



LG&E Energy LLC  
220 West Main Street (40202)  
P.O. Box 32030  
Louisville, Kentucky 40232

May 5, 2005

RECEIVED

MAY 6 2005

PUBLIC SERVICE  
COMMISSION

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

**RE: *The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of its 2004 Compliance Plan for Recovery by Environmental Surcharge*  
Case No. 2004-00426**

Dear Ms. O'Donnell:

Enclosed please find an original and eight (8) copies of Kentucky Utilities Company's ("KU") supplemental response to Question No. 4 of the First Data Request of Commission Staff dated January 26, 2005, and Errata Sheets and revised pages for the Rebuttal Testimony of Robert G. Rosenberg filed April 27, 2005, in the above-referenced docket.

Should you have any questions concerning the enclosed, please do not hesitate to contact me at (502) 627-3324.

Sincerely,

Robert M. Conroy  
Manager, Rates

cc: Hon. Elizabeth E. Blackford  
Hon. Michael L. Kurtz

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2004-00426**

**May 5, 2005 Supplemental Response to First Data Request of Commission Staff  
Dated January 26, 2005**

**Question No. 4**

**Responding Witness: Sharon L. Dodson**

- Q-4. Refer to the Direct Testimony of Sharon L. Dodson (“Dodson Testimony”), page 7. Provide the status of the request to modify Air Quality Permit No. V-97-025 and Operating Permit No. O-86-068.
- A-4. On May 4, 2005, KU received by facsimile a letter dated April 18, 2005 providing notification that the Kentucky Division for Air Quality (“KDAQ”) considers the proposed Title V permit (V-03-034) issued by the KDAQ on March 1, 2005 for KU’s E.W. Brown generating station to be final. A copy of the notification letter from the Division of Air Quality is attached to this supplemental response as Attachment 1.

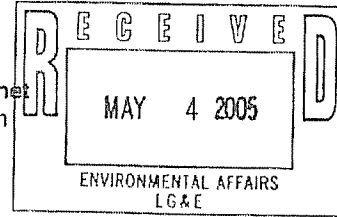
MAY 04 '05 10:43AM DIV. AIR QUALITY

Emie Fletcher  
Governor



Lajuana S. Wilcher  
Secretary

Commonwealth of Kentucky  
Environmental and Public Protection Cabinet  
Department for Environmental Protection  
Division for Air Quality  
803 Schenkel Lane  
Frankfort, Kentucky 40601-1403  
www.air.ky.gov



FAX TRANSMISSION COVER SHEET

TO: M. PARDEE

Agency/Company: LGE/KU FAX#: (502) 627-2550

From: HERBERT CAMPBELL

Number of pages INCLUDING this page:

2

Date: MAY 4, 2005

Phone: (502) 573-3382

FAX: (502) 573-3787

COMMENTS:

*THIS IS PER YOUR REQUEST (PHONE CALL). PLEASE  
EXCUSE ANY DELAY. THANK YOU IN ADVANCE.*

MAY 04 '05 10:43AM DIV. AIR QUALITY

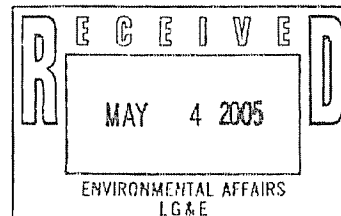
ERNIE FLETCHER  
GOVERNOR



LAJUANA S. WILCHER  
SECRETARY

COMMONWEALTH OF KENTUCKY  
ENVIRONMENTAL AND PUBLIC PROTECTION CABINET  
DEPARTMENT FOR ENVIRONMENTAL PROTECTION  
DIVISION FOR AIR QUALITY  
603 SCHENKEL LN  
FRANKFORT KY 40601-1403

April 18, 2005



Ms. Sharon Dodson, Director  
Environmental Affairs  
LG&E Energy  
P.O. Box 32010  
Louisville, Kentucky 40232

RE: End of EPA comment Period  
Permittee Name: Kentucky Utilities Company-E. W. Brown Station  
Source I.D.#: 21-167-00001  
Source AI #: 3148  
Activity #: APE20040001  
Permit #: V-03-034

Dear Ms. Dodson:

Kentucky Utilities Company-E.W. Brown Station an electric power generating station in Mercer County, Kentucky was issued a proposed air permit on March 1, 2005. No comments were received from the U.S. EPA during the 45 days comment period. Please consider the proposed permit final.

If you have any questions regarding this matter, you may contact Herbert Campbell at (502) 573-3382, extension 458.

Sincerely,

Ben Markin  
Combustion Section Supervisor  
Permit Review Branch

BAM hrc



## ERRATA

### Commonwealth of Kentucky Before the Public Service Commission

#### Rebuttal Testimony of Robert G. Rosenberg Louisville Gas and Electric Company Case No. 2004-00421 and Kentucky Utilities Company Case No. 2004-00426

Page 18, line 8:

Let us assume that over the 2002-2003 period an investment experiences a risk premium of 10.0 percent. While in the 2003-2004 period, this investment experiences a risk premium of 2.0 percent. Clearly, the average of the 10.0 percent and 2.0 percent risk premiums is **6.0** percent.

Change to:

Let us assume that over the 2002-2003 period an investment experiences a risk premium of 2.0 percent. While in the 2003-2004 period, this investment experiences a risk premium of 10.0 percent. Clearly, the average of the 2.0 percent and 10.0 percent risk premiums is **6.0** percent.

1 risk premium in a non-intuitive way (i.e., that is an approach that would not likely  
 2 be employed by investors). For example, the return achieved over the 1993-1994  
 3 period is given many times the weight compared with the return achieved in the  
 4 2003-2004 period. I see no reason why investors would use such an unusual  
 5 weighting scheme in trying to estimate the expected risk premium.

6 **Q. Why is Dr. Weaver's risk premium weighting scheme unlikely to be employed**  
 7 **by investors?**

8 A. I will explain why using a simple hypothetical example. Let us assume that over  
 9 the 2002-2003 period an investment experiences a risk premium of 2.0 percent.  
 10 While in the 2003-2004 period, this investment experiences a risk premium of 10.0  
 11 percent. Clearly, the average of the 2.0 percent and 10.0 percent risk premiums is  
 12 **6.0 percent**. However, Dr. Weaver, whose risk premium averaging methodology  
 13 inexplicably gives more weight to risk premiums early in the period, would  
 14 calculate an average risk premium under these circumstances of **5.0 percent**, as  
 15 shown below:

Investment made at end of:	Risk Premium Measured Through End of:	
	2003	2004
2002	2.0%	5.9%
2003		10.0%
Dr. Weaver's Annual Average	2.0%	8.0%
Dr. Weaver's Average Risk Premium	5.0%	

16

17 To further demonstrate that Dr. Weaver's averaging method, non-intuitively, gives  
 18 greater weight to older risk premium observations, we can change the above

**ERRATA**

**Commonwealth of Kentucky  
Before the Public Service Commission**

**Rebuttal Workpapers of Robert G. Rosenberg  
Louisville Gas and Electric Company  
Case No. 2004-00421  
and  
Kentucky Utilities Company  
Case No. 2004-00426**

Rebuttal Workpapers, Page 16 of 67:

- \* Excludes MGE
- \*\* Includes MGE

Change to:

- \*\* Excludes MGE
- \* Includes MGE

**ADJUSTING DR WEAVER'S DCF ANALYSIS  
FOR MISSING MGE DATA**

	<u>Unadjusted Dividend Yield</u>	<u>Growth Rate</u>	<u>Adjusted Dividend Yield</u>	<u>Cost of Equity</u>
Zacks	4.55 **	4.31	4.75	9.06
Reuters	4.55 **	4.26	4.74	9.00
Thomson	4.55 **	4.43	4.75	9.18
Value Line	4.49 *	4.42	4.69	9.11
Average				9.09

\*\* Excludes MGE

\* Includes MGE