In the Matter:

Application of Louisville Gas and Electric Company for an Order Authorizing Inclusion of Investment Tax Credits In Calculation of Environmental Surcharge and Declaring Appropriate Ratemaking Methods for Base Rates	) Case No. 2007-00179

Response to Commission Staff's First Data Request dated June 12, 2007

FILED: June 26, 2007

LG&E

an e-on company

RECEIVED

JUN 26 2007

PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

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State Regulation and Rates
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Kent W. Blake
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June 26, 2007

RE: ***Application of Louisville Gas and Electric Company for an Order Authorizing Inclusion of Investment Tax Credits in Calculation of Environmental Surcharge and Declaring Appropriate Ratemaking Methods for Base Rates*** **– Case No. 2007-00179**

Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and six (6) copies of Louisville Gas and Electric Company's Response to the First Data of Commission Staff dated June 12, 2007, in the above-referenced matter.

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

Sincerely,

Kent W. Blake

Kent W. Blake

cc: Hon. Lawrence W. Cook
Hon. Michael L. Kurtz

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER AUTHORIZING INCLUSION OF INVESTMENT TAX CREDITS IN CALCULATION OF ENVIRONMENTAL SURCHARGE AND DECLARING APPROPRIATE RATEMAKING METHODS FOR BASE RATES	))))))	CASE NO. 2007-00179

RESPONSE OF LOUISVILLE GAS AND ELECTRIC COMPANY TO FIRST DATA REQUEST OF COMMISSION STAFF DATED JUNE 12, 2007

FILED: JUNE 26, 2007

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Kent W. Blake**, being duly sworn, deposes and says that he is Vice President of State Regulation and Rates for E.ON U.S. Services, Inc., that he has personal knowledge of the matters set forth in the responses (Question Nos. 5, 6, and 7), and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Kent W Blake

KENT W. BLAKE

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 26th day of June, 2007.

Tammy J. Elsy (SEAL)
Notary Public

My Commission Expires:

November 9, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Ronald L. Miller**, being duly sworn, deposes and says that he is Director of Corporate Tax for E.ON U.S. Services, Inc., that he has personal knowledge of the matters set forth in the responses (Question Nos. 1, 2, 3, 4, and 8), and the answers contained therein are true and correct to the best of his information, knowledge and belief.

RONALD L. MILLER

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 26th day of June, 2007.

Notary Public (SEAL)

My Commission Expires:

November 9, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to First Data Request of Commission Staff
Dated June 12, 2007

Case No. 2007-00179

Question No. 1

Witness: Ronald L. Miller

Q-1. Refer to the Application, page 5. LG&E states that the Illinois Municipal Electric Agency ("IMEA") and Indiana Municipal Power Agency ("IMPA") will not receive any portion of the Energy Policy Act of 2005 advanced coal-based generation technology credit ("2005 EPA ITC"). IMEA and IMPA, along with LG&E and Kentucky Utilities Company, are constructing Trimble County Unit 2 under a partnership agreement and IMEA and IMPA will own 25 percent of the capacity from Trimble County Unit 2. Explain why IMEA and IMPA will not receive any portion of the 2005 EPA ITC.

A-1. IMPA is a not-for-profit corporation and a political subdivision of the State of Indiana. IMEA is a not-for-profit municipal corporation and a unit of local government of the State of Illinois. Both IMPA and IMEA are exempt from federal income taxation and, therefore, were not eligible to receive any portion of the 2005 EPA ITC.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to First Data Request of Commission Staff
Dated June 12, 2007

Case No. 2007-00179

Question No. 2

Witness: Ronald L. Miller

Q-2. Refer to the Application, page 5. Provide copies of the following referenced sections of the Internal Revenue Service ("IRS") Tax Code:

a. 26 U.S.C. § 46(f).

b. 26 U.S.C. § 50(d)(2).

A-2. a. Please see the attachment for 26 U.S.C. § 46(f).

Portions of IRS Tax Code Section 46 (including 46(f)) have been repealed following the repeal of the Investment Tax Credit in 1986. However, as stated in IRS Tax Code Section 50(d)(2), the 46(f) rules continue to apply for regulated companies. IRS Tax Code Section 46(f) shown on the attached represents the original text in effect prior to its repeal.

b. Please see the attachment for 26 U.S.C. § 50.

The above amendments are effective as if included in the provisions of the Tax Reform Act of 1986 (P.L. 99-514) to which they relate.

P.L. 99-514, § 1802(a)(6):

Act Sec. 1802(a)(6) amended Code Sec. 46(e)(4) by adding at the end thereof new subparagraph (D) to read as above.

P.L. 99-514, § 1802(a)(8):

Act Sec. 1802(a)(8) amended Code Sec. 46(e)(4) by adding at the end thereof new subparagraph (E) to read as above.

The above amendments are effective as if included in the provision of P.L. 98-369 to which such amendment relates.

P.L. 98-369, § 31(f):

Act Sec. 31(f) amended Code Sec. 46(e) by adding a new paragraph (4) at the end thereof.

The above amendment applies to property placed in service by the taxpayer after November 5, 1983, in tax years ending after such date and to property placed in service by the taxpayer on or before November 5, 1983, if the use by the tax-exempt entity is pursuant to a lease entered into after November 5, 1983.

For special rules, see Act Sec. 31(g) in the amendment notes for Code Sec. 168(j).

P.L. 98-369, § 474(o)(3)(A)-(B):

Act Sec. 474(o)(3)(A) amended Code Sec. 46(e)(1) by striking out "and the $25,000 amount specified under subparagraphs (A) and (B) of subsection (a)(3)", and by striking out "such items" and inserting in lieu thereof "such qualified investment".

Act Sec. 474(o)(3)(B) amended Code Sec. 46(e)(2) by striking out "the items described therein" and inserting in lieu thereof "qualified investment".

The above amendments apply to tax years beginning after December 31, 1983, and to carrybacks from such years, but shall not be construed as reducing the amount of any credit allowable for qualified investment in taxable years beginning before January 1, 1984.

P.L. 97-354, § 5(a)(6):

Amended Code Sec. 46(e)(3) by striking out "an electing small business corporation (as defined in section 1371)" and inserting in lieu thereof "an S corporation".

Applicable to tax years beginning after December 31, 1982.

P.L. 97-34, § 211(d):

Amended Code Sec. 46(e)(3) by adding the last sentence at the end thereof. Applicable to leases entered into after June 25, 1981.

P.L. 96-222, § 103(a)(4)(A):

Amended Code Sec. 46(e)(3) by adding a new sentence at the end of the paragraph to read as above, effective for taxable years ending after October 31, 1978.

P.L. 95-600, § 316(b)(1), (c):

Amended Code Sec. 46(e)(1) to read as above, effective for tax years ending after October 31, 1978. Before amendment such section read:

"(1) IN GENERAL.—In the case of—

(A) an organization to which section 593 applies,

(B) a regulated investment company or a real estate investment trust subject to taxation under subchapter M (sec. 851 and following), and

(C) a cooperative organization described in section 1381(a),

the qualified investment and the $25,000 amount specified under subparagraphs (A) and (B) of subsection (a)(3) shall equal such person's ratable share of such items."

P.L. 95-600, § 316(b)(2), (c):

Amended Code Sec. 46(e)(2) to read as above, effective for tax years ending after October 31, 1978. Before amendment such section read:

"(2) RATABLE SHARE.—For purposes of paragraph (1), the ratable share of any person for any taxable year of the items described therein shall be—

(A) in the case of an organization referred to in paragraph (1)(A), 50 percent thereof,

(B) in the case of a regulated investment company or a real estate investment trust, the ratio (i) the numerator of which is its taxable income and (ii) the denominator of which is its taxable income computed without regard to the deduction for dividends paid provided by section 852(b)(2)(D) or 857(b)(2)(B), as the case may be, and

(C) in the case of a cooperative organization, the ratio (i) the numerator of which is its taxable income and (ii) the denominator of which is its taxable income increased by amounts to which section 1382(b) or (c) applies and similar amounts the tax treatment of which is determined without regard to subchapter T (sec. 1381 and following).

For purposes of subparagraph (B) of the preceding sentence, the term "taxable income" means in the case of a regulated investment company its investment company taxable income (within the meaning of section 852(b)(2)), and in the case of a real estate investment trust its real estate investment trust taxable income (within the meaning of section 857(b)(2)) determined without regard to any deduction for capital gains dividends (as defined in section 857(b)(3)(C)) and by excluding any net capital gain."

P.L. 94-455, § § 802(b)(4), 1607(b)(1)(B):

P.L. 94-455, § 802(b)(4) substituted "subsection (a)(3)" for "subsection (a)(2)" in paragraph (1) of Code Sec. 46(e), effective for taxable years beginning after December 31, 1975.

P.L. 94-455, § 1607(b)(1)(B) amended Code Sec. 46(e)(2) by substituting "857(b)(2)(B)" for "857(b)(2)(C)" in subparagraph (B); and by inserting "determined without regard to any deduction for capital gains dividends (as defined in section 857(b)(3)(C)) and by excluding any net capital gain" immediately before the period at the end of the last sentence. The amendments apply to taxable years ending after October 4, 1976, except that in the case of a taxpayer which has a net operating loss (as defined in Code Sec. 172(c)) for any taxable year ending after October 4, 1976, for which the provisions of part II of subchapter M of chapter 1 of subtitle A of the Code apply to such taxpayer, such loss shall not be a net operating loss carryback under Code Sec. 172 to any taxable year ending on or before October 4, 1976.

P.L. 94-12, § 302(a):

Redesignated Sec. 46(d) as 46(e).

P.L. 92-178, § 108(a):

Added paragraph (3) to Code Sec. 46(d). Applicable to leases entered into after September 22, 1971.

[Sec. 46(f)]

(f) LIMITATION IN CASE OF CERTAIN REGULATED COMPANIES.—

(1) GENERAL RULE.—Except as otherwise provided in this subsection, no credit determined under subsection (a) shall be allowed by section 38 with respect to any property described in section 50 (as in effect before its repeal by the Revenue Act of 1978) which is public utility property (as defined in paragraph (5)) of the taxpayer—

(A) COST OF SERVICE REDUCTION.—If the taxpayer's cost of service for ratemaking purposes is reduced by reason of any portion of the credit determined under subsection (a) and allowable by section 38 (determined without regard to this subsection); or

(B) RATE BASE REDUCTION.—If the base to which the taxpayer's rate of return for ratemaking purposes is applied is reduced by reason of any portion of the credit determined under subsection (a) and allowable by section 38 (determined without regard to this subsection).

Subparagraph (B) shall not apply if the reduction in the rate base is restored not less rapidly than ratably. If the taxpayer makes an election under this sentence within 90 days after the date of the enactment of this paragraph in the manner prescribed by the Secretary, the immediately preceding sentence shall not apply to property described in paragraph (5)(B) if any agency or instrumentality of the United States having jurisdiction for ratemaking purposes with respect to such taxpayer's trade or business referred to in paragraph (5)(B) determines that the natural domestic supply of the product furnished by the taxpayer in the course of such trade or business is insufficient to meet the present and future requirements of the domestic economy.

(2) SPECIAL RULE FOR RATABLE FLOW-THROUGH.—If the taxpayer makes an election under this paragraph within 90 days after the date of the enactment of this paragraph in the manner prescribed by the Secretary, paragraph (1) shall not apply, but no credit determined under subsection (a) shall be allowed by section 38 with respect to any property described in section 50 (as in effect before its repeal by the Revenue Act of 1978) which is public utility property (as defined in paragraph (5)) of the taxpayer—

(A) COST OF SERVICE REDUCTION.—If the taxpayer's cost of service for ratemaking purposes or in its regulated books of account is reduced by more than a ratable portion of the credit determined under subsection (a) and allowable by section 38 (determined without regard to this subsection), or

(B) RATE BASE REDUCTION.—If the base to which the taxpayer's rate of return for ratemaking purposes is applied is reduced by reason of any portion of the credit determined under subsection (a) and allowable by section 38 (determined without regard to this subsection).

(3) SPECIAL RULE FOR IMMEDIATE FLOW-THROUGH IN CERTAIN CASES.—In the case of property to which section 167(l)(2)(C) applies, if the taxpayer makes an election under this paragraph within 90 days after the date of the enactment of this paragraph in the manner prescribed by the Secretary, paragraphs (1) and (2) shall not apply to such property.

(4) LIMITATION.—

(A) IN GENERAL.—The requirements of paragraphs (1), (2), and (9) regarding cost of service and rate base adjustments shall not be applied to public utility property of the taxpayer to disallow the credit with respect to such property before the first final determination which is inconsistent with paragraph (1), (2), or (9) (as the case may be) is put into effect with respect to public utility property (to which this subsection applies) of the taxpayer. Thereupon, paragraph (1), (2), or (9) shall apply to disallow the credit with respect to public utility property (to which this subsection applies) placed in service by the taxpayer—

(i) before the date that the first final determination, or a subsequent determination, which is inconsistent with paragraph (1), (2), or (9) (as the case may be) is put into effect, and

(ii) on or after the date that a determination referred to in clause (i) is put into effect and before the date that a subsequent determination thereafter which is consistent with paragraph (1), (2), or (9) (as the case may be) is put into effect.

(B) DETERMINATIONS.—For purposes of this paragraph, a determination is a determination made with respect to public utility property (to which this subsection applies) by a governmental unit, agency, instrumentality, or commission or similar body described in subsection (c)(3)(B) which determines the effect of the credit determined under subsection (a) and allowed by section 38 (determined without regard to this subsection)—

(i) on the taxpayer's cost of service or rate base for ratemaking purposes, or

(ii) in the case of a taxpayer which made an election under paragraph (2) or the election described in paragraph (9), on the taxpayer's cost of service for ratemaking purposes or in its regulated books of account or rate base for ratemaking purposes.

(C) SPECIAL RULES.—For purposes of this paragraph—

(i) a determination is final if all rights to appeal or to request a review, a rehearing, or a redetermination, have been exhausted or have lapsed,

(ii) the first final determination is the first final determination made after the date of the enactment of this subsection, and

(iii) a subsequent determination is a determination subsequent to a final determination.

(5) PUBLIC UTILITY PROPERTY.—For purposes of this subsection, the term "public utility property" means—

(A) property which is public utility property within the meaning of subsection (c)(3)B), and

(B) property used predominantly in the trade or business of the furnishing or sale of (i) steam through a local distribution system or (ii) the transportation of gas or steam by pipeline, if the rates for such furnishing or sale are established or approved by a governmental unit, agency, instrumentality, or commission described in subsection (c)(3)(B).

(6) RATABLE PORTION.—For purposes of determining ratable restorations to base under paragraph (1) and for purposes of determining ratable portions under paragraph (2)(A), the period of time used in computing depreciation expense for purposes of reflecting operating results in the taxpayer's regulated books of account shall be used.

(7) REORGANIZATIONS, ASSETS ACQUISITIONS, ETC.—If by reason of a corporate reorganization, by reason of any other acquisition of the assets of one taxpayer by another taxpayer, by reason of the fact that any trade or business of the taxpayer is subject to ratemaking by more than one body, or by reason of other circumstances, the application of any provisions of this subsection to any public utility property does not carry out the purposes of this subsection, the Secretary shall provide by regulations for the application of such provisions in a manner consistent with the purposes of this subsection.

(8) PROHIBITION OF IMMEDIATE FLOWTHROUGH.—An election made under paragraph (3) shall apply only to the amount of the credit determined under subsection (a) and allowable under section 38 with respect to public utility property (within the meaning of the first sentence of subsection (c)(3)(B)) determined as if the Tax Reduction Act of 1975, the Tax Reform Act of 1976, the Energy Act of 1978, and the Revenue Act of 1978 had not been enacted. Any taxpayer who had timely made an election under paragraph (3) may, at his own option and without regard to any requirement imposed by an agency described in subsection (c)(3)(B), elect within 90 days after the date of the enactment of the Tax Reduction Act of 1975 (in such manner as the Secretary shall prescribe) to have the provisions of paragraph (3) apply with respect to the amount of the credit determined under subsection (a) and allowable under section 38 with respect to such property which is in excess of the amount determined under the preceding sentence. If such taxpayer does not make such an election, paragraph (1) or (2) (whichever paragraph is applicable without regard to this paragraph) shall apply to such excess credit, except that if neither paragraph (1) nor (2) is applicable (without regard to this paragraph), paragraph (1) shall apply unless the taxpayer elects (in such manner as the Secretary shall prescribe) within 90 days after the date of the enactment of the Tax Reduction Act of 1975 to have the provisions of paragraph (2) apply. The provisions of this paragraph shall not be

26 U.S.C.A. § 50

I.R.C. § 50

Effective: December 21, 2005

United States Code Annotated Currentness
Title 26. Internal Revenue Code (Refs & Annos)
Subtitle A. Income Taxes (Refs & Annos)
Chapter 1. Normal Taxes and Surtaxes (Refs & Annos)
Subchapter A. Determination of Tax Liability (Refs & Annos)
Part IV. Credits Against Tax (Refs & Annos)
Subpart E. Rules for Computing Investment Credit

§ 50. Other special rules

(a) Recapture in case of dispositions, etc.--Under regulations prescribed by the Secretary--

(1) Early disposition, etc.--

(A) General rule.--If, during any taxable year, investment credit property is disposed of, or otherwise ceases to be investment credit property with respect to the taxpayer, before the close of the recapture period, then the tax under this chapter for such taxable year shall be increased by the recapture percentage of the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted solely from reducing to zero any credit determined under this subpart with respect to such property.

(B) Recapture percentage.--For purposes of subparagraph (A), the recapture percentage shall be determined in accordance with the following table:

If the property ceases to be investment credit property within--	The recapture percentage is:
(i) One full year after placed in service	100
(ii) One full year after the close of the period described in clause (i)	80
(iii) One full year after the close of the period described in clause (ii)	60
(iv) One full year after the close of the period described in clause (iii)	40
(v) One full year after the close of the period described in clause (iv)	20

(2) Property ceases to qualify for progress expenditures.--

(A) In general.--If during any taxable year any building to which section 47(d) applied ceases (by reason of sale or other disposition, cancellation or abandonment of contract, or otherwise) to be, with respect to the taxpayer, property which, when placed in service, will be a qualified rehabilitated building, then the tax under this chapter for such taxable year shall be increased by an amount equal to the aggregate decrease in the credits allowed under section 38 for all prior taxable years which would have resulted solely from reducing to zero the credit determined under this subpart with

respect to such building.

(B) Certain excess credit recaptured.--Any amount which would have been applied as a reduction under paragraph (2) of section 47(b) but for the fact that a reduction under such paragraph cannot reduce the amount taken into account under section 47(b)(1) below zero shall be treated as an amount required to be recaptured under subparagraph (A) for the taxable year during which the building is placed in service.

(C) Certain sales and leasebacks.--Under regulations prescribed by the Secretary, a sale by, and leaseback to, a taxpayer who, when the property is placed in service, will be a lessee to whom the rules referred to in subsection (d)(5) apply shall not be treated as a cessation described in subparagraph (A) to the extent that the amount which will be passed through to the lessee under such rules with respect to such property is not less than the qualified rehabilitation expenditures properly taken into account by the lessee under section 47(d) with respect to such property.

(D) Coordination with paragraph (1).--If, after property is placed in service, there is a disposition or other cessation described in paragraph (1), then paragraph (1) shall be applied as if any credit which was allowable by reason of section 47(d) and which has not been required to be recaptured before such disposition, cessation, or change in use were allowable for the taxable year the property was placed in service.

(E) Special rules.--Rules similar to the rules of this paragraph shall apply in cases where qualified progress expenditures were taken into account under the rules referred to in section 48(b).

(3) Carrybacks and carryovers adjusted.--In the case of any cessation described in paragraph (1) or (2), the carrybacks and carryovers under section 39 shall be adjusted by reason of such cessation.

(4) Subsection not to apply in certain cases.--Paragraphs (1) and (2) shall not apply to--

(A) a transfer by reason of death, or

(B) a transaction to which section 381(a) applies.

For purposes of this subsection, property shall not be treated as ceasing to be investment credit property with respect to the taxpayer by reason of a mere change in the form of conducting the trade or business so long as the property is retained in such trade or business as investment credit property and the taxpayer retains a substantial interest in such trade or business.

(5) Definitions and special rules.--

(A) Investment credit property.--For purposes of this subsection, the term "investment credit property" means any property eligible for a credit determined under this subpart.

(B) Transfer between spouses or incident to divorce.--In the case of any transfer described in subsection (a) of section 1041--

(i) the foregoing provisions of this subsection shall not apply, and

(ii) the same tax treatment under this subsection with respect to the transferred property shall apply to the transferee as would have applied to the transferor.

(C) Special rule.--Any increase in tax under paragraph (1) or (2) shall not be treated as tax imposed by this chapter for purposes of determining the amount of any credit allowable under this chapter.

(b) Certain property not eligible.--No credit shall be determined under this subpart with respect to--

(1) Property used outside United States.--

26 U.S.C.A. § 50

(A) In general.--Except as provided in subparagraph (B), no credit shall be determined under this subpart with respect to any property which is used predominantly outside the United States.

(B) Exceptions.--Subparagraph (A) shall not apply to any property described in section 168(g)(4).

(2) Property used for lodging.--No credit shall be determined under this subpart with respect to any property which is used predominantly to furnish lodging or in connection with the furnishing of lodging. The preceding sentence shall not apply to--

(A) nonlodging commercial facilities which are available to persons not using the lodging facilities on the same basis as they are available to persons using the lodging facilities. [FN1]

(B) property used by a hotel or motel in connection with the trade or business of furnishing lodging where the predominant portion of the accommodations is used by transients;

(C) a certified historic structure to the extent of that portion of the basis which is attributable to qualified rehabilitation expenditures; and

(D) any energy property.

(3) Property used by certain tax-exempt organization.--No credit shall be determined under this subpart with respect to any property used by an organization (other than a cooperative described in section 521) which is exempt from the tax imposed by this chapter unless such property is used predominantly in an unrelated trade or business the income of which is subject to tax under section 511. If the property is debt-financed property (as defined in section 514(b)), the amount taken into account for purposes of determining the amount of the credit under this subpart with respect to such property shall be that percentage of the amount (which but for this paragraph would be so taken into account) which is the same percentage as is used under section 514(a), for the year the property is placed in service, in computing the amount of gross income to be taken into account during such taxable year with respect to such property. If any qualified rehabilitated building is used by the tax-exempt organization pursuant to a lease, this paragraph shall not apply for purposes of determining the amount of the rehabilitation credit.

(4) Property used by governmental units or foreign persons or entities.--

(A) In general.--No credit shall be determined under this subpart with respect to any property used--

(i) by the United States, any State or political subdivision thereof, any possession of the United States, or any agency or instrumentality of any of the foregoing, or

(ii) by any foreign person or entity (as defined in section 168(h)(2)(C)), but only with respect to property to which section 168(h)(2)(A)(iii) applies (determined after the application of section 168(h)(2)(B)).

(B) Exception for short-term leases.--This paragraph and paragraph (3) shall not apply to any property by reason of use under a lease with a term of less than 6 months (determined under section 168(i)(3)).

(C) Exception for qualified rehabilitated buildings leased to governments, etc.--If any qualified rehabilitated building is leased to a governmental unit (or a foreign person or entity) this paragraph shall not apply for purposes of determining the rehabilitation credit with respect to such building.

(D) Special rules for partnerships, etc.--For purposes of this paragraph and paragraph (3), rules similar to the rules of paragraphs (5) and (6) of section 168(h) shall apply.

(E) Cross reference.--

For special rules for the application of this paragraph and paragraph (3), see section 168(h).

26 U.S.C.A. § 50

(c) Basis adjustment to investment credit property.--

(1) In general.--For purposes of this subtitle, if a credit is determined under this subpart with respect to any property, the basis of such property shall be reduced by the amount of the credit so determined.

(2) Certain dispositions.--If during any taxable year there is a recapture amount determined with respect to any property the basis of which was reduced under paragraph (1), the basis of such property (immediately before the event resulting in such recapture) shall be increased by an amount equal to such recapture amount. For purposes of the preceding sentence, the term "recapture amount" means any increase in tax (or adjustment in carrybacks or carryovers) determined under subsection (a).

(3) Special rule.--In the case of any energy credit--

(A) only 50 percent of such credit shall be taken into account under paragraph (1), and

(B) only 50 percent of any recapture amount attributable to such credit shall be taken into account under paragraph (2).

(4) Recapture of reductions.--

(A) In general.--For purposes of sections 1245 and 1250, any reduction under this subsection shall be treated as a deduction allowed for depreciation.

(B) Special rule for section 1250.--For purposes of section 1250(b), the determination of what would have been the depreciation adjustments under the straight line method shall be made as if there had been no reduction under this section.

(5) Adjustment in basis of interest in partnership or S corporation.--The adjusted basis of--

(A) a partner's interest in a partnership, and

(B) stock in an S corporation,

shall be appropriately adjusted to take into account adjustments made under this subsection in the basis of property held by the partnership or S corporation (as the case may be).

(d) Certain rules made applicable.--For purposes of this subpart, rules similar to the rules of the following provisions (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990) shall apply:

(1) Section 46(e) (relating to limitations with respect to certain persons).

(2) Section 46(f) (relating to limitation in case of certain regulated companies).

(3) Section 46(h) (relating to special rules for cooperatives).

(4) Paragraphs (2) and (3) of section 48(b) (relating to special rule for sale-leasebacks).

(5) Section 48(d) (relating to certain leased property).

(6) Section 48(f) (relating to estates and trusts).

(7) Section 48(r) (relating to certain 501(d) organizations).

Paragraphs (1)(A), (2)(A), and (4) of the section 46(e) referred to in paragraph (1) of this subsection shall not apply to any taxable year beginning after December 31, 1995.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to First Data Request of Commission Staff
Dated June 12, 2007

Case No. 2007-00179

Question No. 3

Witness: Ronald L. Miller

Q-3. Refer to the Application, page 6. Provide the accounting entries LG&E recorded on its books in December 2006 concerning the progress expenditure credits claimed in 2006.

A-3. Please see the attachment.

LOUISVILLE GAS A' 'CTRIC COMPANY

Template Type:	Functional Journal
Template Style:	Single Journal Entry
Set of Books:	LGE ENERGY LLC
Database:	ofmsprod

Category	List - Text	**Adjustment**
Source	List - Text	**Spreadsheet**
Currency	List - Text	**USD**
Accounting Date	List - Date	**12/1/2006**
Group ID	Value	**10793**
Batch Name	Text	**JKF**
Journal Name	Text	**J409-0100-1206**
Journal Description	Text	**Record 2006 ITC for TC2 project**
Reverse Journal	List - Text	
Reversal Period	List - Text	

Upl	COMPANY	PRODUCT	ORGANIZATION	EXPENDITURE_ORG	ACCOUNT	INTERCOMPANY	EXPENDITURE_TYPE	LOCATION	Debit	Credit	Stat Amount	Description	Line DFF Context	Line DFF 1	Line DFF 2
	List - Text								Value	Value	Value	Text	Text	Text	Text
P	0100	701	006250	006250	236011	0000	0699	0000	3,000,000.00			Corporation Current Fed. Tax-Operating	No		
P	0100	301	006250	006250	255002	0000	0699	0000		3,000,000.00		Investment Tax Credit-Electric Job Dev Credit	No		
									3,000,000.00	3,000,000.00					

Description: Record 2006 ITC for TC2 project

Prepared By: [signature]

Upload/concurrent ID: 855 [illegible]

Approved By: [signature]

Posted By: [signature]

Posted/Concurrent ID: [signature] 51 43 7

Attachment to Question No. 3
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Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

Template Type:	Functional Journal
Template Style:	Single Journal Entry
Set of Books:	LGE ENERGY LLC
Database:	ofmsprod

Category	List - Text: Adjustment
Source	List - Text: Spreadsheet
Currency	List - Text: USD
Accounting Date	List - Date: 12/1/2006
Group ID	Value: 10793
Batch Name	Text: JKF
Journal Name	Text: J413-0100-1206
Journal Description	Text: Record 2006 ITC for TC2 project
Reverse Journal	List - Text:
Reversal Period	List - Text:

Upl	COMPANY	PRODUCT	ORGANIZATION	EXPENDITURE_ORG	ACCOUNT	INTERCOMPANY	EXPENDITURE_TYPE	LOCATION	Debit	Credit	Stat Amount	Description	Line DFF Context	Line DFF 1	Line DFF 2
	List - Text								Value	Value	Value	Text	Text	Text	Text
	0100	113	006250	006250	409101	0000	0699	0000		3,000,000.00		Fed. Income Taxes-Electric	No		
	0100	113	006250	006250	411401	0000	0699	0000	3,000,000.00			ITC Deferred	No		
									3,000,000.00	3,000,000.00					

Description: Record 2006 ITC for TC2 project.

Prepared By: Jay Fish
Upload/concurrent ID: 8673680

Approved By: JW JWF

Posted By: JW
Posted/Concurrent ID: 8673732

Previously recorded the debit to Current Taxes Payable and credit to Acc. Investment Tax Credit. This entry records the income statement portion of that entry. Reduces current tax expense for ITC for TC2 and debits investment tax credit expense.

Attachment to Question No. 3
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Miller

LOUISVILLE GAS AND ELECTRIC COMPANY

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Question No. 4

Witness: Ronald L. Miller

Q-4. Refer to the Application, Exhibit 5. Page 2 of the "Department of Treasury – Internal Revenue Service Closing Agreement" describes situations where the 2005 EPA ITC could be forfeited or reduced. For each scenario listed below, provide the accounting entries LG&E would have to undertake and describe why these entries would be necessary.

a. Assume that by November 29, 2008 LG&E fails to satisfy any of the certification requirements in § 48A(e)(2) or if the IRS does not issue a certification for Trimble County Unit 2 under Notice 2006-24.

b. Assume that by October 27, 2011 the Trimble County Unit 2 is not placed in service by LG&E.

c. Assume that the total nameplate generating capacity of the Trimble County Unit 2 on the date it is placed into service is 700 megawatts.

A-4. a. If LG&E fails to satisfy any of the certification requirements in § 48A(e)(2) or if the IRS does not issue a certification for Trimble County Unit 2 under Notice 2006-24, the LG&E portion of the $125 million allocation is fully forfeited. The journal entries that had recorded the 2005 EPA ITC would be reversed as follows:

Debit FERC Account No. 409 Federal Income Tax Expense
Credit FERC Account No. 236 Taxes Accrued

Debit FERC Account No. 255 Accumulated Deferred Investment Tax Credit
Credit FERC Account No. 411.4 Investment Tax Credit Adjustments

The dollar amounts of these entries will be the cumulative tax credit resulting from progress expenditures claimed since July 1, 2006. As of December 31, 2006, LG&E had claimed $3 million in investment tax credit based on progress expenditures incurred.

b. If LG&E does not place the project into service within 5 years of the date of issuance of certification, the LG&E portion of the $125 million allocation is fully forfeited. The journal entries that had recorded the 2005 EPA ITC would be reversed as follows:

Debit FERC Account No. 409 Federal Income Tax Expense
Credit FERC Account No. 236 Taxes Accrued

Debit FERC Account No. 255 Accumulated Deferred Investment Tax Credit
Credit FERC Account No. 411.4 Investment Tax Credit Adjustments

The dollar amounts of these entries will be the cumulative tax credit resulting from progress expenditures claimed since July 1, 2006. As of December 31, 2006, LG&E claimed $3 million in investment tax credit based on progress expenditures incurred.

c. If, on the date the Project is placed in service, the Project does not have a total nameplate generating capacity (that is, the aggregate of the numbers stamped on the nameplate of each steam turbine generator used in the Project) of at least 833.6 gross megawatts, the LG&E portion of the $125 million qualifying advanced coal project credit would be reduced proportionately. The journal entries follow (in millions of $):

Debit FERC Account No. 409 Federal Income Tax Expense	$3.8	
Credit FERC Account No. 236 Taxes Accrued		$3.8

Debit FERC Account No. 255 Accumulated Deferred ITC	$3.8	
Credit FERC Account No. 411.4 ITC Adjustments		$3.8

Assuming at the end of the project the gross nameplate rating is only 700 megawatts, the LG&E portion of the credit is expected to be reduced by $3.8 million, calculated as follows (in millions of $):

(1) Assumed nameplate rating in megawatts	700.0
(2) Filed nameplate rating in megawatts	833.6
(3) Prorated % (Line 1 divided by Line 2)	84%
(4) 2005 EPA ITC allocated	$125
(5) Prorated allocation (Line 3 times Line 4)	$105
(6) Disallowed credit (Line 4 less Line 5)	$20
(7) LG&E portion of the credit	19%
(8) LG&E disallowed credit (Line 6 times Line 7)	$3.8

Note: The amortization of the 2005 EPA ITC will not begin until the project goes into service consistent with the depreciation of the underlying asset. No amortization would have begun in scenarios a, b or c above; therefore, no adjusting amortization entries are required.

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Question No. 5

Witness: Kent W. Blake

Q-5. Refer to the Direct Testimony of Kent W. Blake ("Blake Testimony"), pages 3 through 6. Provide a chart that compares and contrasts the features and requirements of the "ratable flow through" method with the "ratable restoration" method.

A-5. Please see the attachment.

Company

Comparison of Ratable Restoration and Ratable Flow-through Methods on Utility Accounting and Ratemaking

Utility	LG&E	KU
US Code	26 USC Section 46(f)(2)	26 USC Section 46(f)(1)
Method	Ratable Flow-through Method	Ratable Restoration Method
Capitalization*	No Impact	Unamortized balance of ITC reduces rate base and thus capitalization (see cols 5 & 6, Exhibit KWB-1)
Rate Base	No Impact	Unamortized balance of ITC reduces rate base (see cols 5 & 6, Exhibit KWB-1)
ITC Amortization	Reduces cost of service (see cols 5-7, Exhibit KWB-1); amortization credit is grossed up for income taxes to provide full benefit to customers	Reduces the unamortized ITC balance & impacts the reduction to rate base (see cols 11-13 of Exhibit KWB-1)
Income tax expense	Lower tax basis leads to lower depreciation deduction and increases current income tax expense (see cols 10-11, Exhibit KWB-1)	Lower tax basis leads to lower depreciation deduction and increases current income tax expense (see cols 9-10, Exhibit KWB-1)

* Capitalization reflects the cost of new plant as reduced by the impact of the ITC. In a rate case, LG&E's per books capitalization is adjusted (increased) by the unamortized 2005 EPA ITC balance; KU's capitalization is not adjusted. This treatment balances capitalization and rate base.

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Question No. 6

Witness: Kent W. Blake

Q-6. Refer to the Blake Testimony, page 9. Explain in detail why LG&E is requesting that the Commission declare at this time that the proposed rate base and capitalization treatments of the 2005 EPA ITC and the proposed allocation of electric rate base to be the appropriate rate-making methods for the determination of base rates.

A-6. LG&E is requesting that the Commission declare at this time that the proposed rate base and capitalization treatments of the 2005 EPA ITC and the proposed allocation of electric rate base to be the appropriate rate-making methods for the determination of base rates to ensure that no double counting of the credit arises from the recognition of the 2005 EPA ITC in both the environmental surcharge and base rates. The receipt of the 2005 EPA ITC impacts both LG&E's Environmental Cost Recovery ("ECR") surcharge mechanism and base rates. The ratemaking treatment for which LG&E is seeking Commission approval is related to both the ECR and to future base rate treatment. Decisions made and applied to the ECR also impact base rates and capitalization due to the adjustments made to remove from base rates all impacts of the ECR. LG&E's proposal to exclude the ECR rate base from electric-only rate base, and to determine the percentage of electric rate base (excluding ECR) to total company rate base when allocating capitalization in its next electric base rate case provides consistent treatment of the credit between base rates and the ECR. It also provides important certainty about the ratemaking implementation of LG&E's 26 U.S.C. § 46(f)(2) election and thus reduces the risk that LG&E could lose the credit due to inconsistent ratemaking treatment. Since the ECR revenue requirement is derived by the rate base methodology, this proposal provides consistency between electric-only rate base and electric-only capitalization, as well as ensuring that the entire ECR rate base is excluded from the determination of base rates. LG&E believes that proper ratemaking treatment for issues that impact both the ECR and base rates should be determined concurrently to ensure consistent ratemaking treatment across both mechanisms; to ensure there is no double under- or over- recovery between the operation of the ECR and electric base rates going forward; and to establish essential certainty about the ratemaking implementation of LG&E's investment tax credits required by federal law and long-recognized by the Commission.

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Question No. 7

Witness: Kent W. Blake

Q-7. Refer to the Blake Testimony, Exhibit KWB-1. Assume for purposes of this question that the Commission approves LG&E's request to reflect the applicable portion of the 2005 EPA ITC in the environmental surcharge. Based upon a review of Exhibit KWB-1, it appears that the 2005 EPA ITC would be included in the environmental surcharge calculations in 2010, when Trimble County Unit 2 is expected to be placed into service. Indicate when the 2005 EPA ITC would begin affecting the monthly environmental surcharge calculations.

A-7. LG&E will begin reporting the unamortized balance of the 2005 EPA ITC on ES Form 2.10 for the first expense month following the issuance of a final Commission Order in this proceeding. LG&E will include the amortization of the ITC, as a reduction to the monthly ECR revenue requirement on ES Form 2.00, in the expense month filing corresponding to the month in which Trimble County Unit 2 goes into service.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to First Data Request of Commission Staff
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Case No. 2007-00179

Question No. 8

Witness: Ronald L. Miller

Q-8. Refer to the Direct Testimony of Ronald L. Miller, pages 8 and 9. Has LG&E sought an opinion from its independent auditor or independent tax counsel concerning the appropriate normalization of the 2005 EPA ITC?

a. If yes, provide copies of the independent auditor's or independent tax counsel opinion.

b. If no, explain why LG&E did not seek such an opinion.

A-8. a. LG&E discussed with its independent tax counsel (James I. Warren, Member, Thelen Reid Brown Raysman & Steiner LLP) the appropriate normalization of the 2005 EPA ITC and was told it should follow its prior election concerning the appropriate normalization. LG&E also discussed the matter with its independent auditor (PriceWaterhouse Coopers) on an informational basis and was told that PriceWaterhouse Coopers had no objection to the proposed treatment.

b. Based on these discussions LG&E believed that a formal opinion concerning the appropriate normalization was not necessary. If, however, a formal written opinion from LG&E's independent tax counsel is required for the final disposition of this proceeding, LG&E will request such an opinion and file it with the Commission in this record.