

a PPL company

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

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OCT 07 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](http://www.lge-ku.com)

Robert M. Conroy  
Director - Rates  
T 502-627-3324  
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[robert.conroy@lge-ku.com](mailto:robert.conroy@lge-ku.com)

October 7, 2011

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION  
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF  
KENTUCKY UTILITIES COMPANY FOR THE TWO-YEAR  
BILLING PERIOD ENDING APRIL 30, 2011  
CASE NO. 2011-00231***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Revised Direct Testimony of Robert M. Conroy and the Response of Kentucky Utilities Company to the Commission Staff's Questions Raised at the Informal Conference held on September 28, 2011 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 'Robert M. Conroy'. The signature is stylized and cursive, with a large, sweeping flourish at the end.

Robert M. Conroy

Enclosures



**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 APRIL 30, 2011 )**

**CASE NO.  
2011-00231**

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

**Filed: October 7, 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 April 30, 2011 that is part of the  
15 two-year billing period also ending April 30, 2011, determine whether the surcharge  
16 amounts collected during the period are just and reasonable, and then incorporate or  
17 “roll-in” such surcharge amounts into KU’s existing electric base rates.

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

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

1 surcharge factors were calculated during the period under review. Further, my  
2 testimony will recommend that the cumulative ECR revenue requirement for the  
3 twelve-months ending with the expense month of February 2011 be used for purposes  
4 of incorporating or “rolling-into” KU’s electric base rates the appropriate surcharge  
5 amounts using the methodology previously approved by the Commission, most  
6 recently in Case No. 2009-00310.

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

9 A. KU billed an environmental surcharge to its customers from November 1, 2010  
10 through April 30, 2011. For purposes of the Commission’s examination in this case,  
11 the monthly KU environmental surcharges are considered as of the six-month billing  
12 period ending April 30, 2011; that same review period is part of the two-year billing  
13 period also ending April 30, 2011. (The three previous billing periods were reviewed  
14 in Cases No. 2009-00501, 2010-00241, and 2010-00474.) In each month of the six-  
15 month period under review in this proceeding, KU calculated the environmental  
16 surcharge factors in accordance with its tariff ES, and the requirements of the  
17 Commission’s previous orders concerning KU’s environmental surcharge.

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

20 A. The capital and operating costs included in the calculation of the environmental  
21 surcharge factors for the six-month billing period were the costs incurred each month  
22 by KU from September 2010 through February 2011, as detailed in the attachment in

1 response to Question No. 2 of the Commission Staff's Request for Information,  
2 incorporating all required revisions.

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

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

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

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

1 A. Yes. KU included a prior period adjustment in its January 2011 expense month  
2 filing, incorporating and adjustment to Construction Work in Process costs incurred  
3 for the expense months September 2009 through November 2010. No additional  
4 changes were identified as a result of preparing responses to the requests for  
5 information in this 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 \$3,580,868 for the billing period  
16 ending April 30, 2011. KU's response to Question No. 2 of the Commission Staff's  
17 Request for Information shows the calculation of the cumulative over-recovery. An  
18 adjustment to the revenue requirement is necessary to reconcile the collection of past  
19 surcharge revenues with the actual cost for the billing period under review.

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

22 A. Yes. KU has identified the components that make up the net over-recovery during  
23 the billing period under review. The components are (1) changes in overall rate of

1 return as previously discussed, and (2) the use of 12 month average revenues to  
2 determine the billing factor. The details and support of the components that make up  
3 the net over-recovery during the billing period under review are shown in KU's  
4 response to Question No. 2 of the Commission Staff's Request for Information.

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

7 A. The use of 12-month average revenues to calculate the monthly billing factor and  
8 then applying that same billing factor to the actual monthly revenues will result in an  
9 over or under-collection of ECR revenues. Typically it will result in an over-  
10 collection during the summer or winter months when actual revenues will generally  
11 be greater than the 12-month average and an under-collection during the shoulder  
12 months when actual revenues will generally be less than the 12-month average. In  
13 the billing period under review, the use of 12-month average revenues contributed to  
14 the net over-recovery as shown in KU's response to Question No. 2 of the  
15 Commission Staff's Request for Information.

16 During the period under review, KU's actual revenues were significantly  
17 greater than the 12-month historical average due to the more severe than normal  
18 temperatures during the winter billing months of December through February. The  
19 table below shows a comparison of the 12-month average revenues used in the  
20 monthly filings to determine the ECR billing factor and the actual revenues which the  
21 ECR billing factor was applied in the billing month.

22



1

Expense Month	12-Month Average Revenue	Billing Month	Actual Revenues Subject to ECR Billing Factor
September 2010	\$ 100,402,603	November 2010	\$ 91,686,347
October 2010	101,296,429	December 2010	110,812,859
November 2010	102,819,017	January 2011	132,686,258
December 2010	104,328,682	February 2011	116,588,648
January 2011	106,403,777	March 2011	105,689,933
February 2011	107,016,860	April 2011	95,882,475

2

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

5 A. KU is proposing that the net over-recovery be refunded over the six months following  
6 the Commission's Order in this proceeding. Specifically, KU recommends that the  
7 Commission approve a decrease to the Environmental Surcharge Revenue  
8 Requirement of \$596,811 for four months and \$596,812 for two months, beginning in  
9 the second full billing month following the Commission's Order in this proceeding.  
10 This method is consistent with the method of implementing previous over- or under-  
11 recovery positions in prior ECR review cases.

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

14 A. The inclusion of the refund in the determination of the ECR billing factor will  
15 decrease the billing factor by approximately 0.55%. For a residential customer using  
16 1,000 kWh, the impact of the adjusted ECR billing factor would be a decrease of  
17 approximately \$0.38 per month for six months (using rates and adjustment clause  
18 factors in effect for the August 2011 billing month).

1 **Q. Should the Commission approve the incorporation into KU's base rates the**  
2 **environmental surcharge amounts found just and reasonable for the two year**  
3 **billing period ending April 2011?**

4 A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and  
5 reasonable for the two year billing period ending April 2011 into electric base rates.  
6 KU recommends that an incremental environmental surcharge amount of \$49,410,832  
7 be incorporated into base rates at the conclusion of this case. KU determined the  
8 incremental roll-in amount of \$49,410,832 using environmental surcharge rate base as  
9 of February 28, 2011 and environmental surcharge operating expenses for the twelve  
10 month period ending February 28, 2011. If approved, the total amount of  
11 environmental surcharge that will be included in base rates will be \$161,413,973.  
12 The amount of environmental surcharge that will be included in base rates represents  
13 rate base and operating expenses associated only with KU's 2005, 2006, and 2009  
14 amendments to its Compliance Plan. All costs associated with the 2001 and 2003  
15 amendments to the Compliance Plan were removed from ECR recovery and included  
16 in base rates, consistent with the Commission's approval of the Stipulation and  
17 Recommendation in Case No. 2009-00548.

18 **Q. If the Commission accepts KU's recommendation to incorporate the proposed**  
19 **amount into base rates, what will be the impact on KU's ECR revenue**  
20 **requirement?**

21 A. The incorporation of the recommended surcharge amount into base rates will increase  
22 base rates and, two months later, decrease ECR revenues by an equal amount. There

1 will be no impact on the environmental costs KU is allowed to recover from its  
2 customers; only the method of collection will be impacted.

3 **Q. Please explain why ECR revenues will not decrease in the same month that base**  
4 **rates will increase.**

5 A. The ECR is billed on a two-month lag, meaning that costs are incurred, for example,  
6 in February 2011 (expense month) and ECR revenues are collected two months later  
7 in April 2011 (billing month). KU's determination of costs recoverable through the  
8 billing factor (E(m) for the expense month) are reduced by the ECR revenue included  
9 in base rates. Therefore, total ECR costs for the month of February are collected  
10 from customers through base rates in February and through the ECR billing  
11 mechanism in April. If base rates increase due to a roll-in in February, the portion of  
12 ECR costs incurred in February that is recovered through base rates will increase and  
13 the resulting decrease in the ECR billing factor will be applied in April. If the  
14 decrease in the ECR billing factor were applied in February, the same month that base  
15 rates change, then KU would not be collecting the correct amount of ECR revenue  
16 associated with costs incurred in December. This is because the February billing  
17 factor is associated with the December expense month and must be calculated using  
18 base rates in effect in December.

19 **Q. Is KU proposing any changes to the monthly reporting forms used for**  
20 **calculating the environmental surcharge?**

21 A. KU currently has pending before the Commission its application for approval of the  
22 2011 amendments to its Compliance Plan (Case No. 2011-00161). In that case, KU  
23 proposed certain modifications to the monthly filing forms that can be implemented

1 upon the issuance of the Commission's Order in this case, should such an Order be  
2 issued prior to the issuance of an Order in Case No. 2011-00162. Specifically, the  
3 modifications that KU could implement (related only to this review case) are the  
4 elimination of references to KU's 2001 and 2003 Amendments to its Compliance  
5 Plan, consistent with the Commission's Order in Case No. 2009-00548, as currently  
6 included on ES Forms 2.10 and 2.50.

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

9 A. KU is recommending an overall rate of return on capital of 10.56%, including the  
10 currently approved 10.63% return on equity and adjusted capitalization, to be used to  
11 calculate the environmental surcharge. This is based on capitalization as of February  
12 28, 2011 and the Commission's Order of July 30, 2010 in Case No. 2009-00548.  
13 Please see the response and attachment to Commission Staff's Request for  
14 Information Question No. 6 following this testimony.

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

16 A. KU makes the following recommendations to the Commission in this case:  
17 a) The Commission should approve the proposed decrease to the Environmental  
18 Surcharge Revenue Requirement of \$596,811 for four months and \$596,812  
19 for two months beginning in the second full billing month following the  
20 Commission's Order in this proceeding;  
21 b) The Commission should determine environmental surcharge amount for the  
22 six-month billing period ending April 30, 2011 to be just and reasonable;

1 c) The Commission should approve the use of an overall rate of return on capital  
2 of 10.56% using a return on equity of 10.63% beginning in the second full  
3 billing month following the Commission's Order in this proceeding.

4 d) The Commission should approve a "roll-in" of \$49,410,832 in incremental  
5 environmental costs into KU's base rates, for a total base rate ECR component  
6 of \$161,413,973, to be included in base rates following the methodology  
7 previously approved by the Commission and implemented by KU.

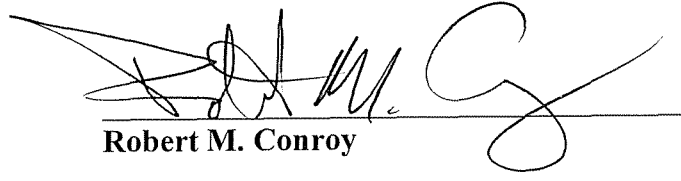
8 **Q. Does this conclude your testimony?**

9 A. Yes.

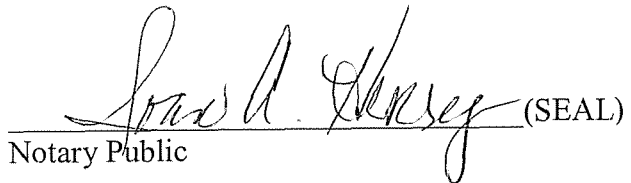
VERIFICATION

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 6<sup>th</sup> day of October 2011.

 (SEAL)  
Notary Public

My Commission Expires:

July 31, 2015

## 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 TWO-YEAR ) 2011-00231**  
**BILLING PERIOD ENDING APRIL 30, 2011 )**

**RESPONSE OF**  
**KENTUCKY UTILITIES COMPANY**  
**TO**  
**COMMISSION STAFF'S QUESTIONS RAISED AT**  
**THE SEPTEMBER 28, 2011 INFORMAL CONFERENCE**

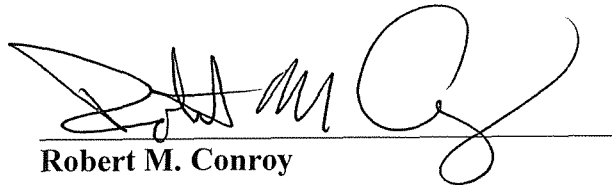
**FILED: October 7, 2011**



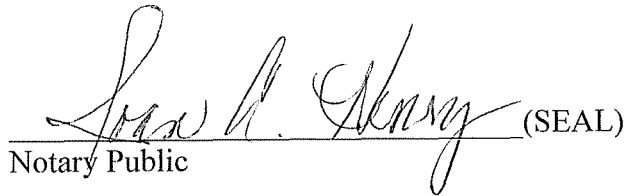
VERIFICATION

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 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.

  
Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 6<sup>th</sup> day of October, 2011.

 (SEAL)  
Notary Public

My Commission Expires:

July 21, 2015

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is Director – Accounting and Regulatory Reporting for LG&E and KU Services Company, and that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Shannon L. Charnas  
**Shannon L. Charnas**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4<sup>th</sup> day of October 2011.

Joan A. Henry (SEAL)  
Notary Public

My Commission Expires:

July 21, 2015



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
September 28, 2011 Informal Conference**

**Case No. 2011-00231**

**Question No. 1**

**Witness: Robert M. Conroy / Shannon L. Charnas**

- Q-1. Refer to page 3 of 3 in the Attachment to KU's response to Question No. 1. Please explain the basis for the following:
- a. The Jurisdictional Rate Base Percentage contained in column 8 (87.19%).
  - b. Environmental Surcharge (Net of ECR Roll-in) contained in Column 11 (\$182,154,874).
- A-1. a. The Jurisdictional Rate Base Percentage is the amount of rate base KU allocates to its Kentucky retail customers. The allocation is determined annually through a Cost Separation Study that assigns all of KU's revenues, expenses, and investments to jurisdictions using a variety of appropriate allocators. KU includes a Cost Separation Study in its supporting documents when requesting an adjustment to base rates. Further, KU's annual cost separation studies are the basis for the jurisdictional financial statements filed quarterly in compliance with various merger commitments.

See Attachment 1 to this response for a revised page 3 of 3 in the Attachment to Response to Question No. 1. The previous version inadvertently included incorrect debt and equity amounts and the jurisdictional rate base percentage from 2009 instead of from 2010. As shown in Attachment 1 the rate of return from the revisions did not change. See Attachment 2 to this response for documentation of the Jurisdictional Rate Base Percentage (87.36%) at December 31, 2010.

- b. The Environmental Surcharge (Net of ECR Roll-in) is determined by subtracting the ECR rate base rolled-in to base rates from the total ECR rate base at April 30, 2011. See below:

	Total Company	Jurisdictional Rate Base Percentage	Kentucky Retail
ECR Rate Base at April 30, 2011	\$ 1,212,576,264	87.36%	\$ 1,059,306,624
Less ECR Rate Base Rolled-in to Base Rates	<u>\$ 1,003,659,102</u>	87.36%	<u>\$ 876,796,592</u>
ECR Adjustment to Capitalization	\$ 208,917,162	87.36%	\$ 182,510,033

ECR Rate Base at April 30, 2011 is from ES Form 1.10, line (1) RB, filed with the Commission on May 20, 2011. ECR rate base rolled-in to base rates is provided in the attachment to Question No. 3(b). The change to the Environmental Surcharge adjustment to capitalization from the original filing is due to the updated jurisdictional rate base percentage.

**KENTUCKY UTILITIES**

**Adjusted Electric Rate of Return on Common Equity  
As of April 30, 2011**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Per Books 04-30-11	Capital Structure	Undistributed Subsidiary Earnings	Investment in EEI (Col. 3 x Col. 4 Line 4)	Investments in OVEC and Other (Col. 2 x Col. 5 Line 1)	Adjustments to Total Co. Capitalization (Sum of Col. 3 - Col. 5)	Adjusted Total Company Capitalization (Col. 1 + Col. 6)	Jurisdictional Rate Base Percentage	Kentucky Jurisdictional Capitalization (Col. 7 x Col. 8)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	87.36%	\$ -
2. Long Term Debt	1,840,168,061	46.66%	-	1,301,777	(200,228)	1,101,549	1,841,269,610	87.36%	1,608,533,132
3. Common Equity	2,103,855,160	53.34%	(9,280,774)	1,488,143	(228,893)	(8,021,524)	2,095,833,637	87.36%	1,830,920,265
4. Total Capitalization	<u>\$ 3,944,023,222</u>	<u>100.0000%</u>	<u>\$ (9,280,774)</u>	<u>\$ 2,789,920</u>	<u>\$ (429,121)</u>	<u>\$ (6,919,975)</u>	<u>\$ 3,937,103,247</u>		<u>\$ 3,439,453,397</u>

	(9)	(10)	(11)	(12)	(13)	(14)	(15)
	Kentucky Jurisdictional Capitalization	Capital Structure	Environmental Surcharge (Net of ECR Roll-in)	Adjusted Kentucky Jurisdictional Capitalization	Adjusted Capital Structure	Annual Cost Rate	Cost of Capital
	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,608,533,132	46.77%	(85,359,942)	1,523,173,190	46.77%	3.83%	1.79%
3. Common Equity	1,830,920,265	53.23%	(97,150,091)	1,733,770,174	53.23%	10.63%	5.66%
4. Total Capitalization	<u>\$ 3,439,453,397</u>	<u>100.0000%</u>	<u>\$ (182,510,033)</u>	<u>\$ 3,256,943,364</u>	<u>100.0000%</u>		<u>7.45%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect							<u>10.59%</u>



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
September 28, 2011 Informal Conference**

**Case No. 2011-00231**

**Question No. 2**

**Witness: Robert M. Conroy**

- Q-2. Refer to page 2 of 3 in the Attachment to KU's response to Question No. 2. Please explain why the values in Column 7 for the expense months of September 09, October 09, and November 2009 do not equate to the calculation of Column 5 divided by Column 6 as indicated.
- A-2. The values in Column 7 of page 2 of 3 in the Attachment were originally presented to the Commission in Case No. 2010-00241 as the "As Filed" Current Environmental Surcharge Factor ("CESF"). The review case responses and attachments for the first six-month period in this two-year review originally presented the amounts in Column 7 as recalculated CESF, reflecting what the factors would have been using the revised rates of return. In preparing the current attachment, KU ensured that previously provided information remained unchanged in this attachment, but neglected to address the column heading that indicates that all amounts in Column 7 are the result of a calculation. Going forward, Columns 7, 8 and 9 will not be part of this attachment.





**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
September 28, 2011 Informal Conference**

**Case No. 2011-00231**

**Question No. 3**

**Witness: Robert M. Conroy**

- Q-3. Refer to page 1 of 2 in the Attachment to KU's response to Question No. 5. Please provide the following:
- a. Explain why the calculation of the Jurisdictional Environmental Surcharge Gross Revenue Requirement of \$161,413,909 is not equal to the Total Company Jurisdictional Environmental Surcharge Gross Revenue Requirement of \$184,815,707 multiplied by the Jurisdictional Allocation Ratio of 87.3378%.
  - b. Supporting documentation for the Jurisdictional Environmental Revenue Previously Rolled In showing the amount from Case No. 2009-00310 and the effect of eliminating the 2001 and 2003 Plans.
- A-3.
- a. The difference is due to rounding. Please see the revised attachment that rounds the Jurisdictional Allocation Ratio and then calculates the Jurisdictional Environmental Surcharge Gross Revenue Requirement. As a result of the rounded calculation, KU's incremental roll-in amount should be \$49,410,832, and Mr. Conroy's revised testimony reflecting this change is submitted with responses to this data request.
  - b. See attached.

## Kentucky Utilities Company Calculation of ECR Roll-in At February 28, 2011

<b>Calculation of Revenue Requirement for Roll-In:</b>	<u>Environmental Compliance Plans at Feb. 28, 2011</u>
Environmental Compliance Rate Base	
Pollution Control Plant in Service	ES Form 2 00, February 2011 1,252,593,579
Pollution Control CWIP Excluding AFUDC	ES Form 2 00, February 2011 <u>123,872,733</u>
Subtotal	1,376,466,312
Additions:	
Limestone, net of amount in base rates	ES Form 2 00, February 2011 628,513
Emission Allowances, net of amount in base rates	ES Form 2 00, February 2011 479,331
Cash Working Capital Allowance	ES Form 2.00, February 2011 <u>1,989,279</u>
Subtotal	3,097,123
Deductions:	
Accumulated Depreciation on Pollution Control Plant	ES Form 2 00, February 2011 79,045,364
Pollution Control Deferred Income Taxes	ES Form 2 00, February 2011 59,015,174
Pollution Control Deferred Investment Tax Credit	ES Form 2 00, February 2011 <u>27,465,981</u>
Subtotal	165,526,519
Environmental Compliance Rate Base	<u>\$ 1,214,036,916</u>
Rate of Return -- Environmental Compliance Rate Base	ES Form 1.10, February 2011 10 86%
<b>Return on Environmental Compliance Rate Base</b>	<u>\$ 131,844,409</u>
Pollution Control Operating Expenses	
12 Month Depreciation and Amortization Expense	See Support Schedule A 34,499,460
12 Month Taxes Other than Income Taxes	See Support Schedule A 1,825,344
12 Month Operating and Maintenance Expense	See Support Schedule A 15,914,229
12 Month Emission Allowance Expense, net of amounts in base rates	See Support Schedule A <u>304,575</u>
<b>Total Pollution Control Operating Expenses</b>	<u>\$ 52,543,608</u>
<b>Gross Proceeds from By-Product &amp; Allowance Sales</b>	See Support Schedule B (427,690)
<b>Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount</b>	
Return on Environmental Compliance Rate Base	131,844,409
Pollution Control Operating Expenses	52,543,608
Less Gross Proceeds from By-Product & Allowance Sales	<u>(427,690)</u>
Roll In Amount	<u>\$ 184,815,707</u>
<b>Jurisdictional Allocation Ratio -- Roll In</b>	See Support Schedule C <u>87.3378%</u>
<b>Jurisdictional Revenues for 12 Months for Roll In</b>	See Support Schedule C <u>1,284,202,314</u>
<b>Roll In Jurisdictional Environmental Surcharge Factor:</b>	
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount	\$ 184,815,707
Jurisdictional Allocation Ratio -- Roll In	87.3378%
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Gross Roll In Amount	\$ 161,413,973
Less Jurisdictional Environmental Revenue Previously Rolled In <sup>1</sup>	<u>112,003,141</u>
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Net Roll In Amount	<u>\$ 49,410,832</u>

<sup>1</sup> Amount Previously Rolled-in is the roll-in from Case 2009-00310 less the amounts associated with KU's 2001 and 2003 Plans, which were eliminated from the ECR in KU's most recent base rate case.

**Kentucky Utilities Company**  
**Calculation of ECR Roll-in At February 28, 2009**

	<b>TOTAL</b>		<b>Eliminated Plans (2001 &amp; 2003)</b>		<b>Post Rate Case ECR Plans (05 &amp; 06)</b>	
	Environmental Compliance Plans at Feb. 28, 2009	Jurisdictional Basis	Environmental Compliance Plans at Feb. 28, 2009	Jurisdictional Basis	Environmental Compliance Plans at Feb. 28, 2009	Jurisdictional Basis
<b>Calculation of Revenue Requirement</b>						
Environmental Compliance Rate Base	688,693,392	564,353,691	240,167,567	196,806,670	448,525,825	367,547,021
Pollution Control Plant in Service	609,548,490	499,497,954	1,142,172	935,959	608,406,318	498,561,994
Pollution Control CWIP Excluding AFUDC	1,298,241,882	1,063,851,644	241,309,739	197,742,629	1,056,932,143	866,109,015
<b>Subtotal</b>						
Additions:						
Limestone, net of amount in base rates	689,005	564,609	-	-	689,005	564,609
Emission Allowances, net of amount in base rates	4,202	3,443	-	-	4,202	3,443
Cash Working Capital Allowance	1,014,107	831,016	336,597	275,826	677,510	555,189
<b>Subtotal</b>	1,707,314	1,399,068	336,597	275,826	1,370,717	1,123,242
Deductions:						
Accumulated Depreciation on Pollution Control Plant	50,725,431	41,567,241	29,010,589	23,772,891	21,714,842	17,794,350
Pollution Control Deferred Income Taxes	43,419,013	35,579,955	34,245,697	28,062,830	9,173,316	7,517,126
Pollution Control Deferred Investment Tax Credit	23,755,600	19,466,661	-	-	23,755,600	19,466,661
<b>Subtotal</b>	117,900,044	96,613,857	63,256,286	51,835,721	54,643,758	44,778,136
Environmental Compliance Rate Base	\$ 1,182,049,152	\$ 968,636,855	\$ 178,390,050	\$ 146,182,734	\$ 1,003,659,102	\$ 822,454,121
Rate of Return -- Environmental Compliance Rate Base			11.12%		11.12%	
<b>Return on Environmental Compliance Rate Base</b>	\$ 131,443,866	\$ 107,712,418	\$ 19,836,974	\$ 16,255,520	\$ 111,606,892	\$ 91,456,898
Pollution Control Operating Expenses						
12 Month Depreciation and Amortization Expense	24,486,356	20,065,483	6,053,383	4,960,479	18,432,974	15,105,004
12 Month Taxes Other than Income Taxes	1,368,589	1,121,498	326,224	267,326	1,042,365	854,172
12 Month Operating and Maintenance Expense	8,112,850	6,648,121	2,692,772	2,206,608	5,420,078	4,441,513
12 Month Emission Allowance Expense, net of amounts in base rates	478,162	391,833	-	-	478,162	391,833
<b>Total Pollution Control Operating Expenses</b>	\$ 34,445,958	\$ 28,226,935	\$ 9,072,379	\$ 7,434,412	\$ 25,373,579	\$ 20,792,523
Gross Proceeds from By-Product & Allowance Sales	300,541	246,280	-	-	300,541	246,280
<b>Total Company Environmental Surcharge Gross Revenue Requirement</b>						
Return on Environmental Compliance Rate Base	131,443,866	107,712,418	19,836,974	16,255,520	111,606,892	91,456,898
Pollution Control Operating Expenses	34,445,958	28,226,935	9,072,379	7,434,412	25,373,579	20,792,523
Less Gross Proceeds from By-Product & Allowance Sales	(300,541)	(246,280)	-	-	(300,541)	(246,280)
<b>Total Company Environmental Surcharge Gross Revenue Requirement</b>	\$ 165,589,283	\$ 135,693,073	\$ 28,909,353	\$ 23,689,932	\$ 136,679,930	\$ 112,003,141
<b>Jurisdictional Allocation Ratio</b>	81.9456%		81.9456%		81.9456%	
<b>Jurisdictional Revenues for 12 Months</b>	\$ 1,104,927,147		\$ 1,104,927,147		\$ 1,104,927,147	
Total Company Environmental Surcharge Gross Revenue Requirement	\$ 165,589,283		\$ 28,909,353		\$ 136,679,930	
Jurisdictional Allocation Ratio	81.9456%		81.9456%		81.9456%	
Jurisdictional Environmental Surcharge Gross Revenue Requirement	\$ 135,693,073		\$ 23,689,932		\$ 112,003,141	



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
September 28, 2011 Informal Conference**

**Case No. 2011-00231**

**Question No. 4**

**Witness: Robert M. Conroy / Shannon L. Charnas**

Q-4. Refer to KU's response to Question No. 6. Provide a schedule showing KU's adjusted rate of return on common equity as of February 28, 2011 in the same format as the page 3 of 3 in the Attachment to KU's response to Question No. 1.

A-4. The requested schedule showing KU's adjusted rate of return on common equity as of February 28, 2011 is attached. Also attached to this response are the following revised attachments from KU's original data responses reflecting the updated jurisdictional rate base percentage as explained in the Response to Question No. 1: Revised Attachment to Question No. 6(a) showing updated jurisdictional balances for debt and equity; Revised Attachment to Question No. 6(c) Page 1 also showing updated jurisdictional balances for debt and equity.

The Environmental Surcharge (Net of ECR Roll-in) is determined by subtracting the ECR rate base rolled-in to base rates from the total ECR rate base at February 28, 2011. See below:

	Total Company	Jurisdictional Rate Base Percentage	Kentucky Retail
ECR Rate Base at Feb. 28, 2011	\$ 1,214,036,916	87.36%	\$ 1,060,582,650
less ECR Rate Base Rolled-in to Base Rates	<u>\$ 1,003,659,102</u>	87.36%	<u>\$ 876,796,592</u>
ECR Adjustment to Capitalization	\$ 210,377,814	87.36%	\$ 183,786,058

ECR Rate Base at February 28, 2011 is from ES Form 1.10, line (1) RB, filed with the Commission on March 18, 2011. ECR rate base rolled-in to base rates is provided in the attachment to Question No. 3(b).

**KENTUCKY UTILITIES**

**Adjusted Electric Rate of Return on Common Equity  
As of February 28, 2011**

	Per Books 02-28-11 (1)	Capital Structure (2)	Undistributed Subsidiary Earnings (3)	Investment in EEI (Col 2 x Col 4 Line 4) (4)	Investments in OVEC and Other (Col 2 x Col 5 Line 4) (5)	Adjustments to Total Co. Capitalization (Sum of Col 3 - Col 5) (6)	Adjusted Total Company Capitalization (Col 1 + Col 6) (7)	Jurisdictional Rate Base Percentage (8)	Kentucky Jurisdictional Capitalization (Col 7 x Col 8) (9)
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	87.36%	\$ -
2. Long Term Debt	1,840,062,186	46.86%	-	1,312,869	(201,086)	1,111,783	1,841,173,969	87.36%	1,608,449,579
3. Common Equity	2,086,482,246	53.14%	(9,624,386)	1,488,815	(228,035)	(8,363,605)	2,078,118,640	87.36%	1,815,444,444
4. Total Capitalization	<u>\$ 3,926,544,432</u>	<u>100.000%</u>	<u>\$ (9,624,386)</u>	<u>\$ 2,801,684</u>	<u>\$ (429,121)</u>	<u>\$ (7,251,822)</u>	<u>\$ 3,919,292,609</u>		<u>\$ 3,423,894,023</u>

	Kentucky Jurisdictional Capitalization (9)	Capital Structure (10)	Environmental Surcharge (Net of ECR Roll-in) (Col 10 x Col 11 Line 4) (11)	Adjusted Kentucky Jurisdictional Capitalization (Col 9 + Col 11) (12)	Adjusted Capital Structure (13)	Annual Cost Rate (14)	Cost of Capital (Col 14 x Col 13) (15)
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,608,449,579	46.98%	(86,342,690)	1,522,106,889	46.98%	3.81%	1.79%
3. Common Equity	1,815,444,444	53.02%	(97,443,368)	1,718,001,076	53.02%	10.63%	5.64%
4. Total Capitalization	<u>\$ 3,423,894,023</u>	<u>100.000%</u>	<u>\$ (183,786,058)</u>	<u>\$ 3,240,107,965</u>	<u>100.000%</u>		<u>7.43%</u>

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

10.56%

Kentucky Utilities Company  
Outstanding Balances - Capitalization  
As of February 28, 2011

1	2	3
	Outstanding Balance Total Company	Outstanding Balance KY Jurisdictional 87.36%
1 Long-Term Debt	\$1,840,062,186	\$1,607,478,326
2 Short-Term Debt	\$0	\$0
3 Common Equity	\$2,086,482,246	\$1,822,750,890



Kentucky Utilities Company  
 Outstanding Balances - Adjusted Jurisdictional Capitalization  
 February 28, 2011

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	1,522,106,889	46.98%	3.81%	1.79%		1.79%
2 Short-Term Debt	-	0.00%	0.00%	0.00%		0.00%
3 Common Equity	1,718,001,076	53.02%	10.63%	5.64%	0.56	8.77%
4 Total	3,240,107,965			7.43%		10.56%
						10.56%

Rate of Return (ROR) Grossed Up:

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

See tax rate (TR) calculation on 6(c) page (2)