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PUBLIC SERVICE COMMISSION

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June 29, 2007

RE: ***APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR A NEW TARIFF-BROWNFIELD DEVELOPMENT RIDER***

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and five (5) copies of the Response of Louisville Gas and Electric Company and Kentucky Utilities Company to the First Data Request of Commission Staff dated June 15, 2007, in the above-referenced matter.

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

Sincerely,

F. Howard Bush / LBH

F. Howard Bush

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR A NEW TARIFF-BROWNFIELD DEVELOPMENT RIDER	))))	CASE NO. 2007-00192

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY
TO THE FIRST DATA REQUEST OF COMMISSION STAFF
DATED JUNE 15, 2007

FILED: JUNE 29, 2007

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, F. Howard Bush Jr., being duly sworn, deposes and says that he is Manager of Tariffs and Special Contracts 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, 6, 7, 8, 9, 10, 11, and 12), and the answers contained therein are true and correct to the best of his information, knowledge and belief.

F Howard Bush Jr
F. Howard Bush Jr.

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of June, 2007.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, J. Scott Cooke, being duly sworn, deposes and says that he is Manager of Generation Planning for E.ON U.S. Services, Inc., that he has personal knowledge of the matters set forth in the responses (Question No. 5), and the answers contained therein are true and correct to the best of his information, knowledge and belief.

J Scott Cooke
J. Scott Cooke

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of June, 2007.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
Dated June 15, 2007

Case No. 2007-00192

Question No. 1

Witness: F. Howard Bush, Jr.

Q-1. In preparing their proposed tariff riders, did LG&E and KU review the Commission's September 24, 1990 Order in Administrative Case No. 327 ("Admin. 327")?1 Explain the response in detail.

A-1. Yes, the Order in Admin. 327 was reviewed. The Companies also reviewed the Commission's Order in Case No. 2004-00253, where Union Light Heat & Power filed for approval of economic development programs.

**LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY**

**Response to First Data Request of Commission Staff
Dated June 15, 2007**

Case No. 2007-00192

Question No. 2

Witness: F. Howard Bush, Jr.

Q-2. In Admin. 327, LG&E contended that economic development rates ("EDRs") should not only recover all customer and variable costs, but should also contribute to system fixed costs.[2] Several parties to Admin. 327 argued that EDRs should be negotiated and offered through special contracts and that "circumstances to be encountered in implementing an EDR are too diverse in nature to be covered by a general tariff."[3] The Commission ordered that EDRs should be implemented only by special contracts.[4]

a. Explain in detail why LG&E and KU believe it is appropriate to have EDR tariffs. Describe any circumstances that have changed since Admin. 327 which support having an EDR tariff.

b. Explain in detail why LG&E and KU have requested approval of EDR tariffs when the Commission in Admin. 327 ordered that EDRs would be implemented only by special contract.

c. Explain why LG&E's and KU's application did not address their proposed departure from the Commission's findings in Admin. 327.

A-2. a. The Companies proposed Brownfield Development Rider certainly can be classified as EDR but only within a very narrow application. The definition of EDRs set forth in Admin. 327 is a discounted rate "...intended to stimulate the creation of new jobs and capital investment both by encouraging existing customers to expand their operations and by improving the likelihood that new large and industrial customers will locate in Kentucky." The proposed tariffs are not applicable to existing customers and the intent of the rate discount is that of an incentive to encourage the location of the new customer not just in Kentucky but in Kentucky at a site where the rate discount may serve to at least partially off-set the customer's cost of reclamation. The proposed tariffs provide a short term discount not only to draw the prospective customer to Kentucky but to encourage that customer's decision to locate at an existing site requiring environmental reclamation. Because of its restriction to sites meeting the State of Kentucky's inventory of "brownfield" sites with existing facilities, the Companies view the proposed Brownfield Development Rider as a companion to their recently approved Green Energy Riders. In particular, encouraging customers to locate at "brownfield" sites will provide environmental benefits in Kentucky by fostering reclamation or remediation efforts. With increased emphasis on ecological responsibility and the Commission's approval of a similar tariff in Case No. 2004-00253, the Companies believe there is support for the Brownfield Development Rider.

b. & c. As noted above and in the response to Q1, the Companies were following the precedent set in Case No. 2004-00253. That having been said the Companies would have preferred to have designed the Brownfield Development Rider as a tariff not requiring a special contract to lessen the administrative burden on both its own staff and the Commission. Because the Brownfield Development Rider specifies the nature of the discount applied in a consistent manner to any customer qualifying for it, the Companies do not believe their filing as special contracts is necessary. However, the proposed Brownfield Development Rider requires that "Service will be furnished under the applicable standard rate schedule and this rider, filed as a special contract with the Public Service Commission of Kentucky...." Should the Commission decide this is an unnecessary requirement, then the Companies would be willing to remove that language from the proposed tariff. In addition, the Companies believe that having a Brownfields tariff on file with the Commission allows potential customers within and outside of Kentucky to be aware of incentives that may be available for future development. Without such publicly-available information, potential customers for electric service within the Companies' service territories may eliminate these areas from consideration before the Companies might even be aware of the potential opportunity. The Commission noted in its Order of April 19, 2005 approving the ULH&P BR tariff that the Commission's guidelines from Administrative Case No. 327 were developed many years ago. Noting the significant changes in the regional wholesale electric power markets, the Commission found that ULH&P's approach (nearly identical to that proposed here) was consistent with the Commission's guidelines in Administrative Case No. 327. For these reasons, the Companies do not believe the proposed Brownfield Development Rider service through a filed special contract departs from the Commission's findings in Admin. 327.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
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Case No. 2007-00192

Question No. 3

Witness: F. Howard Bush, Jr.

Q-3. Each of the proposed EDR tariffs indicates that customers will enter into service agreements with LG&E and KU.

a. As used in the proposed tariffs, does the term "service agreement" have the same meaning as the term "special contract"? Explain the response.

b. Do LG&E and KU propose to submit their service agreements to the Commission for review and approval?

c. Explain whether the service agreements referred to in the proposed tariffs will conform to the findings in the September 24, 1990 Order in Admin. 327.

d. Provide the draft service agreements LG&E and KU anticipate utilizing for each of the proposed EDR tariffs. Identify the sections of the agreements that address the Commission's findings in Admin. 327.

A-3. a. The term "service agreement" does not appear in the proposed tariffs. The Companies would not agree that the meaning of the two terms is the same. For example a "service agreement" is required for customers served under a standard rate schedule where the terms and agreements are specified by the tariff. A "special contract" represents an agreement between the utility and the customer where (i) service is not provided pursuant to a standard rate schedule, or (ii) service is provided under terms and conditions that are materially different from those set forth in a standard rate schedule.

b. Yes, the proposed tariffs note under "**AVAILABILITY OF SERVICE,** Service under this rider is conditional on approval of a special contract for such service filed with and approved by the Public Service Commission of Kentucky." However, as noted in A-2b., the Companies believe this requirement serves no real purpose and are therefore willing to drop this requirement from the tariff.

c. The Commission's findings in Admin. 327 specified service agreements or special contracts that:

- were negotiated between the parties – As noted above, the Companies would prefer for these contracts to be standardized in order to make them easier to administer.
- set out the rate discount – The discount rate is specified by the proposed tariff.
- set out the minimum bill - The minimum bill is specified by the Brownfield Development Rider and the rate to which it is a rider.
- set out the length of the contract - The length of the contract is also specified in the proposed tariff.
- include the customer-specific fixed costs – Since the proposed tariff requires that the facilities to provide service be existing, there will be no additional customer-specific fixed costs.
- include the number of jobs created, the estimated load, the estimated load factor, and the capital investment of the new customer - These items are customers specific and can be included in the individual contracts if the Commission still believes them to be relevant.

The Companies have met or will meet each of these requirements. However, as noted before, the Companies do not strictly view the Brownfield Development Rider as an EDR and therefore submit that the additional requirements of restricting such an offering to times of excess capacity or with a current marginal cost-of-service study and providing reserve margins at the time of each special contract filing should not be required for this kind of a program.

d. Proposed formal service contracts forms have not been written at this time.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
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Case No. 2007-00192

Question No. 4

Witness: F. Howard Bush, Jr.

Q-4. Describe in detail the analysis LG&E and KU plan to undertake to demonstrate to the Commission that the customer classes that are not participating under one of the proposed EDR tariffs would be no worse off than if the EDR tariff was not available. Include in the response a discussion of any risk factors considered by LG&E and KU and how those risks would be shared between shareholders and ratepayers.

A-4. No analysis is required because of the way the proposed tariffs are structured. The discount is intended to only apply to the distribution and customer-specific portion of the demand charge, and not to the production component of demand charge or to other components of the rate. The customer charges are fully recovered as are the variable energy charges and all adders.

The demand charge is roughly 50% generation and transmission and 50% distribution or customer-specific depending on voltage delivery level and the particular delivery point needs. The discount is intended to "forgive" the 50% of the demand charge associated with distribution or customer-specific investment in the first year and begin recovery of the return on the existing investment in increasing amounts through years 4, 3, etc. Because the proposed tariffs require all facilities for service to be existing or idle, serving the customers will not result in any marginal distribution or customer-specific costs. Consequently, there is no marginal fixed-cost burden for non-participating customers to assume. Indeed, to the extent the existing facilities were on the books during the last general rate case and unused, they are already included in base rates for non-participating customers and encouraging their use will relieve non-participating of the further marginal fixed-cost burden in future rate cases.

Similarly, the reasons stated above, which protect non-participating customers, also shield the Companies and ratepayers from risk.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
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Case No. 2007-00192

Question No. 5

Witness: J. Scott Cooke

Q-5. Do LG&E and KU currently have adequate capacity to meet anticipated load growth each year in which an incentive tariff is in effect?

a. Are LG&E and KU in what could be termed a "period of excess capacity" as that term was used in Admin. 327? Explain the response.

b. What are the current reserve margins for LG&E and KU?

A-5. a. As the Companies read the Commission's Order in Admin. 327, "excess capacity" means capacity sufficient to meet the anticipated load with sufficient reserve margin. Although the Companies currently are in a phase where there is a need to construct additional generation facilities, they are able to meet growth plans and reserve margins. The discounts provided by the proposed riders are associated with distribution and customer-specific costs, not generating capacity. As noted in the response to Q4, the discounted demand charge is roughly 50% distribution or customer-specific facilities. Because the proposed rate schedules specify that service must be provided by existing facilities, the rate will only apply in instances where there is sufficient distribution capacity to serve the load.

b. The planned system reserve margin for 2008-2014 is listed in the table below.

	2008	2009	2010	2011	2012	2013	2014
Reserve Margin %	13.1%	11.0%	14.9%	13.0%	11.2%	9.9%	15.8%

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
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Question No. 6

Witness: F. Howard Bush, Jr.

Q-6. The proposed tariff rider is for Brownfield Development ("Rider BR").

a. Does KU's regulated affiliate in Virginia have a similar EDR in effect? Explain the response.

b. Rider BR contains a discount on the demand charge each year for 5 years. Explain in detail the reason(s) for the difference in the types of discounts and periods the discounts are in effect.

c. Explain why the proposed rider does not include provisions for the recovery of EDR customer-specific fixed costs over some period.

d. Rider BR includes a discount on the demand charge that is phased out over a 5-year period. Assume for purposes of this question that a customer applies for Rider BR, but the marginal cost associated with serving that customer exceeds the discounted rate offered. Under these circumstances, would LG&E and KU allow the customer to take service under Rider BR? Explain the response.

e. The second guideline referenced in the September 24, 1990 Order in Admin. 327 states that each utility should be required to demonstrate that all variable costs associated with the transaction during each year that the contract is in effect will be recovered and that the transaction contributes to fixed costs associated with the EDRs.

(1) Explain in detail how the Rider BR covers all variable costs associated with the transaction.

(2) Explain in detail how the Rider BR contributes to fixed costs associated with the transaction.

A-6. a. KU does business in Virginia as Old Dominion Power Company. The Company has been operating under a rate cap in Virginia for several years and has made no changes to its tariffs there except for adjustment clauses. There is no form of an EDR currently offered in Virginia.

b. As noted in the response to Q4, the discounted demand charge is roughly 50% distribution or customer-specific facilities. The proposed tariff requires these facilities be existing and idle. To allow a short term discount on these facilities harms neither the shareholders nor the ratepayers. The Companies believe that a long term discounted rate may be unfair and could give the customer qualifying for the Brownfield Development Rider an advantage over customers receiving similar service. In this case, however, the intent is to induce a customer to a qualifying "brownfield" site, so that the property will be reclaimed. The Companies can utilize existing, but unused, facilities, rather than having to construct new facilities. In addition, the Companies believe that all customers benefit generally from environmental perspective. The five year discount term and its gradual phase-out primarily followed the direction provided by the Commission's Order in Case No. 2004-00253.

c. As noted in the response to Q4, there are no additional customer-specific costs to be recovered by the Brownfield Development Rider other than those costs associated with the standard rate to which the proposed tariff is a rider and those costs will be fully recovered since the discount only applies to the demand charge.

d. As noted in the response to Q4, the discount applies only to the demand charge. Customer costs and energy costs are fully recovered. Because the proposed tariffs require all facilities for service be existing, there should be no marginal cost to be recovered beyond what is built into base rates.

e. 1) As noted in the response to Q4, the discount applies only to the demand charge. Customer costs and energy (variable) costs are fully recovered.

2) As noted in the response to Q4, the discount is aimed at the 50% of the demand charge associated with distribution or customer-specific investment. That portion of the demand charge associated with the fixed cost on generation and transmission are recovered. Because the proposed tariffs require all facilities for service be existing, there is no un-recovered cost assuming the existing facilities were on the books during the last general rate case and unused.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

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Question No. 7

Witness: F. Howard Bush, Jr.

Q-7. Refer to page 1 of the Testimony of Fred Howard Bush, Jr. ("Bush Testimony"). Mr. Bush states that similar rate schedules to that proposed by LG&E and KU are offered by other utilities. Provide a list of utilities in Kentucky that offer a similar rate.

A-7. Within the State of Kentucky, the Companies are only aware of Duke of Kentucky currently offering a "brownfield" tariff.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

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Question No. 8

Witness: F. Howard Bush, Jr.

Q-8. Provide an estimate of the number of possible sites eligible for this tariff within LG&E's and KU's service territories.

A-8. At this time, the Companies do not have an estimate of such sites.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
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Question No. 9

Witness: F. Howard Bush, Jr.

Q-9. Refer to page 3 of the Bush Testimony. Mr. Bush states that under their proposed tariff, LG&E and KU would enter into a special contract with customers as required in Admin. 327. The term of the special contract would be 8 years, the first 5 of which would include a discount on the demand charge.

a. Explain how LG&E and KU determined that 8 years is an appropriate term for the contract.

b. Admin. 327 ordered that the second half of an economic development contract should extend for twice the length of time of the discount period. Explain how extending the contract for 3 years beyond the 5-year discount period will address this criterion.

c. Provide a sample contract that LG&E and KU will use under the proposed tariff.

A-9. a. The Companies followed the direction provided by the Commission in its Order in Case No. 2004-00253 approving an 8-year term for ULH&P.

b. See A-9a.

c. Proposed formal service contracts forms have not been written at this time.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
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Question No. 10

Witness: F. Howard Bush, Jr.

Q-10. Identify the other rate schedules under which customers who qualify for this rider would also be billed.

A-10. LG&E customers qualifying for the Brownfield Development Rider would also be served under Rate LC, Rate LC-TOD, Rate LP, Rate LP-TOD, and Rate LI-TOD.

KU customers qualifying for the Brownfield Development Rider would also be served under Rate LP, Rate LCI-TOD, Rate MP, Rate LMP-TOD, and Rate LI-TOD.

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
Dated June 15, 2007

Case No. 2007-00192

Question No. 11

Witness: F. Howard Bush, Jr.

Q-11. Provide a sample monthly bill calculation for a customer taking 500 kW in the first year under the proposed tariff.

A-11. See attached.

	A	B	C	D	E	F	G	H
		Monthly Billing Determinants						
	Demand							
1	Peak	500						
2	Power Factor	80%						
3	Energy - Load Factor	50%						
4	KWH	182,500						
			KU - LP Primary		**LG&E - LC Primary**			
					Summer		Winter	
			Rate	Billing	Rate	Billing	Rate	Billing
5	Customer Charge		$75.00	$75.00	$65.00	$65.00	$65.00	$65.00
6	Demand Charge		$6.81	$3,405.00				
7	Summer				$12.92	$6,460.00		
8	Winter						$10.12	$5,060.00
9	Power Factor			$425.63		$0.00		$0.00
	SubTotal Demand			$3,830.63		$6,460.00		$5,060.00
	Brownfield Credit			($1,915.32)		($3,230.00)		($2,530.00)
10	Energy Charge		$0.02501	$4,564.33	$0.02348	$4,285.10	$0.02348	$4,285.10
11	Subtotal Base Billing			$6,554.64		$7,580.10		$6,880.10
	Adjustments							
12	Fuel Adjustment Clause		$0.01114	$2,033.05	$0.00454	$828.55	$0.00454	$828.55
	STOD Recovery		$0.00006	$10.95	$0.00165	$301.13	$0.00165	$301.13
13	DSM		$0.00008	$14.60	$0.00010	$18.25	$0.00010	$18.25
14	Environmental Surcharge		4.400%	$378.98	2.240%	$195.51	2.240%	$179.83
15	Merger Surcredit		1.326%	($119.24)	2.149%	($191.77)	2.149%	($176.39)
16	Value Delivery Credit		0.300%	($26.62)	0.940%	($82.08)	0.940%	($75.50)
17	Total Base Billing			$8,846.36		$8,649.69		$7,955.97

LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

Response to First Data Request of Commission Staff
Dated June 15, 2007

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Question No. 12

Witness: F. Howard Bush, Jr.

Q-12. Provide a sample monthly bill calculation for the same customer in Item No. 5 taking 500 kW without participating in the proposed tariff.

A-12. See attached.

	A	B	C	D	E	F	G	H
		Monthly Billing Determinants						
	Demand							
1	Peak	500						
2	Power Factor	80%						
3	Energy - Load Factor	50%						
4	KWH	182,500						
			KU - LP Primary		LG&E - LC Primary			
					Summer		Winter	
			Rate	Billing	Rate	Billing	Rate	Billing
5	Customer Charge		$75.00	$75.00	$65.00	$65.00	$65.00	$65.00
6	Demand Charge		$6.81	$3,405.00				
7	Summer				$12.92	$6,460.00		
8	Winter						$10.12	$5,060.00
9	Power Factor			$425.63		$0.00		$0.00
	SubTotal Demand			$3,830.63		$6,460.00		$5,060.00
10	Energy Charge		$0.02501	$4,564.33	$0.02348	$4,285.10	$0.02348	$4,285.10
11	Subtotal Base Billing			$8,469.96		$10,810.10		$9,410.10
	Adjustments							
12	Fuel Adjustment Clause		$0.01114	$2,033.05	$0.00454	$828.55	$0.00454	$828.55
	STOD Recovery		$0.00006	$10.95	$0.00165	$301.13	$0.00165	$301.13
13	DSM		$0.00008	$14.60	$0.00010	$18.25	$0.00010	$18.25
14	Environmental Surcharge		4.400%	$463.26	2.240%	$267.86	2.240%	$236.50
15	Merger Surcredit		1.326%	($145.75)	2.149%	($262.73)	2.149%	($231.97)
16	Value Delivery Credit		0.300%	($32.54)	0.940%	($112.45)	0.940%	($99.29)
17	Total Base Billing			$10,813.53		$11,850.71		$10,463.27