an e·on company

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

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
MAR 15 2010
PUBLIC SERVICE COMMISSION

March 15, 2010

RE: ***Application of Kentucky Utilities Company for an Adjustment of Its Base Rates* – Case No. 2009-00548**

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Response of Kentucky Utilities Company to the First Data Request of The Kroger Company dated March 1, 2010, in the above-referenced matter.

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

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

cc: Parties of Record

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Kentucky Utilities Company and an employee of E.ON U.S. Services, Inc., and 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 12th day of March 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Ronald L. Miller**, being duly sworn, deposes and says that he is Director – Corporate Tax for E.ON U.S. Services, Inc., and 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.

Ronald L. Miller

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of March 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **William Steven Seelye**, being duly sworn, deposes and states that he is a Principal and Senior Analyst with The Prime Group, LLC, and 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.

William Steven Seelye

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 12th day of March 2010.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS BASE RATES	)))	CASE NO. 2009-00548

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
FIRST DATA REQUEST OF
THE KROGER COMPANY
DATED MARCH 1, 2010

FILED: March 15, 2010

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 1

Responding Witness: Lonnie E. Bellar / William Steven Seelye

Q-1. Please provide a copy of the Company's workpapers in Excel-compatible format with formulas intact.

A-1. Please see the response to KIUC-1 Question No. 21.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 2

Responding Witness: Ronald L. Miller

Q-2. Re Federal Income Tax Expense:

(a) In the past two years, has KU investigated or proposed any changes in the tax treatment of the cost of routine repairs and maintenance associated with electric generation, transmission, and distribution assets?

(b) If yes, please explain the changes investigated and indicate the status of the investigation.

(c) Also, if yes, please indicate whether KU's proposed revenue requirement reflects any changes adopted in the past two years in the tax treatment of the cost of routine repairs and maintenance associated with electric generation, transmission, and distribution assets.

(d) If KU has proposed any changes in the tax treatment of the cost of routine repairs and maintenance associated with electric generation, transmission, and distribution assets to the IRS, but the revenue requirement proposed by KU does not reflect the changed tax treatment, please quantify the going-forward revenue requirement adjustment(s) associated with IRS approval of the requested change in tax treatment.

A-2. (a) Yes, the company has investigated and proposed changes in the tax treatment of the cost of routine repairs and maintenance.

(b) In December 2008, the company filed Form 3115, Application for Change in Accounting Method with the Internal Revenue Service requesting a change in how it accounts for the tax treatment of repairs in connection with its transmission and distribution assets. The Application was later approved, in "principle", by the IRS on October 20 and November 17, 2009, however, the actual amount of the change claimed by the company was subject to audit by the IRS. The change in the accounting for repairs is currently under review by the IRS, however, because this accounting change is considered a Tier 1 issue with the IRS, National IRS Industry Coordinators are involved, likely delaying final approval. Due primarily to the uncertainty in this area, no change in the accounting for repairs of electric generation assets was considered appropriate at this time.

(c) The amount of any deduction is not known or measurable due to continuing discussions with the Internal Revenue Service. However, the revenue impact of this change will be minimal as lower current tax expense, resulting from the higher deductions, will be largely offset by the deferred taxes recorded to account for the future book depreciation of these expenditures. The cash flow benefit of any accelerated deduction would reduce the amount of capitalization the Company would otherwise maintain. The amount of any capitalization change is not known or measurable at this time.

(d) See response to (c) above, any change to revenue requirements or capitalization is not known or measurable at this time.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 3

Responding Witness: William Steven Seelye

Q-3. With respect to Mr. Seelye's direct testimony at pages, 26-34, if not otherwise provided in response to Item 1, please provide the workpapers used by Mr. Seelye in constructing his example for Customers A, B, C, & D in Excel-compatible format with formulas intact.

A-3. See response to Question No. 1.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 4

Responding Witness: William Steven Seelye

Q-4. Please refer to Mr. Seelye's testimony on page 27, lines 12-16. In this passage, is Mr. Seelye purporting to offer a legal opinion with respect to the application of the Commission's regulations?

A-4. No.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 5

Responding Witness: William Steven Seelye

Q-5. Please refer to Mr. Seelye's testimony on page 27, lines 12-16. Is it Mr. Seelye's opinion that the multi-site customer in his example would obtain a lower **rate** through conjunctive billing? If so, please identify in the example the **lower rate** that was obtained (as distinct from a reduction in measured billing demand).

A-5. Yes, with conjunctive billing, a customer could be combining meter readings in order to obtain a lower effective rate.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 6

Responding Witness: William Steven Seelye

Q-6. Please refer to Mr. Seelye's testimony on page 32, lines 17-20:

(a) If a single-site Customer E has the identical load pattern of the multi-site Customer A/B (when Customer A/B's demand is measured on a conjunctive basis), does Mr. Seelye agree that, absent conjunctive billing, Customer E would pay less for generation service that the multi-site customer A/B even though they use identical amounts of generation service?

(b) If yes, does Mr. Seelye agree that such a result could be regarded as discriminatory treatment according to the standards used by Mr. Seelye in his testimony?

(c) If not, please explain why the relationship between Customer A/B versus Customers C and D "could be easily regarded as discriminatory treatment" whereas the relationship between Customer A/B and Customer E would not be.

A-6. (a) Yes.

(b) No.

(c) Customer E represents a single-site customer metered at a single delivery point. In the example provided beginning on page 28 of Mr. Seelye's testimony, Customers A and B are multi-site accounts metered at two geographically separated delivery points. Customers C and D in Mr. Seelye's example are two non-multi-site customers also metered at two geographically separated delivery points. Therefore, from a service perspective and in terms of how "customers" are recognized in the Company's tariff, Customer E is in no way comparable to Customers A and B or to Customers C and D.

Multi-site customers A and B, because they are not served at the same delivery point, are identical in all respects to individual customers C and D, except that the bills for customers A and B would be paid by a single company. In contrast, Customer E would be served at a single delivery point. Allowing multi-site Customers A and B to combine their meter readings to obtain a lower effective rate than could be obtained by non-multi-site Customers C and D could easily be regarded as an undue discriminatory treatment of Customers C and D in favor of Customers A and B. Because Customer E has no other option than to be served from a single delivery point, Customer E cannot be viewed as receiving undue discriminatory treatment over Customers C and D or over Customers A and B. Customers A and B cannot be served from a single delivery point, nor can Customers C and D be served from a single delivery point.

While the differential effect between Customer E and multi-site Customers A and B described in sub-part (a) of this question does not represent discriminatory treatment, the effect described in the question can be fully addressed by billing production demand-related costs on the basis of system coincident peak (CP) demands. As indicated on page 34 of Mr. Seelye's testimony, the Company is willing to develop conjunctive rates on a CP basis for filing with the Commission as a pilot program. With CP demand rates, multi-site customer A and B, non-multi-site customers C and D, and customer E would be billed the same production demand costs.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 7

Responding Witness: William Steven Seelye

Q-7. Please refer to the example of Customer E referenced in Item 6:

(a) Does Mr. Seelye believe that a single-site Customer E causes lower generation costs to be incurred by the utility than multi-site customer A/B that has an identical load when measured on a conjunctive basis?

(b) If yes, please explain the logical basis for the answer and provide an example as to how the utility would incur different generation costs for serving Customer E versus Customer A/B.

A-7. (a) No. See response to Question No. 6.

(b) Not applicable.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 8

Responding Witness: William Steven Seelye

Q-8. Section 3.11 of the Settlement Agreement entered in Case No. 2008-00251 states:

> "The Utilities agree to work with interested parties to study the feasibility of measuring demand for generation service to multi-site customers based on conjunctive demand, where "conjunctive demand" herein refers to the measured demand at a meter at the time that the total demand of a multi-site customer's loads, measured over a coinciding time period, has reached its peak during the billing period."

Please provide all studies performed by KU regarding the feasibility of measuring demand for generation service to multi-site customers based on conjunctive demand as referenced in the Settlement Agreement.

A-8. The Company's analysis of conjunctive demand is described on pages 26-34 of Mr. Seelye's testimony.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to First Data Request of
The Kroger Company
Dated March 1, 2010**

Question No. 9

Responding Witness: William Steven Seelye

Q-9. Please refer to Mr. Seelye's testimony on page 33, line 3 to page 34, line 12:

(a) Please provide any studies performed by Mr. Seelye or KU/LG&E pertaining to the application of "Coincident peak CP demand billing" to the KU/LG&E system.

(b) Please identify the generation portion of the demand charge for KU's TODS, TODP and RTS rate schedules.

(c) Does Mr. Seelye agree that the demand charge for "Coincident peak CP demand billing" would necessarily be greater than the otherwise applicable generation portion of the demand charge in the Company's tariff?

(d) If not, please explain in detail why not.

(e) Please provide Mr. Seelye's best estimate of the demand charge that would be applicable to "Coincident peak CP demand billing" for the rate schedules listed in (b).

A-9. (a) KU has not developed CP demand rates for retail customers.

(b) The information requested requires original analysis which has not been performed by the Company. The information necessary to develop unbundled generation demand charges for KU's TODS, TODP, and RTS rate schedules can be obtained from detailed cost information provided in Seelye Exhibit 20.

(c) The generation component of the demand charges, whether billed under a CP rate or an equivalent non-CP rate would be the same.

(d) For equivalent demand rates that produce the same demand-related revenue requirement, the total demand charges billed would be equal for both rate designs.

(e) Mr. Seelye has not performed the analysis necessary to provide a reasonable estimate.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to First Data Request of
The Kroger Company
Dated March 1, 2010

Question No. 10

Responding Witness: William Steven Seelye

Q-10. (a) Does Mr. Seelye believe that two customers with exactly identical loads, but different end-uses, cause different costs to be imposed on a utility?

(b) If yes, please explain.

(c) Does Mr. Seelye believe it is reasonable to charge customers with identical loads different rates based on the end-use to which the customer's power is applied.

(d) If yes, please explain why two customers with identical loads should pay different rates based on their end use.

A-10. (a) The question does not provide enough information to answer the question. Two customers could have the same loads but require different distribution and service facility configurations.

(b) See answer to (a).

(c) No.

(d) Not applicable.