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

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PUBLIC SERVICE
COMMISSION

**Louisville Gas and
Electric 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
F 502-627-3213
robert.conroy@lge-ku.com

October 7, 2011

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE TWO-
YEAR BILLING PERIOD ENDING APRIL 30, 2011
CASE NO. 2011-00232***

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 Louisville Gas and Electric Company to the Commission Staff's Questions Raised at the Informal Conference Request 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,

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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE TWO-YEAR)	2011-00232
BILLING PERIOD ENDING APRIL 30, 2011)	

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 Louisville Gas and Electric Company
4 (“LG&E”) and Kentucky Utilities Company (“KU”) (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 LG&E’s
14 environmental surcharge during the six-month billing period ending April 30, 2011
15 that is part of the two-year billing period also ending April 30, 2011, determine
16 whether the surcharge amounts collected during the period are just and reasonable,
17 and then incorporate or “roll-in” such surcharge amounts into LG&E’s existing
18 electric base rates.

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

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

1 based on the operation of the surcharge during the period and explain how the
2 environmental surcharge factors were calculated during the period under review.
3 Further, my testimony will recommend that the cumulative ECR revenue requirement
4 for the twelve-months ending with the expense month of February 2011 be used for
5 purposes of incorporating or “rolling-into” LG&E’s electric base rates the appropriate
6 surcharge amounts using the methodology previously approved by the Commission,
7 most recently in Case No. 2009-00311.

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

10 A. LG&E billed an environmental surcharge to its customers from November 1, 2010
11 through April 30, 2011. For purposes of the Commission’s examination in this case,
12 the monthly LG&E environmental surcharges are considered as of the six-month
13 billing period ending April 30, 2011; that same review period is part of the two-year
14 billing period also ending April 30, 2011. (The three previous billing periods were
15 reviewed in Cases No. 2009-00502, 2010-00242, and 2010-00475.) In each month of
16 the six-month period under review in this proceeding, LG&E calculated the
17 environmental surcharge factors in accordance with its tariff ES, and the requirements
18 of the Commission’s previous orders concerning LG&E’s environmental surcharge.

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

21 A. The capital and operating costs included in the calculation of the environmental
22 surcharge factors for the billing period under review were the costs incurred each
23 month by LG&E from September 2010 through February 2011, as detailed in the

1 attachment in response to Question No. 2 of the Commission Staff's Request for
2 Information, 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 LG&E'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. 2009-00311, LG&E'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 LG&E is allowed to collect through the
21 ECR.

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 LG&E'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. 2000-00386, 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 LG&E's response to Question No. 1 of the Commission Staff's Request for
13 Information.

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

16 A. Yes. LG&E experienced a cumulative under-recovery of \$241,530 for the billing
17 period ending April 30, 2011. LG&E's response to Question No. 2 of the
18 Commission Staff's Request for Information shows the calculation of the cumulative
19 under-recovery. An adjustment to the revenue requirement is necessary to reconcile
20 the collection of past surcharge revenues with actual costs for the billing period under
21 review.

22 **Q. Has LG&E identified the causes of the net under-recovery during the billing**
23 **period under review?**

1 A. Yes. LG&E has identified the components that make up the net under-recovery
2 during the billing period under review. The components are (1) changes in overall
3 rate of return as previously discussed, and (2) the use of 12 month average revenues
4 to determine the billing factor. The details and support of the components that make
5 up the net under-recovery during the billing period under review are shown in
6 LG&E's response to Question No. 2 of the Commission Staff's Request for
7 Information.

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

10 A. The use of 12-month average revenues to calculate the monthly billing factor and
11 then applying that same billing factor to the actual monthly revenues will result in an
12 over or under-collection of ECR revenues. Typically it will result in an over-
13 collection during the summer months when actual revenues will generally be greater
14 than the 12-month average and an under-collection during the balance of the year
15 when actual revenues will generally be less than or near the 12-month average. The
16 use of 12-month average revenues contributed to the net under-recovery as shown in
17 LG&E's response to Question No. 2 of the Commission Staff's Request for
18 Information.

19 During the period under review, LG&E's actual revenues were less than the
20 12-month historical average, with the exception of January 2011, during which time
21 the weather was more severe than typical. The table below shows a comparison of
22 the 12-month average revenues used in the monthly filings to determine the ECR

1 billing factor and the actual revenues which the ECR billing factor was applied in the
2 billing month.

Expense Month	12-Month Average Revenue	Billing Month	Actual Revenues Subject to ECR Billing Factor
September 2010	\$ 68,965,871	November 2010	\$ 60,573,401
October 2010	69,734,062	December 2010	68,434,739
November 2010	70,602,931	January 2011	81,025,935
December 2010	71,544,113	February 2011	67,158,649
January 2011	72,673,888	March 2011	66,935,786
February 2011	72,968,060	April 2011	62,399,735

3

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

6 A. LG&E is proposing that the net under-recovery be collected in one month following
7 the Commission's Order in this proceeding. Specifically, LG&E recommends that
8 the Commission approve an increase to the Environmental Surcharge Revenue
9 Requirement of \$241,530 for one month, in the second full billing month following
10 the Commission's Order in this proceeding. This method is consistent with the
11 method of implementing previous over- or under-recovery positions in prior ECR
12 review cases.

13 **Q. What is the bill impact on a residential customer for the proposed collection of**
14 **the under-recovery?**

15 A. The inclusion of the increase in the determination of the ECR billing factor will
16 increase the billing factor by approximately 0.32%. For a residential customer using
17 1,000 kWh the impact of the adjusted ECR billing factor would be an increase of

1 approximately \$0.25 for one month (using rates and adjustment clause factors in
2 effect for the August 2011 billing month).

3 **Q. Should the Commission approve the incorporation into LG&E's base electric**
4 **rates the environmental surcharge amounts found just and reasonable for the**
5 **two year billing period ending April 2011?**

6 A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and
7 reasonable for the two year billing period ending April 2011 into electric base rates.
8 LG&E recommends that an incremental environmental surcharge amount of
9 \$2,330,762 be incorporated into base rates at the conclusion of this case. LG&E
10 determined the incremental roll-in amount of \$2,330,762 using environmental
11 surcharge rate base as of February 28, 2011 and environmental surcharge operating
12 expenses for the twelve month period ending February 28, 2011. If approved, the
13 total amount of environmental surcharge that will be included in base rates will be
14 \$9,850,653. The amount of environmental surcharge that will be included in base
15 rates represents rate base and operating expenses associated only with LG&E's 2005,
16 2006, and 2009 amendments to its Compliance Plan. All costs associated with the
17 2001 and 2003 amendments to the Compliance Plan were removed from ECR
18 recovery and included in base rates, consistent with the Commission's approval of the
19 Stipulation and Recommendation in Case No. 2009-00549.

20 **Q. If the Commission accepts LG&E's recommendation to incorporate the**
21 **proposed amount into base rates, what will be the impact on LG&E's ECR**
22 **revenue requirement?**

1 A. The incorporation of the recommended surcharge amount into base rates will increase
2 base rates and, two months later, decrease ECR revenues by an equal amount. There
3 will be no impact on the environmental costs LG&E is allowed to recover from its
4 customers; only the method of collection will be impacted.

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

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

21 **Q. Is LG&E proposing any changes to the monthly reporting forms used for**
22 **calculating the environmental surcharge?**

1 A. LG&E currently has pending before the Commission its application for approval of
2 the 2011 amendments to its Compliance Plan (Case No. 2011-00162). In that case,
3 LG&E proposed certain modifications to the monthly filing forms. Certain of those
4 modifications can be implemented upon the issuance of the Commission's Order in
5 this case, should such an Order be issued prior to the issuance of an Order in Case
6 No. 2011-00162. Specifically, the modifications that LG&E could implement related
7 only to this review case are the elimination of references to LG&E's 2001 and 2003
8 Amendments to its Compliance Plan, consistent with the Commission's Order in Case
9 No. 2009-00549, as currently included on ES Forms 2.10 and 2.50. Additionally, the
10 references to the Mill Creek Ash Dredging deferred debit balance and the associated
11 amortization on ES Form 2.00 can be removed since the deferred debit balance was
12 fully amortized as of April 2010.

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

15 A. LG&E is recommending an overall rate of return on capital of 10.82%, including the
16 currently approved 10.63% return on equity and adjusted capitalization, to be used to
17 calculate the environmental surcharge. This is based on capitalization as of February
18 28, 2011 and the Commission's Order of July 30, 2010 in Case No. 2009-00549.
19 Please see the response and attachment to Commission Staff's Request for
20 Information Question No. 6(c) following this testimony.

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

22 A. LG&E makes the following recommendations to the Commission in this case:

- 1 a) The Commission should approve the proposed increase to the Environmental
2 Surcharge Revenue Requirement of \$241,530 for one month in the second full
3 billing month following the Commission's decision in this proceeding;
- 4 b) The Commission should determine environmental surcharge amount for the
5 six-month billing period ending April 30, 2011 to be just and reasonable;
- 6 c) The Commission should approve the use of an overall rate of return on capital
7 of 10.82% using a return on equity of 10.63% beginning in the second full
8 billing month following the Commission's Order in this proceeding.
- 9 d) The Commission should approve a "roll-in" of \$2,330,762 in incremental
10 environmental costs into LG&E's base rates, for a total base rate ECR
11 component of \$9,850,653, to be included in base rates following the
12 methodology previously approved by the Commission and implemented by
13 LG&E.

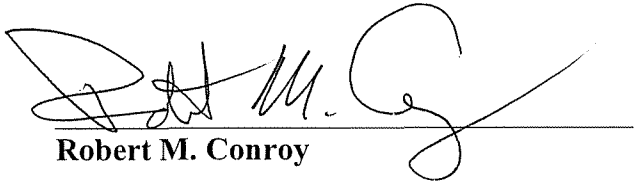
14 **Q. Does this conclude your testimony?**

15 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 6th day of October 2011.

 (SEAL)
Notary Public

My Commission Expires:

July 21, 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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE TWO-YEAR)	2011-00232
BILLING PERIOD ENDING APRIL 30, 2011)	

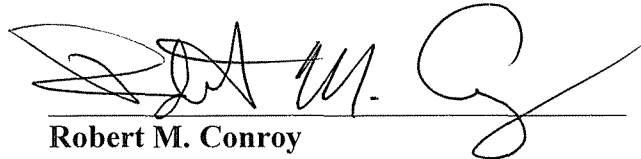
RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S QUESTIONS RAISED AT
THE SEPTEMBER 28, 2011 INFORMAL CONFERENCE

FILED: October 7, 2011

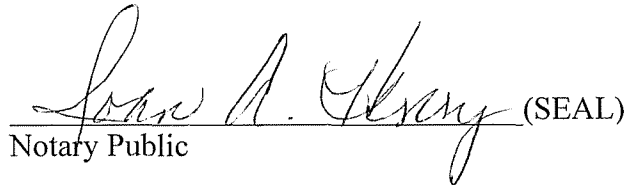
VERIFICATION

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 6th day of October 2011.

 (SEAL)
Notary Public

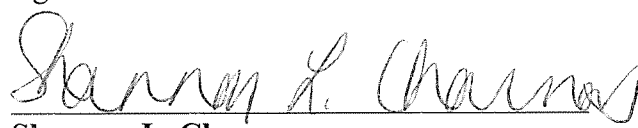
My Commission Expires:

July 21, 2015

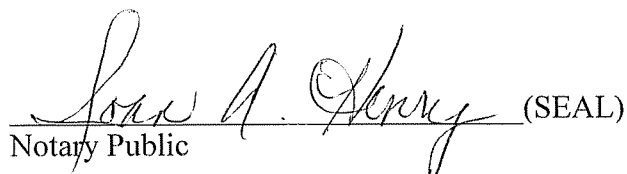
VERIFICATION

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

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

 (SEAL)
Notary Public

My Commission Expires:

July 21, 2015

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2011-00232

Question No. 1

Witness: Robert M. Conroy

- Q-1. In the Direct Testimony of Robert M. Conroy, there are references to both an over-recovery position and under-recovery position for the 6-month review period. Please clarify the correct recovery position through revised testimony.
- A-1. Please see Mr. Conroy's revised testimony submitted with the responses to this data request.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2011-00232

Question No. 2

Witness: Robert M. Conroy / Shannon L. Charnas

Q-2. Refer to page 3 of 3 in the Attachment to LG&E's response to Question No. 1. Please explain the basis for the following:

- a. The Electric Rate Base Percentage contained in column 3 (78.940%).
 - b. Environmental Surcharge (Net of ECR Roll-in) contained in Column 15 (\$14,337,284).
- A-2. a. The Electric Rate Base Percentage is an allocation of LG&E's investments between its electric and gas businesses. The allocation is determined annually through an allocation of LG&E's revenues, expenses, and investments to electric, gas and common lines of business, with common costs further allocated to gas and electric. LG&E's annual electric -- gas cost separation is the basis for the financial statements filed quarterly in compliance with various merger commitments.

See the attachment to this response for documentation of the electric rate base percentage (78.94%) 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:

	Electric Only
ECR Rate Base at April 30, 2011	\$ 72,896,086
less ECR Rate Base Rolled-in to Base Rates	<u>\$ 58,558,802</u>
ECR Adjustment to Capitalization	\$ 14,337,284

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. 4(c).

INCLUDING ECR RATE BASE - (PLANT, DEPRECIATION, DEFERRED TAXES)

LOUISVILLE GAS AND ELECTRIC COMPANY

Net Cost Base

For 12 Months Ended December 31, 2010

	<u>Electric</u>	<u>Gas</u>	<u>Combined</u>
NET COST BASE -			
Utility Plant at Original Cost (1)	3,962,347,346	786,492,308	4,748,839,654
Less: Reserve for Depreciation (1)	1,789,073,582	254,026,208	2,043,099,790
Customer Advances for Construction (5)	1,750,059	6,830,871	8,580,930
Deferred Income Taxes (5)	371,773,173	50,889,261	422,662,434
Deferred Taxes - FAS 109	30,032,245	3,489,597	33,521,842
Investment Tax Credit	0	0	0
TOTAL UTILITY PLANT LESS DEPR. RESERVE, ETC.	1,769,718,287	471,256,371	2,240,974,658
Materials and Supplies (2)(4)	96,144,968	58,527	96,203,495
Gas Stored Underground (2)	0	40,926,273	40,926,273
Prepayments (2)(3)	4,833,738	658,365	5,492,103
Cash Working Capital	80,650,982	7,732,822	88,383,804
Mill Creek Ash Dredging-Regulatory Asset (6)	0	0	0
TOTAL NET COST BASE	1,951,347,975	520,632,358	2,471,980,333
	78.94%	21.06%	100.00%

Notes:

- (1) Common utility plant and reserve allocated 73% Electric; 27% Gas.
- (2) Average for 13 Months ended current month.
- (3) Excludes PSC Fees
- (4) Excludes 25% of Trimble County Inventories.
- (5) Common portion allocated on utility plant and reserve basis 73% Electric; 27% Gas
- (6) This line was added in March 2009 to be consistent with rate base calculation prepared by the Rates Dept. as well as rate base filed for the ECR mechanism.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2011-00232

Question No. 3

Witness: Robert M. Conroy

- Q-3 Refer to page 2 of 3 in the Attachment to LG&E's response to Question No. 2.
- a. 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.
 - b. Please explain why -0.80% is listed in Column 10 for the As Filed Monthly Billing Factor for the September 2010 expense month when a revised filing was made on October 19, 2010 for the September 2010 expense month indicating that the billing factor is 0.01%. What factor was billed customers for the September 2011 expense month?
- A-3.
- a. The values in Column 7 of page 2 of 3 in the Attachment were originally presented to the Commission in Case No. 2010-00242 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, LG&E 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.
 - b. The ECR billing factor used for November 2011 billing was 0.01%. However, the total ECR Billing Factor Revenues for the November 2011 billing month is negative due to some customers being issued their October 2011 bills in November 2011. All November revenues were included in reported amounts, even if the amounts were related to previous billing periods. The negative revenue from the October 2011 ECR billing factor of (2.5%) was greater than the positive revenue from the November 2011 ECR billing factor of 0.01%. Please see the revised attachment for the correct presentation of the billing factor charged customers in November 2010 for the September 2010 expense month.

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2011-00232

Question No. 4

Witness: Robert M. Conroy

- Q-4. Refer to the Attachment to LG&E's response to Question No. 5. Please provide the following:
- a. Explain why the Amortization of Investment Tax Credit of \$(24,553) is not shown as a Pollution Control Operating Expense on page 1 of 2 when it is listed in Support Schedule A on page 2 of 2. Verify whether the amount of the ITC is included in the 3,029,989 value on Support Schedule A.
 - b. Explain why the calculation of the Jurisdictional Environmental Surcharge Gross Revenue Requirement of \$9,872,084 is not equal to the Total Company Jurisdictional Environmental Surcharge Gross Revenue Requirement of \$11,309,280 multiplied by the Jurisdictional Allocation Ratio of 87.2919%.
 - c. Supporting documentation for the Jurisdictional Environmental Revenue Previously Rolled In showing the amount from Case No. 2009-00311 and the effect of eliminating the 2001 and 2003 Plans.
- A-4.
- a. Please see the revised attachment to Question No. 5 including the amortization of the ITC in Pollution Control Operating Expense.
 - b. 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 and the correction referenced in part a, LG&E's incremental roll-in amount should be \$2,330,762. Mr. Conroy's revised testimony reflecting these changes is being submitted with responses to this data request in response to Question No. 1.
 - c. See attached.

Louisville Gas and Electric Company Calculation of ECR Roll-in at February 28, 2011

Calculation of Revenue Requirement for Roll-In:		Environmental Compliance Plans at Feb. 28, 2011
Environmental Compliance Rate Base		
Pollution Control Plant in Service	ES Form 2.00, February 2011	65,553,070
Pollution Control CWIP Excluding AFUDC	ES Form 2.00, February 2011	<u>11,127,475</u>
Subtotal		76,680,545
Additions:		
Mill Creek Deferred Debit	ES Form 2.00, February 2011	-
Cash Working Capital Allowance	ES Form 2.00, February 2011	<u>246,693</u>
Subtotal		246,693
Deductions:		
Accumulated Depreciation on Pollution Control Plant	ES Form 2.00, February 2011	2,425,274
Pollution Control Deferred Income Taxes	ES Form 2.00, February 2011	<u>2,136,919</u>
Subtotal		4,562,193
Environmental Compliance Rate Base		<u>\$ 72,365,045</u>
Rate of Return -- Environmental Compliance Rate Base	ES Form 1.10, February 2011	11.18%
Return on Environmental Compliance Rate Base		<u>\$ 8,090,412</u>
Pollution Control Operating Expenses		
12 Month Depreciation and Amortization Expense	See Support Schedule A	953,730
12 Month Amortization of Investment Tax Credit	See Support Schedule A	(24,553)
12 Month Taxes Other than Income Taxes	See Support Schedule A	102,718
12 Month Operating and Maintenance Expense	See Support Schedule A	1,630,599
12 Month Ash Dredging Expense	See Support Schedule A	<u>342,942</u>
Total Pollution Control Operating Expenses		<u>\$ 3,005,436</u>
Gross Proceeds from By-Product & Allowance Sales	See Support Schedule B	(188,879)
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount		
Return on Environmental Compliance Rate Base		8,090,412
Pollution Control Operating Expenses		3,005,436
Less Gross Proceeds from By-Product & Allowance Sales		<u>(188,879)</u>
Roll In Amount		<u>\$ 11,284,727</u>
Jurisdictional Allocation Ratio -- Roll In	See Support Schedule C	<u>87.2919%</u>
Jurisdictional Revenues for 12 Months for Roll In	See Support Schedule C	<u>875,616,715</u>
Roll In Jurisdictional Environmental Surcharge Factor:		
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount		\$ 11,284,727
Jurisdictional Allocation Ratio -- Roll In		<u>87.2919%</u>
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Gross Roll In Amount		9,850,653
Less Jurisdictional Environmental Revenue Previously Rolled In ¹		<u>7,519,891</u>
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Net Roll In Amount		<u>\$ 2,330,762</u>

¹ Amount Previously Rolled-in is the roll-in from Case 2009-00311 less the amounts associated with LG&E's 2001 and 2003 Plan which were eliminated from the ECR in LG&E's most recent base rate case.

Louisville Gas and Electric Company Calculation of ECR Roll-in at February 28, 2011

Support Schedule A

12 Month Balances for Selected Operating Expense Accounts ¹

at Feb. 28, 2011

	Depreciation & Amortization Steam Plant	Taxes Other than Income Taxes	Operating and Maintenance Expense			Ash Dredging Expense	Amortization of ITC	Total
			FERC 502	FERC 506	FERC 512			
Mar-10	60,621	8,412	43,088	71,514	44	171,471	355,150	
Apr-10	60,621	8,412	39,926	123,147	527	171,471	404,105	
May-10	60,621	8,412	36,993	88,398	54	-	194,478	
Jun-10	60,621	8,412	19,519	94,801	40,532	-	223,885	
Jul-10	60,621	8,412	26,881	83,162	33,014	-	212,090	
Aug-10	60,621	8,412	10,904	97,616	2,175	-	179,728	
Sep-10	60,621	8,412	38,657	125,974	1,213	-	234,877	
Oct-10	60,621	8,412	21,991	68,784	3,597	-	163,405	
Nov-10	60,621	8,412	22,286	97,488	1,700	-	190,507	
Dec-10	60,621	8,412	88,312	83,365	4,010	-	244,720	
Jan-11	136,047	9,299	45,766	52,158	2,965	-	(10,026)	236,209
Feb-11	211,473	9,299	67,781	76,379	15,878	-	(14,527)	366,283
less Base Rate amount								-
Totals	953,730	102,718	462,105	1,062,788	105,707	342,942	(24,553)	3,005,436

¹ All amounts included in Support Schedule A are exclusive of costs associated with LG&E's 2001 and 2003 Plans, which were eliminated from the ECR in August 2010

Support Schedule B

12 Month Balances for Allowance Sales and By-Product Sales

	Total Proceeds from Allowance Sales ES Form 2.00	Proceeds from By-Product Sales ES Form 2.00	Total All Sale Proceeds
Mar-10	-	-	-
Apr-10	(189,461)	-	(189,461)
May-10	-	-	-
Jun-10	-	-	-
Jul-10	97	-	97
Aug-10	123	-	123
Sep-10	134	-	134
Oct-10	-	-	-
Nov-10	-	-	-
Dec-10	73	-	73
Jan-11	52	-	52
Feb-11	103	-	103
Totals	(188,879)	-	(188,879)

Support Schedule C

12 Month Balances for Jurisdictional Revenues and Allocation Ratio

	KY Retail Revenues, Excl Envir. Surch. Revenues ES Form 3.00	Total Company Revenues, Excluding Envir. Surch. Revenues ES Form 3.00	KY Retail Allocation Ratio KY Retail/ Total Company
Mar-10	\$ 62,521,754	\$ 70,324,266	88.9050%
Apr-10	56,355,072	66,970,466	84.1491%
May-10	56,850,605	66,603,435	85.3569%
Jun-10	80,270,508	85,821,547	93.5319%
Jul-10	93,021,435	100,787,352	92.2948%
Aug-10	90,875,356	98,180,078	92.5599%
Sep-10	88,756,203	97,873,168	90.6849%
Oct-10	69,773,058	81,598,945	85.5073%
Nov-10	60,573,401	72,566,237	83.4733%
Dec-10	68,434,739	81,996,030	83.4610%
Jan-11	81,025,935	99,329,497	81.5729%
Feb-11	67,158,649	81,039,631	82.8714%
Totals	\$ 875,616,715	\$ 1,003,090,652	87.2919%

Louisville Gas and Electric Company Calculation of ECR Roll-in at February 28, 2009 and Elimination of 2001 and 2003 Compliance Plans

	TOTAL	Eliminated Plans (2001 & 2003)	Post Rate Case ECR Plans (05 & 06)
	Environmental Compliance Plans at Feb. 28, 2009	Environmental Compliance Plans at Feb. 28, 2009	Environmental Compliance Plans at Feb. 28, 2009
	Jurisdictional Basis	Jurisdictional Basis	Jurisdictional Basis
Calculation of Revenue Requirement			
Environmental Compliance Rate Base	242,856,023	225,893,107	16,962,916
Pollution Control Plant in Service	40,997,828	-	40,997,828
Pollution Control CWIP Excluding AFUDC	283,853,851	225,893,107	57,960,744
Subtotal	<u>567,707,702</u>	<u>451,786,214</u>	<u>114,921,488</u>
Additions:			
Mill Creek Deferred Debit	1,840,637	-	1,840,637
Cash Working Capital Allowance	773,476	388,521	384,954
Subtotal	<u>2,614,113</u>	<u>388,521</u>	<u>2,225,592</u>
Deductions:			
Accumulated Depreciation on Pollution Control Plant	31,176,384	30,070,389	1,105,995
Pollution Control Deferred Income Taxes	13,965,363	12,883,866	1,081,497
Pollution Control Deferred Investment Tax Credit	45,141,747	42,954,255	2,187,492
Subtotal	<u>90,283,494</u>	<u>85,908,510</u>	<u>4,374,984</u>
Environmental Compliance Rate Base	<u>\$ 577,424,208</u>	<u>\$ 365,877,704</u>	<u>\$ 210,546,504</u>
Rate of Return -- Environmental Compliance Rate Base	10.98%	10.98%	10.98%
Return on Environmental Compliance Rate Base	<u>\$ 63,100,000</u>	<u>\$ 40,100,000</u>	<u>\$ 23,000,000</u>
Pollution Control Operating Expenses	<u>7,494,634</u>	<u>7,011,570</u>	<u>483,064</u>
12 Month Depreciation and Amortization Expense	353,407	302,428	50,979
12 Month Taxes Other than Income Taxes	4,146,881	3,108,167	1,038,713
12 Month Operating and Maintenance Expense	2,040,926	-	2,040,926
12 Month Ash Dredging Expense	14,035,848	10,422,165	3,613,682
Total Pollution Control Operating Expenses	<u>\$ 27,971,696</u>	<u>\$ 20,533,160</u>	<u>\$ 6,437,535</u>
Gross Proceeds from By-Product & Allowance Sales	235,844	-	235,844
Total Company Environmental Surcharge Gross Revenue Requirement	<u>\$ 250,452,512</u>	<u>\$ 165,344,544</u>	<u>\$ 84,113,969</u>
Return on Environmental Compliance Rate Base	26,559,102	20,363,969	6,195,133
Pollution Control Operating Expenses	14,035,848	10,761,869	3,273,979
Less Gross Proceeds from By-Product & Allowance Sales	(235,844)	(180,831)	(54,987)
Total Company Environmental Surcharge Gross Revenue Requirement	<u>\$ 40,359,106</u>	<u>\$ 30,945,007</u>	<u>\$ 9,807,595</u>
Jurisdictional Allocation Ratio	76.6742%	76.6742%	76.6742%
Jurisdictional Revenues for 12 Months	<u>\$ 778,413,572</u>	<u>\$ 778,413,572</u>	<u>\$ 778,413,572</u>
Total Company Environmental Surcharge Gross Revenue Requirement	\$ 40,359,106	\$ 30,551,511	\$ 9,807,595
Jurisdictional Allocation Ratio	76.6742%	76.6742%	76.6742%
Jurisdictional Environmental Surcharge Gross Revenue Requirement	<u>\$ 30,944,994</u>	<u>\$ 23,425,115</u>	<u>\$ 7,519,891</u>

LOUISVILLE GAS AND ELECTRIC COMPANY

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

Case No. 2011-00232

Question No. 5

Witness: Robert M. Conroy / Shannon L. Charnas

- Q-5. Refer to LG&E's response to Question No. 6. Provide a schedule showing LG&E'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 LG&E's response to Question No. 1.
- A-5. See attached schedule, using the Electric Rate Base Percentage described in response to Question No. 2.

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:

	Electric Only
ECR Rate Base at Feb. 28, 2011	\$ 72,365,045
less ECR Rate Base Rolled-in to Base Rates	<u>\$ 58,558,802</u>
ECR Adjustment to Capitalization	\$ 13,806,243

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. 4(c).

LOUISVILLE GAS AND ELECTRIC COMPANY

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

	Per Books 02-28-11 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 17) (5)	Adjusted Electric Capitalization (Col 4 + Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
1. Short Term Debt	\$ 5,664,000	0.23%	78.940%	\$ 4,471,162	\$ 58,458	\$ 4,529,620	0.23%	0.25%	0.00%
2. Long Term Debt	1,105,402,326	44.91%	78.940%	872,604,596	11,414,595	884,019,191	44.91%	3.90%	1.75%
3. Common Equity	1,350,462,845	54.86%	78.940%	1,066,055,370	13,943,546	1,079,998,916	54.86%	10.63%	5.83%
4. Total Capitalization	<u>\$ 2,461,529,171</u>	<u>100.0000%</u>		<u>\$ 1,943,131,128</u>	<u>\$ 25,416,599</u>	<u>\$ 1,968,547,727</u>	<u>100.0000%</u>		<u>7.58%</u>

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

10.82%

ELECTRIC

	Capitalization (Col 4) (10)	Capital Structure (11)	Trimble County Inventories (a) (Col 11 x Col 12 Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13 Line 4) (13)	JDIC (Col 11 x Col 14 Line 4) (14)	Environmental Surcharge (Net of ECR Roll-in) (Col 11 x Col 15 Line 4) (15)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 16 Line 4) (16)	Total Adjustments To Capital (17)
1. Short Term Debt	\$ 4,471,162	0.23%	\$ (10,537)	\$ (1,394)	\$ 47,703	\$ (31,754)	\$ 54,441	\$ 58,458
2. Long Term Debt	872,604,596	44.91%	(2,057,415)	(272,229)	9,314,433	(6,200,384)	10,630,189	11,414,595
3. Common Equity	1,066,055,370	54.86%	(2,513,244)	(332,542)	11,378,085	(7,574,105)	12,985,353	13,943,546
4. Total Capitalization	<u>\$ 1,943,131,128</u>	<u>100.0000%</u>	<u>\$ (4,581,195)</u>	<u>\$ (606,165)</u>	<u>\$ 20,740,220</u>	<u>\$ (13,806,243)</u>	<u>\$ 23,669,983</u>	<u>\$ 25,416,599</u>

(a) Trimble County Inventories As of February 28, 2011

Materials and Supplies	\$ 5,236,513
Stores Expense	912,940
Coal	11,802,424
Limestone	177,659
Fuel Oil	194,800
Emission Allowances	445
Total Trimble County Inventories	\$ 18,324,782
Multipled by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	\$ 4,581,195

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.