>		<b>\$43,511.24</b>		<b>\$42,955.35</b>

**Kentucky Utilities Company**  
**Rate Schedule LCI-TOD - Primary**  
**Illustrative Example Only -- Actual Rates Subject to Change**

Average Energy Usage                    5,626,266 Kwh  
Average On-Peak Demand Usage        10512 kw  
Average Off-Peak Demand Usage       10278 kw

	<u>Scenario A</u>		<u>Scenario B</u>		<u>Scenario C</u>	
(1) Customer Charge		\$120.00		\$120.00		\$120.00
(2) Energy Charge	0.02516	\$141,556.85	0.02516	\$141,556.85	0.02516	\$141,556.85
(3) On-Peak Demand Charge	4.58	\$48,144.96	4.85	\$50,983.20	4.83	\$50,772.96
(4) Off-Peak Demand Charge	0.73	\$7,502.87	1.00	\$10,277.90	0.98	\$10,072.34
(5) Fuel Clause	0.0072	\$40,509.12	0.0072	\$40,509.12	0.0072	\$40,509.12
(6) DSM	0	\$0.00	0	\$0.00	0	\$0.00
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]		\$237,833.79		\$243,447.07		\$243,031.27
(8) ECR [rate x (7)]	3.08%	\$7,325.28	0.55%	\$1,338.96	0.55%	\$1,336.67
(9) Subtotal [(7) + (8)]		\$245,159.08		\$244,786.03		\$244,367.94
(10) Merger Surcredit [rate x (9)]	-2.246%	(\$5,506.27)	-2.246%	(\$5,497.89)	-2.246%	(\$5,488.50)
(11) Subtotal [(9) + (10)]		\$239,652.80		\$239,288.13		\$238,879.44
(12) Value Delivery Surcredit [rate x (11)]	-0.35%	(\$838.78)	-0.35%	(\$837.51)	-0.35%	(\$836.08)
<b>(13) TOTAL [(11) + (12)]</b>		<b>\$238,814.02</b>		<b>\$238,450.62</b>		<b>\$238,043.36</b>

**Kentucky Utilities Company**  
**Rate Schedule LCI-TOD - Transmission**  
**Illustrative Example Only -- Actual Rates Subject to Change**

Average Energy Usage                    10,479,160 Kwh  
Average On-Peak Demand Usage            20198 kw  
Average Off-Peak Demand Usage         20399 kw

	<u>Scenario A</u>		<u>Scenario B</u>		<u>Scenario C</u>	
(1) Customer Charge		\$120.00		\$120.00		\$120.00
(2) Energy Charge	0.02516	\$263,655.67	0.02516	\$263,655.67	0.02516	\$263,655.67
(3) On-Peak Demand Charge	4.39	\$88,667.90	4.66	\$94,121.28	4.64	\$93,717.33
(4) Off-Peak Demand Charge	0.73	\$14,891.42	1.00	\$20,399.20	0.98	\$19,991.22
(5) Fuel Clause	0.0072	\$75,449.95	0.0072	\$75,449.95	0.0072	\$75,449.95
(6) DSM	0	\$0.00	0	\$0.00	0	\$0.00
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]		\$442,784.94		\$453,746.10		\$452,934.16
(8) ECR [rate x (7)]	3.08%	\$13,637.78	0.55%	\$2,495.60	0.55%	\$2,491.14
(9) Subtotal [(7) + (8)]		\$456,422.71		\$456,241.70		\$455,425.30
(10) Merger Surcredit [rate x (9)]	-2.246%	(\$10,251.25)	-2.246%	(\$10,247.19)	-2.246%	(\$10,228.85)
(11) Subtotal [(9) + (10)]		\$446,171.46		\$445,994.51		\$445,196.45
(12) Value Delivery Surcredit [rate x (11)]	-0.35%	(\$1,561.60)	-0.35%	(\$1,560.98)	-0.35%	(\$1,558.19)
(13) <b>TOTAL [(11) + (12)]</b>		<b>\$444,609.86</b>		<b>\$444,433.53</b>		<b>\$443,638.26</b>





**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 4**

**Witness: Robert M. Conroy / Shannon L. Charnas**

- Q-4. Refer to the response to Staff's First Request, Item 1(b) and the revised response to Item 1(b) filed on June 21, 2006.
- a. Refer to page 1 of 11. Is the "True-up Adjustment" shown in column 7 calculated by multiplying the "Rate of Return as Filed" shown in column 3 by the "Change in Rate Base" shown in column 6, with the result divided by 12? If yes, explain why the calculation for column 7 is shown as "(6) - (5) / 12."
  - b. Refer to page 3 of 11. Describe the source of capitalization identified as "Med Term Notes Payable" and explain why KU included this item in its capitalization and capital structure determination.
  - c. Refer to page 10 of 11. Explain why preferred stock was excluded in the capitalization and capital structure.
- A-4
- a. The column 7 heading on page 1 of 11 is incorrect. It should be "(6) \* (5) / 12" as shown in the heading for column 7 on page 2 of 11.
  - b. The Medium Term Notes Payable represent notes payable that were approved by this Commission in its April 14, 2003 Order in Case No. 2003-00059.

<b>Issue Date</b>	<b>Issuer</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Maturity</b>
4/30/2003	Fidelia Corporation	\$100,000,000	4.55%	4/30/2013

- c. In October 2005, KU redeemed all shares of preferred stock.



**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 5**

**Witness: Robert M. Conroy**

- Q-5. Refer to the response to Staff's First Request, Item 2, Attachment pages 1 and 2 of 2. Concerning column 8 of the Attachment labeled "Rate of Return, Monthly":
- a. Is it correct that the monthly rate of return is the result of dividing the annual rate of return, shown in column 7, by 12?
  - b. A manual check of the calculated monthly rates of return shows that the results were carried to either five or six decimal places. Explain why the monthly rates of return were not calculated to the same degree of precision throughout the Attachment.
- A-5.
- a. Yes. The column reference for the formulas shown in columns 8, 9, and 11 are incorrect. The correct column reference for the formulas are "(7) / 12", "(5) x (8)", and "(9) x (10)", respectively. Please see Attachment to Question 5(a) for corrected column references.
  - b. The monthly rate of return shown in column 8 was calculated consistently across all months to the fourth decimal place as displayed as a percentage. Should the degree of precision for this calculation remain the same as the other calculations on this attachment (ie. two decimal places as displayed), the adjustment would be \$2,489.61, as shown on the Attachment to Question 5(b), compared to \$2,483.17 as originally filed in response to Staff's First Request, Item 2.

Kentucky Utilities Company  
Emission Allowances Assigned to Non-Coal Burning Units  
Total Emission Allowance Inventory Impact

Expense Month	(1) Total Allowances, End of Period	(2) Total Allowance Inventory, Dollars	(3) Average Price, \$/allowance)	(4) Total Excluded Allowances	(5) Total Excluded Value	(6) Less Inventory Amount in Base Rates	(7) Rate of Return, Annual	(8) Rate of Return, Monthly	(9) Excluded Return on Ineligible Allowances	(10) Jurisdictional Allocation	(11) Net Reduction to Retail E(m)
	Form 2.30	Form 2.30	(2) / (1)		(3) x (4)	(5) for September 2003	Attachment to Data Request 1 (a) and (b)	(7) / 12	(5) x (8)	Form 1.0	(9) x (10)
Dec-02	112,781	74,853.10	0.66	846	558.36		0.97%	0.0806%	0.45	83.42%	0.38
Jan-03	183,696	70,130.46	0.38	846	321.48		0.97%	0.0806%	0.26	75.72%	0.20
Feb-03	172,693	66,351.90	0.38	863	327.94		0.97%	0.0806%	0.26	79.64%	0.21
Mar-03	166,380	63,952.96	0.38	863	327.94		0.97%	0.0806%	0.26	78.01%	0.20
Apr-03	157,062	60,412.12	0.38	863	327.94		0.97%	0.0806%	0.26	75.61%	0.20
May-03	147,384	56,734.48	0.38	863	327.94		0.97%	0.0806%	0.26	81.71%	0.21
Jun-03	138,293	53,279.90	0.39	863	336.57		1.16%	0.0970%	0.33	80.58%	0.27
Jul-03	126,036	83,423.20	0.66	863	569.58		1.16%	0.0970%	0.55	79.13%	0.44
Aug-03	114,227	75,629.26	0.66	863	569.58		1.16%	0.0970%	0.55	79.26%	0.44
Sep-03	104,812	69,415.36	0.66	863	569.58		1.16%	0.0970%	0.55	78.69%	0.43
Oct-03	96,489	63,922.18	0.66	863	569.58		1.16%	0.0970%	0.55	78.90%	0.43
Nov-03	86,279	57,183.58	0.66	863	569.58		1.16%	0.0970%	0.55	78.05%	0.43
Dec-03	74,491	49,403.50	0.66	859	566.94		2.38%	0.1980%	1.12	76.48%	0.86
Jan-04	145,873	45,695.59	0.31	859	266.29		2.38%	0.1980%	0.53	74.97%	0.40
Feb-04	201,868	7,366,232.51	36.49	860	31,381.40		2.38%	0.1980%	62.14	77.37%	48.08
Mar-04	191,721	6,995,968.48	36.49	860	31,381.40		2.38%	0.1980%	62.14	77.15%	47.94
Apr-04	184,735	6,741,049.34	36.49	860	31,381.40		2.38%	0.1980%	62.14	82.44%	51.23
May-04	173,670	6,337,287.49	36.49	860	31,381.40		2.38%	0.1980%	62.14	74.41%	46.24
Jun-04	162,535	5,930,971.00	36.49	860	31,381.40		2.38%	0.1980%	62.14	79.77%	49.57
Jul-04	150,895	5,506,228.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	79.75%	240.26
Aug-04	140,391	5,122,937.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	82.46%	248.43
Sep-04	129,356	4,720,270.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	77.51%	233.51
Oct-04	118,968	4,341,212.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	72.44%	218.24
Nov-04	112,709	4,112,821.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	80.84%	243.55

Kentucky Utilities Company  
Emission Allowances Assigned to Non-Coal Burning Units  
Total Emission Allowance Inventory Impact

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Total Allowances, End of Period	Total Allowance Inventory, Dollars	Average Price, \$/allowance)	Total Excluded Allowances	Total Excluded Value	Less Inventory Amount in Base Rates	Rate of Return, Annual	Rate of Return, Monthly	Excluded Return on Ineligible Allowances	Jurisdictional Allocation	Net Reduction to Retail E(m)
	Form 2.30	Form 2.30	(2) / (1)		(3) x (4)	(5) for September 2003	Attachment to Data Request 1 (a) and (b)	(7) / 12	(5) x (8)	Form 1.0	(9) x (10)
Dec-04	101,678	3,710,299.00	36.49	851	31,052.99	569.58	12.04%	1.0033%	305.84	76.95%	235.34
Jan-05	173,903	3,487,384.00	20.05	851	17,062.55	569.58	11.72%	0.9767%	161.09	73.85%	118.96
Feb-05	166,462	3,337,309.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	75.11%	121.43
Mar-05	156,069	3,128,930.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	75.37%	121.85
Apr-05	149,473	2,996,680.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	81.64%	131.99
May-05	144,439	2,895,748.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	74.76%	120.86
Jun-05	136,557	2,737,714.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	79.16%	26.03
Jul-05	125,019	2,506,378.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	78.67%	25.87
Aug-05	112,699	2,259,361.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	80.07%	26.33
Sep-05	100,009	2,005,247.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	76.58%	25.18
Oct-05	91,732	1,838,973.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	81.81%	26.90
Nov-05	83,579	1,675,505.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	73.82%	24.27
Dec-05	72,815	1,459,687.00	20.05	200	4,010.00	569.58	11.79%	0.9825%	33.80	75.73%	25.60
Jan-06	146,931	1,375,307.00	9.36	200	1,872.00	569.58	11.79%	0.9825%	12.80	77.05%	9.86
Feb-06	137,955	1,291,291.00	9.36	200	1,872.00	569.58	11.79%	0.9825%	12.80	82.40%	10.55
Total Adjustment											2,483.17

Kentucky Utilities Company  
Emission Allowances Assigned to Non-Coal Burning Units  
Total Emission Allowance Inventory Impact

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Total Allowances, End of Period	Total Allowance Inventory, Dollars	Average Price, \$/allowance)	Total Excluded Allowances	Total Excluded Value	Less Inventory Amount in Base Rates	Rate of Return, Annual	Rate of Return, Monthly	Excluded Return on Ineligible Allowances	Jurisdictional Allocation	Net Reduction to Retail E(m)
	Form 2.30	Form 2.30	(2) / (1)		(3) x (4)	(5) for September 2003	Attachment to Data Request 1 (a) and (b)	(7) / 12	(5) x (8)	Form 1.0	(9) x (10)
Dec-02	112,781	74,853.10	0.66	846	558.36		0.97%	0.08%	0.45	83.42%	0.38
Jan-03	183,696	70,130.46	0.38	846	321.48		0.97%	0.08%	0.26	75.72%	0.20
Feb-03	172,693	66,351.90	0.38	863	327.94		0.97%	0.08%	0.26	79.64%	0.21
Mar-03	166,380	63,952.96	0.38	863	327.94		0.97%	0.08%	0.26	78.01%	0.20
Apr-03	157,062	60,412.12	0.38	863	327.94		0.97%	0.08%	0.26	75.61%	0.20
May-03	147,384	56,734.48	0.38	863	327.94		0.97%	0.08%	0.26	81.71%	0.21
Jun-03	138,293	53,279.90	0.39	863	336.57		1.16%	0.10%	0.34	80.58%	0.27
Jul-03	126,036	83,423.20	0.66	863	569.58		1.16%	0.10%	0.57	79.13%	0.45
Aug-03	114,227	75,629.26	0.66	863	569.58		1.16%	0.10%	0.57	79.26%	0.45
Sep-03	104,812	69,415.36	0.66	863	569.58		1.16%	0.10%	0.57	78.69%	0.45
Oct-03	96,489	63,922.18	0.66	863	569.58		1.16%	0.10%	0.57	78.90%	0.45
Nov-03	86,279	57,183.58	0.66	863	569.58		1.16%	0.10%	0.57	78.05%	0.44
Dec-03	74,491	49,403.50	0.66	859	566.94		2.38%	0.20%	1.13	76.48%	0.86
Jan-04	145,873	45,695.59	0.31	859	266.29		2.38%	0.20%	0.53	74.97%	0.40
Feb-04	201,868	7,366,232.51	36.49	860	31,381.40		2.38%	0.20%	62.76	77.37%	48.56
Mar-04	191,721	6,995,968.48	36.49	860	31,381.40		2.38%	0.20%	62.76	77.15%	48.42
Apr-04	184,735	6,741,049.34	36.49	860	31,381.40		2.38%	0.20%	62.76	82.44%	51.74
May-04	173,670	6,337,287.49	36.49	860	31,381.40		2.38%	0.20%	62.76	74.41%	46.70
Jun-04	162,535	5,930,971.00	36.49	860	31,381.40		2.38%	0.20%	62.76	79.77%	50.06
Jul-04	150,895	5,506,228.00	36.49	851	31,052.99	569.58	11.86%	0.99%	301.79	79.75%	240.68
Aug-04	140,391	5,122,937.00	36.49	851	31,052.99	569.58	11.86%	0.99%	301.79	82.46%	248.86
Sep-04	129,356	4,720,270.00	36.49	851	31,052.99	569.58	11.86%	0.99%	301.79	77.51%	233.92
Oct-04	118,968	4,341,212.00	36.49	851	31,052.99	569.58	11.86%	0.99%	301.79	72.44%	218.62
Nov-04	112,709	4,112,821.00	36.49	851	31,052.99	569.58	11.86%	0.99%	301.79	80.84%	243.97

Kentucky Utilities Company  
Emission Allowances Assigned to Non-Coal Burning Units  
Total Emission Allowance Inventory Impact

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Total Allowances, End of Period	Total Allowance Inventory, Dollars	Average Price, \$/allowance)	Total Excluded Allowances	Total Excluded Value	Less Inventory Amount in Base Rates	Rate of Return, Annual	Rate of Return, Monthly	Excluded Return on Ineligible Allowances	Jurisdictional Allocation	Net Reduction to Retail E(m)
	Form 2.30	Form 2.30	(2) / (1)		(3) x (4)	(5) for September 2003	Attachment to Data Request 1 (a) and (b)	(7) / 12	(5) x (8)	Form 1.0	(9) x (10)
Dec-04	101,678	3,710,299.00	36.49	851	31,052.99	569.58	12.04%	1.00%	304.83	76.95%	234.57
Jan-05	173,903	3,487,384.00	20.05	851	17,062.55	569.58	11.72%	0.98%	161.63	73.85%	119.36
Feb-05	166,462	3,337,309.00	20.05	854	17,122.70	569.58	11.72%	0.98%	162.22	75.11%	121.84
Mar-05	156,069	3,128,930.00	20.05	854	17,122.70	569.58	11.72%	0.98%	162.22	75.37%	122.27
Apr-05	149,473	2,996,680.00	20.05	854	17,122.70	569.58	11.72%	0.98%	162.22	81.64%	132.44
May-05	144,439	2,895,748.00	20.05	854	17,122.70	569.58	11.72%	0.98%	162.22	74.76%	121.28
Jun-05	136,557	2,737,714.00	20.05	200	4,010.00	569.58	11.47%	0.96%	33.03	79.16%	26.15
Jul-05	125,019	2,506,378.00	20.05	200	4,010.00	569.58	11.47%	0.96%	33.03	78.67%	25.98
Aug-05	112,699	2,259,361.00	20.05	200	4,010.00	569.58	11.47%	0.96%	33.03	80.07%	26.45
Sep-05	100,009	2,005,247.00	20.05	200	4,010.00	569.58	11.47%	0.96%	33.03	76.58%	25.29
Oct-05	91,732	1,838,973.00	20.05	200	4,010.00	569.58	11.47%	0.96%	33.03	81.81%	27.02
Nov-05	83,579	1,675,505.00	20.05	200	4,010.00	569.58	11.47%	0.96%	33.03	73.82%	24.38
Dec-05	72,815	1,459,687.00	20.05	200	4,010.00	569.58	11.79%	0.98%	33.72	75.73%	25.54
Jan-06	146,931	1,375,307.00	9.36	200	1,872.00	569.58	11.79%	0.98%	12.76	77.05%	9.83
Feb-06	137,955	1,291,291.00	9.36	200	1,872.00	569.58	11.79%	0.98%	12.76	82.40%	10.51
Total Adjustment											2,489.61





**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 6**

**Witness: Robert M. Conroy**

- Q-6. Refer to the response to Staff's First Request, Item 13. In this response, KU states that \$69,415 of its emission allowance inventory is included in its current base rates.
- a. If this balance of emission allowance inventory is included in KU's current base rates, is it correct that the return on this inventory is reflected in the Base Period Jurisdictional Environmental Surcharge Factor ("BESF")? Explain the response.
  - b. If the return on this portion of the emission allowance inventory is already incorporated in the BESF, would KU agree that this portion of the emission allowance inventory is already excluded from the surcharge billing factor applied to ratepayers' bills? Explain the response.
  - c. If the return on this portion of the emission allowance inventory is already incorporated in the BESF, explain why KU believes it is necessary to include an incremental adjustment in the rate base calculations to exclude this portion of the emission allowance inventory.
- A-6. a. No. The return on the allowance inventory balance of \$69,415 is not reflected in the BESF.

KU's current BESF (0.30%) was calculated in July 2004 following the Commission's Order in Case No. 2003-00434. Previously, KU's BESF was 2.68%, as determined in Case No. 2003-00068. In Case No. 2003-00068, KU determined a total roll-in amount of \$17,943,154, of which \$15,837,192 related to the 1994 Plan Roll-in amount and \$2,105,962 related to the Post-1994 Plan Roll-in amount. The 1994 Plan Roll-in amount includes a return on emission allowance inventory balance of \$117,310; the Post-1994 Plan Roll-in amount does not include a return on emission allowance inventory. Please see Attachment 1 to this response for a copy of the Attachment to Question 56, Page 1 of 2, from KU's Response to First Data Request of Commission Staff dated March 17, 2003 in Case No. 2003-00068.

Note that the inventory balance shown on the attachment was later corrected to \$69,415; the correction did not impact the calculation of BESF.

On August 20, 2004, KU filed with the Commission its ECR billing factor for the July 2004 expense month. Included in that filing was a recalculation of the BESF reflecting the elimination of the 1994 Plan from the ECR monthly filings. Exhibit A of KU's August 20, 2004 filing includes the recalculation of BESF reflecting the Post-1994 Plan Roll-in amount of \$2,105,962. As stated above, this roll-in amount does not include a return on emission allowance inventory. Please see Attachment 2 to this response for a copy of KU's Exhibit A to the monthly filing.

Furthermore, as shown in KU's response to the Question 15 (f) and (g) of the Second Data Request of Commission Staff dated February 3, 2004 in Case No. 2003-00434, KU's Kentucky jurisdictional rate base includes the emission allowance inventory balance of \$69,415 associated with the 1994 Plan. The 1994 Plan was eliminated from the ECR and is being recovered solely through base rates. Please see Attachment 3 for selected pages from KU's response to Question 15 (f) and (g).

Therefore, the return on the allowance inventory balance of \$69,415 is not reflected in BESF.

- b. Not applicable.
- c. Not applicable.

**Calculation of Revenue Requirement for Roll-In:**

<b>Environmental Compliance Rate Base</b>			
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	<u>1,243,596</u>	<u>8,787,082</u>
	<b>Subtotal</b>	<u><b>177,775,485</b></u>	<u><b>18,562,623</b></u>
<b>Additions:</b>			
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	<u>853,850</u>	<u>-</u>
	<b>Subtotal</b>	<u><b>2,390,724</b></u>	<u><b>-</b></u>
<b>Deductions:</b>			
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	<u>-</u>	<u>-</u>
	<b>Subtotal</b>	<u><b>74,836,543</b></u>	<u><b>146,440</b></u>
<b>Environmental Compliance Rate Base</b>		<u><b>105,329,666</b></u>	<u><b>18,416,183</b></u>
Rate of Return -- Environmental Compliance Rate Base		6.27%	14.41%
<b>Return on Environmental Compliance Rate Base</b>		<u><b>6,604,170</b></u>	<u><b>2,653,772</b></u>
<b>Pollution Control Operating Expenses</b>			
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	<u>-</u>	<u>-</u>
<b>Total Pollution Control Operating Expenses</b>		<u><b>14,302,904</b></u>	<u><b>74,368</b></u>
Gross Proceeds from By-Product & Allowance Sales	See Support Schedule B	<u><b>391,001</b></u>	<u><b>-</b></u>
<b>Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount</b>			
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		<u>(391,001)</u>	<u>-</u>
<b>Roll In Amount</b>		<u><b>20,516,073</b></u>	<u><b>2,728,140</b></u>
<b>Jurisdictional Allocation Ratio -- Roll In</b>		<u><b>77.1941%</b></u>	<u><b>77.1941%</b></u>
<b>Jurisdictional Revenues for 12 Months for Roll In</b>		<u><b>591,220,529</b></u>	<u><b>591,220,529</b></u>
<b>Roll In Jurisdictional Environmental Surcharge Factor:</b>			
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
	BESF	2.6787%	0.3562%
	BESF from May 2000 Roll in	2.36%	-
	Net Change in BESF	0.32%	0.36%

Determination of Base Environmental Surcharge Factor (BESF)

Base Revenues, 12 Months ending June 30, 2004

	KU	LGE
Jul-2003	59,153,805	65,013,920
Aug-2003	58,778,153	63,991,485
Sep-2003	59,589,990	63,228,069
Oct-2003	49,556,837	40,775,968
Nov-2003	48,657,182	39,803,712
Dec-2003	59,594,651	43,623,164
Jan-2004	66,699,661	46,407,043
Feb-2004	64,592,600	46,574,041
Mar-2004	56,670,629	42,528,552
Apr-2004	54,938,092	40,957,369
May-2004	52,590,154	45,305,246
Jun-2004	58,498,685	63,268,821
Total	\$ 692,100,989	\$ 603,432,140
Post-1994 Plan Rolled in, Case No. 2003-068	2,105,962	
Post-1995 Plan Rolled in, Case No. 2003-236		14,343,662
Revised BESF, post-1994/post-1995 Plans	0.30%	2.38%

accounts receivable financing program will terminate in the first quarter of 2004? Would Mr. Rives agree that the termination of the program is required in the first quarter of 2004?

- (3) With the termination of the accounts receivable financing, explain in detail why this financing should continue to be recognized in KU's capitalization and determination of its overall weighted average cost of capital.
- e. Rives Exhibit 1, Schedule 1.37 shows the determination of the revenue gross up factor.
- (1) Is KU eligible to file consolidated Kentucky corporation income tax returns? Explain the response.
  - (2) If KU is eligible to file consolidated Kentucky corporation income tax returns, provide the effective Kentucky income tax rate for KU for the most recent 4 tax years.
  - (3) If KU has been filing consolidated Kentucky corporation income tax returns, would it agree that the most recent effective Kentucky income tax rate should be used to determine the gross up factor and the income tax effect of all adjustments rather than use the stated 8.25 percent rate? Explain the response.
- f. Rives Exhibit 3 shows the net original cost rate base for KU. Provide the calculations and workpapers that support the following components of the rate base:
- (1) Accumulated Deferred Income Taxes.
  - (2) FAS 109 Deferred Income Taxes.
  - (3) Materials and Supplies.
  - (4) Prepayments.
  - (5) Emission Allowances.
  - (6) Cash Working Capital.
- g. Explain why emission allowances are included in KU's Kentucky jurisdictional rate base, given that KU earns a return on its emission allowances through the environmental surcharge.

(3) We believe use of the 8.25% Kentucky statutory rate is appropriate. Items reducing the rates shown above include non-recurring credits and apportionment adjustments from out-of-state activities that may or may not be present in the future. KU presently pays tax in Virginia and Tennessee in addition to Kentucky. Furthermore, use of the Kentucky statutory rate is consistent with prior filings with the Commission.

f. (1-5) See attached.

(6) See attached.

g. Emission allowances are included in the Company's 1994 Plan. Costs from the 1994 Plan are currently being recovered through the environmental surcharge. However, the Company is proposing that 1994 Plan costs be recovered solely through base rates, and that the portion of the environmental surcharge related to the 1994 Plan be eliminated prospectively.

Kentucky Utilities Company  
Net Original Cost Rate Base Components

	Materials & Supplies	Undistributed Stores Expense	Fuel Inventory	Total M&S	Prepaid Insurance
September, 2002	22,039,200	4,756,697	33,980,866	60,776,763	1,387,386
October, 2002	21,598,228	4,613,416	39,814,179	66,025,823	925,588
November, 2002	21,616,180	4,818,624	43,917,561	70,352,366	463,789
December, 2002	21,328,529	5,079,045	46,090,087	72,497,661	6,032,991
January, 2003	21,478,545	4,978,557	39,598,078	66,055,179	5,835,078
February, 2003	21,679,460	5,020,635	36,809,786	63,509,882	5,300,046
March, 2003	21,636,578	5,003,986	43,228,606	69,869,171	5,095,202
April, 2003	21,537,638	4,715,907	44,369,953	70,623,498	4,523,483
May, 2003	21,768,362	5,156,520	42,031,814	68,956,696	3,955,120
June, 2003	21,843,648	6,044,144	41,437,861	69,325,652	3,390,103
July, 2003	21,842,240	6,494,520	37,870,490	66,207,250	2,825,086
August, 2003	22,024,808	4,848,936	38,896,637	65,770,380	2,260,069
September, 2003	22,073,546	5,156,409	33,559,694	60,789,649	1,695,051
13-Month Totals	282,466,962	66,687,395	521,605,615	870,759,971	43,688,992
13-Month Averages	21,728,228	5,129,800	40,123,509	66,981,537	3,360,692
	Calculated	M&S	ENERGY		EXP9245
Kentucky Jurisdictional Allocation Factors <sup>(1)</sup>	0.870582	0.87058	0.86094		0.87347
Kentucky Jurisdictional Balances	18,916,204	4,465,901	34,543,934	57,926,039	2,935,464

(1) There are 3 allocation factors applicable to Materials & Supplies.  
A weighted average of the 3 factors has been used to determine that allocation factor.

	Sep-2003 Account Bal.	Percentage of Total	Allocation Title	Allocation Factor	Weighted Avg. Alloc. Factor
M&S - Production	14,121,964	63.977%	PRODPLT	0.84972	0.54363
M&S - Transmission	1,664,391	7.540%	TRANPLT	0.79459	0.05991
M&S - Distribution	6,287,192	28.483%	DISTPLT	0.93756	0.26705
Calculated Factor	22,073,546				0.87058

	Emission Allowances	FAS 109 Deferred Income Taxes	Total Accum. Deferred Inc. Taxes
Balance at September, 2003	69,415	19,948,858	280,315,416
Kentucky Jurisdictional Allocation Factor	0.86065	-	(577,791)
Kentucky Jurisdictional Balance	59,742	-	6,990,120
Balance at September, 2003	260,366,558	19,948,858	280,315,416
Less Below the line taxes	(577,791)	-	(577,791)
Less OCI taxes	6,990,120	-	6,990,120
	266,778,887	19,948,858	286,727,745
Kentucky Jurisdictional Allocation Factors	0.85375	0.85375	0.85375
Kentucky Jurisdictional Balances	227,763,808	17,031,437	244,795,245





**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 7**

**Witness: Shannon L. Charnas**

- Q-7. Refer to the response to Staff's First Request, Item 17(c), the Attachment. Provide the calculations and assumptions used to determine the rate of return grossed up of 11.52 percent.
- A-7. Please see the attachments. The methodology shown on page 1 of 2 of the attachment is consistent with the methodology presented to and accepted by the Commission in Case No. 2004-00421.

**ECR - Gross-up Revenue Factor &  
Composite Income Tax Calculation  
2005**

	Federal & State Production Credit W/ 7% 2005 State <u>Tax Rate Included</u>
1. Assume pre-tax income of	\$ 100.0000
2. State income tax (see below)	<u>6.8043</u>
3. Taxable income for Federal income tax before production credit	93.1957
4. Less: Production tax credit (% of Line 3)	<u>2.7959</u>
5. Taxable income for Federal income tax	90.3998
6. Federal income tax (35% of Line 5)	<u>31.6399</u>
7. Total State and Federal income taxes (Line 2 +Line 6)	<u>\$ 38.4442</u>
8. Gross-up Revenue Factor	<u><u>61.5558</u></u>
9. Therefore, the composite rate is:	
10. Federal	31.6399%
11. State	<u>6.8043%</u>
12. Total	<u><u>38.4442%</u></u>

State Income Tax Calculation

1. Assume pre-tax income of	\$ 100.0000
2. Less: Production tax credit	<u>2.7959</u>
3. Taxable income for State income tax	97.2041
4. State Tax Rate	<u>7.0000%</u>
5. State Income Tax	<u><u>6.8043</u></u>

Louisville Gas and Electric Company  
 Outstanding Balances - Capitalization  
 As of February 28, 2006

1	2	3	4	5	6	7
	Electric Only	Capital Structure	Cost Rate	Weighted Average Cost of Capital	Tax Gross-up Factor	Weighted Average Cost of Capital with Equity Gross-up
1 Long-Term Debt	662,269,133	40.019%	4.24%	1.70%		1.70%
2 Short-Term Debt	51,876,353	3.135%	4.51%	0.14%		0.14%
3 Preferred Stock	56,839,690	3.435%	4.94%	0.17%	0.6245	0.28%
4 Common Equity	883,889,312	53.411%	10.50%	5.61%	0.6245	9.11%
5 Total	1,654,874,488			7.62%		11.23%
			Rate of Return Grossed Up:			11.23%

Weighted Cost of Capital Grossed up for Income Tax Effect  $\{ROR + (ROR - DR) \times [TR / (1 - TR)]\}$



**KENTUCKY UTILITIES COMPANY**

**Response to Second Data Request of Commission Staff  
Dated June 29, 2006**

**Case No. 2006-00129**

**Question No. 8**

**Witness: B. Keith Yocum**

- Q-8. Refer to the response to Staff's First Request, Item 19. Explain how the "Desired Bank Level" for emission allowances shown in the response was determined.
- A-8. As explained in Case No. 2004-00426, the "desired bank level" is the targeted bank level for a current year based on the projected need for the subsequent year. This provides the Companies a two-year window in which to acquire allowances for needs on a going forward basis.