



a PPL company

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

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PUBLIC SERVICE
COMMISSION

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

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@lge-ku.com

January 30, 2013

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH
BILLING PERIOD ENDING OCTOBER 31, 2012
CASE NO. 2012-00546***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and seven (7) copies of the Direct Testimony of Robert M. Conroy and the Response of Kentucky Utilities Company to the First Request for Information in Appendix B of the Commission's Order dated January 2, 2013, in the above-referenced matter.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'R. M. Conroy'. The signature is fluid and cursive, with a large loop 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 OCTOBER 31, 2012)

CASE NO.
2012-00546

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

Filed: January 30, 2013

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” or
4 “Company”) and Louisville Gas and Electric Company (“LG&E”) (collectively “the
5 Companies”). My business address is 220 West Main Street, Louisville, Kentucky,
6 40202. A complete statement of my education and work experience is attached to
7 this testimony as Appendix A.

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

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

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

13 A. The purpose of this proceeding is to review the past operation of KU’s environmental
14 surcharge during the six-month billing period ending October 31, 2012 (expense
15 months of March 2012 through August 2012), and to determine whether the
16 surcharge amount collected during the period is just and reasonable.

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

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

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

3 A. KU billed an environmental surcharge to its customers from May 1, 2012 through
4 October 31, 2012. For purposes of the Commission's examination in this case, the
5 monthly KU environmental surcharges are considered as of the six-month billing
6 period ending October 31, 2012. In the six-month period under review in this
7 proceeding, KU calculated the environmental surcharge factors in accordance with its
8 tariff ECR, and the requirements of the Commission's previous orders concerning
9 KU's environmental surcharge. The calculations were made in accordance with the
10 Commission-approved monthly forms and filed with the Commission ten days before
11 the new monthly charge was billed by the Company.

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

14 A. The capital and operating costs included in the calculation of the environmental
15 surcharge factors for the six-month billing period were the costs incurred each month
16 by KU from March 2012 through August 2012, as detailed in the attachment in
17 response to Question No. 2 of the Commission Staff's Request for Information,
18 incorporating all required revisions.

19 The monthly environmental surcharge factors applied during the billing period
20 under review were calculated consistent with the Commission's Orders in KU's
21 previous applications to assess or amend its environmental surcharge mechanism and
22 plan, as well as Orders issued in previous review cases. The monthly environmental

1 surcharge reports filed with the Commission during this time reflect the various
2 changes to the reporting forms ordered by the Commission from time to time.

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

4 A. Yes. In Case No. 2011-00161, the Commission approved KU's 2011 ECR
5 Compliance Plan that included two new projects and associated operation and
6 maintenance costs, amended Project 29 (2009 Plan) to convert the Brown Main Ash
7 Pond to a Landfill, and approved the reporting of operation and maintenance costs
8 associated with sorbent injection approved with the 2006 Plan for Ghent Units 1, 3,
9 and 4 as part of the 2011 Plan. Pursuant to the Commission's December 15, 2011
10 Order approving the Settlement Agreement in Case No 2011-0161, KU began
11 including the approved projects in the monthly filing for the December 2011 expense
12 month that was billed in February 2012 with separate authorized rates of return for
13 the Pre-2011 and 2011 ECR Plans. In addition, the Commission approved the use of
14 net (non-fuel) revenues to calculate the jurisdictional revenue requirement for non-
15 residential customers defined as Group 2 in the ECR tariff. The use of net revenues
16 for Group 2 customers was implemented in Case No. 2011-00231 as discussed below.

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

19 A. Yes. In Case No. 2011-00231, KU's most recent ECR two-year review, the
20 Commission implemented of the use of net revenues to calculate the jurisdictional
21 revenue requirement for non-residential customers defined as Group 2 in the ECR
22 tariff in conjunction with the ECR Roll-in, and revisions to the monthly reporting
23 forms to reflect the implementation of Group 1 and Group 2 billing factors. Pursuant

1 to the Commission's January 31, 2012 Order in that case, the changes were
2 implemented with the January 2012 expense month that was billed in March 2012.

3 **Q. Has the Commission recently approved changes to KU's ECR Compliance Plan**
4 **that are not included in the billing period under review?**

5 A. Yes. In Case No. 2012-00221, KU's most recent rate case, the Commission approved
6 the elimination of KU's 2005 and 2006 ECR Compliance Plans (with the exception of
7 Project 22 related to Emission Allowances) from the monthly environmental
8 surcharge filings and reset the return on equity to be used in the monthly
9 environmental surcharge filings. Pursuant to the Commission's December 20, 2012
10 Order in that case, the changes will be implemented with the January 2013 expense
11 month that will be included in the next ECR six-month review. The approved return
12 on equity is used in this proceeding to establish the overall rate of return on capital to
13 be used to calculate the environmental surcharge as discussed later in this testimony.

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

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

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

1 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
2 Order in Case No. 2000-00439 to reflect the actual changes in the overall rate of
3 return on capitalization that is used in the determination of the return on
4 environmental rate base. Pursuant to the terms of the Settlement Agreement
5 approving the 2011 ECR Plan, KU calculated the short- and long-term debt rate using
6 average daily balances and daily interest rates in the calculation of the overall rate of
7 return true-up adjustment for the six-month billing period ending October 31, 2012.
8 The details of and support for this calculation are shown in KU's response to
9 Question No. 1 of the Commission Staff's Request for Information.

10 **Q. Are there corrections to information provided in the monthly filings during the**
11 **billing period under review?**

12 A. No.

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 \$218,511 for the billing period
16 ending October 31, 2012. KU's response to Question No. 2 of the Commission
17 Staff's Request for Information shows the calculation of the cumulative over-
18 recovery. An adjustment to the revenue requirement is necessary to reconcile the
19 collection of past surcharge revenues with the actual costs for the billing period under
20 review.

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

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

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

9 A. The use of 12-month average revenues to calculate the monthly billing factors and
 10 then applying those same billing factors to the actual monthly revenues will result in
 11 an over- or under-collection of ECR revenues. The table below shows a comparison
 12 of the 12-month average revenues used in the monthly filings to determine the ECR
 13 billing factors and the actual revenues to which the ECR billing factors were applied
 14 in the billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
March 2012	\$ 77,728,219	May 2012	\$ 70,359,567
April 2012	77,406,253	June 2012	79,416,460
May 2012	77,666,697	July 2012	93,404,959
June 2012	77,652,226	August 2012	91,720,064
July 2012	78,395,277	September 2012	81,085,795
August 2012	78,350,280	October 2012	67,475,865
*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Group 2.			

15
 16 Generally, an under-recovery will occur when actual revenues for the billing month
 17 are less than the 12-month average revenues used for the expense month. Likewise,

1 an over-recovery will occur when actual revenues for the billing month are greater
2 than the 12-month average revenues used for the expense month.

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 distributed in one month following the
6 Commission's Order in this proceeding. Specifically, KU recommends that the
7 Commission approve a decrease to the Environmental Surcharge Revenue
8 Requirement of \$218,511 for one month, beginning in the second full billing month
9 following the Commission's Order in this proceeding. This method is consistent with
10 the method of implementing previous over- or under- recovery positions in prior ECR
11 review cases.

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

14 A. The inclusion of the distribution reflecting the over-recovery position in the
15 determination of the ECR billing factor will decrease the billing factor by
16 approximately 0.21%. For a residential customer using 1,188 kWh, the impact of the
17 adjusted ECR billing factor would be a decrease of approximately \$0.21 for one
18 month (using rates and adjustment clause factors in effect for the January 2013 billing
19 month).

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

22 A. KU is recommending an overall rate of return on capital of 10.30%, including the
23 currently approved 10.25% return on equity and adjusted capitalization, to be used to

1 calculate the environmental surcharge. This is based on capitalization as of August
2 31, 2012 and the Commission's Order of December 20, 2012 in Case No. 2012-
3 00221. Please see the response and attachment to Commission Staff's Request for
4 Information Question No. 5 following this testimony.

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

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

- 7 a) The Commission should approve the proposed decrease to the Environmental
8 Surcharge Revenue Requirement of \$218,511 for one month beginning in the
9 second full billing month following the Commission's Order in this
10 proceeding;
- 11 b) The Commission should determine the environmental surcharge amount for
12 the six-month billing period ending October 31, 2012 to be just and
13 reasonable;
- 14 c) The Commission should approve the use of an overall rate of return on capital
15 of 10.30% using a return on equity of 10.25% beginning in the second full
16 billing month following the Commission's Order in this proceeding.

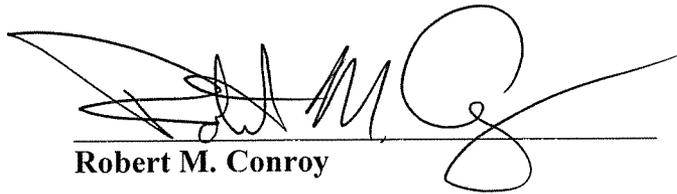
17 **Q. Does this conclude your testimony?**

18 A. Yes.

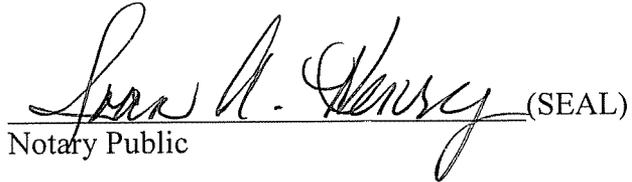
VERIFICATION

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 30th day of January 2013.


Notary Public (SEAL)

My Commission Expires:

7/21/2015

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 KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2012-00546
BILLING PERIOD ENDING OCTOBER 31, 2012)	

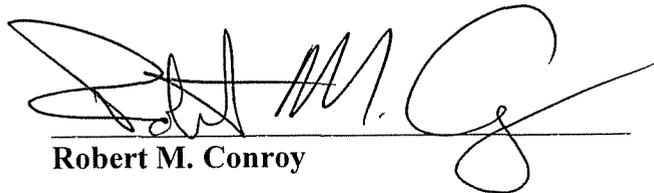
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION IN
APPENDIX B OF COMMISSION'S ORDER
DATED JANUARY 2, 2013

FILED: January 30, 2013

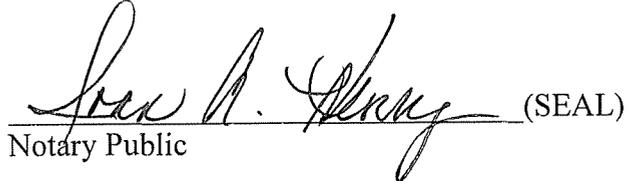
VERIFICATION

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 30th day of January 2013.

 (SEAL)
Notary Public

My Commission Expires:

7/31/2015

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00546

Question No. 1

Witness: Robert M. Conroy

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

A-1. Please see the attachment.

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

Pages 3 and 4 provide the weighted average cost of capital for the Pre-2011 and 2011 Plans, respectively, for the period ending October 31, 2012. KU calculated the short- and long-term debt rates using average daily balances and daily interest rates pursuant to the Commission's Order in Case No. 2011-00161. The Pre-2011 and 2011 Plans are also shown separately to reflect the different rates of returns approved by the Commission in Case No. 2011-00161.

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

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

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
Pre-2011 Plans								
May-12	Mar-12	10.56%	\$ 1,248,378,620	\$ 1,248,378,620	\$ -	\$ -	87.24%	\$ -
Jun-12	Apr-12	10.56%	1,253,579,055	1,253,579,055	-	-	87.74%	-
Jul-12	May-12	10.56%	1,260,849,300	1,260,849,300	-	-	87.07%	-
Aug-12	Jun-12	10.56%	1,271,789,980	1,271,789,980	-	-	86.30%	-
Sep-12	Jul-12	10.56%	1,282,342,880	1,282,342,880	-	-	87.10%	-
Oct-12	Aug-12	10.56%	1,292,808,307	1,292,808,307	-	-	87.71%	-
						\$ -		\$ -
2011 Plan								
May-12	Mar-12	10.13%	\$ 22,921,881	\$ 22,921,881	-	-	87.24%	-
Jun-12	Apr-12	10.13%	26,890,090	26,890,090	-	-	87.74%	-
Jul-12	May-12	10.13%	30,004,260	30,004,260	-	-	87.07%	-
Aug-12	Jun-12	10.13%	31,884,830	31,884,830	-	-	86.30%	-
Sep-12	Jul-12	10.13%	38,467,121	38,467,121	-	-	87.10%	-
Oct-12	Aug-12	10.13%	40,163,370	40,163,370	-	-	87.71%	-
						\$ -		\$ -
Cumulative Impact of Changes in Rate Base						\$ -		\$ -

Note: Pursuant to the Commission's Order dated December 15, 2011 approving the Settlement Agreement in Case No. 2011-00161, KU calculated the short- and long-term debt rates using average daily balances and daily interest rates in connection with the ECR true-up calculation shown above and used separate rates of return for the Pre-2011 and 2011 ECR Plans beginning with the December 2011 expense month.

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

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return	Rate Base as Revised	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
Pre-2011 Plans								
May-12	Mar-12	10.56%	10.65%	0.09%	\$ 1,248,378,620	93,628	87.24%	81,681
Jun-12	Apr-12	10.56%	10.65%	0.09%	1,253,579,055	94,018	87.74%	82,492
Jul-12	May-12	10.56%	10.65%	0.09%	1,260,849,300	94,564	87.07%	82,337
Aug-12	Jun-12	10.56%	10.65%	0.09%	1,271,789,980	95,384	86.30%	82,317
Sep-12	Jul-12	10.56%	10.65%	0.09%	1,282,342,880	96,176	87.10%	83,769
Oct-12	Aug-12	10.56%	10.65%	0.09%	1,292,808,307	96,961	87.71%	85,044
						570,731		497,640
2011 Plan								
May-12	Mar-12	10.13%	10.21%	0.08%	22,921,881	1,528	87.24%	1,333
Jun-12	Apr-12	10.13%	10.21%	0.08%	26,890,090	1,793	87.74%	1,573
Jul-12	May-12	10.13%	10.21%	0.08%	30,004,260	2,000	87.07%	1,742
Aug-12	Jun-12	10.13%	10.21%	0.08%	31,884,830	2,126	86.30%	1,834
Sep-12	Jul-12	10.13%	10.21%	0.08%	38,467,121	2,564	87.10%	2,234
Oct-12	Aug-12	10.13%	10.21%	0.08%	40,163,370	2,678	87.71%	2,348
						12,689		11,064
Cumulative Impact of Changes in Rate of Return						\$ 583,420		\$ 508,704

Note: Pursuant to the Commission's Order dated December 15, 2011 approving the Settlement Agreement in Case No. 2011-00161, KU calculated the short- and long-term debt rates using average daily balances and daily interest rates in connection with the ECR true-up calculation shown above and used separate rates of return for the Pre-2011 and 2011 ECR Plans beginning with the December 2011 expense month.

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity - 2005-2010 ECR Plans

As of October 31, 2012

	Balance at 10-31-12 (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	\$ - (a)	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	87.43%	\$ -
2. Long Term Debt	1,840,988,593 (a)	45.79%	-	(593,347)	(559,426)	(1,152,773)	1,839,835,820	87.43%	1,608,568,457
3. Common Equity	2,179,591,739	54.21%	(253,985)	(702,453)	(662,294)	(1,618,732)	2,177,973,007	87.43%	1,904,201,800
4. Total Capitalization	<u>\$ 4,020,580,332</u>	<u>100.000%</u>	<u>\$ (253,985)</u>	<u>\$ (1,295,800)</u>	<u>\$ (1,221,720)</u>	<u>\$ (2,771,505)</u>	<u>\$ 4,017,808,827</u>		<u>\$ 3,512,770,257</u>

	Kentucky Jurisdictional Capitalization (9)	Capital Structure (10)	Environmental Surcharge (Col 10 x Col 11 Line 4) (11)	DSM Rate Base (Col 10 x Col 12 Line 4) (12)	Adjusted Kentucky Jurisdictional Capitalization (Col 9 + Col 11 + Col 12) (13)	Adjusted Capital Structure (14)	Annual Cost Rate (15)	Cost of Capital (Col 14 x Col 15) (16)
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,608,568,457	45.79%	(541,440,059)	(152,063)	1,066,976,335	45.79%	3.69%	1.69%
3. Common Equity	1,904,201,800	54.21%	(641,001,652)	(180,025)	1,263,020,123	54.21%	10.63%	5.76%
4. Total Capitalization	<u>\$ 3,512,770,257</u>	<u>100.000%</u>	<u>\$ (1,182,441,711)</u>	<u>\$ (332,088)</u>	<u>\$ 2,329,996,458</u>	<u>100.000%</u>		<u>7.45%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])								<u>10.65%</u>

(a) Average daily balance.

KENTUCKY UTILITIES

**Adjusted Electric Rate of Return on Common Equity - 2011 ECR Plan
As of October 31, 2012**

	Balance at 10-31-12 (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	\$ - (a)	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	87.43%	\$ -
2. Long Term Debt	1,840,988,593 (a)	45.79%	-	(593,347)	(559,426)	(1,152,773)	1,839,835,820	87.43%	1,608,568,457
3. Common Equity	2,179,591,739	54.21%	(253,985)	(702,453)	(662,294)	(1,618,732)	2,177,973,007	87.43%	1,904,201,800
4. Total Capitalization	<u>\$ 4,020,580,332</u>	<u>100.000%</u>	<u>\$ (253,985)</u>	<u>\$ (1,295,800)</u>	<u>\$ (1,221,720)</u>	<u>\$ (2,771,505)</u>	<u>\$ 4,017,808,827</u>		<u>\$ 3,512,770,257</u>

	Kentucky Jurisdictional Capitalization (9)	Capital Structure (10)	Environmental Surcharge (Col 10 x Col 11 Line 4) (11)	DSM Rate Base (Col 10 x Col 12 Line 4) (12)	Adjusted Kentucky Jurisdictional Capitalization (Col 9 - Col 11 - Col 12) (13)	Adjusted Capital Structure (14)	Annual Cost Rate (15)	Cost of Capital (Col 14 x Col 15) (16)
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,608,568,457	45.79%	(541,440,059)	(152,063)	1,066,976,335	45.79%	3.69%	1.69%
3. Common Equity	1,904,201,800	54.21%	(641,001,652)	(180,025)	1,263,020,123	54.21%	10.10%	5.48%
4. Total Capitalization	<u>\$ 3,512,770,257</u>	<u>100.000%</u>	<u>\$ (1,182,441,711)</u>	<u>\$ (332,088)</u>	<u>\$ 2,329,996,458</u>	<u>100.000%</u>		<u>7.17%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])								<u>10.21%</u>

(a) Average daily balance.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00546

Question No. 2

Witness: Robert M. Conroy

- Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the applicable billing period. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings KU has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.
- A-2. Please see the attachment to this response for the summary schedule and cumulative components which make up the net over-recovery.

For the period under review, KU experienced a net over-recovery of \$218,511.

Kentucky Utilities Company
 Calculation of E(m) and Jurisdictional Surcharge Billing Factor
 Summary Schedule for Expense Months March 2012 through August 2012

Attachment to Response to Question No. 2
 Page 1 of 3
 Conroy

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Expense Month	Rate Base as Revised	Monthly Rate Base as Revised	Rate of Return as Revised	Operating Expenses (net of allowance proceeds)	Total E(m)	Jurisdictional Allocation Ratio	Retail E(m)	Comments: As Revised in This Review
	ES Form 2.00	(2) / 12		ES Form 2.00	(3) * (4) + (5)	ES Form 1.10	(6) * (7)	
Pre-2011 Plans								
Mar-12	\$ 1,248,378,620	104,031,552	10.65%	\$ 5,794,575	16,873,935	87.24%	14,720,821	
Apr-12	1,253,579,055	104,464,921	10.65%	5,585,570	16,711,084	87.74%	14,662,305	
May-12	1,260,849,300	105,070,775	10.65%	5,209,168	16,399,206	87.07%	14,278,789	
Jun-12	1,271,789,980	105,982,498	10.65%	5,250,862	16,537,998	86.30%	14,272,293	
Jul-12	1,282,342,880	106,861,907	10.65%	5,403,074	16,783,867	87.10%	14,618,748	
Aug-12	1,292,808,307	107,734,026	10.65%	5,661,233	17,134,907	87.71%	15,029,027	
2011 Plan								
Mar-12	\$ 22,921,881	1,910,157	10.21%	\$ 813,019	1,008,046	87.24%	879,419	
Apr-12	26,890,090	2,240,841	10.21%	658,397	887,187	87.74%	778,418	
May-12	30,004,260	2,500,355	10.21%	861,021	1,116,307	87.07%	971,969	
Jun-12	31,884,830	2,657,069	10.21%	995,727	1,267,014	86.30%	1,093,433	
Jul-12	38,467,121	3,205,593	10.21%	962,231	1,289,522	87.10%	1,123,174	
Aug-12	40,163,370	3,346,948	10.21%	982,579	1,324,302	87.71%	1,161,545	

Note: In Case No. 2011-00161, the Commission approved the 2011 ECR Plan and the use of separate rates of return for the Pre-2011 and 2011 ECR Plans for use beginning with the December 2011 expense month.

Kentucky Utilities Company
 Calculation of E(m) and Jurisdictional Surcharge Billing Factor
 Summary Schedule for Expense Months March 2012 through August 2012

Attachment to Response to Question No. 2
 Page 2 of 3
 Conroy

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Retail E(m) for All ECR Plans	Adjustment to Retail E(m) for (Over)/Under-Collection	Retail E(m) Including all Adjustments to be billed as ECR	Monthly Billing Factor (Group 1)	Monthly Billing Factor (Group 2)	ECR Revenue Recovered Through Base Rates	Billing Period	ECR Billing Factor Revenues (Group 1)	ECR Billing Factor Revenues (Group 2)	Combined Total Over/(Under) Recovery
	Page 1 Col (8)	Case No. 11-231	(2) + (3)	As Filed	As Filed	As Filed		As Filed	As Filed	(7) + (9) + (10) - (4)
Mar-12	\$ 15,600,241	\$ (596,811)	\$ 15,003,430	2.05%	3.58%	\$ 12,765,005	May-12	\$ 695,552	\$ 1,318,872	\$ (224,000)
Apr-12	15,440,723	(596,811)	14,843,912	3.19%	5.58%	11,407,791	Jun-12	1,256,494	2,168,932	(10,695)
May-12	15,250,757	(596,812)	14,653,945	2.84%	4.97%	11,574,531	Jul-12	1,489,651	2,059,105	469,342
Jun-12	15,365,726	(596,812)	14,768,914	1.57%	2.75%	13,027,400	Aug-12	786,147	1,227,072	271,705
Jul-12	15,741,922	-	15,741,922	0.80%	1.40%	14,808,429	Sep-12	348,414	556,748	(28,331)
Aug-12	16,190,572	-	16,190,572	1.20%	2.11%	14,823,499	Oct-12	370,100	737,463	(259,510)
			\$ 91,202,694			\$ 78,406,655		\$ 4,946,358	\$ 8,068,192	\$ 218,511
<p>Net Over-Recovery to be returned to customers for the 6-month billing period ending October 31, 2012</p>										<p>\$ 218,511</p>

Note: In Case No. 2011-00161, the Commission approved the 2011 ECR Plan and the use of separate rates of return for the Pre-2011 and 2011 ECR Plans for use beginning with the December 2011 expense month.

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2012 through August 2012

(1) Billing Month	(2) Expense Month	(3) Rate of Return as Filed	(4) Rate of Return as Revised	(5) Change in Rate of Return (4) - (3)	(6) Rate Base as Revised	(7) Impact of change in Rate of Return (5) * (6) / 12	(8) Jurisdictional Allocation, ES Form 1 10	(9) Jurisdictional Impact (7) * (8)
Pre-2011 Plans (Note 1)								
May-12	Mar-12	10.56%	10.65%	0.09%	\$ 1,248,378,620	93,628	87.24%	81,681
Jun-12	Apr-12	10.56%	10.65%	0.09%	1,253,579,055	94,018	87.74%	82,492
Jul-12	May-12	10.56%	10.65%	0.09%	1,260,849,300	94,564	87.07%	82,337
Aug-12	Jun-12	10.56%	10.65%	0.09%	1,271,789,980	95,384	86.30%	82,317
Sep-12	Jul-12	10.56%	10.65%	0.09%	1,282,342,880	96,176	87.10%	83,769
Oct-12	Aug-12	10.56%	10.65%	0.09%	1,292,808,307	96,961	87.71%	85,044
2011 Plan (Note 1)								
May-12	Mar-12	10.13%	10.21%	0.08%	\$ 22,921,881	1,528	87.24%	1,333
Jun-12	Apr-12	10.13%	10.21%	0.08%	26,890,090	1,793	87.74%	1,573
Jul-12	May-12	10.13%	10.21%	0.08%	30,004,260	2,000	87.07%	1,742
Aug-12	Jun-12	10.13%	10.21%	0.08%	31,884,830	2,126	86.30%	1,834
Sep-12	Jul-12	10.13%	10.21%	0.08%	38,467,121	2,564	87.10%	2,234
Oct-12	Aug-12	10.13%	10.21%	0.08%	40,163,370	2,678	87.71%	2,348
Cumulative Impact of Changes in Rate of Return						\$ 583,420		\$ 508,704

(1) Billing Month	(2) Expense Month	(3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 11)	(4) ROR Trueup (Pre-2011 Plans)	(5) ROR Trueup (2011 Plan)	(6) Use of 12 Month Average Revenues
May-12	Mar-12	\$ (224,000)	\$ (81,681)	\$ (1,333)	\$ (140,986)
Jun-12	Apr-12	(10,695)	(82,492)	(1,573)	73,370
Jul-12	May-12	469,342	(82,337)	(1,742)	553,420
Aug-12	Jun-12	271,705	(82,317)	(1,834)	355,856
Sep-12	Jul-12	(28,331)	(83,769)	(2,234)	57,672
Oct-12	Aug-12	(259,510)	(85,044)	(2,348)	(172,117)
Total Over-Recovery for 6-month billing period		218,511	(497,640)	(11,064)	727,214

OVER/(UNDER) RECONCILIATION	
Combined Over/(Under) Recovery	218,511
Due to Change in ROR (Pre-2011 Plans)	(497,640)
Due to Change in ROR (2011 Plan)	(11,064)
Use of 12 Month Average Revenues	727,214
Subtotal	218,511
Unreconciled Difference	-

NOTE 1: Pursuant to the KPSC's Order dated December 15, 2011 approving the Settlement Agreement in Case No. 2011-00161, the 2011 ECR Plan, KU calculated the short- and long-term debt rates using average daily balances and daily interest rates in connection with the ECR true-up calculation shown above and used a separate rate of return for the Pre-2011 and 2011 Plans beginning with the December 2011 expense month.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00546

Question No. 3

Witness: Robert M. Conroy

- Q-3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes.
- A-3. KU calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

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

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

2005 - Plan

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

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							95,565	
Mar-12	835,046	1,941	5,746	3,805	38.9000%	1,480	97,045	79,280
Apr-12	835,046	1,941	5,743	3,802	38.9000%	1,479	98,524	79,280
May-12	835,046	1,941	5,743	3,802	38.9000%	1,479	100,003	79,280
Jun-12	835,046	1,941	5,745	3,804	38.9000%	1,480	101,483	79,280
Jul-12	835,046	1,941	5,744	3,803	38.9000%	1,479	102,962	79,280
Aug-12	835,046	1,941	5,743	3,802	38.9000%	1,479	104,441	79,280

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

2005 - Plan

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

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							4,294,898	
Mar-12	37,439,024	78,939	427,800	348,861	38.9000%	135,707	4,430,605	25,730
Apr-12	37,439,024	82,477	427,799	345,322	38.9000%	134,330	4,564,935	25,730
May-12	37,439,024	82,477	427,800	345,323	38.9000%	134,331	4,699,266	25,730
Jun-12	37,439,024	82,477	427,800	345,323	38.9000%	134,331	4,833,596	25,730
Jul-12	37,439,024	82,477	427,798	345,321	38.9000%	134,330	4,967,926	25,730
Aug-12	37,439,024	82,477	427,799	345,322	38.9000%	134,330	5,102,257	25,730

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

**2005 - Plan
Project 21 -- FGD's**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							91,526,585	
Mar-12	1,081,209,025	3,294,981	9,870,780	6,575,799	38.9000%	2,557,986	94,084,571	2,243,694
Apr-12	1,080,760,291	3,265,951	11,186,041	7,920,090	38.9000%	3,080,915	97,165,486	2,243,694
May-12	1,080,760,291	3,265,951	11,129,985	7,864,034	38.9000%	3,059,109	100,224,595	2,243,694
Jun-12	1,080,760,291	3,265,951	11,124,956	7,859,005	38.9000%	3,057,153	103,281,748	2,243,694
Jul-12	1,080,760,291	3,265,951	11,124,956	7,859,005	38.9000%	3,057,153	106,338,901	2,243,694
Aug-12	1,080,760,291	3,265,951	11,124,925	7,858,974	38.9000%	3,057,141	109,396,042	2,243,694

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

**2006 - Plan
Project 23 - TC2 AQCS Equipment**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							3,681,962	
Mar-12	188,418,327	655,579	1,484,427	828,848	38.9000%	322,422	4,004,384	-
Apr-12	188,418,327	660,984	1,473,031	812,047	38.9000%	315,886	4,320,270	-
May-12	188,418,327	660,984	1,437,089	776,105	38.9000%	301,905	4,622,175	-
Jun-12	188,418,327	660,984	1,468,123	807,139	38.9000%	313,977	4,936,152	-
Jul-12	188,418,327	660,984	1,468,123	807,139	38.9000%	313,977	5,250,129	-
Aug-12	190,567,822	663,929	1,502,821	838,892	38.9000%	326,329	5,576,458	-

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

**2006 - Plan
Project 24 - Sorbent Injection**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							1,346,395	
Mar-12	12,954,833	30,072	130,226	100,154	38.9000%	38,960	1,385,355	6,147
Apr-12	12,954,833	30,072	130,226	100,154	38.9000%	38,960	1,424,315	6,147
May-12	12,954,833	30,072	130,227	100,155	38.9000%	38,960	1,463,275	6,147
Jun-12	12,954,833	30,072	130,227	100,155	38.9000%	38,960	1,502,235	6,147
Jul-12	12,954,833	30,072	130,226	100,154	38.9000%	38,960	1,541,195	6,147
Aug-12	12,954,833	30,072	130,224	100,152	38.9000%	38,959	1,580,154	6,147

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

2006 - Plan
Project 25 - Mercury Monitors

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							77,357	
Mar-12	1,031,953	3,424	6,439	3,015	38.9000%	1,173	78,530	-
Apr-12	1,031,953	3,424	6,439	3,015	38.9000%	1,173	79,703	-
May-12	1,031,953	3,424	6,439	3,015	38.9000%	1,173	80,876	-
Jun-12	1,031,953	3,424	6,439	3,015	38.9000%	1,173	82,049	-
Jul-12	1,031,953	3,424	6,439	3,015	38.9000%	1,173	83,222	-
Aug-12	1,031,953	3,424	6,439	3,015	38.9000%	1,173	84,396	-

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

2006 - Plan

Project 27 - E.W. Brown Electrostatic Precipitators

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							60,919	
Mar-12	1,349,165	3,376	6,777	3,401	38.9000%	1,323	62,243	7,850
Apr-12	1,349,165	3,376	6,777	3,401	38.9000%	1,323	63,566	7,850
May-12	1,349,165	3,376	6,777	3,401	38.9000%	1,323	64,890	7,850
Jun-12	1,349,165	3,376	6,777	3,401	38.9000%	1,323	66,213	7,850
Jul-12	1,349,165	3,376	6,777	3,401	38.9000%	1,323	67,537	7,850
Aug-12	1,349,165	3,376	6,777	3,401	38.9000%	1,323	68,860	7,850

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

2009 - Plan

Project 31 - Trimble County Ash Treatment Basin (BAP/GSP)

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							156,505	
Mar-12	9,102,469	19,413	54,760	35,347	38.9000%	13,750	170,254	-
Apr-12	9,102,469	19,413	54,760	35,347	38.9000%	13,750	184,004	-
May-12	9,102,469	19,413	54,760	35,347	38.9000%	13,750	197,753	-
Jun-12	9,102,469	19,413	54,760	35,347	38.9000%	13,750	211,503	-
Jul-12	9,102,469	19,413	54,760	35,347	38.9000%	13,750	225,252	-
Aug-12	9,102,469	19,413	54,760	35,347	38.9000%	13,750	239,001	-

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

2011 - Plan

Project 35 - Ghent Station Air Compliance

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							-	
Mar-12	-	-	-	-	-	-	-	-
Apr-12	-	-	-	-	-	-	-	-
May-12	-	-	-	-	-	-	-	-
Jun-12	3,645,863	4,715	466,938	462,223	38.9000%	179,805	179,805	-
Jul-12	3,645,863	9,431	471,187	461,756	38.9000%	179,623	359,428	-
Aug-12	3,645,863	9,431	471,187	461,756	38.9000%	179,623	539,050	-

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00546

Question No. 4

Witness: Robert M. Conroy

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the March 2012 through August 2012 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.
- A-4. Attached please find a schedule showing the changes in the operations and maintenance expense accounts for March 2012 through August 2012 expense months. The changes in the expense levels are reasonable and generally occurred as a part of routine plant operations and maintenance or normal annual testing expenses.

2005 Plan

Fluctuations in the scrubber operation expenses, accounts 502006 and 502056, are the result of regular operation of the E.W. Brown and Ghent FGDs. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate.

Fluctuations in the scrubber maintenance expenses, accounts 512005 and 512055, are the result of normal system maintenance of the E.W. Brown and Ghent FGDs. The increases in March and April 2012 are due to maintenance that was performed during the Ghent 3 maintenance outage.

2006 Plan

Fluctuations in sorbent injection operation expenses, accounts 506109 and 506159, are the result of on-going system operation of Trimble County Unit 2 ("TC2") sorbent injection system.

Fluctuations in sorbent injection reactant are the result of normal operation of the TC2 sorbent injection system. The variable material, hydrated lime, will fluctuate with stack opacity. In general, warmer temperatures and increased sunlight exacerbates the issue remediated by the hydrated lime.

Fluctuations in sorbent injection system maintenance expenses, accounts 512102 and 512152, are the result of normal system maintenance.

Fluctuations in mercury monitor operation expenses, accounts 506110 and 506150, are the result of normal system operation.

Fluctuations in the scrubber operation expenses, accounts 502006 and 502056, are the result of regular operation of the TC2 FGD. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate. The unit was offline April-May 2012 for a maintenance outage.

Fluctuations in the scrubber maintenance expenses, accounts 512005 and 512055, are the result of normal system maintenance on TC2. The increases in April and June 2012 reflect maintenance performed during a maintenance outage.

Monthly variances in the NO_x operation expenses, accounts 506104, 506154, 506105 and 506155 reflect normal and expected SCR operations of TC2. The variances for accounts 506104 and 506154 are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality. TC2 was offline April-May 2012 for a maintenance outage.

Fluctuations in the precipitator operation expenses, accounts 506001 and 506051, are the result of normal system operations of TC2.

Expenses for activated carbon, accounts 506111 and 506151, are the result of regular operation of the TC2 baghouse for the removal of mercury. This is a variable production expense and will fluctuate with generation, coal quality and flue gas chemistry. The unit was offline April-May 2012 for a maintenance outage.

Fluctuations in the precipitator maintenance expenses, accounts 512011 and 512051, are the result of normal system maintenance on TC2.

Please note that the sorbent injection O&M from the 2006 Plan, beginning December 2011, is now reflected in the 2011 Plan for all units except TC2, which will continue to be recovered through the 2006 Plan.

2011 Plan

Fluctuations in sorbent injection operation expenses, account 506159, are the result of ongoing system operations of the Ghent sorbent injection system.

Fluctuations in sorbent injection reactant are the result of normal operation of the Ghent sorbent injection system. The variable material, hydrated lime, will fluctuate with stack opacity. In general, warmer temperatures and increased sunlight exacerbates the issue remediated by the hydrated lime.

Fluctuations in sorbent injection system maintenance expenses, account 512152, are the result of normal maintenance of the Ghent sorbent injection system.

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Mar-12	Apr-12	% Change from Prior Period	May-12	% Change from Prior Period	Jun-12	% Change from Prior Period	Jul-12	% Change from Prior Period	Aug-12	% Change from Prior Period
2005 Plan											
502006/502056 Scrubber Operations	260,168.49	281,129.91	8%	497,300.63	77%	487,029.96	-2%	522,494.61	7%	462,530.44	-11%
512005/512055 Scrubber Maintenance	733,331.39	912,702.73	24%	236,762.28	-74%	248,822.09	5%	157,217.43	-37%	287,480.96	83%
Total 2005 Plan O&M Expenses	993,499.88	1,193,832.64	20%	734,062.91	-39%	735,852.05	0%	679,712.04	-8%	750,011.40	10%
2006 Plan											
506109/506159 Sorbent Injection Operation	8,171.85	5,911.41	-28%	8,301.32	40%	8,853.91	7%	17,692.99	100%	12,561.49	-29%
506152 Sorbent Reactant - Reagent Only	33,498.23	-	-100%	-	0%	63,141.87	100%	55,298.08	-12%	86,208.68	56%
512102/512152 Sorbent Injection Maintenance	807.85	7,328.64	807%	4,212.40	-43%	2,393.53	-43%	815.65	-66%	3,024.09	271%
506110/506150 Mercury Monitors Operation	6,121.20	6,910.74	13%	9,001.95	30%	4,405.37	-51%	6,495.01	47%	6,855.64	6%
512103/512153 Mercury Monitors Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
506104/506154 NOx Operation -- Consumables	53,917.79	-	-100%	-	0%	63,397.15	100%	122,894.23	94%	168,654.21	37%
506105/506155 NOx Operation -- Labor and Other	3,614.87	4,525.25	25%	3,539.53	-22%	5,394.95	52%	4,405.74	-18%	5,169.84	17%
512101/512151 NOx Maintenance	3,880.34	3,806.89	-2%	8,384.60	120%	2,647.71	-68%	2,076.07	-22%	1,863.02	-10%
502006/502056 Scrubber Operations	44,166.63	-	-100%	-	0%	64,501.89	100%	89,307.21	38%	194,061.81	117%
512005/512055 Scrubber Maintenance	(3,859.93)	119,475.01	3195%	36,333.07	-70%	43,821.80	21%	26,986.73	-38%	30,488.60	13%
506001/506051 Precipitator Operation	10,946.01	7,505.16	-31%	7,616.18	1%	5,990.07	-21%	8,299.99	39%	9,432.94	14%
506111/506151 Activated Carbon	112,868.65	-	-100%	22,012.15	100%	-	-100%	153,974.52	100%	152,756.35	-1%
512011/512051 Precipitator Maintenance	27,884.22	46,882.58	68%	171,159.74	265%	37,284.86	-78%	9,134.75	-76%	13,354.93	46%
Total 2006 Plan O&M Expenses	302,017.71	202,345.68	-33%	270,560.94	34%	301,833.11	12%	497,380.97	65%	684,431.60	38%
2009 Plan											
506104/506154 NOx Operation -- Consumables	-	-	0%	-	0%	-	0%	-	0%	-	0%
506105/506155 NOx Operation -- Labor and Other	-	-	0%	-	0%	-	0%	-	0%	-	0%
512101/512151 NOx Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
506109/506159 Sorbent Injection Operation	-	-	0%	-	0%	-	0%	-	0%	-	0%
506112/506152 Sorbent Reactant - Reagent Only	-	-	0%	-	0%	-	0%	-	0%	-	0%
512102/512152 Sorbent Injection Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
502012/502012 ECR Landfill Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512105/512105 ECR Landfill Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
Adjustment for CCP Dosposal in Base Rates (ES Form 2.51)	-	-	0%	-	0%	-	0%	-	0%	-	0%
Total 2009 Plan O&M Expenses	-	-	0%	-	0%	-	0%	-	0%	-	0%
2011 Plan											
506159 ECR Sorbent Injection Operation	31,886.88	26,643.64	-16%	29,901.87	12%	32,167.54	8%	27,192.24	-15%	32,990.57	21%
506152 ECR Sorbent Reactant - Reagent Only	772,295.05	627,856.13	-19%	806,236.73	28%	930,710.46	15%	905,159.00	-3%	899,285.40	-1%
512152 ECR Sorbent Injection Maintenance	6,429.96	1,490.71	-77%	22,475.10	1408%	25,727.38	14%	12,344.53	-52%	34,320.33	178%
506156 ECR Baghouse Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512156 ECR Baghouse Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
506151 ECR Activated Carbon	-	-	0%	-	0%	-	0%	-	0%	-	0%
502013 ECR Landfill Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512107 ECR Landfill Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
Total 2011 Plan O&M Expenses	810,611.89	655,990.48	-19%	858,613.70	31%	988,605.38	15%	944,695.77	-4%	966,596.30	2%

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00546

Question No. 5

Witness: Robert M. Conroy

- Q-5. In Case No. 2000-00439, the Commission ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the six-month review case. Provide the following information as of August 31, 2012:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.
 - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
 - c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-5.
- a. Please see the attachment. There was no preferred stock outstanding as of August 31, 2012, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock outstanding as of August 31, 2012, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. KU is utilizing a return on equity of 10.25% as agreed to for the Pre-2011 and 2011 ECR Plans and approved by the Commission in its December 20, 2012 Order in Case No. 2012-00221.

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity
As of August 31, 2012

	Balance at 08-31-12 (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%	\$ -	\$ -	\$ -	\$ -	\$ -	87.43%	\$ -
2. Long Term Debt	1,841,015,061	46.00%	-	(596,068)	(197,396)	(793,464)	1,840,221,597	87.43%	1,608,905,742
3. Common Equity	2,161,257,673	54.00%	(987,484)	(699,732)	(231,725)	(1,918,941)	2,159,338,732	87.43%	1,887,909,853
4. Total Capitalization	<u>\$ 4,002,272,734</u>	<u>100.000%</u>	<u>\$ (987,484)</u>	<u>\$ (1,295,800)</u>	<u>\$ (429,121)</u>	<u>\$ (2,712,405)</u>	<u>\$ 3,999,560,329</u>		<u>\$ 3,496,815,595</u>

	Kentucky Jurisdictional Capitalization (9)	Capital Structure (10)	Environmental Surcharge (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	1,608,905,742	46.01%	(536,208,425)	1,072,697,317	46.01%	3.70%	1.70%
3. Common Equity	1,887,909,853	53.99%	(629,208,712)	1,258,701,141	53.99%	10.25%	5.53%
4. Total Capitalization	<u>\$ 3,496,815,595</u>	<u>100.000%</u>	<u>\$ (1,165,417,137)</u>	<u>\$ 2,331,398,458</u>	<u>100.000%</u>		<u>7.23%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect $\{ROR + (ROR - DR) \times [TR / (1 - TR)]\}$							<u>10.30%</u>

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31 2012

LONG-TERM DEBT										
	Due	Rate	Principal	Interest	Annualized Cost				Embedded Cost	
					Amortized Debt Issuance Exp/Discount	Amortized Loss-Reacquired Debt	Letter of Credit and other fees	Total		
Pollution Control Bonds -										
Mercer Co 2000 Series A	05/01/23	0 190% *	\$ 12,900,000	\$ 24,510	\$ -	\$ 46,743	\$ 166,549 a	\$ 227,802	1 766%	
Carroll Co 2002 Series A	02/01/32	0 467% *	20,930,000	97,835	4,104	36,300	20,930 b	159,169	0 760%	
Carroll Co 2002 Series B	02/01/32	0 450% *	2,400,000	10,800	2,856	4,164	2,400 b	20,220	0 843%	
Muhlenberg Co 2002 Series A	02/01/32	0 500% *	2,400,000	12,000	1,140	12,744	2,400 b	28,284	1 179%	
Mercer Co 2002 Series A	02/01/32	0 500% *	7,400,000	37,000	3,180	12,900	7,400 b	60,480	0 817%	
Carroll Co 2002 Series C	10/01/32	0 322% *	96,000,000	309,120	73,658	186,036	300,538 c	869,352	0 906%	
Carroll Co 2004 Series A	10/01/34	0 200% *	50,000,000	100,000	-	105,023	609,493 a	814,516	1 623%	
Carroll Co 2006 Series B	10/01/34	0 200% *	54,000,000	108,000	47,920	-	658,985 a	814,905	1 509%	
Carroll Co 2007 Series A	02/01/26	5 750%	17,875,000	1,027,813	33,342	-	-	1,061,155	5 937%	
Trimble Co 2007 Series A	03/01/37	6 000%	8,927,000	536,620	16,072	-	-	551,692	6 180%	
Carroll Co 2008 Series A	02/01/32	0 200% *	77,947,405	155,895	34,400	-	951,225 a	1,141,520	1 464%	
Called Bonds						201,063		201,063		
First Mortgage Bonds -										
2010 due 2015	11/01/15	1 625%	250,000,000	4,062,500	461,126 **	-	-	4,523,626	1 809%	
Debt discount on FMB	11/01/15	1 625%	(561,458)	-	175,000 **	-	-	175,000	-31 169%	
2010 due 2020	11/01/20	3 250%	500,000,000	16,250,000	418,360 **	-	-	16,668,360	3 334%	
Debt discount on FMB	11/01/15	3 250%	(1,551,375)	-	189,000 **	-	-	189,000	-12 183%	
2010 due 2040	11/01/40	5 125%	750,000,000	38,437,500	249,641 **	-	-	38,687,141	5 158%	
Debt discount on FMB	11/01/40	5 125%	(7,651,510)	-	271,250 **	-	-	271,250	-3 545%	
S-3 SEC Shelf Registration	03/27/15				2,292			2,292		
Revolving Credit Facility	10/19/16				785,357	3&4	500,000	1,285,357		
Letter of Credit Facility	04/29/14				298,913			298,913		
Total External Debt			\$ 1,841,015,061	\$ 61,168,593	\$ 3,067,611	\$ 604,973	\$ 3,209,920	\$ 68,051,097	3.696%	
Notes Payable to PPL	2		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total Internal Debt			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	
Total			\$ 1,841,015,061	\$ 61,168,593	\$ 3,067,611	\$ 604,973	\$ 3,209,920	\$ 68,051,097	3.696%	

SHORT-TERM DEBT										
	Rate	Principal	Interest	Annualized Cost				Embedded Cost		
				Expense	Loss	Premium	Total			
Notes Payable to Associated Company	0 430% *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0 000%	
Revolving Credit Facility Payable		-	-	-	-	-	-	-	0 000%	
Commercial Paper Program	Varies	-	-	-	-	-	-	-	0 000%	
Total		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	

Embedded Cost of Total Debt			\$ 1,841,015,061	\$ 61,168,593	\$ 3,067,611	\$ 604,973	\$ 3,209,920	\$ 68,051,097	3.696%
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** Debt discount shown on separate line

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

2 Fidelity Notes Payable were paid off on 11/1/2010 with PPL Notes Payable that were paid off with the new FMB issues on 11/16/2010

3 Included setup fees for the Wachovia Credit Facility in Long-term Debt due to 4 year credit arrangement

4 Credit Facility amended effective October 19, 2011 New term of 5 years at lower interest rate

a - Letter of credit fee = (principal bal + 45 days interest)*2% L/C Fee and 25% L/C Fronting Fee Rate based on company credit rating Remarketing Fee = 10 basis points

b - Remarketing fee = 10 basis points

c - Remarketing fee = 25 basis points

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2012**

	2012 Federal & State Production Credit W/ 6% 2012 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	<u>5.6400</u>	(40)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.3600	(1) - (3)
(7) a. Production Rate	9%	
(8) b. Allocation to Production Income	100%	
(9) c. Allocated Production Rate (a x b)	9.00%	
(10)		
(11) Less: Production tax credit	<u>8.4924</u>	(6) * (9)
(12)		
(13) Taxable income for Federal income tax	85.8676	(6) - (11)
(14)		
(15) Federal income tax	<u>30.0537</u>	(13) * 35%
(16)		
(17)		
(18) Total State and Federal income taxes	<u>\$ 35.6937</u>	(3) + (15)
(19)		
(20) Gross-up Revenue Factor	<u><u>64.3063</u></u>	100 - (18)
(21)		
(22) Therefore, the composite rate is:		
(23) Federal	30.0537%	(15) / 100
(24) State	<u>5.6400%</u>	(3) / 100
(25) Total	<u><u>35.6937%</u></u>	(23) + (24)
(26)		
(27)		
(28)		
(29)		
(30)		
(31) <u>State Income Tax Calculation</u>		
(32) Assume pre-tax income of	\$ 100.0000	
(33)		
(34) Production credit @ 6%	<u>6.0000</u>	
(35)		
(36) Taxable income for State income tax	94.0000	(32) - (34)
(37)		
(38) State Tax Rate	<u>6.0000%</u>	
(39)		
(40) State Income Tax	<u><u>5.6400</u></u>	(36) * (38)

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00546

Question No. 6

Witness: Robert M. Conroy

- Q-6. Provide the actual average residential customer's usage. Based on this usage amount, provide the dollar impact the over/under recovery will have on the average residential customer's bill for the requested recovery period.
- A-6. The actual average residential customer's usage for the 12-months ending November 30, 2012 is 1,188 kWh per month. Actual average monthly usage for residential customers will vary from month to month depending upon the time period of the year.

Based upon distributing the net over-recovered position of \$218,511 in one month, the ECR billing factor will be lower by approximately .21% for that month. For a residential customer using 1,188 kWh per month the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.21 on that month's bill, using rates and adjustment clause factors in effect for the January 2013 billing month.