



a PPL company

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

RECEIVED

JUL 20 2012

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

July 20, 2012

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-
MONTH BILLING PERIODS ENDING OCTOBER 31, 2011 AND
APRIL 30, 2012
CASE NO. 2012-00208***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and seven (7) copies of the Response of Louisville Gas and Electric Company to the Commission Staff's Questions Raised at the July 12, 2012 Technical Conference, 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 SIX-MONTH)	2012-00208
BILLING PERIOD ENDING OCTOBER 31, 2011)	
AND APRIL 30, 2012)	

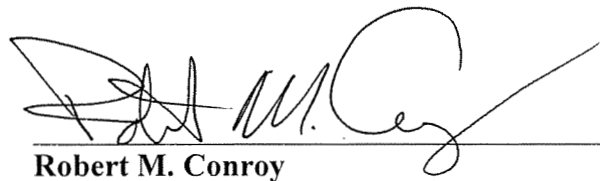
RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S QUESTIONS RAISED AT
THE JULY 12, 2012 TECHNICAL CONFERENCE

FILED: July 20, 2012

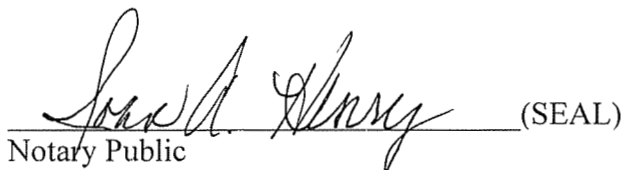
VERIFICATION

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 20th day of July 2012.

 (SEAL)
Notary Public

My Commission Expires:

July 21, 2015

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Questions Raised at the
July 12, 2012 Technical Conference**

Case No. 2012-00208

Question No. 1

Witness: Robert M. Conroy

Q-1. Please provide a revised response to Question No. 6 of the Commission Staff's First Request for Information in Appendix B of Commission's Order Dated June 13, 2012 that uses the average residential customers' usage for the twelve month period.

A-1. The actual average residential customer's usage for the 12-months ending March 31, 2012 is 1,010 kWh per month. Actual average monthly usage for residential customers will vary from month to month depending upon the period of the year. The use of 1,000 kWh per month to reflect the impact on a residential customer's bill provides a general representation that is scalable to an individual residential customer's actual usage.

Based upon distributing the net over-recovered position of \$506,722 in one month, the ECR billing factor will be lower by approximately 1.25%. For a residential customer using 1,010 kWh per month the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.91 per month, using rates and adjustment clause factors in effect for the April 2012 billing month.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Questions Raised at the
July 12, 2012 Technical Conference**

Case No. 2012-00208

Question No. 2

Witness: Robert M. Conroy

- Q-2. Please refer to pages 3 through 6 of the attachment to the response to Question No. 1 of the Commission Staff's First Request for Information in Appendix B of Commission's Order Dated June 13, 2012. Provide the support for the calculation of the Electric Rate Base Percentage contained in Column 3.
- A-2. Please see the attached. The calculation of the Electric Rate Base Percentage is performed annually at the beginning of the year based on the prior year ending net cost base statements for electric and gas operations.

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

LOUISVILLE GAS AND ELECTRIC COMPANY
Net Cost Base
For 12 Months Ended December 31, 2011

	<u>Electric</u>	<u>Gas</u>	<u>Combined</u>
NET COST BASE -			
Utility Plant at Original Cost (1)	4,054,317,295	842,978,637	4,897,295,932
Less: Reserve for Depreciation (1)	1,852,956,074	264,917,379	2,117,873,453
Environmental Cost Recovery Rate Base (ECR) (2)	0	0	0
Customer Advances for Construction (5)	948,801	6,358,368	7,307,169
Deferred Income Taxes (5)	382,797,742	92,826,938	475,624,680
Deferred Taxes - FAS 109	27,857,286	3,544,323	31,401,609
TOTAL UTILITY PLANT LESS DEPR. RESERVE, ETC.	1,789,757,392	475,331,629	2,265,089,021
Materials and Supplies (2)(4)	91,786,729	54,131	91,840,860
Gas Stored Underground (2)	0	39,569,035	39,569,035
Prepayments (2)(3)	4,690,348	638,230	5,328,578
Cash Working Capital	81,094,226	8,106,376	89,200,602
Mill Creek Ash Dredging-Regulatory Asset (6)	0	0	0
TOTAL NET COST BASE	1,967,328,695	523,699,401	2,491,028,096
	78.98%	21.02%	100.00%

Notes:

- (1) Common utility plant and reserve allocated 71% Electric; 29% 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 71% Electric; 29% 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
CASH WORKING CAPITAL - 12 MONTHS ENDED December 31, 2011**

	<u>Electric</u>	<u>Gas</u>	<u>Combined</u>
Total Operating Expenses	<u>723,648,351</u>	<u>226,086,638</u>	<u>949,734,989</u>
Deduct:			
Electric Power Purchased	74,894,547	-	74,894,547
Gas Supply Expenses	-	<u>161,235,626</u>	<u>161,235,626</u>
Total Deductions	<u>74,894,547</u>	<u>161,235,626</u>	<u>236,130,173</u>
Remainder	<u>648,753,804</u>	<u>64,851,012</u>	<u>713,604,816</u>
Cash Working Capital (12 1/2% of above)	<u>81,094,226</u>	<u>8,106,376</u>	<u>89,200,602</u>

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
CASH WORKING CAPITAL - 12 MONTHS ENDED December 31, 2010

	<u>Electric</u>	<u>Gas</u>	<u>Combined</u>
Total Operating Expenses	<u>699,587,576</u>	<u>230,866,187</u>	<u>930,453,763</u>
Deduct:			
Electric Power Purchased	54,379,719	-	54,379,719
Gas Supply Expenses	<u>-</u>	<u>169,003,608</u>	<u>169,003,608</u>
Total Deductions	<u>54,379,719</u>	<u>169,003,608</u>	<u>223,383,327</u>
Remainder	<u>645,207,857</u>	<u>61,862,579</u>	<u>707,070,436</u>
Cash Working Capital (12 1/2% of above)	<u>80,650,982</u>	<u>7,732,822</u>	<u>88,383,804</u>

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Questions Raised at the
July 12, 2012 Technical Conference**

Case No. 2012-00208

Question No. 3

Witness: Robert M. Conroy

- Q-3. Please provide an explanation of the Production credit shown on Line 34 of Page 4 of 4 in Attachment to the Response to Question No. 5 of the Commission Staff's First Request for Information in Appendix B of Commission's Order Dated June 13, 2012. Provide the calculations shown on Page 4 of 4 in electronic media with formulas intact.
- A-3. Please see the attached provided on compact disc with the formulas intact.

The "Domestic Production Activities Deduction" ("DPAD") is a deduction pursuant to Section 199 of the Internal Revenue Code. The 2011 DPAD rate for federal tax purposes is 9%.

For Kentucky, pursuant to KRS 141.010(11)(c) and (13)(c), for taxable years beginning on or after January 1, 2010, the amount of DPAD is 6%. Line 34 of Page 4 of 4 is calculated by multiplying the 6% state DPAD rate times the Taxable income for Federal income tax before production credit, Line 6, of \$94.3396 ($\$94.3396 \times 6\% = \5.6604).

Lines 3 and 34 on the attached do not have formulas because one of the dependant variables in the calculation of the Production Tax Credit is the dollar value of State Income Taxes. One of the dependant variables in the calculation of State Income Taxes is the dollar value of the Production Tax Credit. The nature of this dependency creates a circular reference as any change in one of these variables will cause the other to change. Microsoft Excel can be set to increase the number of iterations per calculation above one and solve this circular reference.