an e·on company

RECEIVED

JUL 1 3 2006

PUBLIC SERVICE
COMMISSION

Louisville Gas and Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Kent W. Blake
Director
T 502-627-2573
F 502-217-2442
kent.blake@eon-us.com

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

July 13, 2006

RE: ***AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-MONTH BILLING PERIODS ENDING OCTOBER 31, 2003, APRIL 30, 2004, OCTOBER 31, 2004, OCTOBER 31, 2005, AND APRIL 30, 2006, AND FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2005 – CASE NO. 2006-00130***

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Louisville Gas and Electric Company to the 2nd 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

Kent Blake

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF LOUISVILLE GAS	)	**CASE NO. 2006-00130**
AND ELECTRIC COMPANY FOR THE SIX-MONTH	)	
BILLING PERIODS ENDING OCTOBER 31, 2003,	)	
APRIL 30, 2004, OCTOBER 31, 2004,	)	
OCTOBER 31, 2005, AND APRIL 30, 2006, AND	)	
FOR THE TWO-YEAR BILLING PERIOD ENDING	)	
APRIL 30, 2005	)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
SECOND DATA REQUEST OF COMMISSION STAFF
DATED JUNE 29, 2006

FILED: JULY 13, 2006

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 1

Witness: Robert M. Conroy

Q-1. Refer to the Direct Testimony of Robert M. Conroy, pages 7 and 8.

a. When performing a roll-in of the environmental surcharge or fuel clause, would LG&E 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 LG&E 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 2

Witness: William Steven Seelye / Robert M. Conroy

Q-2. Refer to the Direct Testimony of William Steven Seelye ("Seelye Testimony"), page 2. Item 11(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 LG&E's base rates. Include any analysis that LG&E believes supports its position.

Explain how LG&E concluded that addressing the effects of the percentage of revenue approach versus the per kWh approach supports dealing with inter-class rate subsidies that LG&E 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, LG&E 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 how the surcharge should be incorporated into base rates, LG&E 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 3

Witness: William Steven Seelye

Q-3. Refer to the Seelye Testimony, Exhibit WSS-2.

a. Explain why Special Contract customers were included in the analysis of rate class subsidies. Include with this response a discussion of how under the terms of the existing contracts, LG&E could change the amount of an environmental surcharge roll-in to Special Contract customers.

b. Explain how the Lighting Rate Class can be both paying and receiving a subsidy from other rate classes.

A-3. a. The special contract customers are not subject to fixed rates. LG&E is unaware of any provisions in these special contracts that would prohibit modifying the unit charges set forth in the agreements, subject to Commission approval.

b. Exhibit WSS-2 erroneously indicated both a subsidy received and a subsidy paid by the lighting class. The subsidy paid of ($2,266,731) for the lighting class was inadvertently included in the analysis. Attached is a revised version of Exhibit WSS-2 correcting the analysis for this inadvertent mistake.

Louisville Gas and Electric Company
Environmental Surcharge Roll-In Allocation
Based on 12 Months Ended February 2005

LG&E Roll-In Amount:	$ 8,669,729
Amount of Roll-In Applied to Correct Subsidies	$ 2,005,940
Percentage of Total Roll-In Applied to Correct Subsidies	23.14%

Rate Class		(1) Base Rate Revenue	(2) Roll-In Allocated on the Basis of Base Rate Revenue	(3) Class ROR	(4) ROR Falls Within Range	(5) Allocation for Classes Falling Within Range	(6) Subsidy Paid By Classes Above Range	(7) Subsidy Received By Classes Below Range	(8) Amount Credited to Correct Subsidies	(9) Amount Added to Correct Subsidies	(10) Roll-In Amount	(11) Percentage of Base Rate Revenue
Residential		$ 242,850,133	$ 3,305,941	3.45%		$ -	$ -	$ 22,072,855	$ -	$ 1,892,177	$ 5,198,118	2.14%
General Service		92,060,561	1,253,229	11.98%		-	(13,337,493)	-	(939,922)	-	313,307	0.34%
Rate LC		118,318,926	1,610,686	10.00%		-	(10,286,081)	-	(724,882)	-	885,804	0.75%
Rate LC-TOD		27,480,243	374,091	8.04%		-	(637,445)	-	(44,922)	-	329,169	1.20%
Rate LP		33,500,196	456,041	11.52%		-	(4,203,280)	-	(296,214)	-	159,827	0.48%
Rate LP-TOD		95,154,175	1,295,342	6.08%	Yes	1,295,342	-	-	-	-	1,295,342	1.36%
Special Contract -	Dupont	5,224,156	71,117	3.72%		-	-	324,630	-	27,829	98,946	1.89%
Special Contract -	Fort Knox	7,283,696	99,154	4.33%		-	-	282,685	-	24,233	123,387	1.69%
Special Contract -	Lou. Water Co.	1,956,467	26,634	6.19%	Yes	26,634	-	-	-	-	26,634	1.36%
Lighting		13,038,534	177,495	4.45%		-		719,760	-	61,701	239,196	1.83%
	Total	$ 636,867,088	$ 8,669,729			$ 1,321,976	$ (28,464,299)	$ 23,399,930	$ (2,005,940)	$ 2,005,940	$ 8,669,729	1.36%

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 4

Witness: Robert M. Conroy

Q-4. 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, and Rate LC. 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-4. a. Please see the attachments.

b. Please see the attachments.

c. Please see the attachments.

Louisville Gas and Electric Company
Rate Schedule RS
Illustrative Example -- Actual Rates Subject to Change

Typical Energy Usage 1,000 Kwh

	Scenario A		Scenario B		Scenario C	
(1) Customer Charge		$5.00		$5.00		$5.00
(2) Energy Charge (Winter Rate)	0.05955	$59.55	0.06036	$60.36	0.06085	$60.85
(3) Fuel Clause	0.00354	$3.54	0.00354	$3.54	0.00354	$3.54
(4) DSM	0.00072	$0.72	0.00072	$0.72	0.00072	$0.72
(5) Subtotal [(1) + (2) + (3) + (4)]		$68.81		$69.62		$70.11
(6) ECR [rate x (5)]	3.28%	$2.26	2.40%	$1.67	2.40%	$1.68
(7) Subtotal [(5) + (6)]		$71.07		$71.29		$71.79
(8) Merger Surcredit [rate x (7)]	-2.936%	($2.09)	-2.936%	($2.09)	-2.936%	($2.11)
(9) Subtotal [(7) + (8)]		$68.98		$69.20		$69.68
(10) Value Delivery Surcredit [rate x (9)]	-1.00%	($0.69)	-1.00%	($0.69)	-1.00%	($0.70)
(11) Subtotal [(9) + (10)]		$68.29		$68.51		$68.99
(12) HEA	0.10	0.10	0.10	0.10	0.10	0.10
TOTAL [(11) + (12)]		**$68.39**		**$68.61**		**$69.09**

Louisville Gas and Electric Company
Rate Schedule GS (Single Phase Service)
Illustrative Example -- 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 (Winter Rate)	0.06381	$95.72	0.06470	$97.05	0.06397	$95.96
(3) Fuel Clause	0.00354	$5.31	0.00354	$5.31	0.00354	$5.31
(4) DSM	0.00028	$0.42	0.00028	$0.42	0.00028	$0.42
(5) Subtotal [(1) + (2) + (3) + (4)]		$111.45		$112.78		$111.69
(6) ECR [rate x (5)]	3.28%	$3.66	2.40%	$2.71	2.40%	$2.68
(7) Subtotal [(5) + (6)]		$115.10		$115.49		$114.37
(8) Merger Surcredit [rate x (7)]	-2.936%	($3.38)	-2.936%	($3.39)	-2.936%	($3.36)
(9) Subtotal [(7) + (8)]		$111.72		$112.10		$111.01
(10) Value Delivery Surcredit [rate x (9)]	-1.00%	($1.12)	-1.00%	($1.12)	-1.00%	($1.11)
(11) **TOTAL [(9) + (10)]**		**$110.60**		**$110.98**		**$109.90**

Louisville Gas and Electric Company
Rate Schedule LC -- Secondary
Illustrative Example -- Actual Rates Subject to Change

Average Energy Usage	61,563	Kwh
Average Demand Usage	157	kw

	Scenario A		Scenario B		Scenario C	
(1) Customer Charge		$65.00		$65.00		$65.00
(2) Energy Charge (Winter Rate)	0.02417	$1,487.98	0.02417	$1,487.98	0.02417	$1,487.98
(3) Demand Charge	11.14	$1,744.52	11.42	$1,788.37	11.28	$1,766.45
(4) Fuel Clause	0.00354	$217.93	0.00354	$217.93	0.00354	$217.93
(5) DSM	0.00015	$9.23	0.00015	$9.23	0.00015	$9.23
(6) STOD PCRF	0.00022	$13.54	0.00022	$13.54	0.00022	$13.54
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]		$3,538.21		$3,582.06		$3,560.14
(8) ECR [rate x (7)]	3.28%	$116.05	2.40%	$85.97	2.40%	$85.44
(9) Subtotal [(7) + (8)]		$3,654.27		$3,668.03		$3,645.58
(10) Merger Surcredit [rate x (9)]	-2.936%	($107.29)	-2.936%	($107.69)	-2.936%	($107.03)
(11) Subtotal [(9) + (10)]		$3,546.98		$3,560.34		$3,538.55
(12) Value Delivery Surcredit [rate x (11)]	-1.00%	($35.47)	-1.00%	($35.60)	-1.00%	($35.39)
(13) **TOTAL [(11) + (12)]**		**$3,511.51**		**$3,524.73**		**$3,503.16**

Louisville Gas and Electric Company
Rate Schedule LC -- Primary
Illustrative Example -- Actual Rates Subject to Change

Average Energy Usage 256,492 Kwh
Average Demand Usage 599 kw

	Scenario A		Scenario B		Scenario C	
(1) Customer Charge		$65.00		$65.00		$65.00
(2) Energy Charge (Winter Rate)	0.02417	$6,199.41	0.02417	$6,199.41	0.02417	$6,199.41
(3) Demand Charge	9.52	$5,705.34	9.80	$5,873.14	9.66	$5,789.24
(4) Fuel Clause	0.00354	$907.98	0.00354	$907.98	0.00354	$907.98
(5) DSM	0.00015	$38.47	0.00015	$38.47	0.00015	$38.47
(6) STOD PCRF	0.00022	$56.43	0.00022	$56.43	0.00022	$56.43
(7) Subtotal [(1) + (2) + (3) + (4) + (5) + (6)]		$12,972.63		$13,140.44		$13,056.53
(8) ECR [rate x (7)]	3.28%	$425.50	2.40%	$315.37	2.40%	$313.36
(9) Subtotal [(7) + (8)]		$13,398.13		$13,455.81		$13,369.89
(10) Merger Surcredit [rate x (9)]	-2.936%	($393.37)	-2.936%	($395.06)	-2.936%	($392.54)
(11) Subtotal [(9) + (10)]		$13,004.76		$13,060.74		$12,977.35
(12) Value Delivery Surcredit [rate x (11)]	-1.00%	($130.05)	-1.00%	($130.61)	-1.00%	($129.77)
(13) **TOTAL [(11) + (12)]**		**$12,874.72**		**$12,930.14**		**$12,847.58**

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 5

Witness: Robert M. Conroy / Shannon Charnas

Q-5. Refer to the response to Staff's First Request, Item 1(b).

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 LG&E included this item in its capitalization and capital structure determination.

A-5. 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 initially approved by this Commission in its April 14, 2003 Order in Case No. 2003-00058.

Issue Date	Issuer	Principal	Interest Rate	Maturity
4/30/2003	Fidelia Corporation	$100,000,000	4.55%	4/30/2013
8/15/2003	Fidelia Corporation	$100,000,000	5.31%	8/15/2013

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 6

Witness: Shannon Charnas

Q-6. Refer to the response to Staff's First Request, Item 7(b). Explain why there was a "reversal of ammonia purchases recorded during January 2004."

A-6. The "reversal of ammonia purchases recorded during January 2004" was a reversal of an invoice that was booked in error.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 7

Witness: Shannon Charnas

Q-7. Refer to the response to Staff's First Request, Item 16(c), the Attachment. Provide the calculations and assumptions used to determine the rate of return grossed up of 11.23 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 Tax Rate Included
1. Assume pre-tax income of	$ 100.0000
2. State income tax (see below)	6.8043
3. Taxable income for Federal income tax before production credit	93.1957
4. Less: Production tax credit (% of Line 3)	2.7959
5. Taxable income for Federal income tax	90.3998
6. Federal income tax (35% of Line 5)	31.6399
7. Total State and Federal income taxes (Line 2 +Line 6)	$ 38.4442
8. Gross-up Revenue Factor	61.5558
9. Therefore, the composite rate is:	
10. Federal	31.6399%
11. State	6.8043%
12. Total	38.4442%

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

Kentucky Utilities Company
Outstanding Balances - Adjusted Jurisdictional 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	528,855,431	37.957%	4.42%	1.68%		1.68%
2	Short-Term Debt	81,486,773	5.849%	4.51%	0.26%		0.26%
3	Common Equity	782,949,614	56.194%	10.50%	5.90%	0.6245	9.58%
4	Total	1,393,291,818			7.84%		11.52%
			Rate of Return Grossed Up:		11.52%		

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

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2006-00130

Question No. 8

Witness: Keith Yocum

Q-8. Refer to the response to Staff's First Request, Item 18. Explain how the "Desired Bank Level" for emission allowances shown in the response was determined. In addition, explain why the desired bank level is increasing over the projection period.

A-8. As explained in Case No. 2004-00421, 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.