

a PPL company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED

JAN 12 2011

PUBLIC SERVICE
COMMISSION

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

Robert M. Conroy
Director - Rates
T 502-627-3324
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robert.conroy@lge-ku.com

January 12, 2011

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH
BILLING PERIOD ENDING OCTOBER 31, 2010
CASE NO. 2010-00474***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Direct Testimony of Robert M. Conroy and the Response of Kentucky Utilities Company to the Information Requested in Appendix B of the Commission's Order dated December 27, 2010, in the above-referenced matter.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'R. M. Conroy', with a long horizontal flourish extending to the right.

Robert M. Conroy

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY)
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2010)

CASE NO.
2010-00474

DIRECT TESTIMONY OF
ROBERT M. CONROY
DIRECTOR - RATES
LG&E AND KU SERVICES COMPANY

Filed: January 12, 2011

1 **Q. Please state your name, title, and business address.**

2 A. My name is Robert M. Conroy. I am the Director – Rates for LG&E and KU
3 Services Company, which provides services to Kentucky Utilities Company (“KU”)
4 and Louisville Gas and Electric Company (“LG&E”) (collectively “the Companies”).
5 My business address is 220 West Main Street, Louisville, Kentucky, 40202. A
6 complete statement of my education and work experience is attached to this testimony
7 as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified before this Commission in proceedings concerning
10 the Companies’ most recent rate cases, fuel adjustment clauses, and environmental
11 cost recovery (“ECR”) surcharge mechanisms.

12 **Q. What is the purpose of this proceeding?**

13 A. The purpose of this proceeding is to review the past operation of KU’s environmental
14 surcharge during the six-month billing period ending October 31, 2010 (expense
15 months of March 2010 through August 2010) and determine whether the surcharge
16 amounts collected during the period are just and reasonable.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to summarize the operation of KU’s environmental
19 surcharge during the billing period under review, demonstrate the amounts collected
20 during the period were just and reasonable, present and discuss KU’s proposed
21 adjustment to the Environmental Surcharge Revenue Requirement based on the
22 operation of the surcharge during the period and explain how the environmental
23 surcharge factors were calculated during the period under review.

1 **Q. Please summarize the operation of the environmental surcharge for the billing**
2 **period included in this review.**

3 A. KU billed an environmental surcharge to its customers from May 1, 2010 through
4 October 31, 2010. For purposes of the Commission's examination in this case, the
5 monthly KU environmental surcharges are considered as of the six-month billing
6 period ending October 31, 2010. In each month of the period, KU calculated the
7 environmental surcharge factors in accordance with its tariff ECR, and the
8 requirements of the Commission's previous orders concerning KU's environmental
9 surcharge.

10 **Q. What costs were included in the calculation of the environmental surcharge**
11 **factors for the billing period under review?**

12 A. The capital and operating costs included in the calculation of the environmental
13 surcharge factors for the billing period were the costs incurred each month by KU
14 from March 2010 through August 2010, as detailed in the attachment in response to
15 Question No. 2 of the Commission Staff's Request for Information, incorporating all
16 required revisions.

17 The monthly environmental surcharge factors applied during the billing period
18 under review were calculated consistent with the Commission's Orders in KU's
19 previous applications to assess or amend its environmental surcharge mechanism and
20 plan, as well as Orders issued in previous review cases. The monthly environmental
21 surcharge reports filed with the Commission during this time reflect the various
22 changes to the reporting forms ordered by the Commission from time to time.

23 **Q. Has the Commission recently approved changes to KU's ECR Compliance Plan?**

1 A. Yes. In Case No. 2009-00548, KU's most recent rate case, the Commission approved
2 the elimination of KU's 2001 and 2003 ECR Compliance Plans from the monthly
3 environmental surcharge filings. Effective with the August 2010 expense month, the
4 monthly environmental surcharge includes only costs associated with the 2005, 2006
5 and 2009 Compliance Plans.

6 **Q. Has the Commission recently approved changes to the environmental surcharge
7 mechanism and the monthly ES Forms?**

8 A. Yes. In Case No. 2009-00310, KU's most recent ECR two-year review, the
9 Commission approved changes to the environmental surcharge mechanism that
10 include the calculation of the monthly billing factor using a revenue requirement
11 method instead of a percentage method (eliminating the use of the Base
12 Environmental Surcharge Factor ("BESF")), the elimination of the monthly true-up
13 adjustment, and revisions to the monthly reporting forms to reflect the approved
14 changes. Pursuant to the Commission's December 2, 2009 Order in that case, the
15 changes were implemented with the December 2009 expense month that was billed in
16 February 2010. The approved changes only impact the timing and accuracy of the
17 revenue collection, not the total revenues KU is allowed to collect through the ECR.
18 The previous six-month review proceeding included the transition from the
19 percentage method to the new revenue requirement method. The six-month period
20 under review is the first to include all months calculated using the new revenue
21 requirement method.

22 **Q. Are there any changes or adjustments in Rate Base from the originally filed
23 expense months?**

1 A. No. During the period under review, there were no changes to Rate Base from the
2 originally filed billing period as summarized in KU's response to the Commission
3 Staff's Request for Information, Question No. 1. In addition, there were no changes
4 identified as a result of preparing responses to the requests for information in this
5 review.

6 **Q. Are there any changes necessary to the jurisdictional revenue requirement**
7 **(E(m))?**

8 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
9 Order in Case No. 2000-00439 to reflect the actual changes in the overall rate of
10 return on capitalization that is used in the determination of the return on
11 environmental rate base. The details of and support for this calculation are shown in
12 KU's response to Question No. 1 of the Commission Staff's Request for Information.

13 **Q. As a result of the operation of the environmental surcharge during the billing**
14 **period under review, is an adjustment to the revenue requirement necessary?**

15 A. Yes. KU experienced a cumulative over-recovery of \$9,204,042 for the billing period
16 ending October 31, 2010. KU's response to Question No. 2 of the Commission
17 Staff's Request for Information shows the calculation of the cumulative over-
18 recovery. However, KU is adjusting this over-recovery position for a correction
19 made in the review period in this proceeding that affected the February 2010 expense
20 month. A prior period adjustment of \$3,913,660 was included in the April 2010
21 expense month filing submitted to the Commission on May 17, 2010. The net over-
22 recovery position which KU is submitting in this proceeding is \$5,290,382.
23 Therefore, an adjustment to the revenue requirement is necessary to reconcile the

1 collection of past surcharge revenues with the actual cost for the billing period under
2 review.

3 **Q. Why is KU making the adjustment discussed above to the recovery position**
4 **contained in this review period?**

5 A. In the April 2010 expense month filing submitted to the Commission on May 17,
6 2010, KU identified an error in the amount of ECR revenue reported as collected
7 through base rates for the February 2010 expense month filing. This reporting error
8 resulted in an under-collection of \$3,913,660 of February 2010 expenses through the
9 April 2010 ECR billing factor. This under-collection was included in the April 2010
10 expense month filing and recovered through the June 2010 billing factor. Because
11 KU made an adjustment in its monthly filings, the effect of the reporting error must
12 be eliminated from the calculation of the current over-recovery position.

13 **Q. Did KU include an adjustment in its previous six-month review case?**

14 A. Yes. In Case No. 2010-00241, KU included an adjustment as part of the calculation
15 of the under-recovery in that proceeding. As previously stated, because KU made an
16 adjustment to its monthly filings, the effect of the reporting error must be eliminated
17 from both the previous and current recovery positions.

18 Without an adjustment in the previous and current review periods, the
19 reporting error would result in an overstatement of the under-recovery position in the
20 previous review period and an overstatement of the over-recovery position in the
21 current review period as shown on the following table.

22

23

	Six-Month Review Expense Period Sep09-Feb10	Six-Month Review Expense Period Mar10-Aug10
Cumulative Over/(Under) Recovery	(\$4,490,751)	\$9,204,042
Feb10 Expense Month Correction	<u>\$3,913,660</u>	<u>(\$3,913,660)</u>
Net Over/(Under) Recovery	(\$577,091)	\$5,290,382

1

2 **Q. Has KU identified the causes of the net over-recovery during the billing period**
3 **under review?**

4 A. Yes. KU has identified the components that make up the net over-recovery during
5 the billing period under review. The components are (1) changes in overall rate of
6 return as previously discussed, and (2) the use of 12 month average revenues to
7 determine the billing factor. In addition, as discussed above the error contained in the
8 February 2010 expense month filing that was identified in April 2010 and considered
9 in the previous review proceeding is contributing to the over-recovery position in this
10 period. The details and support of the components that make up the net over-
11 recovery during the billing period under review are shown in KU's response to
12 Question No. 2 of the Commission Staff's Request for Information.

13 With the transition to the revenue requirement method in the previous review
14 period, the BESF is no longer impacting the calculation of the over/(under) recovery
15 position. As previously discussed, the monthly billing factors for the billing period
16 under review were calculated using the revenue requirement method.

17 **Q. Please explain how the function of the ECR mechanism contributes to the net**
18 **over-recovery in the billing period under review?**

19 A. The use of 12-month average revenues to calculate the monthly billing factor and
20 then applying that same billing factor to the actual monthly revenues will result in an

1 over or under-collection of ECR revenues. Typically it will result in an over-
 2 collection during the summer or winter months when actual revenues will generally
 3 be greater than the 12-month average and an under-collection during the shoulder
 4 months when actual revenues will generally be less than the 12-month average. In
 5 the billing period under review, the use of 12-month average revenues contributed to
 6 the net over-recovery as shown in KU's response to Question No. 2 of the
 7 Commission Staff's Request for Information.

8 During the period under review, KU's actual revenues were significantly
 9 greater than the 12-month historical average due to the warmer than normal
 10 temperatures during the summer period. The table below shows a comparison of the
 11 12-month average revenues used in the monthly filings to determine the ECR billing
 12 factor and the actual revenues which the ECR billing factor was applied in the billing
 13 month.

Expense Month	12-month Average Revenue	Billing Month	Actual Revenue ECR applied to
March 2010	\$90,675,794	May 2010	\$83,401,491
April 2010	\$90,787,105	June 2010	\$97,547,335
May 2010	\$91,514,672	July 2010	\$111,492,036
June 2010	\$92,476,215	August 2010	\$125,001,207
July 2010	\$94,995,288	September 2010	\$122,569,244
August 2010	\$97,785,530	October 2010	\$97,322,258

14
 15 **Q. What kind of adjustment is KU proposing in this case as a result of the operation**
 16 **of the environmental surcharge during the billing period?**

17 A. KU is proposing that the net over-recovery be refunded over the six months following
 18 the Commission's Order in this proceeding. Specifically, KU recommends that the
 19 Commission approve a decrease to the Environmental Surcharge Revenue

1 Requirement of \$881,730 for five months and \$881,732 for one month, beginning in
2 the second full billing month following the Commission's Order in this proceeding.
3 This method is consistent with the method of implementing previous over- or under-
4 recovery positions in prior ECR review cases.

5 **Q. What is the bill impact on a residential customer for the proposed refund of the**
6 **over-recovery?**

7 A. The inclusion of the refund in the determination of the ECR billing factor will
8 decrease the billing factor by approximately 0.86%. For a residential customer using
9 1,000 kWh the ECR billing factor will decrease by approximately \$0.69 per month
10 for six months (using rates and adjustment clause factors in effect for the January
11 2011 billing month).

12 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**
13 **Commission's Order in this proceeding?**

14 A. KU is recommending an overall rate of return on capital of 11.04%, including the
15 currently approved 10.63% return on equity and adjusted capitalization, to be used to
16 calculate the environmental surcharge. This is based on capitalization as of August
17 31, 2010 and the Commission's Order of July 30, 2010 in Case No. 2009-00548.

18 **Q. What is your recommendation to the Commission in this case?**

19 A. KU makes the following recommendations to the Commission in this case:

20 a) The Commission should approve the proposed decrease to the Environmental
21 Surcharge Revenue Requirement of \$881,730 per month for five months and
22 \$881,732 for one month beginning in the second full billing month following
23 the Commission's Order in this proceeding;

1 b) The Commission should determine environmental surcharge amount for the
2 six-month billing period ending October 31, 2010 to be just and reasonable;

3 c) The Commission should approve the use of an overall rate of return on capital
4 of 11.04% using a return on equity of 10.63% beginning in the second full
5 billing month following the Commission's Order in this proceeding.

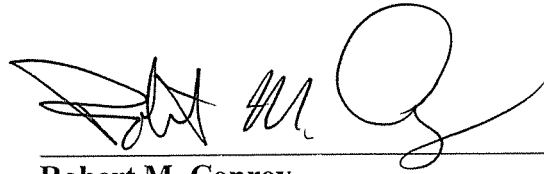
6 **Q. Does this conclude your testimony?**

7 A. Yes.

VERIFICATION

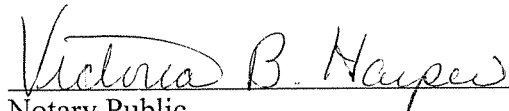
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.



Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 11th day of January 2011.



Notary Public (SEAL)

My Commission Expires:

September 22, 2014

APPENDIX A

Robert M. Conroy

Director – Rates
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3324

Education

Masters of Business Administration
Indiana University (Southeast campus), December 1998. GPA: 3.9.
Bachelor of Science in Electrical Engineering;
Rose Hulman Institute of Technology, May 1987. GPA: 3.3
Essentials of Leadership, London Business School, 2004.
Center for Creative Leadership, Foundations in Leadership program, 1998.
Registered Professional Engineer in Kentucky, 1995.

Previous Positions

Manager, Rates	April 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH) 2010-00474
BILLING PERIOD ENDING OCTOBER 31, 2010)**

**RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED DECEMBER 27, 2010**

FILED: January 12, 2011

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00474

Question No. 1

Witness: Robert M. Conroy / Shannon L. Charnas

Q-1. Concerning the rate of return on the five amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review.

A-1. Please see the attachment.

KU calculated the true-up adjustment to recognize changes in the cost of debt and capital structure in two steps, shown on Pages 1 and 2 of the attachment to this response. Page 1 reflects the true-up required due to the changes between the Rate Base as filed and the Rate Base as Revised through the Monthly Filings. However, during the period under review there were no revisions to reflect. Page 2 represents the true-up in the Rate of Return as filed compared to the actual Rate of Return calculations. No further revisions to Rate Base were identified during this review period.

Page 3 provides the adjusted weighted average cost of capital for the period under review.

KU did not engage in accounts receivable financing or have any preferred stock during the period under review.

Kentucky Utilities Company
Overall Rate of Return True-up Adjustment - Revised Rate Base
Impact on Calculated E(m)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base	True-up Adjustment	Jurisdictional Allocation, ES Form 1 10	Jurisdictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
May-10	Mar-10	11.00%	\$1,339,171,507	\$1,339,171,507	\$ -	\$ -	89.28%	\$ -
Jun-10	Apr-10	11.00%	1,346,901,929	1,346,901,929	-	-	87.37%	-
Jul-10	May-10	11.12%	1,355,942,350	1,355,942,350	-	-	86.68%	-
Aug-10	Jun-10	11.12%	1,361,085,613	1,361,085,613	-	-	86.14%	-
Sep-10	Jul-10	11.12%	1,360,915,177	1,360,915,177	-	-	86.06%	-
Oct-10	Aug-10	11.12%	1,194,564,467	1,194,564,467	-	-	87.69%	-
						\$ -		\$ -
Cumulative Impact of Changes in Rate Base						\$ -		\$ -

Kentucky Utilities Company
Overall Rate of Return True-up Adjustment - Revised Rate of Return
Impact on Calculated E(m)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return	Rate Base as Revised	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
May-10	Mar-10	11 00%	10 90%	-0 10%	\$ 1,339,171,507	(111,598)	89 28%	(99,634)
Jun-10	Apr-10	11 00%	10 90%	-0 10%	1,346,901,929	(112,242)	87 37%	(98,066)
Jul-10	May-10	11 12%	10 90%	-0 22%	1,355,942,350	(248,589)	86 68%	(215,477)
Aug-10	Jun-10	11 12%	10 90%	-0 22%	1,361,085,613	(249,532)	86 14%	(214,947)
Sep-10	Jul-10	11 12%	10 90%	-0 22%	1,360,915,177	(249,501)	86 06%	(214,721)
Oct-10	Aug-10	11 12%	10 90%	-0 22%	1,194,564,467	(219,003)	87 69%	(192,044)
						(1,190,466)		(1,034,889)
Cumulative Impact of Changes in Rate of Return					\$	(1,190,466)		\$ (1,034,889)

KENTUCKY UTILITIES

**Adjusted Electric Rate of Return on Common Equity
As of October 31, 2010**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Per Books 10-31-10	Capital Structure	Undistributed Subsidiary Earnings	Investment in EEI (Col. 2 x Col. 4 Line 4)	Investments in OVEC and Other (Col. 2 x Col. 5 Line 4)	Adjustments to Total Co. Capitalization (Sum of Col. 3 - Col. 5)	Adjusted Total Company Capitalization (Col. 1 + Col. 6)	Jurisdictional Rate Base Percentage (8)	Kentucky Jurisdictional Capitalization (Col. 7 x Col. 8) (9)
1. Short Term Debt	\$ 93,681,954	2.46%	\$ -	\$ 48,278	\$ (10,556)	\$ 37,722	\$ 93,719,676	87.19%	\$ 81,714,186
2. Long Term Debt	1,681,779,405	44.11%	-	865,660	(189,285)	676,375	1,682,455,780	87.19%	1,466,933,195
3. Common Equity	2,037,441,180	53.43%	(8,701,141)	1,048,565	(229,280)	(7,881,856)	2,029,559,324	87.19%	1,769,572,775
4. Total Capitalization	\$ 3,812,902,539	100.0000%	\$ (8,701,141)	\$ 1,962,503	\$ (429,121)	\$ (7,167,759)	\$ 3,805,734,780		\$ 3,318,220,156

	(10)	(11)	(12)	(13)	(14)	(15)
	Capital Structure	Environmental Surcharge (Net of ECR Roll-in) (Col. 10 x Col. 11 Line 4)	Adjusted Kentucky Jurisdictional Capitalization (Col. 9 + Col. 11)	Adjusted Capital Structure	Annual Cost Rate	Cost of Capital (Col. 14 x Col. 13)
1. Short Term Debt	2.46%	\$ (4,579,749)	\$ 77,134,437	2.46%	0.25%	0.01%
2. Long Term Debt	44.21%	(82,305,157)	1,384,628,038	44.21%	4.68%	2.07%
3. Common Equity	53.33%	(99,283,736)	1,670,289,039	53.33%	10.63%	5.67%
4. Total Capitalization	100.0000%	\$ (186,168,642)	\$ 3,132,051,514	100.0000%		7.75%
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])						10.90%

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00474

Question No. 2

Witness: Robert M. Conroy

Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.

A-2. Please see the attachment to this response for the summary schedule and cumulative components which make up the net over-recovery.

For the period under review, KU experienced a cumulative over-recovery of \$9,204,042. However, KU is adjusting this over-recovery position for a correction made in this review period that affected the February 2010 expense month as shown on page 2 of 3 on the attached schedule. The original February 2010 expense month filing included an overstatement of the ECR revenue collected through base rates, resulting in an under-recovery of \$3,913,660. The adjustment to correct the overstatement was shown as a prior period adjustment in the April 2010 expense month filing and was recovered through the June 2010 billing factor. Since an adjustment was made in the monthly filings, KU made an adjustment in the previous review period (Case No. 2010-00241) and a corresponding adjustment in this review period to eliminate the effect of the correction. The result is a net over-recovery of \$5,290,382 for the 6-month billing period under review.

Kentucky Utilities Company
Calculation of E(m) and Jurisdictional Surchage Billing Factor
Summary Schedule for Expense Months March 2010 through October 2010

(1) Expense Month	(2) Rate Base as Revised	(3) Monthly Rate Base as Revised	(4) Rate of Return as Revised	(5) Operating Expenses (net of allowance proceeds)	(6) Total E(m)	(7) Retail Allocation Ratio	(8) Retail E(m)	Comments: As Revised in This Review
	ES Form 2.00	(2) / 12		ES Form 2.00	(3) * (4) + (5)	ES Form 1.10	(6) * (7)	
Mar-10	\$1,339,171,507	111,597,626	10.90%	4,139,992	16,304,133	89.28%	14,556,330	
Apr-10	1,346,901,929	112,241,827	10.90%	4,163,238	16,397,597	87.37%	14,326,581	
May-10	1,355,942,350	112,995,196	10.90%	4,197,820	16,514,296	86.68%	14,314,592	
Jun-10	1,361,085,613	113,423,801	10.90%	4,947,757	17,310,951	86.14%	14,911,653	
Jul-10	1,360,915,177	113,409,598	10.90%	5,581,875	17,943,521	86.06%	15,442,194	
Aug-10	1,194,564,467	99,547,039	10.90%	4,957,446	15,808,073	87.69%	13,862,099	
	7,958,581,043	663,215,087						

(1) Expense Month	(2) Retail E(m)	(3) Adjustment to Retail E(m) for Under-Collection	(4) Retail E(m) Including all Adjustments to be billed as ECR	(5) Average Monthly Retail Revenues	(6) Monthly Billing Factor	(7) ECR Revenue Recovered Through Base Rates	(8) Billing Period	(9) ECR Billing Factor Revenues	(10) Combined Total Over/(Under) Recovery
		Case No. 09-310 & 09-501		ES Form 1.10	As Filed				(4) - (7) - (9)
Mar-10	14,556,330	636,994	15,193,324	90,675,794	2.24%	13,245,471	May-10	1,775,548	(172,305)
Apr-10	14,326,581	636,995	14,963,576	90,787,105	9.29%	10,537,898	Jun-10	8,898,569	4,472,891
May-10	14,314,592	1,254,646	15,569,238	91,514,672	6.51%	9,824,353	Jul-10	7,329,791	1,584,906
Jun-10	14,911,653	617,651	15,529,304	92,476,215	4.44%	11,640,249	Aug-10	5,630,958	1,741,903
Jul-10	15,442,194	617,651	16,059,845	94,995,288	3.62%	12,833,319	Sep-10	4,465,805	1,239,278
Aug-10	13,862,099	617,651	14,479,750	97,785,530	0.57%	14,138,624	Oct-10	678,496	337,370
	87,413,450		91,795,038			72,219,914		28,779,166	9,204,042
									(3,913,660)
									5,290,382

Correction to Feb10 expense month filed with Apr10 monthly filing

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2010 through August 2010

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return (4) - (3)	Rate Base as Revised	Impact of change in Rate of Return (5) * (6) / 12	Jurisdictional Allocation, ES Form 1 00	Jursidictional Impact (7) * (8)
May-10	Mar-10	11.00%	10.90%	-0.10%	\$1,339,171,507	111,598	89.28%	99,634
Jun-10	Apr-10	11.00%	10.90%	-0.10%	1,346,901,929	112,242	87.37%	98,066
Jul-10	May-10	11.12%	10.90%	-0.22%	1,355,942,350	248,589	86.68%	215,477
Aug-10	Jun-10	11.12%	10.90%	-0.22%	1,361,085,613	249,532	86.14%	214,947
Sep-10	Jul-10	11.12%	10.90%	-0.22%	1,360,915,177	249,501	86.06%	214,721
Oct-10	Aug-10	11.12%	10.90%	-0.22%	1,194,564,467	219,003	87.69%	192,044
Cumulative Impact of Changes in Rate of Return						\$ 1,190,466		\$ 1,034,889

(1)	(2)	(3)	(4)	(5)	(6)
Recovery Position Explanation - Over/(Under)					
Billing Month	Expense Month	Combined Total Over/(Under) Recovery (Q2, pg 2, Col 10)	ROR Trueup	Use of 12 Month Average Revenues	Correction to Feb10 Expense Month Filing / Included in Apr10 Expense Month
May-10	Mar-10	(172,305)	99,634	(271,940)	
Jun-10	Apr-10	4,472,891	98,066	461,165	3,913,660
Jul-10	May-10	1,584,906	215,477	1,369,428	
Aug-10	Jun-10	1,741,903	214,947	1,526,956	
Sep-10	Jul-10	1,239,278	214,721	1,024,557	
Oct-10	Aug-10	337,370	192,044	145,326	
		9,204,042	1,034,889	4,255,493	3,913,660
Feb10 Expense Mo. Correction		(3,913,660)			
Net Over/(Under) Recovery		5,290,382			

OVER/UNDER RECONCILIATION	
Combined Over/(Under) Recovery	9,204,042
Due to Change in ROR	1,034,889
Use of 12 Month Average Revenues	4,255,493
Due to Feb10 Expense Mo. Correction	3,913,660
Subtotal	9,204,042
Unreconciled Difference	-

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00474

Question No. 3

Witness: Shannon L. Charnas

Q-3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes.

A-3. KU calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

In KU's most recent rate case, Case No. 2009-00548, the Commission approved the elimination of the 2001 and 2003 ECR Compliance Plans effective with the August 2010 expense month. Therefore, the attachment includes the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes for the 2001 and 2003 projects as reported each month through the July 2010 expense month.

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2001 - Plan
Project 17 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							31,683,256	
Mar-10	216,964,277	558,726	1,545,359	986,633	38.9000%	42,504	31,725,760	205,174
Apr-10	216,964,277	558,726	1,545,359	986,633	38.9000%	42,504	31,768,264	205,174
May-10	216,964,277	558,726	1,545,359	986,633	38.9000%	42,504	31,810,768	205,174
Jun-10	216,964,277	558,726	1,545,359	986,633	38.9000%	42,504	31,853,272	205,174
Jul-10	216,964,277	558,726	1,545,359	986,633	38.9000%	42,504	31,895,774	205,174
Aug-10								

Note: Due to Bonus Depreciation for tax purposes, taken on certain components of Project 17, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2005 received 30% bonus depreciation, which reduces the Federal tax basis to 70% of the plant balance. A sample calculation of deferred taxes for Mar 2010 is shown below:

Federal Basis	Book Depr.	Federal Tax Depr	Fed Difference	Fed Tax Rate	Fed Def Tax
151,874,994	558,726	641,733	83,007	35.0000%	29,052
State Basis	Book Depr.	State Tax Depr	St Difference	State Tax Rate	St Def Tax
-	558,726	903,626	344,900	6.0000%	20,694

St Offset for Fed Taxes not Owed
(7,243)

Total Deferred Tax
42,504

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2003 - Plan
Project 18 -- New Ash Storage

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-10	16,148,295	37,545	111,821	74,276	38.9000%	4,076	2,458,258	-
Apr-10	16,148,295	37,545	111,821	74,276	38.9000%	4,076	2,462,334	-
May-10	16,148,295	37,545	111,821	74,276	38.9000%	4,076	2,466,410	-
Jun-10	16,148,295	37,545	111,821	74,276	38.9000%	4,076	2,470,486	-
Jul-10	16,148,295	37,545	111,821	74,276	38.9000%	4,076	2,474,562	-
Aug-10	16,148,295	37,545	111,821	74,276	38.9000%	4,076	2,478,637	-

Note: Due to Bonus Depreciation for tax purposes taken on Project 18, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2005 received 30% bonus depreciation, which reduces the Federal tax basis to 70% of the plant balance. A sample calculation of deferred taxes for Mar 2010 is shown below:

Federal Basis	Book Depr	Federal Tax Depr	Fed Difference	Fed Tax Rate	Fed Def Tax
11,303,807	37,545	46,044	8,499	35.0000%	2,975
State Basis	Book Depr	State Tax Depr	St Difference	State Tax Rate	St Def Tax
16,148,295	37,545	65,777	28,232	6.0000%	1,694

St Offset for Fed Taxes not Owed
(593)

Total Deferred Tax
4,076

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 19 -- Ash Handling at Ghent 1 and Ghent Station

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-10	835,046	1,941	6,234	4,293	38.9000%	1,670	57,065	79,280
Apr-10	835,046	1,941	6,234	4,293	38.9000%	1,670	60,405	79,280
May-10	835,046	1,941	6,234	4,293	38.9000%	1,670	62,075	79,280
Jun-10	835,046	1,941	6,234	4,293	38.9000%	1,670	63,745	79,280
Jul-10	835,046	1,941	6,234	4,293	38.9000%	1,670	65,415	79,280
Aug-10	835,046	1,941	6,234	4,293	38.9000%	1,670	67,081	79,280

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 20 -- Ash Treatment Basin at E.W. Brown

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-10	19,697,162	45,960	240,816	194,856	38.9000%	75,799	1,508,042	-
Apr-10	19,697,162	45,960	240,816	194,856	38.9000%	75,799	1,583,841	-
May-10	19,697,162	45,960	240,816	194,856	38.9000%	75,799	1,659,640	-
Jun-10	19,697,162	45,960	240,816	194,856	38.9000%	75,799	1,735,439	-
Jul-10	19,697,162	45,960	240,816	194,856	38.9000%	75,799	1,811,238	-
Aug-10	19,697,162	45,960	240,816	194,856	38.9000%	75,799	1,887,037	-
							1,962,840	-

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan
Project 21 -- FGD's

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							25,440,671	
Mar-10	592,380,842	1,861,835	5,410,745	3,548,910	38.9000%	1,380,526	26,821,197	761,567
Apr-10	600,184,169	1,886,360	6,465,123	4,578,763	38.9000%	1,781,139	28,602,336	761,567
May-10	600,184,169	1,886,360	5,483,854	3,597,494	38.9000%	1,399,425	30,001,761	761,567
Jun-10	970,835,852	2,438,766	9,984,630	7,545,864	38.9000%	2,935,341	32,937,102	761,567
Jul-10	970,835,852	2,991,171	9,984,630	6,993,459	38.9000%	2,720,456	35,657,558	761,567
Aug-10	970,835,852	2,991,171	9,984,630	6,993,459	38.9000%	2,720,456	38,378,013	761,567

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 23 -- TC2 AQCS Equipment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-10	-	-	-	-	38.9000%	-	-	-
Apr-10	-	-	-	-	38.9000%	-	-	-
May-10	-	-	-	-	38.9000%	-	-	-
Jun-10	-	-	-	-	38.9000%	-	-	-
Jul-10	-	-	-	-	38.9000%	-	-	-
Aug-10	-	-	-	-	38.9000%	-	-	-

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 24 -- Sorbent Injection

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							400,286	
Mar-10	7,397,285	16,679	69,309	52,630	38.9000%	20,473	420,759	-
Apr-10	7,397,285	16,679	69,309	52,630	38.9000%	20,473	441,232	-
May-10	12,751,272	23,139	130,052	106,913	38.9000%	41,589	482,821	6,147
Jun-10	12,751,272	29,598	130,052	100,454	38.9000%	39,077	521,898	6,147
Jul-10	12,751,272	29,598	130,052	100,454	38.9000%	39,077	560,975	6,147
Aug-10	12,751,272	29,598	130,052	100,454	38.9000%	39,077	600,048	6,147

Kentucky Utilities Company
 Deferred Tax Calculations
 Environmental Compliance Plans, by Approved Project

2006 - Plan
 Project 25 -- Mercury Monitors

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							36,333	
Mar-10	1,031,953	3,424	8,187	4,763	38.9000%	1,853	38,186	-
Apr-10	1,031,953	3,424	8,187	4,763	38.9000%	1,853	40,039	-
May-10	1,031,953	3,424	8,187	4,763	38.9000%	1,853	41,891	-
Jun-10	1,031,953	3,424	8,187	4,763	38.9000%	1,853	43,744	-
Jul-10	1,031,953	3,424	8,187	4,763	38.9000%	1,853	45,597	-
Aug-10	1,031,953	3,424	8,187	4,763	38.9000%	1,853	47,460	-

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 27 -- E.W. Brown Electrostatic Precipitators

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							19,378	
Mar-10	1,354,119	3,388	8,419	5,031	38.9000%	1,957	21,335	2,274
Apr-10	1,354,119	3,388	8,419	5,031	38.9000%	1,957	23,292	2,274
May-10	1,354,119	3,388	8,419	5,031	38.9000%	1,957	25,249	2,274
Jun-10	1,349,165	3,382	8,400	5,018	38.9000%	1,952	27,201	7,850
Jul-10	1,349,165	3,376	8,400	5,024	38.9000%	1,954	29,156	7,850
Aug-10	1,349,165	3,376	8,400	5,024	38.9000%	1,954	31,105	7,850

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00474

Question No. 4

Witness: Shannon L. Charnas

Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the March 2010 through August 2010 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.

A-4. Please find the attached schedule showing the changes in the operations and maintenance expense accounts for March 2010 through August 2010 expense months. The changes in the expense levels are reasonable and generally occurred as a part of routine plant operations and maintenance or normal annual testing expenses.

Monthly variances within account 506104, NOx operation expenses, reflect normal SCR operations. The variances for account 506104 are caused by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality. This account was eliminated from the ECR beginning August 2010 per Kentucky Commission Order No. 2009-00548.

Fluctuations in the NOx maintenance expenses, account 512101, are the result of routine SCR monthly maintenance. Expenses in March and April 2010 are higher than typical months due to timing of preventative maintenance on the SCR. This account was eliminated from the ECR beginning August 2010 per Kentucky Commission Order No. 2009-00548.

Fluctuations in the scrubber operation expenses, account 502006, are the result of regular operation of FGDs at Ghent. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate.

Fluctuations in the scrubber maintenance expenses, account 512005, are the result of gypsum stack maintenance. These expenses vary with the amount of gypsum produced and relocated to the stack or pile.

Fluctuations in sorbent injection operation expenses, account 506109, result from on-going system operations of Ghent Units 1, 3 and 4. March and April have lower

expenses due to planned unit outages for maintenance at Ghent Unit 1 & 4 during this time period.

Fluctuations in sorbent injection maintenance expenses, account 512102, are the result of normal system maintenance. Slight increases in May, June and August 2010 are the result of preventive maintenance, SO₃ testing and platform welding maintenance in the respective months.

The mercury monitor maintenance account 512103 includes the purchase of a 12-month maintenance support agreement to provide post installation service at Ghent.

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	% Change from Prior Period	% Change from Prior Period	% Change from Prior Period
2001 Plan									
506104 NOx Operation - Consumables	248,215.90	152,812.67	220,715.56	269,562.44	262,790.40	-	-3%	-	-100%
506105 NOx Operation - Labor and Other	-	-	-	-	-	-	0%	-	0%
512101 NOx Maintenance	84,167.35	92,238.51	9,593.14	16,068.93	12,556.94	-	-22%	-	-100%
Total 2001 Plan O&M Expenses	332,383.25	245,051.18	230,308.70	285,631.37	275,347.34	-	-4%	-	-100%
2005 Plan									
502006 Scrubber Operations	229,898.47	251,446.60	349,019.84	364,676.21	359,301.29	321,078.91	-1%	-	-11%
512005 Scrubber Maintenance	235,190.64	118,686.66	105,636.14	161,662.95	171,817.74	249,233.67	53%	6%	45%
Total 2005 Plan O&M Expenses	465,089.11	370,133.26	454,655.98	526,339.16	531,119.03	570,312.58	16%	1%	7%
2006 Plan									
506109 Sorbent Injection Operation	555,923.08	535,192.35	712,616.34	759,014.78	854,254.51	1,082,896.81	7%	13%	27%
512102 Sorbent Injection Maintenance	9,796.65	7,248.63	21,507.03	27,220.77	6,637.77	18,649.17	27%	-76%	181%
506110 Mercury Monitors Operation	-	-	-	-	-	-	0%	0%	0%
512103 Mercury Monitors Maintenance	-	-	-	-	-	-	0%	100%	-100%
506104 NOx Operation - Consumables	-	-	-	-	-	-	0%	0%	0%
506105 NOx Operation - Labor and Other	-	-	-	-	-	-	0%	0%	0%
512101 NOx Maintenance	-	-	-	-	-	-	0%	0%	0%
502006 Scrubber Operations	-	-	-	-	-	-	0%	0%	0%
512005 Scrubber Maintenance	-	-	-	-	-	-	0%	0%	0%
506001 Precipitator Operation	-	-	-	-	-	-	0%	0%	0%
506111 Activated Carbon	-	-	-	-	-	-	0%	0%	0%
512011 Precipitator Maintenance	-	-	-	-	-	-	0%	0%	0%
Total 2006 Plan O&M Expenses	565,719.73	542,440.98	734,123.37	786,235.55	870,960.28	1,101,545.98	7%	11%	26%
2009 Plan									
506104 NOx Operation - Consumables	-	-	-	-	-	-	0%	0%	0%
506105 NOx Operation - Labor and Other	-	-	-	-	-	-	0%	0%	0%
512101 NOx Maintenance	-	-	-	-	-	-	0%	0%	0%
506109 Sorbent Injection Operation	-	-	-	-	-	-	0%	0%	0%
512102 Sorbent Injection Maintenance	-	-	-	-	-	-	0%	0%	0%
502012 ECR Landfill Operations	-	-	-	-	-	-	0%	0%	0%
512105 ECR Landfill Maintenance	-	-	-	-	-	-	0%	0%	0%
Adjustment for CCP Disposal in Base Rates (ES Form 2.51)	-	-	-	-	-	-	0%	0%	0%
Total 2009 Plan O&M Expenses	-	-	-	-	-	-	0%	0%	0%

The 2001 Plan was eliminated from ECR recovery in August 2010 per PSC Order No. 2009-00548.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00474

Question No. 5

Witness: Shannon L. Charnas

- Q-5. In Case No. 2000-00439, the Commission ordered that KU's cost of debt and preferred stock would be reviewed and reestablished during the six-month review case. Provide the following information as of August 31, 2010:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.
 - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
 - c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-5.
- a. Please see the attachment. There was no preferred stock as of August 31, 2010, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of August 31, 2010, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. KU is utilizing a return on equity of 10.63% as agreed to and approved by the Commission in its July 30, 2010 Order in Case No. 2009-00548.

Kentucky Utilities Company
Outstanding Balances - Capitalization
As of August 31, 2010

1	2	3
	Outstanding Balance Total Company	Outstanding Balance KY Jurisdictional 87.19%
1 Long-Term Debt	\$1,681,779,405	\$1,466,343,463
2 Short-Term Debt	\$60,299,954	\$52,575,530
3 Common Equity	\$2,067,796,361	\$1,802,911,647

Kentucky Utilities Company
Blended Interest Rates
As of August 31, 2010

	1
	Blended Interest Rate Total Company / KY Jurisdictional
	<hr/>
1 Long-Term Debt	4.69%
2 Short-Term Debt	0.28%

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2010

LONG-TERM DEBT

	Due	Rate	Principal	Interest	Annualized Cost			Letter of Credit and other fees	Total	Embedded Cost
					Amortized Debt Issuance Expense	Amortized Loss- Reacquired Debt				
Pollution Control Bonds										
Mercer Co 2000 Series A	05/01/23	0.38000% *	\$ 12,900,000	\$ 49,020	\$ -	\$ 46,743	\$ 94,413 ^a	\$ 190,176	1.474%	
Carroll Co 2002 Series A	02/01/32	0.60000% *	20,930,000	125,580	4,104	36,300	20,930 ^b	186,914	0.893%	
Carroll Co 2002 Series B	02/01/32	0.60000% *	2,400,000	14,400	2,856	4,164	2,400 ^b	23,820	0.993%	
Muhlenberg Co 2002 Series A	02/01/32	0.60000% *	2,400,000	14,400	1,140	12,744	2,400 ^b	30,684	1.279%	
Mercer Co 2002 Series A	02/01/32	0.60000% *	7,400,000	44,400	3,180	12,900	7,400 ^b	67,880	0.917%	
Carroll Co 2002 Series C	10/01/32	0.57800% *	96,000,000	554,880	73,658	186,036	240,000 ^c	1,054,574	1.099%	
Carroll Co 2004 Series A	10/01/34	0.36000% *	50,000,000	180,000	-	105,023	409,041 ^d	694,064	1.388%	
Carroll Co 2006 Series B	10/01/34	0.36000% *	54,000,000	194,400	47,920	-	441,990 ^d	684,310	1.267%	
Carroll Co 2007 Series A	02/01/26	5.75000% *	17,875,000	1,027,813	33,342	-	-	1,061,155	5.937%	
Trimble Co 2007 Series A	03/01/37	6.00000% *	8,927,000	535,620	16,072	-	-	551,692	6.180%	
Carroll Co 2008 Series A	02/01/32	0.36000% *	77,947,405	280,611	34,400	-	636,669 ^d	951,680	1.221%	
Called Bonds			-	-	-	201,063 ^e	-	201,063	0.000%	
Total External Debt			\$ 350,779,405	\$ 3,021,124	\$ 216,672	\$ 604,973	\$ 1,855,243	\$ 5,698,012	0.339%	
Notes Payable to Fidelity Corp	11/24/10	4.240%	\$ 33,000,000 ²	\$ 1,399,200	\$ -	\$ -	\$ -	\$ 1,399,200	4.240%	
Notes Payable to Fidelity Corp	01/16/12	4.390%	50,000,000	2,195,000	-	-	-	2,195,000	4.390%	
Notes Payable to Fidelity Corp	04/30/13	4.550%	100,000,000	4,550,000	-	-	-	4,550,000	4.550%	
Notes Payable to Fidelity Corp	08/15/13	5.310%	75,000,000	3,982,500	-	-	-	3,982,500	5.310%	
Notes Payable to Fidelity Corp	12/19/14	5.450%	100,000,000	5,450,000	-	-	-	5,450,000	5.450%	
Notes Payable to Fidelity Corp	07/08/15	4.735%	50,000,000	2,367,500	-	-	-	2,367,500	4.735%	
Notes Payable to Fidelity Corp	12/21/15	5.360%	75,000,000	4,020,000	-	-	-	4,020,000	5.360%	
Notes Payable to Fidelity Corp	10/25/16	5.675%	50,000,000	2,837,500	-	-	-	2,837,500	5.675%	
Notes Payable to Fidelity Corp	06/20/17	5.980%	50,000,000	2,990,000	-	-	-	2,990,000	5.980%	
Notes Payable to Fidelity Corp	07/25/18	6.160%	50,000,000	3,080,000	-	-	-	3,080,000	6.160%	
Notes Payable to Fidelity Corp	08/27/18	5.645%	50,000,000	2,822,500	-	-	-	2,822,500	5.645%	
Notes Payable to Fidelity Corp	12/17/18	7.035%	75,000,000	5,276,250	-	-	-	5,276,250	7.035%	
Notes Payable to Fidelity Corp	10/25/19	5.710%	70,000,000	3,997,000	-	-	-	3,997,000	5.710%	
Notes Payable to Fidelity Corp	02/07/22	5.690%	53,000,000	3,015,700	-	-	-	3,015,700	5.690%	
Notes Payable to Fidelity Corp	05/22/23	5.850%	75,000,000	4,387,500	-	-	-	4,387,500	5.850%	
Notes Payable to Fidelity Corp	09/14/28	5.960%	100,000,000	5,960,000	-	-	-	5,960,000	5.960%	
Notes Payable to Fidelity Corp	06/23/36	6.330%	50,000,000	3,165,000	-	-	-	3,165,000	6.330%	
Notes Payable to Fidelity Corp	03/30/37	5.860%	75,000,000	4,395,000	-	-	-	4,395,000	5.860%	
Notes Payable to Fidelity Corp	04/24/17	5.280%	50,000,000	2,640,000	-	-	-	2,640,000	5.280%	
Notes Payable to Fidelity Corp	07/29/19	4.810%	50,000,000	2,405,000	-	-	-	2,405,000	4.810%	
Notes Payable to Fidelity Corp	11/25/19	4.445%	50,000,000	2,222,500	-	-	-	2,222,500	4.445%	
Total Internal Debt			\$ 1,331,000,000	\$ 73,158,150	\$ -	\$ -	\$ -	\$ 73,158,150	4.350%	
Total			\$ 1,681,779,405	\$ 76,179,274	\$ 216,672	\$ 604,973	\$ 1,855,243	\$ 78,856,162	4.689%	

SHORT TERM DEBT

	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
				Expense	Loss	Premium		
Notes Payable to Associated Company	0.280% *	\$ 60,299,954	\$ 168,840	\$ -	\$ -	\$ -	\$ 168,840	0.280%
Total		\$ 60,299,954	\$ 168,840	\$ -	\$ -	\$ -	\$ 168,840	0.280%

Embedded Cost of Total Debt \$ 1,742,079,359 \$ 76,348,114 \$ 216,672 \$ 604,973 \$ 1,855,243 \$ 79,025,002 **4.536%**

* Composite rate at end of current month

1 Series P and R bonds were redeemed in 2003, and 2005, respectively. They were not replaced with other bond series. The remaining unamortized expense is being amortized over the remainder of the original lives (due 5/15/07, 6/1/25, 6/1/35, and 6/1/36 respectively) of the bonds as loss on reacquired debt.

2 Current Portion of Long-Term Debt

Kentucky Utilities Company
 Outstanding Balances - Adjusted Jurisdictional Capitalization
 August 31, 2010

1	2	3	4	5	6	7
	Electric Only	Capital Structure	Cost Rate	Weighted Average Cost of Capital	Tax Gross-up Factor	Weighted Average Cost of Capital with Equity Gross-up
1 Long-Term Debt	1,392,025,319	44.25%	4.69%	2.08%		2.08%
2 Short-Term Debt	49,905,206	1.59%	0.28%	0.00%		0.00%
3 Common Equity	1,704,192,519	54.16%	10.63%	5.76%	0.56	8.96%
4 Total	3,146,123,044			7.84%		11.04%

Rate of Return (ROR) Grossed Up: 11.04%

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

See tax rate (TR) calculation on 5(c) page (2)

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2010**

	2010 Federal & State Production Credit W/ 6% 2010 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	<u>5.6604</u>	(37)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.3396	(1) - (3)
(7) a. Production Rate	9%	
(8) b. Allocation to Production Income	100%	
(9) c. Allocated Production Rate (a x b)	9.00%	
(10)		
(11) Less: Production tax credit	<u>8.4906</u>	(6) * (9)
(12)		
(13) Taxable income for Federal income tax	85.8490	(6) - (8)
(14)		
(15) Federal income tax	<u>30.0472</u>	(10) * 35%
(16)		
(17) Total State and Federal income taxes		
(18)	<u>\$ 35.7076</u>	(3) + (12)
(19)		
(20) Gross-up Revenue Factor	<u><u>64.2924</u></u>	100 - (15)
(21)		
(22) Therefore, the composite rate is:		
(23) Federal	30.0472%	(12) / 100
(24) State	<u>5.6604%</u>	(3) / 100
(25) Total	<u><u>35.7076%</u></u>	(20) + (21)
(26)		
(27)		
(28)		
(29)		
(30)		
(31) <u>State Income Tax Calculation</u>		
(32) Assume pre-tax income of	\$ 100.0000	
(33)		
(34) Production credit @ 6%	<u>5.6604</u>	(8)
(35)		
(36) Taxable income for State income tax	94.3396	(29) - (31)
(37)		
(38) State Tax Rate	<u>6.0000%</u>	
(39)		
(40) State Income Tax	<u><u>5.6604</u></u>	(33) * (35)

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated December 27, 2010**

Case No. 2010-00474

Question No. 6

Witness: Robert M. Conroy

Q-6. Provide the dollar impact the over-/under-recovery will have on the average residential customer's bill for the requested recovery period.

A-6. Based upon refunding the net over-recovered position of \$5,290,392 (\$881,730 per month) over six months, the ECR billing factor for a residential customer using 1,000 kWh will decrease by approximately \$0.69 per month, using rates and adjustment clause factors in effect for the January 2011 billing month.