an e·on company

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APR 01 2008
PUBLIC SERVICE COMMISSION

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Louisville Gas and Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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Lonnie E. Bellar
Vice President
T 502-627-4830
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April 1, 2008

RE: ***The Plan of Louisville Gas and Electric Company for the Future Disposition of the Merger Surcredit Mechanism***
Case No. 2007-00562

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Louisville Gas and Electric Company to the Commission Staff's First Data Request dated March 25, 2008, in the above referenced matter.

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

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
APR 01 2008
PUBLIC SERVICE
COMMISSION

In the Matter of:

THE PLAN OF LOUISVILLE GAS	)	
AND ELECTRIC COMPANY FOR	)	**CASE NO.**
THE FUTURE DISPOSITION OF THE	)	**2007-00562**
MERGER SURCREDIT MECHANISM	)	

C

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S FIRST DATA REQUEST
DATED MARCH 25, 2008

FILED: APRIL 1, 2008

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, 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 for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Lonnie E. Bellar
LONNIE E. BELLAR

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of April, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:
November 9, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Data Request Dated March 25, 2008

Case No. 2007-00562

Question No. 1

Witness: Lonnie E. Bellar

Q-1. Refer to page 5 of Lonnie Bellar's testimony, starting at line 8. Mr. Bellar states that, when LG&E's earnings deficit relative to authorized levels exceeds its share of the merger savings, customers are receiving 100 percent of the merger benefits.

a. Is LG&E currently experiencing an earnings deficit relative to authorized levels? Provide all workpapers supporting this calculation for both the electric and gas operations.

b. If LG&E is operating at an earnings deficit relative to authorized levels, provide the time period over which this has occurred and explain why LG&E has not filed for a rate increase.

A-1. a. Yes. As shown on the Attachment to this Response, Exhibit 5, LG&E's adjusted electric earnings for 2007 result in a Return on Equity ("ROE") of 9.10%, which is an earnings deficit relative to authorized levels. Please see the Attachment to this response for a calculation of LG&E's earnings for the calendar year 2007, including the effect of standard regulatory adjustments for rate-making purposes. These are the results notwithstanding the record temperatures experienced during August, September and October 2007; and, in calendar year 2007, Cooling Degree Days were 50.6% above normal levels.

LG&E's gas earnings for 2007 result in a Return on Equity ("ROE") of (0.63%) which is a deficit relative to authorized levels.

b. LG&E continually monitors its financial performance. However, the detailed analysis presented in the Attachment to the Response to Question No. 1(a) above was not prepared in association with this case for periods prior to 2007.

LG&E's decision not to file an electric rate case to date was influenced in part by LG&E's decision to allow the shareholder portion of the merger savings to partially offset increased capitalization and operating expenses, in part by the position taken in this proceeding (i.e. that the merger surcredit expire and not be extended during a period of significant capital investment in facilities to serve customers) and in part by the influence of record temperatures on its revenues.

LG&E has refrained to date from filing a general rate case for its gas business because it anticipates that it will file an electric base rate case in 2008 which will allow LG&E to take advantage of the efficiencies inherent in a combined rate case filing.

Exhibit 1

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income

For the Twelve Months Ended December 31, 2007

	Reference Schedule (1)	Electric Department Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)
1. Amount per books		932,455,567	778,828,815	$153,626,752
2. Adjustments for known changes and to eliminate unrepresentative conditions:				
3. To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	1.00	1,066,298	-	1,066,298
4. To adjust base rates and FAC to reflect a full year of the FAC roll in	1.01	177,766	-	177,766
5. Adjustment to revenues and expenses to eliminate gas supply cost recoveries and gas supply expenses	1.02	-	-	-
6. Adjustment to eliminate environmental surcharge revenues and expenses	1.03	(9,914,739)	(3,257,174)	(6,657,565)
7. Eliminate DSM revenue and expenses	1.04	(4,256,207)	(4,256,207)	-
8. To eliminate ECR, MSR, VDT, FAC, and GSC accruals	1.05	(474,484)	-	(474,484)
9. Adjustment to remove merger surcredit	1.06	(1,015,968)	19,427,402	(20,443,370)
10. To adjust mismatch in fuel cost recovery	1.07	(47,003,135)	(58,802,656)	11,799,521
11. Off-system sales revenue adjustment for the ECR calculation	1.08	(951,133)	-	(951,133)
12. Adjustment to eliminate unbilled revenues	1.09	(5,303,000)	-	(5,303,000)
13. To eliminate electric brokered sales revenues and expenses	1.10	4,979,226	(250,785)	5,230,011
14. Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	1.11	-	(302,464)	302,464
15. Adjustment to reflect normalized storm damage expense	1.12	-	1,644,987	(1,644,987)
16. Adjustment for injuries and damages FERC account 925	1.13	-	(123,503)	123,503
17. Adjustment to annualize year-end customers	1.14	-	-	-
18. To adjust for customer rate switching	1.15	(124,093)	-	(124,093)
19. Adjustment to reflect annualized depreciation expenses	1.16	-	(1,252,377)	1,252,377
20. Adjustment to reflect increases in labor and labor related costs	1.17	-	5,066,766	(5,066,766)
21. Adjustment for MISO Exit and Schedule 10	1.18	-	1,736,617	(1,736,617)
22. Adjustment to remove Value Delivery Surcredit and cost amortization	1.19	218,785	10,560,000	(10,341,215)
23. To adjust for pension and post retirement	1.20	-	1,769,459	(1,769,459)
24. Adjustment to reflect amortization of rate case expenses	1.21	-	113,521	(113,521)
25. Adjustment to remove amortization of ESM audit expenses	1.22	-	(31,959)	31,959
26. To remove property insurance broker fee settlement expenses	1.23	-	(74,000)	74,000

Exhibit 1

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income

For the Twelve Months Ended December 31, 2007

			Electric Department		
		Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)
27. To remove EKPC settlement charges		1.24	-	(847,862)	847,862
28. To remove 2006 correction of FERC assessment fee		1.25	-	57,033	(57,033)
29. To remove 2006 catch-up IT prepaid amortization		1.26	-	747,804	(747,804)
30. To adjust property tax expense		1.27	-	840,323	(840,323)
31. To adjust railcar tax expense		1.28	-	(15,013)	15,013
32. Adjustment to remove reclassified capital lease		1.29	-	5,503,332	(5,503,332)
33. Adjustment for postage rate increase		1.30	-	34,436	(34,436)
34. Adjustment for overhead line inspections		1.31	-	70,000	(70,000)
35. Total of above adjustments			$ (62,600,684)	$ (21,642,318)	$ (40,958,366)
36. Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments -	37.6175	1.32		(15,407,512)	15,407,512
37. Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense		1.33		(1,531,676)	1,531,676
38. Prior income tax true-ups and adjustments		1.34		2,109,559	(2,109,559)
39. Total adjustments			(62,600,684)	(36,471,947)	$ (26,128,737)
40. Adjusted Net Operating Income			869,854,883	742,356,868	$ 127,498,015

Exhibit 1

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income

For the Twelve Months Ended December 31, 2007

	Reference Schedule (1)	Gas Department Operating Revenues (5)	Gas Department Operating Expenses (6)	Gas Department Net Operating Income (7)
1. Amount per books		352,681,729	335,265,277	$17,416,452
2. Adjustments for known changes and to eliminate unrepresentative conditions:				
3. To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	1.00	-	-	-
4. To adjust base rates and FAC to reflect a full year of the FAC roll in	1.01	-	-	-
5. Adjustment to revenues and expenses to eliminate gas supply cost recoveries and gas supply expenses	1.02	(254,016,609)	(255,537,278)	1,520,669
6. Adjustment to eliminate environmental surcharge revenues and expenses	1.03	-	-	-
7. Eliminate DSM revenue and expenses	1.04	(1,613,248)	(1,613,262)	14
8. To eliminate ECR, MSR, VDT, FAC, and GSC accruals	1.05	368,293	-	368,293
9. Adjustment to remove merger surcredit	1.06	-	-	-
10. To adjust mismatch in fuel cost recovery	1.07	-	-	-
11. Off-system sales revenue adjustment for the ECR calculation	1.08	-	-	-
12. Adjustment to eliminate unbilled revenues	1.09	(6,646,000)	-	(6,646,000)
13. To eliminate electric brokered sales revenues and expenses	1.10	-	-	-
14. Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	1.11	-	(115,566)	115,566
15. Adjustment to reflect normalized storm damage expense	1.12	-	-	-
16. Adjustment for injuries and damages FERC account 925	1.13	-	288,904	(288,904)
17. Adjustment to annualize year-end customers	1.14	-	-	-
18. To adjust for customer rate switching	1.15	-	-	-
19. Adjustment to reflect annualized depreciation expenses	1.16	-	118,685	(118,685)
20. Adjustment to reflect increases in labor and labor related costs	1.17	-	1,429,088	(1,429,088)
21. Adjustment for MISO Exit and Schedule 10	1.18	-	-	-
22. Adjustment to remove Value Delivery Surcredit and cost amortization	1.19	(147,073)	2,640,000	(2,787,073)
23. To adjust for pension and post retirement	1.20	-	499,078	(499,078)
24. Adjustment to reflect amortization of rate case expenses	1.21	-	73,157	(73,157)
25. Adjustment to remove amortization of ESM audit expenses	1.22	-	-	-
26. To remove property insurance broker fee settlement expenses	1.23	-	(26,000)	26,000

Exhibit 1

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Electric and Gas Operating Revenues, Operating Expenses and Net Operating Income

For the Twelve Months Ended December 31, 2007

		Reference Schedule (1)	Gas Department Operating Revenues (5)	Gas Department Operating Expenses (6)	Gas Department Net Operating Income (7)
27 To remove EKPC settlement charges		1.24	-	-	-
28. To remove 2006 correction of FERC assessment fee		1.25	-	-	-
29. To remove 2006 catch-up IT prepaid amortization		1.26	-	262,742	(262,742)
30. To adjust property tax expense		1.27	-	295,249	(295,249)
31. To adjust railcar tax expense		1.28	-	-	-
32. Adjustment to remove reclassified capital lease		1.29	-	-	-
33. Adjustment for postage rate increase		1.30	-	10,875	(10,875)
34. Adjustment for overhead line inspections		1.31	-	-	-
35. Total of above adjustments			$ (262,054,637)	$ (251,674,328)	$ (10,380,309)
36. Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments -	37.6175	1.32		(3,904,812)	3,904,812
37. Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense		1.33		(302,112)	302,112
38. Prior income tax true-ups and adjustments		1.34		741,196	(741,196)
39. Total adjustments			(262,054,637)	(255,140,056)	$ (6,914,581)
40. Adjusted Net Operating Income			90,627,092	80,125,221	$ 10,501,871

Exhibit 2

LOUISVILLE GAS AND ELECTRIC COMPANY

Capitalization at December 31, 2007

	Per Books 12-31-07 (1)	Capital Structure (2)	Rate Base Percentage (Exhibit 1 Line 25) (3)	Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 8, Pg 2) (5)	Adjusted Capitalization (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
ELECTRIC									
1. Short Term Debt	$ 78,241,200	3.52%	79.84%	$ 62,467,774	$ 1,405,505	$ 63,873,279	3.52%	4.709%	0.17%
2. Long Term Debt	984,304,000	44.26%	79.84%	785,868,314	17,672,626	803,540,940	44.26%	4.750%	2.10%
3. Common Equity	1,161,163,742	52.22%	79.84%	927,073,132	20,850,983	947,924,115	52.22%	10.00% - 10.50% - 11.00%	5.22% - 5.48% - 5.74%
4. Total Capitalization	$2,223,708,942	100.00%		$1,775,409,220	$ 39,929,114	$1,815,338,334	100.00%		7.49% - 7.75% - 8.01%
GAS									
1 Short Term Debt	$ 78,241,200	3.52%	19.60%	$ 15,335,275	$ 40,406	$ 15,375,681	3.52%	4.709%	0.17%
2 Long Term Debt	984,304,000	44.26%	19.60%	192,923,584	508,061	193,431,645	44.26%	4.750%	2.10%
3 Common Equity	1,161,163,742	52.22%	19.60%	227,588,093	599,433	228,187,526	52.22%	10.00% - 10.50% - 11.00%	5.22% - 5.48% - 5.74%
4 Total Capitalization	$2,223,708,942	100.00%		$ 435,846,952	$ 1,147,900	$ 436,994,852	100.00%		7.49% - 7.75% - 8.01%

LOUISVILLE GAS AND ELECTRIC COMPANY

Capitalization at December 31, 2007

	Capitalization (Col 4, Pg 1) (1)	Capital Structure (2)	Trimble County Inventories (a) (Col 2 x Col 3 Line 3) (3)	Investments in OVEC (Col 2 x Col 4 Line 3) (4)	JDIC (Col 2 x Col 5 Line 3) (5)	Advanced Coal Investment Tax Credit (Col 2 x Col 7 Line 3) (6)	Total Adjustments To Capital (9)
ELECTRIC							
1 Short Term Debt	$ 62,467,774	3.52%	$ (155,854)	$ (20,919)	$ 1,160,595	421,683	$ 1,405,505
2 Long Term Debt	785,868,314	44.26%	(1,959,683)	(263,031)	14,593,158	5,302,182	17,672,626
3 Common Equity	927,073,132	52.22%	(2,312,125)	(310,336)	17,217,683	6,255,761	20,850,983
4 Total Capitalization	$1,775,409,220	100.00%	$ (4,427,662)	$ (594,286)	$ 32,971,436	$ 11,979,626	$ 39,929,114
GAS							
1 Short Term Debt	$ 15,335,275	3.52%	$ -	$ -	$ 40,406	$ -	$ 40,406
2 Long Term Debt	192,923,584	44.26%	-	-	508,061	-	508,061
3 Common Equity	227,588,093	52.22%	-	-	599,433	-	599,433
4 Total Capitalization	$ 435,846,952	100.00%	$ -	$ -	$ 1,147,900	$ -	$ 1,147,900

(a) Trimble County Inventories @ December 31, 2007

Stores	$ 4,198,457
Stores Expense	739,033
Coal	12,155,709
Limestone	120,773
Fuel Oil	494,006
Emission Allowances	2,671
Total Trimble County Inventories	$17,710,648
Multiplied by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	$ 4,427,662

Exhibit 3

LOUISVILLE GAS AND ELECTRIC COMPANY

Net Original Cost Rate Base as of December 31, 2007

	Title of Account (1)	Total Electric (2)	ECR (3)	ECR Roll-In (4)	Base Electric (5) (2 - 3 + 4)	Gas (6)	Total Company (7) (2 + 6)
1	Utility Plant at Original Cost (a)	$ 3,652,341,250	$ 256.157,824	$ 219,025,069	$ 3,615,208.495	$ 666.784,941	$ 4,319,126,191
2	Deduct:						
3	Reserve for Depreciation (a)	1,632,875,780	21,872.974	2.377,613	1.613,380,419	226,971.934	1,859,847,714
4	Net Utility Plant	2,019,465,470	234,284,850	216,647,456	2,001,828,076	439,813,007	2.459,278,477
5	Deduct:						
6	Customer Advances for Construction	1,645,963	-	-	1,645,963	7,966,553	9,612,516
7	Accumulated Deferred Income Taxes (a)(b)	295,082,800	10,873,690	1,933,536	286,142,646	50,873,611	345,956,411
8	FAS 109 Deferred Income Taxes	45,595,975	-	-	45,595,975	4,727,963	50,323,938
9	Asset Retirement Obligation-Net Assets #	3,728,481	-	-	3,728,481	140,357 47	3,868,838
10	Asset Retirement Obligation-Liabilities	(21,802.093)	-	-	(21,802,093)	(7,780,583)	(29,582,676)
11	Asset Retirement Obligation-Regulatory Assets	18,964,745	-	-	18,964,745	5,215,679	24,180,424
12	Asset Retirement Obligation-Regulatory Liabilities	(225,470)	-	-	(225,470)	(110,200)	(335,670)
13	Reclassification of Accumulated Depreciation associated with Cost of Removal for underlying ARO Assets	457,520	-	-	457,520	2,424,396	2,881,916
14	Investment Tax Credit (prior law)	0	-	-	0	-	0
15	Total Deductions	343,447,922	10,873,690	1,933,536	334.507,768	63.457,776	406,905,698
16	Net Plant Deductions	1,676,017,548	223,411,160	214,713,920	1,667,320.308	376,355,231	2,052,372,779
17	Add:						
18	Materials and Supplies (c)(e)(f)	68,069,912	-	-	68,069,912	51,533	68,121,445
19	Gas Stored Underground (c)	-	-	-	-	58,903,634	58,903,634
20	Prepayments (c)(d)	3,275,044	-	-	3,275,044	787,454	4,062,498
21	Cash Working Capital (page 2)	65,092,278	390,464	74,512	64,776,326	6,527,498	71,619,776
22	Mill Creek Ash Dredging-Regulatory Asset	3,719,010	3,719,010	-	-	-	3,719,010
23	Total Additions	140,156,244	4,109,474	74,512	136,121,282	66,270,119	206,426,363
24	Total Net Original Cost Rate Base	$ 1,816,173,792	$ 227,520,634	$ 214,788,432	$ 1,803,441,590	$ 442,625,350	$ 2,258,799,142
25	Electric and Gas Net Original Cost Rate Base Percentage				79.84%	19.60%	

(a) Common utility plant and the reserve for depreciation are allocated 74% to the Electric Department and 26% to the Gas Department

(b) Excludes supplemental retirement-related deferred taxes.

(c) Average for 13 months

(d) Excludes PSC fees

(e) Excludes 25% of Trimble County inventories

(f) Includes emission allowances

Exhibit 3

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Cash Working Capital
As of December 31, 2007

Title of Account (1)	Total Electric (2)	ECR (3)	ECR Roll-In (4)	Base Electric (5) (2 - 3 + 4)	Gas (6)	Total Company (7) (2 + 6)
1 Operating and maintenance expense for the 12 months ended December 31, 2007	$ 603,075,276	$ 3,123,715	$ 596,096	$ 600,547,657	$ 305,812,201	$ 908,887,477
2 Deduct:						
3 Electric Power Purchased	82,337,048	-	-	82,337,048		82,337,048
4 Gas Supply Expenses					253,592,219	253,592,219
5 Total Deductions	$ 82,337,048	$ -	$ -	$ 82,337,048	$ 253,592,219	$ 335,929,267
6 Remainder (Line 1 - Line 5)	$ 520,738,228	$ 3,123,715	$ 596,096	$ 518,210,609	$ 52,219,982	$ 572,958,210
7 Cash Working Capital (12 1/2% of Line 6)	$ 65,092,278	$ 390,464	$ 74,512	$ 64,776,326	$ 6,527,498	$ 71,619,776

Exhibit 4

LOUISVILLE GAS AND ELECTRIC COMPANY

Calculation of Overall Revenue Deficiency/(Sufficiency) at December 31, 2007

	ELECTRIC (1)		
	ROE RANGE		
	10.00%	10.50%	11.00%
1. Adjusted Electric Capitalization (Exhibit 2, Col 6)	$1,815,338,334	$1,815,338,334	$1,815,338,334
2. Total Cost of Capital (Exhibit 2, Col 9)	7.49%	7.75%	8.01%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$ 135,968,841	$ 140,688,721	$ 145,408,601
4. Pro-forma Net Operating Income	127,498,015	127,498,015	127,498,015
5. Net Operating Income Deficiency/(Sufficiency)	$ 8,470,826	$ 13,190,706	$ 17,910,585
6. Gross Up Revenue Factor - Exhibit 1, Reference Schedule 1.20	0.62159671	0.62159671	0.62159671
7. Overall Revenue Deficiency/(Sufficiency)	$ 13,627,527	$ 21,220,681	$ 28,813,835

	GAS (1)		
	ROE RANGE		
	10.00%	10.50%	11.00%
1. Adjusted Gas Capitalization (Exhibit 2, Col 6)	$ 436,994,852	$ 436,994,852	$ 436,994,852
2. Total Cost of Capital (Exhibit 2, Col 9)	7.49%	7.75%	8.01%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$ 32,730,914	$ 33,867,101	$ 35,003,288
4. Pro-forma Net Operating Income	10,501,871	10,501,871	10,501,871
5. Net Operating Income Deficiency/(Sufficiency)	$ 22,229,043	$ 23,365,230	$ 24,501,417
6. Gross Up Revenue Factor - Exhibit 1, Reference Schedule 1.20	0.62159671	0.62159671	0.62159671
7. Overall Revenue Deficiency/(Sufficiency)	$ 35,761,199	$ 37,589,050	$ 39,416,902

Exhibit 5

LOUISVILLE GAS AND ELECTRIC COMPANY

Rate of Return on Common Equity
For the Twelve Months Ended December 31, 2007

Electric

	Adjusted Electric Capitalization (Exhibit 2 Col 6) (1)	Percent of Total (2)	Annual Cost Rate (Exhibit 2 Col 8) (3)	Weighted Cost of Capital (Col 2 x Col 3) (4)
1. Short Term Debt	$63,873,279	3.52%	4.71%	0.17%
2. Long Term Debt	$803,540,940	44.26%	4.75%	2.10%
3. Common Equity	$947,924,115	52.22%	9.10% (a)	4.75% (b)
4.	$1,815,338,334	100.00%		7.02%
5. Pro-forma Net Operating Income				$127,498,015 (c)
6. Net Operating Income / Total Capitalization				7.02% (e)

Notes: (a) - Column 4, Line 4 / Column 2, Line 4
(b) - Column 4, Line 5 - Line 1 - Line 2 - Line 3
(c) - Exhibit 1, Line 31, Column 4
(d) - Exhibit 1, Line 38, Column 4
(e) - Column 4, Line 6 divided by Column 1, Line 5

Gas

	Adjusted Gas Capitalization (Exhibit 2 Col 6) (1)	Percent of Total (2)	Annual Cost Rate (Exhibit 2 Col 8) (3)	Weighted Cost of Capital (Col 2 x Col 3) (4)
1. Short Term Debt	$15,375,681	3.52%	4.71%	0.17%
2. Long Term Debt	$193,431,645	44.26%	4.75%	2.10%
3. Common Equity	$228,187,526	52.22%	0.25% (a)	0.13% (b)
4.	$436,994,852	100.00%		2.40%
5. Pro-forma Net Operating Income				$10,501,871 (c)
6. Net Operating Income / Total Capitalization				2.40% (e)

Notes: (a) - Column 4, Line 4 / Column 2, Line 4
(b) - Column 4, Line 5 - Line 1 - Line 2 - Line 3
(c) - Exhibit 1, Line 31, Column 7
(d) - Exhibit 1, Line 38, Column 7
(e) - Column 4, Line 6 divided by Column 1, Line 5

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00562

Question No. 2

Witness: Lonnie E. Bellar

Q-2. In LG&E's most recent rate case, Case No. 2003-00433,[1] revenue requirements were based on the post-merger, test-year level of expenses plus $19,427,401 of additional expenses to reflect the shareholder merger savings. In addition, due to a settlement agreement reached in Case No. 2002-00430,[2] merger surcredits to customers of $18,045,255 annually were to continue. To properly reflect the merger surcredits in the rate-making process, LG&E's total revenues were reduced by the amount of the surcredits and rates had to be increased by the amount of the surcredits.

a. Will eliminating LG&E's merger surcredits result in a revenue increase of $18,045,255 annually for LG&E? If no, explain in detail.

b. Given that the shareholders' 50 percent of the merger savings is included as an expense in LG&E's existing base rates, will eliminating the merger surcredits result in 100 percent of the merger savings being recovered through base rates? If no, explain in detail.

A-2. a. Yes.

b. Yes. Base rates have included 100% of merger savings with the surcredits providing an equitable share of the savings (e.g., 50%) to the customer. LG&E's operating results post merger have reflected 100% of realized merger savings. Eliminating the surcredit will offset other increased costs and capital investment, as shown in the Attachment to the Response to Question No. 1(a), and in doing so allow for an equitable termination of the merger surcredit mechanism.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00562

Question No. 3

Witness: Lonnie E. Bellar

Q-3. In Case Nos. 1998-00426[3] and 2003-00433, LG&E argued that in order for shareholders to retain their portion of the merger savings, an upward adjustment to operating expenses equal to 50 percent of the total savings originally estimated in Case No. 1997-00300[4] was necessary to eliminate the shareholders' merger savings from the return calculations. This operating expense adjustment was coupled with the recognition that ratepayers would receive their share of the merger savings through the surcredit mechanism, thus achieving a balance between the interests of shareholders and ratepayers. Explain in detail why it appears that LG&E now believes it is no longer necessary to maintain the balance between the interests of shareholders and ratepayers concerning the merger savings.

A-3. LG&E believes that the current balance between the interests of shareholders and ratepayers should be maintained through June 30, 2008. However, as shown in the Attachment to the Response to Question No. 1(a), the 50-50 balance did not occur in 2007 and given LG&E's ongoing capital investment in facilities to serve customers, there is little reason to believe that the current balance will be equitable in the future. For these reasons, LG&E's believes that the merger surcredit mechanism should cease in a fair and equitable manner, balancing between the interests of shareholders and ratepayers, and ultimately shifting the balance so that customers receive 100% of the merger savings.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00562

Question No. 4

Witness: Lonnie E. Bellar

Q-4. Assume for purposes of this question the Commission does not issue an Order in this proceeding by June 30, 2008. Explain LG&E's understanding of what would happen under the Merger Surcredit tariff and how each customer class would be affected.

A-4. As stated in LG&E's Merger Surcredit Rider tariff, Original Sheet No. 73.1, Terms of Distribution item (4): "[t]he Company shall file a plan with the PSC midway through Year 10 of this schedule to address the future disposition of the Merger Surcredit and pending a final order from the Commission in that proceeding, the Merger Surcredit will remain in effect." (A copy of Original Sheet No. 73.1 is attached hereto.)
The Tariff further states:

> AVAILABILITY OF SERVICE
> To all electric rate schedules, excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00430.

LG&E's understanding, based on the tariff language cited above, as agreed to in the Settlement Agreement filed in Case No. 2002-00430 and approved by the Commission in its October 16, 2003 Order, is that after June 30, 2008 , but before a final order is issued by the Commission, the merger surcredit tariff will continue at year 10 levels as set forth in the tariff to those customers receiving service under all electric rate schedules, excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00430.

Louisville Gas and Electric Company

Original Sheet No. 73
P.S.C. of Ky. Electric No. 6

STANDARD RIDER MSR

Merger Surcredit Rider

AVAILABILITY

In all territory served.

APPLICABILITY OF SERVICE

To all electric rate schedules excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00430.

SURCREDIT

The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Merger Surcredit Factor, which shall be calculated in accordance with the following formula:

Merger Surcredit Factor = MS + BA

Where:

(MS) is the Merger Surcredit which is based on the total Company savings that are to be distributed to Company's customers in each 12-month period beginning July 1, 1998.

	Savings to be Distributed	Merger Surcredit (MS)
Year 1	$ 6,183,320	1.109%
Year 2	9,018,830	1.587%
Year 3	12,168,065	2.103%
Year 4	13,355,755	2.265%
Year 5	14,702,775	2.451%
Year 6	18,045,255	3.185%*
Year 7	18,045,255	3.129%
Year 8	18,045,255	3.052%
Year 9	18,045,255	3.001%
Year 10	18,045,255	2.954%

* Reflects the average factor for the year. Actual application determined by the Final Order in PSC Case No. 2002-00430.

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Merger Surcredit Factor from the previous year by the expected retail sales revenue. The final Balancing Adjustment will be applied to customer billings in the second month following the tenth distribution year.

Louisville Gas and Electric Company

Original Sheet No. 73.1
P.S.C. of Ky. Electric No. 6

STANDARD RIDER **MSR**

Merger Surcredit Rider

TERMS OF DISTRIBUTION

1. The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above.

2. On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under distributions.

3. The Merger Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or other similar items.

4. The Company shall file a plan with the PSC midway through Year 10 of this schedule to address the future disposition of the Merger Surcredit and pending a final order from the Commission in that proceeding, the Merger Surcredit shall remain in effect.

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00562

Question No. 5

Witness: Lonnie E. Bellar

Q-5. Assume for purposes of this question the Commission finds that the merger surcredit should be continued until the issuance of a final Order in LG&E's next general rate case. Would LG&E agree that the dollar level of the surcredit to be spread among all customer classes should be $19,427,401? Explain the response.

A-5. LG&E respectfully disagrees with the assumption in the question. The proposed finding that the merger surcredit should be continued until the issuance of a final Order in LG&E's next general rate case is not a reasonable outcome given the significant capital investments being made by LG&E in facilities to provide service to customers and the associated reduction in LG&E's current earnings below the authorized level as shown in the Attachment to the Response to Question No. 1(a). The substantive reality is that because LG&E is not actually receiving its benefits under the merger surcredit arrangement, allowing the merger surcredit to expire on July 1, 2008, is a reasonable outcome for the Commission to order in this proceeding. Without waiver of or prejudice to its position in this case, LG&E acknowledges that the dollar level included in the question represents 50% of the annualized total merger savings applicable to all LG&E customers as determined in Case No. 2002-00430.