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Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
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Frankfort, KY 40602

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JUN 14 2006

PUBLIC SERVICE
COMMISSION

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June 14, 2006

RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH BILLING PERIODS ENDING JULY 31, 2003, JANUARY 31, 2004, JANUARY 31, 2005, JULY 31, 2005, AND JANUARY 31, 2006 AND FOR THE TWO-YEAR BILLING PERIOD ENDING JULY 31, 2004 - CASE NO. 2006-00129*

Dear Ms. O'Donnell:

Please find enclosed and accept for filing the original and nine (9) copies of the Direct Testimony and the Response of Kentucky Utilities Company to Appendix B of the Commission's Order dated April 25, 2006, in the above-referenced matter.

Under separate cover, Kentucky Utilities Company is filing a motion with the Commission today requesting the Commission issue an order granting an extension of time to file the testimony of Mr. Robert M. Conroy in this matter and also to submit its responses to Item Nos. 1 and 3 of Appendix B to the Commission's April 25, 2006 Order as soon as possible, but no later than Monday, June 19, 2006.

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

Sincerely,

Robert M. Conroy

A handwritten signature in black ink, appearing to read "R. M. Conroy", with a horizontal line extending to the right from the end of the signature.

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 14 2006

**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 PERIODS ENDING JULY 31, 2003,)
JANUARY 31, 2004, JANUARY 31, 2005,)
JULY 31, 2005, AND JANUARY 31, 2006 AND)
FOR THE TWO-YEAR BILLING PERIOD ENDING)
JULY 31, 2004)**

**CASE NO:
2006-00129**

**DIRECT TESTIMONY OF
WILLIAM STEVEN SEELYE**

**PRINCIPAL & SENIOR CONSULTANT
THE PRIME GROUP, LLC**

Filed: June 14, 2006

I. Introduction

1 **Q. Please state your name and business address.**

2 A. My name is William Steven Seelye and my business address is The Prime Group, LLC,
3 6435 West Highway 146, Crestwood, Kentucky, 40014.

4 **Q. By whom are you employed?**

5 A. I am a senior consultant and principal for The Prime Group, LLC, a firm located in
6 Crestwood, Kentucky, providing consulting and educational services in the areas of utility
7 marketing, regulatory analysis, cost of service, rate design and depreciation studies.

8 **Q. On whose behalf are you testifying?**

9 A. I am testifying on behalf of Kentucky Utilities Company (“KU”).

10 **Q. Please describe your educational background and prior work experience.**

11 A. I received a Bachelor of Science degree in Mathematics from the University of Louisville
12 in 1979. I have also completed 54 hours of graduate level course work in Industrial
13 Engineering and Physics. From May 1979 until July 1996, I was employed by Louisville
14 Gas and Electric Company (“LG&E”). From May 1979 until December 1990, I held
15 various positions within the Rate Department of LG&E. In December 1990, I became
16 Manager of Rates and Regulatory Analysis. In May 1994, I was given additional
17 responsibilities in the marketing area and was promoted to Manager of Market
18 Management and Rates. I left LG&E in July 1996 to form The Prime Group, LLC, with
19 another former employee of the company. Since then, we have performed cost of service
20 studies, developed revenue requirements and designed rates for over 120 investor-owned,

1 cooperative and municipal utilities across the U.S. A more detailed description of my
2 qualification is included in Exhibit WSS-1.

3 **Q. Have you ever testified before any state regulatory commissions?**

4 A. Yes, on a number of occasions. A listing of my testimony is included in Exhibit WSS-1.

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

6 A. In this proceeding, KU is proposing to transfer, or “roll in”, \$23,731,313 in annual
7 revenue requirements collected under its Environmental Surcharge Mechanism to base
8 rates. Question No. 12 of the information request set forth in Appendix A of the
9 Commission’s Order dated April 25, 2006, of this proceeding asked KU to explain how
10 the surcharge amount would be incorporated into base rates. In response to the
11 Commission’s information request, I present two methodologies for allocating the roll in
12 amount to the classes of service. The first methodology, which is the methodology used
13 in prior roll-in proceedings, would allocate the \$23,731,313 roll-in amount to the classes
14 of service on the basis of base-rate revenues. “Base-rate revenues” are the revenues
15 determined from the application of the company’s base rates to test-year billing units and
16 therefore exclude the application of all surcharges or surcredits from other cost recovery
17 mechanisms, such as the fuel adjustment clause. For purposes of my testimony, I will
18 refer to the first methodology as the “revenue methodology.” As an alternative to simply
19 allocating the roll-in amount on the basis of base rate revenues, KU is also presenting an
20 allocation methodology for the Commission’s consideration that would allocate the roll-
21 in amount in a way that gives some recognition to the inter-class rate subsidies that
22 currently exists in KU’s rates.

1 **Q. Why is it appropriate to consider rate subsidies in analyzing the roll-in of**
2 **Environmental Surcharge revenue requirements into base rates?**

3 A. Although the roll-in only deals with environmental-related costs, it would be reasonable
4 to take this opportunity to correct some of the general subsidies that currently exist in the
5 company's rates. A problem frequently encountered in trying to correct subsidies in a
6 general rate case proceeding is that the subsidies are often too large to address in any
7 meaningful way in a general rate case. Taking any significant steps toward alleviating
8 the amount of rate subsidies paid by some rate classes would require that those rate
9 classes benefiting from the subsidies – which are often residential customer classes –
10 receive unacceptably high increases in a rate case. With a roll-in proceeding, the
11 Commission has an opportunity to move rates closer to the cost of providing service, thus
12 reducing the rate subsidies that exist in the current rate structure. Using a roll-in
13 proceeding to correct rate subsidies would therefore be consistent with the recognized
14 ratemaking principles of gradualism, rate continuity, and cost of service. We are
15 therefore presenting for the Commission's consideration an alternative methodology that
16 would allow the Commission to use the base-rate roll-in process to make gradual
17 corrections to the subsidy problem rather than waiting until general rate cases to address
18 the issue -- at which time, the measures necessary to reduce subsidies in any meaningful
19 way could result in unacceptably large increases to the rate classes currently receiving rate
20 subsidies.

1 **Q. How do you know that some customer classes are being subsidized by other**
2 **customer classes?**

3 A. In its last general rate case proceeding (Case Nos. 2003-00434), KU submitted a fully-
4 allocated embedded class cost of service study based on pro-forma revenues and costs for
5 the test year. The cost of service study indicated that the rates of return varied
6 significantly from one rate class to another. The following table shows the class rates of
7 return from KU's cost of service study, adjusted to reflect the rates approved by the
8 Commission in Case No. 2003-00434:

9

TABLE 1	
Kentucky Utilities Company	
Summary of Class Rates of Return	
Based on Service Rates Approved by the Commission	
in Case No. 2003-00434	
Rate Class	Rate of Return
Residential	2.42%
General Service	8.67%
Combined Light & Power	12.01%
Large Comm/Ind TOD	8.32%
Coal Mining Power	15.68%
Large Power Mine Power TOD	12.72%
All Electric School	7.43%
Water Pumping	2.74%
Street Lighting	3.76%
NAS	16.24%
Total	6.33%

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Q. In this table, some rate classes are paying higher rates of return than others. What is the significance of this?

A. The customer classes with high rates of return are providing larger contributions to the company's operating income than those classes with low rates of return. Consequently, the customer classes with rates of return above the overall rate of return (6.33% for KU) are paying subsidies to those classes with rates of return below the overall level. It is important to recognize that these rates of return reflect the pro-forma revenues calculated based on the rates approved by the Commission in Case No. 2003-00434. Therefore, these rates of return correspond to KU's current base rates, which were established in Case No. 2003-00434. With the class rates of return varying to this extent, it would be reasonable for the Commission to address the subsidy issue in transferring Environmental Surcharge revenue requirements into base rates.

Q. Were the methodologies used to develop the cost of service studies submitted in Case No. 2003-00434 consistent with those determined by the Commission in other rate case proceedings to be reasonable?

A. Yes, they were. The cost of service studies were performed using the following procedure: (1) costs were functionally assigned (*functionalized*) to the major functional groups; (2) costs were then *classified* as commodity-related, demand-related, or customer-related; (3) costs were assigned (*time differentiated*) to the costing periods; and then (4) costs were then *allocated* to the rate classes. These steps, which ensure that the costs allocated to a class of customers reflect, as accurately as possible, the costs that they

1 impose on the system, were performed in accordance with standard methodologies
2 determined by the Commission in prior rate cases to be reasonable and appropriate for
3 use as a guide for establishing rates.

4 **Q. How were the class rates of return calculated?**

5 A. The purpose of the cost of service study is to allocate all of the utilities' costs to the
6 classes of service and to determine the rate of return earned on investment from each
7 customer class. In regard to a cost of service study, "costs" refer to a utility's "revenue
8 requirements" or, synonymously, the utility's "cost of service". A utility's rates must be
9 sufficient to produce enough revenue to cover its revenue requirement on a going forward
10 basis. Essentially, revenue requirements include all of the utility's accounting costs plus
11 an appropriate level of return. More specifically, a utility's revenue requirements include
12 the following components of cost: (i) operation and maintenance expenses; (ii)
13 depreciation expenses; (iii) return on investment (including interest expenses on
14 borrowed funds); (iv) income taxes (as applicable); and (v) other taxes (e.g., property
15 taxes) (as applicable). The following formula is useful in identifying the items included
16 in revenue requirements:

17
18 **Rev Req = O&M + Depreciation + Return + IT + OT**
19

20 Where: Rev Req = Revenue requirements

21 O&M = Operation and maintenance expenses

22 Deprec = Depreciation expenses

23 Return = Operating Income

1 IT = Income taxes (as applicable)

2 OT = Other taxes, such as property taxes (as applicable)

3

4 As already mentioned, one of the primary objectives of a cost of service study is to
5 determine the extent to which revenues from each class of consumers contribute toward
6 the return on total investment. For purposes of this study, return on investment is defined
7 as operating revenues less operation and maintenance expenses, depreciation expenses,
8 income taxes (as applicable), and other taxes :

9

10 **Return = Operating Revenues – O&M – Deprec – IT – OT**

11

12 The cost of service study also calculates a rate of return for each customer class. For
13 purposes of a cost of service study, the rate of return for each customer class is calculated
14 by dividing utility operating income for each rate class by the net cost rate base for each
15 rate class, as follows:

16

17 **Rate of Return = Utility Operating Income ÷ Net Cost Rate Base**

18

19

20 In this formula, net cost rate base is a measure of the utility's net investment (gross
21 investment less accumulated depreciation) required to provide service to customers. It is
22 important to recognize that net cost rate base represents the utility's investment in

1 facilities needed to provide service to customers irrespective of how the investment in
2 these facilities was funded.

3 The net cost rate base represents the value of the assets used to provide utility
4 service. It includes the following components: (1) Plant in service; (2) Construction work
5 in progress; (3) Cash working capital; (4) Materials and supplies; (5) Prepayments; and (6)
6 Deferred Debits; less the following: (i) Accumulated depreciation; (ii) Accumulated
7 Deferred Income Taxes; (iii) Customer Deposits. Cash working capital represents an
8 amount of cash funding required by the utility to carry out its business. In KU's cost of
9 service study, cash working capital was calculated on the basis of 45 days of annual
10 operation and maintenance expenses, excluding purchase power expenses (i.e., operation
11 and maintenance expenses excluding purchase power expenses were multiplied by a
12 factor determined by dividing 45 days by 365 days).

13 **Q. Why is it important to consider the results of a cost of service study?**

14 A. Although there are a number of considerations in determining the level and structure of
15 the rates that a utility should charge its customers, there are two basic principles of
16 fairness used in designing utility rates that stand out above all of the others. The first
17 principle of fairness is that customers should pay the costs that they impose on the
18 system. It is generally recognized by both experts and non-experts alike that a utility's
19 rates should reflect the cost of providing service. A cost of service study helps to
20 determine what it costs to provide service to a class of customers so that this first
21 principle can be applied. The second principle of fairness is that all customers should pay
22 their fair share of the utility's margins (or operating income). While it is sometimes

1 necessary to consider the value of service and the competitiveness of service, the starting
2 point in assessing the reasonableness of the rates to be charged by a utility is to evaluate
3 the cost of service.

4 Designing rates that reflect the cost of providing service helps ensure that
5 customers pay their fair share of the utility's costs. In other words, implementing cost-
6 based rates helps ensure that one class of customers does not subsidize another class of
7 customers. From the perspective of inter-class and intra-class subsidies, cost-based rates
8 are more equitable. Besides equity considerations, it is important for a utility's rates to
9 send the right price signals to customers so that they can make informed decisions
10 regarding their energy usage. Customers' usage patterns have a direct impact on the
11 utility's costs, which in turn have a direct impact on the utility's rates. Therefore, with
12 cost-based rates, customers are provided a proper price signal that reflects both the
13 utility's costs and the results of their own purchase decisions. With cost-based rates,
14 customers can make informed decisions based on the actual cost structure of the utility.
15 When rates reflect the cost of providing service, the economics of a customer's decisions
16 to purchase more or less of a utility service are aligned with the utility's economics, thus
17 creating greater economic and engineering efficiencies for both the utility and its
18 customers.

19 On a more pragmatic level, a cost of service study is an important analytical tool
20 for both the utility and the Commission. For example, a cost of service study can be used
21 to determine whether the revenue collected from a particular rate class is at least covering
22 the fully allocated cost of providing service. A cost of service study is an excellent

1 analytical tool for tracking whether each customer class is making at least some
2 contribution to the utility's margins or profitability.

3 **Q. How do you propose to address the subsidy issue in the alternative methodology for**
4 **allocating the Environment Surcharge roll-in amount that you present?**

5 A. In prior roll-in proceedings roll-in amounts were allocated to the rate classes on the basis
6 of base rate revenue. Under that methodology, the roll-in amount allocated to each rate
7 class would essentially correspond to the Environmental Surcharge revenue collected
8 from each rate class during a 12-month period. Under the alternative methodology, the
9 roll-in amount allocated to the customer classes under the revenue methodology would be
10 adjusted by either a credit or charge depending on whether a class rate of return falls
11 outside of a range of plus or minus 100 basis points around the overall rates of return for
12 KU. For KU, customer classes with a rate of return falling between 5.33% and 7.33%
13 would receive the revenue methodology allocation of the roll-in amount (i.e., the amount
14 determined based on a base-rate allocation using the methodology applied in prior roll-in
15 proceedings.) In other words, customer classes with a rate of return between 5.33% and
16 7.33% will not receive a credit or charge to correct for the rate subsidies that exist in base
17 rates. If a class rate of return is within plus or minus 100 basis points of the overall rate
18 of return then the service rates can be considered to reasonably reflect the cost of
19 providing service.

20 For all customer classes with rates of return above the range – i.e., above 7.33% --
21 the revenue methodology roll-in amount would be adjusted downward by a credit amount
22 which lowers the roll-in amount that would otherwise be allocated to the customer class.

1 For all customer classes with rates of return below the range – i.e., below 5.33% -- the
2 revenue methodology roll-in amount would be adjusted upward by a charge amount
3 which increases the roll-in amount that would otherwise be allocated to the customer
4 class. Under the alternative methodology, \$5,173,724 of the total roll-in amount of
5 \$23,731,313 would be used to correct the subsidies that currently exist in base rates. The
6 \$5,173,724 correction for KU would be allocated as a credit to those rate classes with
7 rates of return above 7.33% based on the total amount of subsidy above this threshold rate
8 of return paid by each customer class. Similarly, the \$5,173,724 correction would be
9 allocated as a charge to those rate classes with rates of return below 5.33% on the basis of
10 the total subsidy below 5.33% received by each customer class. The amount used to
11 correct the subsidies would thus be allocated to the affected rate classes in a symmetrical
12 manner based on the amount of subsidy paid or the amount of subsidy received.

13 **Q. How was the \$5,173,724 subsidy-correction amount determined?**

14 A. The amount used to correct subsidies (which was \$5,173,724 for KU) was determined so
15 that no rate class would receive less than 25 percent of the roll-in amount that the class
16 would otherwise receive if the roll-in were allocated on the basis of base-rate revenues.
17 In other words, when the \$5,173,724 subsidy-correction amount is allocated on the basis
18 of annual subsidies paid by those rate classes above 7.33%, the roll-in amounts for none
19 of the classes are below 25% of the roll-in amount that would otherwise be allocated to
20 the class using the revenue methodology. This requirement would ensure that each class
21 will bear a significant responsibility for the rolled-in costs, even though the cost of

1 service study would suggest that some classes should not bear any responsibility for the
2 costs based on the current level of subsidies.

3 **Q. Have you prepared an exhibit applying this allocation methodology to the KU**
4 **Environment Surcharge roll-in amount?**

5 A. Yes. The allocation is shown in Exhibit WSS-2. Column (2) shows the roll-in amount
6 allocated on the basis of the base rate revenues for the 12 months ended February 2005
7 shown in Column (1). Column (3) shows the class rates of return from the cost of service
8 study in the companies' last rate case proceedings. Column (5) shows the allocation of
9 the roll-in amount to each class with a rate of return within plus or minus 100 basis points
10 of the overall rate of return. These classes will receive an allocation determined on the
11 basis of base rate revenue, as shown in Column 2. Column (6) shows the subsidies paid
12 by each customer class with a rate of return above the top end of the range (7.33% for
13 KU), and Column (7) shows the subsidies received by each customer class with a rate of
14 return below the bottom end of the range (5.33% for KU). The subsidies paid or received
15 shown in Columns (6) and (7) were determined based on the amount of subsidies above
16 or below the top or bottom end of the range. In other words, the subsidies were not
17 determined against the mid-point of the range, but rather at the end-points of the range.
18 This approach is premised on the idea that a rate of return that falls within plus or minus
19 100 basis points of the overall rate of return is within the zone of reasonableness for class
20 rates of return. Column (8) shows the amount *credited* to the allocated roll-in amount in
21 Column (2) to certain customer classes to correct subsidies currently being *paid* by those
22 rate classes, and Column (9) shows the amount *added* to the allocated roll-in amount in

1 Column (2) to certain customer classes to correct subsidies currently being *received* by
2 those rate classes. The total amount credited to customer classes having rates of return
3 above the top end of the range is equal to the amount added to customer classes having
4 rates of return below the bottom end of the range. Column (10) shows the net roll-in
5 amount allocated to each customer class, and Column (11) shows the percentage of base
6 rate revenues represented by the allocated amount. For KU, Coal Mining Power would
7 receive the smallest relative allocation (corresponding to 0.82% of base rate revenue), and
8 the Water Pumping would receive the largest relative allocation (corresponding to 8.78%
9 of base rate revenue). Residential Rate RS would receive an allocation of the roll-in
10 equal to 5.14% of base rate revenue, which compares to an average amount for all rate
11 classes of 3.27%.

12 **Q. Have you prepared an exhibit which compares the amounts allocated using the**
13 **alternative methodology to the amounts allocated using the revenue methodology?**

14 A. Yes. Exhibits WSS-3 compares the roll-in amounts allocated to the rate classes using the
15 alternative methodology to the roll-in amounts allocated using the revenue methodology
16 for the 12 months ended February 28, 2005.

17 **Q. Would the roll-in allocations be updated using a more recent 12-month period?**

18 A. Yes. The allocation calculations shown in WSS-2 are based on base-rate revenues for the
19 12 months ended February 28, 2005. Consistent with the Commission's Order in Case
20 No. 2003-00068, in determining the roll-in allocations and the impact on unit charges, the
21 allocations would be revised to reflect base rates for the most recent 12-month period
22 subsequent to the Commission issuing an order in these proceedings. Although we would

1 not anticipate that the total roll-in amount of \$23,731,313 for KU would change, Column
2 (1) of WSS-2 would be updated to reflect base-rate revenues for a more current 12-month
3 period.

4 **Q. How will the roll-in amounts allocated to each rate class be incorporated into unit**
5 **charges?**

6 A. For two-part rate schedules consisting of a customer charge and energy charge, KU is
7 proposing to recover the roll-in amount allocated to the rate class exclusively through the
8 energy charge of the rate. For three part rate schedules consisting of a customer charge,
9 energy charge and demand charge, KU is proposing to recover the roll-in amount
10 allocated to the rate class exclusively through the demand charge of the rate. For lighting
11 rates consisting of a charge per fixture, the roll-in amount allocated to the lighting rates
12 would be recovered through the charge per fixture, as in prior roll-ins. Except for the
13 lighting rates, our recommended approach would represent a departure from prior roll-ins.
14 In prior roll-ins the amounts allocated to each rate class were assigned to all components
15 of base rates (customer charge, energy charge and demand charge, as applicable) on a
16 pro-rata basis.

17 Residential Rate RS, for example, is a two-part rate consisting of an customer
18 charge and energy charge. Under our proposal, the roll-in amount allocated to the rate
19 class would be recovered exclusively through the energy charge of the rate. We are
20 proposing that none of the roll-in amount be recovered through the customer charge.
21 Because the customer charge has no relationship to the environmental costs being rolled-

1 in, which are principally related to fixed power production costs, we do not believe that it
2 is appropriate to recover any of these costs through the customer charge of the rate.

3 For the large power rates such as LCI-TOD, which are three-part rates, the roll-in
4 amount allocated to the rate class would be recovered exclusively through the demand
5 charge of the rate. Again, because these costs are predominantly fixed production costs,
6 we believe that it is appropriate to recover these costs through the fixed demand charge
7 rather than through the customer charge or energy charge of the rate.

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

9 A. Yes, it does

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11

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13

WILLIAM STEVEN SEELYE

Summary of Qualifications

Bachelor of Science degree in Mathematics; completed 54 hours of graduate level course work in Industrial Engineering and Physics. Provides consulting services to numerous investor-owned utilities, rural electric cooperatives, and municipal utilities regarding utility rate and regulatory filings, cost of service and wholesale and retail rate designs; and develops revenue requirements for utilities in general rate cases, including the preparation of analyses supporting pro-forma adjustments and the development of rate base.

Employment

Senior Consultant and Principal
The Prime Group, LLC
(July 1996 to Present)

Provides consulting and educational services in areas of utility marketing, regulatory analysis, revenue requirements, cost of service, rate design, fuel and power procurement, depreciation studies, lead-lag studies, and mathematical modeling.

Prepared and filed Order No. 888 and 889 compliance filings at the Federal Energy Regulatory Commission ("FERC") for a number of electric utilities. Prepared market power analyses in support of market-based rate filings at FERC for utilities and their marketing affiliates.

Assists utilities with developing strategic marketing plans and implementation of those plans. Provides utility clients assistance regarding regulatory policy and strategy; state and federal regulatory filing development; cost of service development and support; the development of innovative rates to achieve strategic objectives; unbundling of rates and the development of menus of rate alternatives for use with customers; performance-based rate development.

Various Positions
Louisville Gas & Electric Co.
(May 1979 to July 1996)

Held various positions in the Rate Department. In December 1990, promoted to Manager of Rates and Regulatory Analysis. In May 1994, given additional responsibilities in the marketing area and promoted to Manager of Market Management and Rates.

Education

Bachelor of Science Degree in Mathematics, University of Louisville, 1979
54 Hours of Graduate Level Course Work in Industrial Engineering and Physics.

Expert Witness Testimony

- Alabama: Testified in Docket 28101 on behalf of Mobile Gas Service Corporation concerning rate design and pro-forma revenue adjustments.
- Colorado: Testified in Consolidated Docket Nos. 01F-530E and 01A-531E on behalf of Intermountain Rural Electric Association in a territory dispute case.
- FERC: Testified in Docket No. EL02-25-000 et al. concerning Public Service of Colorado's fuel cost adjustment. Testified in Case No. ER05-522-001 concerning a rate filing by Bluegrass Generation Company, LLC to charge reactive power service to LG&E Energy, LLC.
- Florida: Testified in Docket No. 981827 on behalf of Lee County Electric Cooperative, Inc. concerning Seminole Electric Cooperative Inc.'s wholesale rates and cost of service.
- Illinois: Testified in Docket No. 01-0637 on behalf of Central Illinois Light Company ("CILCO") concerning the modification of interim supply service and the implementation of black start service in connection with providing unbundled electric service.
- Indiana: Testified in Cause No. 42713 on behalf of Richmond Power & Light regarding revenue requirements, class cost of service studies and rate design.
- Kansas: Testified in Docket No. 05-WSEE-981-RTS on behalf of Westar Energy, Inc. and Kansas Gas and Electric Company regarding transmission delivery revenue requirements, energy cost adjustment clauses, fuel normalization, and class cost of service studies.
- Kentucky: Testified in Administrative Case No. 244 regarding rates for cogenerators and small power producers, Case No. 8924 regarding marginal cost of service, and in numerous 6-month and 2-year fuel adjustment clause proceedings. Testified in Case No. 96-161 and Case No. 96-362 regarding Prestonsburg Utilities' rates. Testified in Case No. 99-046 on behalf of Delta Natural Gas Company, Inc. concerning its rate stabilization plan and in Case No. 99-176 concerning cost of service, rate design and expense adjustments in connection with Delta's rate case. In Case No. 2000-080, testified on behalf of Louisville Gas and Electric Company concerning cost of service, rate design, and pro-forma adjustments to revenues and expenses. Submitted rebuttal testimony in Case No. 2000-548 on behalf of

Louisville Gas and Electric Company regarding the company's prepaid metering program. Testified on behalf of Louisville Gas and Electric Company in Case No. 2002-00430 and on behalf of Kentucky Utilities Company in Case No. 2002-00429 regarding the calculation of merger savings. Testified on behalf of Louisville Gas and Electric Company in Case No. 2003-00433 and on behalf of Kentucky Utilities Company in Case No. 2003-00434 regarding pro-forma revenue, expense and plant adjustments, class cost of service studies, and rate design. Testified on behalf of Delta Natural Gas Company in Case No. 2004-00067 regarding pro-forma adjustments, depreciation rates, class cost of service studies, and rate design.

Nevada: Testified on behalf of Nevada Power Company in Case No. 03-10001 regarding cash working capital and rate base adjustments. Testified on behalf of Sierra Pacific Power Company in Case No. 03-12002 regarding cash working capital. Testified on behalf of Sierra Pacific Power Company in Case No. 05-10003 regarding cash working capital for an electric general rate case. Testified on behalf of Sierra Pacific Power Company in Case No. 05-10005 regarding cash working capital for a gas general rate case.

Kentucky Utilities Company
Environmental Surcharge Roll-In Allocation
Based on 12 Months Ended February 2005

KU Roll-In Amount: \$ 23,731,313
Amount of Roll-In Applied to Correct Subsidies \$ 5,173,724
Percentage of Total Roll-In Applied to Correct Subsidies 21.80%

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Rate Class	Base Rate Revenue	Roll-In Allocated on the Basis of Base Rate Revenue	Class ROR	ROR Falls Within Range	Allocation for Classes Falling Within Range	Subsidy Paid By Classes Above Range	Subsidy Received By Classes Below Range	Amount Credited to Correct Subsidies	Amount Added to Correct Subsidies	Roll-In Amount	Percentage of Base Rate Revenue
Residential	\$ 265,206,327	\$ 8,672,184	2.42%		\$ -	\$ -	\$ 34,055,554	\$ -	\$ 4,952,649	\$ 13,624,833	5.14%
General Service	74,995,135	2,452,323	8.67%		-	(3,243,597)	-	(452,362)	-	1,999,962	2.67%
Combined Light & Power	236,854,732	7,745,094	12.01%		-	(26,856,112)	-	(3,745,432)	-	3,999,662	1.69%
Large Comm/Ind TOD	100,071,115	3,272,302	8.32%		-	(2,204,049)	-	(307,383)	-	2,964,919	2.96%
Coal Mining Power	9,543,445	312,068	15.68%		-	(1,678,233)	-	(234,051)	-	78,017	0.82%
Large Power Mine Power TOD	6,857,693	224,245	12.72%		-	(833,878)	-	(116,295)	-	107,950	1.57%
All Electric School	4,320,186	141,269	7.43%		-	(14,885)	-	(2,076)	-	139,193	3.22%
Water Pumping	249,976	8,174	2.74%		-	-	94,746	-	13,779	21,953	8.78%
Street Lighting	14,571,002	476,468	3.76%		-	-	1,425,417	-	207,296	683,765	4.69%
NAS	13,063,853	427,185	16.24%		-	(2,266,731)	-	(316,125)	-	111,060	0.85%
Total	\$ 725,733,463	\$ 23,731,313			\$ -	\$ (37,097,487)	\$ 35,575,718	\$ (5,173,724)	\$ 5,173,724	\$ 23,731,313	3.27%

Kentucky Utilities Company

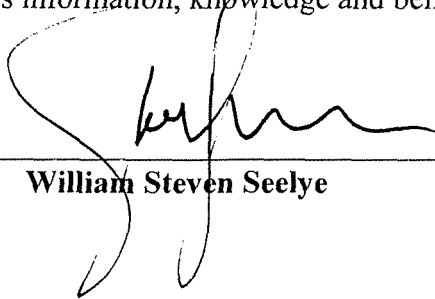
Comparison of Allocation Methodologies
Based on the 12 Months Ended February 28, 2005

Rate Class	Allocation Based on Revenue Methodology	Allocation Based on Alternative Methodology
Residential	\$ 8,672,184	\$ 13,624,833
General Service	2,452,323	1,999,962
Combined Light & Power	7,745,094	3,999,662
Large Comm/Ind TOD	3,272,302	2,964,919
Coal Mining Power	312,068	78,017
Large Power Mine Power TOD	224,245	107,950
All Electric School	141,269	139,193
Water Pumping	8,174	21,953
Street Lighting	476,468	683,765
NAS	427,185	111,060
Total	<u>\$ 23,731,313</u>	<u>\$ 23,731,313</u>

VERIFICATION

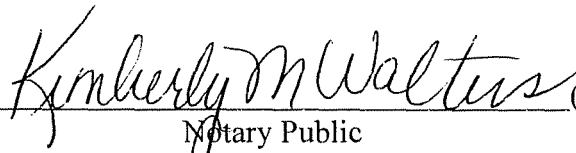
**COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)**

The undersigned, William Steven Seelye, being duly sworn, deposes and states that he is a Principal with The Prime Group, that he has personal knowledge of the matters set forth in the foregoing testimony and exhibits, and the answers contained therein are true and correct to the best of his information, knowledge and belief.



William Steven Seelye

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 9th day of June, 2006.



Notary Public (SEAL)

My Commission Expires:

9/11/2008

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 14 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO. 2006-00129
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIODS ENDING JULY 31, 2003,)
JANUARY 31, 2004, JANUARY 31, 2005,)
JULY 31, 2005, AND JANUARY 31, 2006 AND)
FOR THE TWO-YEAR BILLING PERIOD ENDING)
JULY 31, 2004)

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED APRIL 25, 2006

FILED: JUNE 14, 2006

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 1

Witness: Shannon Charnas / Robert M. Conroy

RECEIVED

JUN 14 2006

PUBLIC SERVICE
COMMISSION

For Each of the Six Periods Under Review

- Q-1. Concerning the rate of return on the original environmental compliance plan ("1994 Plan") and the three amendments to the environmental compliance plan ("Post-1994 Plans"), provide the following information for each of the billing periods under review:
- a. For the 1994 Plan, calculate any true-up adjustment needed to recognize changes in the weighted average cost of KU's pollution control debt during the applicable months of each review period. 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.
 - b. For the Post-1994 Plans, 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. KU will file the requested response no later than June 19, 2006.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 2

Witness: Robert M. Conroy

- Q-2. Consistent with the Commission's Order in Case No. 2004-00426, for each applicable billing period under review, calculate the effect of removing from the reported inventory of emission allowances included the environmental compliance rate base the sulfur dioxide ("SO₂") emission allowances assigned or allocated to gas-fired generating units. Include all assumptions and other supporting documentation used to make this calculation. In addition, include this calculation as an adjustment to the over-or under-recovery of the surcharge determined for the corresponding billing period under review.
- A-2. Please see the attachment. In addition to removing the allowances held in inventory for the gas-fired generating units, KU has also removed the allowances from the oil-fired generating units Tyrone 1 and Tyrone 2. The number of allowances held in the accounts for Tyrone 1 and Tyrone 2 for the review period was 200 allowances.

Kentucky Utilities Company
Emission Allowances Assigned to Non-Coal Burning Units
Total Emission Allowance Inventory Impact

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Total Allowances, End of Period	Total Allowance Inventory, Dollars	Average Price, \$/allowance)	Total Excluded Allowances	Total Excluded Value	Less Inventory Amount in Base Rates	Rate of Return, Annual	Rate of Return, Monthly	Excluded Return on Ineligible Allowances	Jurisdictional Allocation	Net Reduction to Retail E(m)
	Form 2.30	Form 2.30	(2) / (1)		(3) x (4)	(5) for September 2003	Attachment to Data Request 1 (a) and (b)	(6) / 12	(4) x (7)	Form 1.0	(8) x (9)
Dec-02	112,781	74,853.10	0.66	846	558.36		0.97%	0.0806%	0.45	83.42%	0.38
Jan-03	183,696	70,130.46	0.38	846	321.48		0.97%	0.0806%	0.26	75.72%	0.20
Feb-03	172,693	66,351.90	0.38	863	327.94		0.97%	0.0806%	0.26	79.64%	0.21
Mar-03	166,380	63,952.96	0.38	863	327.94		0.97%	0.0806%	0.26	78.01%	0.20
Apr-03	157,062	60,412.12	0.38	863	327.94		0.97%	0.0806%	0.26	75.61%	0.20
May-03	147,384	56,734.48	0.38	863	327.94		0.97%	0.0806%	0.26	81.71%	0.21
Jun-03	138,293	53,279.90	0.39	863	336.57		1.16%	0.0970%	0.33	80.58%	0.27
Jul-03	126,036	83,423.20	0.66	863	569.58		1.16%	0.0970%	0.55	79.13%	0.44
Aug-03	114,227	75,629.26	0.66	863	569.58		1.16%	0.0970%	0.55	79.26%	0.44
Sep-03	104,812	69,415.36	0.66	863	569.58		1.16%	0.0970%	0.55	78.69%	0.43
Oct-03	96,489	63,922.18	0.66	863	569.58		1.16%	0.0970%	0.55	78.90%	0.43
Nov-03	86,279	57,183.58	0.66	863	569.58		1.16%	0.0970%	0.55	78.05%	0.43
Dec-03	74,491	49,403.50	0.66	859	566.94		2.38%	0.1980%	1.12	76.48%	0.86
Jan-04	145,873	45,695.59	0.31	859	266.29		2.38%	0.1980%	0.53	74.97%	0.40
Feb-04	201,868	7,366,232.51	36.49	860	31,381.40		2.38%	0.1980%	62.14	77.37%	48.08
Mar-04	191,721	6,995,968.48	36.49	860	31,381.40		2.38%	0.1980%	62.14	77.15%	47.94
Apr-04	184,735	6,741,049.34	36.49	860	31,381.40		2.38%	0.1980%	62.14	82.44%	51.23
May-04	173,670	6,337,287.49	36.49	860	31,381.40		2.38%	0.1980%	62.14	74.41%	46.24
Jun-04	162,535	5,930,971.00	36.49	860	31,381.40		2.38%	0.1980%	62.14	79.77%	49.57
Jul-04	150,895	5,506,228.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	79.75%	240.26
Aug-04	140,391	5,122,937.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	82.46%	248.43
Sep-04	129,356	4,720,270.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	77.51%	233.51
Oct-04	118,968	4,341,212.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	72.44%	218.24
Nov-04	112,709	4,112,821.00	36.49	851	31,052.99	569.58	11.86%	0.9883%	301.27	80.84%	243.55

Kentucky Utilities Company
Emission Allowances Assigned to Non-Coal Burning Units
Total Emission Allowance Inventory Impact

Expense Month	(1) Total Allowances, End of Period	(2) Total Allowance Inventory, Dollars	(3) Average Price, \$/allowance	(4) Total Excluded Allowances	(5) Total Excluded Value	(6) Less Inventory Amount in Base Rates	(7) Rate of Return, Annual	(8) Rate of Return, Monthly	(9) Excluded Return on Ineligible Allowances	(10) Jurisdictional Allocation	(11) Net Reduction to Retail E(m)
	Form 2.30	Form 2.30	(2) / (1)		(3) x (4)	(5) for September 2003	Attachment to Data Request 1 (a) and (b)	(6) / 12	(4) x (7)	Form 1.0	(8) x (9)
Dec-04	101,678	3,710,299.00	36.49	851	31,052.99	569.58	12.04%	1.0033%	305.84	76.95%	235.34
Jan-05	173,903	3,487,384.00	20.05	851	17,062.55	569.58	11.72%	0.9767%	161.09	73.85%	118.96
Feb-05	166,462	3,337,309.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	75.11%	121.43
Mar-05	156,069	3,128,930.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	75.37%	121.85
Apr-05	149,473	2,996,680.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	81.64%	131.99
May-05	144,439	2,895,748.00	20.05	854	17,122.70	569.58	11.72%	0.9767%	161.67	74.76%	120.86
Jun-05	136,557	2,737,714.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	79.16%	26.03
Jul-05	125,019	2,506,378.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	78.67%	25.87
Aug-05	112,699	2,259,361.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	80.07%	26.33
Sep-05	100,009	2,005,247.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	76.58%	25.18
Oct-05	91,732	1,838,973.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	81.81%	26.90
Nov-05	83,579	1,675,505.00	20.05	200	4,010.00	569.58	11.47%	0.9558%	32.88	73.82%	24.27
Dec-05	72,815	1,459,687.00	20.05	200	4,010.00	569.58	11.79%	0.9825%	33.80	75.73%	25.60
Jan-06	146,931	1,375,307.00	9.36	200	1,872.00	569.58	11.79%	0.9825%	12.80	77.05%	9.86
Feb-06	137,955	1,291,291.00	9.36	200	1,872.00	569.58	11.79%	0.9825%	12.80	82.40%	10.55
										Total Adjustment	2,483.17

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 3

Witness: Robert M. Conroy

- Q-3. 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 periods under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for each 6-month review or the 2-year review. Include all supporting calculations and documentation for any such additional over- or under-recovery.
- A-3. KU will file the requested response no later than June 19, 2006.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 4

Witness: Shannon Charnas

Q-4. 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-4. KU calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation and tax depreciation using straight line depreciation for book purposes and MACRS accelerated depreciation and bonus depreciation for tax purposes. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Depreciation Income Tax balance reflects the value of those temporary savings as a reduction to environmental surcharge 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 review period.

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 1 Ghent 1 Scrubber

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 470,046	\$ (61,425)	\$ 408,621	\$ 157,375	\$ (19,318)	\$ 138,057	\$ 126,202	\$ (16,995)	\$ 109,207	\$ 10,569,685
Jan-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	10,461,104
Feb-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	10,352,523
Mar-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	10,243,942
Apr-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	10,135,361
May-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	10,026,780
Jun-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	9,918,199
Jul-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	9,809,618
Aug-03	471,307	(61,425)	409,882	157,348	(19,318)	138,030	125,576	(16,995)	108,581	9,701,037
Sep-03	471,307		471,307	157,348		157,348	125,576		125,576	11,361,734
Oct-03	471,307		471,307	157,348		157,348	125,576		125,576	11,236,158
Nov-03	471,307		471,307	157,348		157,348	125,576		125,576	11,110,582
Dec-03	471,307		471,307	157,348		157,348	125,576		125,576	10,985,006
Jan-04	471,338		471,338	161,999		161,999	124,857		124,857	10,860,149
Feb-04	471,338		471,338	161,999		161,999	124,857		124,857	10,735,292
Mar-04	471,338		471,338	161,999		161,999	124,857		124,857	10,610,435
Apr-04	471,338		471,338	161,999		161,999	124,857		124,857	10,485,578
May-04	471,338		471,338	161,999		161,999	124,857		124,857	10,360,721
Jun-04	471,338		471,338	161,999		161,999	124,857		124,857	10,235,864

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 2 Gypsum Stacker

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 73,317	\$ (3,393)	\$ 69,924	\$ 24,688	\$ (1,067)	\$ 23,621	\$ 19,628	\$ (939)	\$ 18,689	\$ 1,941,423
Jan-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,922,734
Feb-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,904,045
Mar-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,885,356
Apr-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,866,667
May-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,847,978
Jun-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,829,289
Jul-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,810,600
Aug-03	73,317	(3,393)	69,924	24,688	(1,067)	23,621	19,628	(939)	18,689	1,791,911
Sep-03	73,317		73,317	24,688		24,688	19,628		19,628	1,869,725
Oct-03	73,317		73,317	24,688		24,688	19,628		19,628	1,850,097
Nov-03	73,317		73,317	24,688		24,688	19,628		19,628	1,830,469
Dec-03	73,317		73,317	24,688		24,688	19,628		19,628	1,810,841
Jan-04	73,317		73,317	24,688		24,688	19,628		19,628	1,791,213
Feb-04	73,317		73,317	24,688		24,688	19,628		19,628	1,771,585
Mar-04	73,317		73,317	24,688		24,688	19,628		19,628	1,751,957
Apr-04	73,317		73,317	24,688		24,688	19,628		19,628	1,732,329
May-04	73,317		73,317	24,688		24,688	19,628		19,628	1,712,701
Jun-04	73,317		73,317	24,688		24,688	19,628		19,628	1,693,073

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 3 Flue Gas Dispersion

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 23,896	\$ (4,407)	\$ 19,489	\$ 27,246	\$ (5,025)	\$ 22,221	\$ (1,352)	\$ 249	\$ (1,103)	\$ 505,066
Jan-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	506,169
Feb-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	507,272
Mar-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	508,375
Apr-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	509,478
May-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	510,581
Jun-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	511,684
Jul-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	512,787
Aug-03	23,896	(4,407)	19,489	27,246	(5,025)	22,221	(1,352)	249	(1,103)	513,890
Sep-03	23,896		23,896	27,246		27,246	(1,352)		(1,352)	628,704
Oct-03	23,896		23,896	27,246		27,246	(1,352)		(1,352)	630,056
Nov-03	23,896		23,896	27,246		27,246	(1,352)		(1,352)	631,408
Dec-03	23,896		23,896	27,246		27,246	(1,352)		(1,352)	632,760
Jan-04	23,896		23,896	27,246		27,246	(1,352)		(1,352)	634,112
Feb-04	23,896		23,896	27,246		27,246	(1,352)		(1,352)	635,464
Mar-04	23,896		23,896	27,246		27,246	(1,352)		(1,352)	636,816
Apr-04	23,896		23,896	27,246		27,246	(1,352)		(1,352)	638,168
May-04	23,896		23,896	27,246		27,246	(1,352)		(1,352)	639,520
Jun-04	23,896		23,896	27,246		27,246	(1,352)		(1,352)	640,872

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 4 Emission Monitoring

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 19,819	\$ (368)	\$ 19,451	\$ 32,379	\$ (55)	\$ 32,324	\$ (5,069)	\$ (127)	\$ (5,196)	\$ 437,395
Jan-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	491,561
Feb-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	545,727
Mar-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	599,893
Apr-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	654,059
May-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	708,225
Jun-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	762,391
Jul-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	816,557
Aug-03	21,561	(368)	21,193	151,903	(55)	151,848	(54,039)	(127)	(54,166)	870,723
Sep-03	21,561		21,561	151,903		151,903	(54,039)		(54,039)	958,694
Oct-03	21,561		21,561	151,903		151,903	(54,039)		(54,039)	1,012,733
Nov-03	21,561		21,561	151,903		151,903	(54,039)		(54,039)	1,066,772
Dec-03	21,561		21,561	151,903		151,903	(54,039)		(54,039)	1,120,811
Jan-04	22,598		22,598	(78,270)		(78,270)	40,714		40,714	1,080,097
Feb-04	22,598		22,598	(78,270)		(78,270)	40,714		40,714	1,039,383
Mar-04	22,598		22,598	(78,270)		(78,270)	40,714		40,714	998,669
Apr-04	22,598		22,598	(78,270)		(78,270)	40,714		40,714	957,955
May-04	22,598		22,598	(78,270)		(78,270)	40,714		40,714	917,241
Jun-04	22,598		22,598	(78,270)		(78,270)	40,714		40,714	876,527

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 5 NOX Reduction EWB1, EWB3

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 28,191	\$ (21,182)	\$ 7,009	\$ 16,117	\$ (10,573)	\$ 5,544	\$ 4,874	\$ (4,282)	\$ 592	\$ 297,643
Jan-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	297,051
Feb-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	296,459
Mar-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	295,867
Apr-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	295,275
May-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	294,683
Jun-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	294,091
Jul-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	293,499
Aug-03	28,191	(21,182)	7,009	16,117	(10,573)	5,544	4,874	(4,282)	592	292,907
Sep-03	28,191		28,191	16,117		16,117	4,874		4,874	1,583,683
Oct-03	28,191		28,191	16,117		16,117	4,874		4,874	1,578,809
Nov-03	28,191		28,191	16,117		16,117	4,874		4,874	1,573,935
Dec-03	28,191		28,191	16,117		16,117	4,874		4,874	1,569,061
Jan-04	28,191		28,191	16,114		16,114	4,875		4,875	1,564,186
Feb-04	28,191		28,191	16,114		16,114	4,875		4,875	1,559,311
Mar-04	28,191		28,191	16,114		16,114	4,875		4,875	1,554,436
Apr-04	28,191		28,191	16,114		16,114	4,875		4,875	1,549,561
May-04	28,191		28,191	16,114		16,114	4,875		4,875	1,544,686
Jun-04	28,191		28,191	16,114		16,114	4,875		4,875	1,539,811

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 6 NOX Reduction EWB2, GH1, GR4

(1)	(2) Monthly Depreciation Expense			(5) Monthly Tax Depreciation			(8) Deferred Income Taxes			(11)
Month	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	Accum Deferred Income Tax Balance
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 23,667	\$ (1,009)	\$ 22,658	\$ 14,348	\$ (608)	\$ 13,740	\$ 3,762	\$ (162)	\$ 3,600	\$ 1,761,769
Jan-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,758,169
Feb-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,754,569
Mar-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,750,969
Apr-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,747,369
May-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,743,769
Jun-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,740,169
Jul-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,736,569
Aug-03	23,668	(1,009)	22,659	14,348	(608)	13,740	3,762	(162)	3,600	1,732,969
Sep-03	23,668		23,668	14,348		14,348	3,762		3,762	1,811,005
Oct-03	23,668		23,668	14,348		14,348	3,762		3,762	1,807,243
Nov-03	23,668		23,668	14,348		14,348	3,762		3,762	1,803,481
Dec-03	23,668		23,668	14,348		14,348	3,762		3,762	1,799,719
Jan-04	23,668		23,668	2,756		2,756	8,441		8,441	1,791,278
Feb-04	23,668		23,668	2,756		2,756	8,441		8,441	1,782,837
Mar-04	23,668		23,668	2,756		2,756	8,441		8,441	1,774,396
Apr-04	23,668		23,668	2,756		2,756	8,441		8,441	1,765,955
May-04	23,668		23,668	2,756		2,756	8,441		8,441	1,757,514
Jun-04	23,668		23,668	2,756		2,756	8,441		8,441	1,749,073

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 7 Ash Pond Elevation

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 47,009	\$ (46,971)	\$ 38	\$ 30,340	\$ (30,283)	\$ 57	\$ 36,728	\$ (6,728)	\$ 30,000	\$ 8
Jan-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	171
Feb-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	334
Mar-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	497
Apr-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	660
May-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	823
Jun-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	986
Jul-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	1,149
Aug-03	47,395	(46,971)	424	30,340	(30,283)	57	6,575	(6,738)	(163)	1,312
Sep-03	47,395		47,395	30,340		30,340	6,575		6,575	3,264,114
Oct-03	47,395		47,395	30,340		30,340	6,575		6,575	3,257,539
Nov-03	47,395		47,395	30,340		30,340	6,575		6,575	3,250,964
Dec-03	47,395		47,395	30,340		30,340	6,575		6,575	3,244,389
Jan-04	47,281		47,281	30,805		30,805	6,650		6,650	3,237,739
Feb-04	47,281		47,281	30,805		30,805	6,650		6,650	3,231,089
Mar-04	47,281		47,281	30,805		30,805	6,650		6,650	3,224,439
Apr-04	47,281		47,281	30,805		30,805	6,650		6,650	3,217,789
May-04	47,281		47,281	30,805		30,805	6,650		6,650	3,211,139
Jun-04	47,281		47,281	30,805		30,805	6,650		6,650	3,204,489

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 8 New Ash Storage

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 47,685	\$ (2,881)	\$ 44,804	\$ 81,855	\$ (784)	\$ 81,071	\$ (13,792)	\$ (846)	\$ (14,638)	\$ 2,184,443
Jan-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,199,081
Feb-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,213,719
Mar-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,228,357
Apr-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,242,995
May-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,257,633
Jun-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,272,271
Jul-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,286,909
Aug-03	47,685	(2,881)	44,804	81,855	(784)	81,071	(13,792)	(846)	(14,638)	2,301,547
Sep-03	47,685		47,685	81,855		81,855	(13,792)		(13,792)	2,617,193
Oct-03	47,685		47,685	81,855		81,855	(13,792)		(13,792)	2,630,985
Nov-03	47,685		47,685	81,855		81,855	(13,792)		(13,792)	2,644,777
Dec-03	47,685		47,685	81,855		81,855	(13,792)		(13,792)	2,658,569
Jan-04	47,685		47,685	81,910		81,910	(13,814)		(13,814)	2,672,383
Feb-04	47,685		47,685	81,910		81,910	(13,814)		(13,814)	2,686,197
Mar-04	47,685		47,685	81,910		81,910	(13,814)		(13,814)	2,700,011
Apr-04	47,685		47,685	81,910		81,910	(13,814)		(13,814)	2,713,825
May-04	47,685		47,685	81,910		81,910	(13,814)		(13,814)	2,727,639
Jun-04	47,685		47,685	81,910		81,910	(13,814)		(13,814)	2,741,453

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 9 Precipitation and Ash Handling

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 43,368	\$ (43,362)	\$ 6	\$ 613	\$ (603)	\$ 10	\$ 17,256	\$ (17,256)	\$ -	\$ -
Jan-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Feb-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Mar-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Apr-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
May-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Jun-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Jul-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Aug-03	43,367	(43,362)	5	613	(603)	10	17,256	(17,256)	-	-
Sep-03	43,367		43,367	613		613	17,256		17,256	4,240,579
Oct-03	43,367		43,367	613		613	17,256		17,256	4,223,323
Nov-03	43,367		43,367	613		613	17,256		17,256	4,206,067
Dec-03	43,367		43,367	613		613	17,256		17,256	4,188,811
Jan-04	43,367		43,367	613		613	17,257		17,257	4,171,555
Feb-04	43,367		43,367	613		613	17,257		17,257	4,154,299
Mar-04	43,367		43,367	613		613	17,257		17,257	4,137,043
Apr-04	43,367		43,367	613		613	17,257		17,257	4,119,787
May-04	43,367		43,367	613		613	17,257		17,257	4,102,531
Jun-04	43,367		43,367	613		613	17,257		17,257	4,085,275

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 10 Ash Pond Filtration System

(1)	(2) Monthly Depreciation Expense			(5) Monthly Tax Depreciation			(8) Deferred Income Taxes			(11)
Month	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	Accum Deferred Income Tax Balance
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 3,016	\$ (621)	\$ 2,395	\$ 5,972	\$ -	\$ 5,972	\$ (1,193)	\$ (251)	\$ (1,444)	\$ 17,328
Jan-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	18,202
Feb-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	19,076
Mar-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	19,950
Apr-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	20,824
May-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	21,698
Jun-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	22,572
Jul-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	23,446
Aug-03	1,819	(621)	1,198	3,363	-	3,363	(623)	(251)	(874)	24,320
Sep-03	1,819		1,819	3,363		3,363	(623)		(623)	79,477
Oct-03	1,819		1,819	3,363		3,363	(623)		(623)	80,100
Nov-03	1,819		1,819	3,363		3,363	(623)		(623)	80,723
Dec-03	1,819		1,819	3,363		3,363	(623)		(623)	81,346
Jan-04	1,819		1,819	(2,862)		(2,862)	1,889		1,889	79,457
Feb-04	1,819		1,819	(2,862)		(2,862)	1,889		1,889	77,568
Mar-04	1,819		1,819	(2,862)		(2,862)	1,889		1,889	75,679
Apr-04	1,819		1,819	(2,862)		(2,862)	1,889		1,889	73,790
May-04	1,819		1,819	(2,862)		(2,862)	1,889		1,889	71,901
Jun-04	1,819		1,819	(2,862)		(2,862)	1,889		1,889	70,012

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 11 Precipitator -- All Plants

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 3,382	\$ (1,108)	\$ 2,274	\$ 7,010	\$ (1,780)	\$ 5,230	\$ (1,466)	\$ 271	\$ (1,195)	\$ 95,741
Jan-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	96,976
Feb-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	98,211
Mar-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	99,446
Apr-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	100,681
May-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	101,916
Jun-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	103,151
Jul-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	104,386
Aug-03	3,484	(1,108)	2,376	6,937	(1,780)	5,157	(1,506)	271	(1,235)	105,621
Sep-03	3,484		3,484	6,937		6,937	(1,506)		(1,506)	175,502
Oct-03	3,484		3,484	6,937		6,937	(1,506)		(1,506)	177,008
Nov-03	3,484		3,484	6,937		6,937	(1,506)		(1,506)	178,514
Dec-03	3,484		3,484	6,937		6,937	(1,506)		(1,506)	180,020
Jan-04	4,818		4,818	18,803		18,803	(5,645)		(5,645)	185,665
Feb-04	4,818		4,818	18,803		18,803	(5,645)		(5,645)	191,310
Mar-04	4,818		4,818	18,803		18,803	(5,645)		(5,645)	196,955
Apr-04	4,818		4,818	18,803		18,803	(5,645)		(5,645)	202,600
May-04	4,818		4,818	18,803		18,803	(5,645)		(5,645)	208,245
Jun-04	4,818		4,818	18,803		18,803	(5,645)		(5,645)	213,890

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 12 Precipitator -- Ghent 1

(1)	(2) Monthly Depreciation Expense			(5) Monthly Tax Depreciation			(8) Deferred Income Taxes			(11)
Month	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	Accum Deferred Income Tax Balance
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 11,952	\$ (59)	\$ 11,893	\$ 17,077	\$ (84)	\$ 16,993	\$ (2,069)	\$ 10	\$ (2,059)	\$ 366,086
Jan-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	368,145
Feb-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	370,204
Mar-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	372,263
Apr-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	374,322
May-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	376,381
Jun-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	378,440
Jul-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	380,499
Aug-03	11,952	(59)	11,893	17,077	(84)	16,993	(2,069)	10	(2,059)	382,558
Sep-03	11,952		11,952	17,077		17,077	(2,069)		(2,069)	390,850
Oct-03	11,952		11,952	17,077		17,077	(2,069)		(2,069)	392,919
Nov-03	11,952		11,952	17,077		17,077	(2,069)		(2,069)	394,988
Dec-03	11,952		11,952	17,077		17,077	(2,069)		(2,069)	397,057
Jan-04	11,952		11,952	17,077		17,077	(2,069)		(2,069)	399,126
Feb-04	11,952		11,952	17,077		17,077	(2,069)		(2,069)	401,195
Mar-04	11,952		11,952	17,077		17,077	(2,069)		(2,069)	403,264
Apr-04	11,952		11,952	17,077		17,077	(2,069)		(2,069)	405,333
May-04	11,952		11,952	17,077		17,077	(2,069)		(2,069)	407,402
Jun-04	11,952		11,952	17,077		17,077	(2,069)		(2,069)	409,471

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 13 Precipitator -- Brown 1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 3,194	\$ -	\$ 3,194	\$ 5,029	\$ -	\$ 5,029	\$ (741)	\$ -	\$ (741)	\$ 61,952
Jan-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	62,693
Feb-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	63,434
Mar-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	64,175
Apr-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	64,916
May-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	65,657
Jun-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	66,398
Jul-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	67,139
Aug-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	67,880
Sep-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	68,621
Oct-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	69,362
Nov-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	70,103
Dec-03	3,194	-	3,194	5,029	-	5,029	(741)	-	(741)	70,844
Jan-04	3,194	-	3,194	4,912	-	4,912	(693)	-	(693)	71,537
Feb-04	3,194	-	3,194	4,912	-	4,912	(693)	-	(693)	72,230
Mar-04	3,194	-	3,194	4,912	-	4,912	(693)	-	(693)	72,923
Apr-04	3,194	-	3,194	4,912	-	4,912	(693)	-	(693)	73,616
May-04	3,194	-	3,194	4,912	-	4,912	(693)	-	(693)	74,309
Jun-04	3,194	-	3,194	4,912	-	4,912	(693)	-	(693)	75,002

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 14 Dry Fly Ash Handling

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 1,849	\$ (1,849)	\$ -	\$ -	\$ -	\$ -	\$ 746	\$ (746)	\$ -	\$ -
Jan-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	29
Feb-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	58
Mar-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	87
Apr-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	116
May-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	145
Jun-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	174
Jul-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	203
Aug-03	1,932	(1,849)	83	-	-	-	717	(746)	(29)	232
Sep-03	1,932		1,932	-	-	-	717		717	103,588
Oct-03	1,932		1,932	-	-	-	717		717	102,871
Nov-03	1,932		1,932	-	-	-	717		717	102,154
Dec-03	1,932		1,932	-	-	-	717		717	101,437
Jan-04	1,904		1,904	94		94	731		731	100,706
Feb-04	1,904		1,904	94		94	731		731	99,975
Mar-04	1,904		1,904	94		94	731		731	99,244
Apr-04	1,904		1,904	94		94	731		731	98,513
May-04	1,904		1,904	94		94	731		731	97,782
Jun-04	1,904		1,904	94		94	731		731	97,051

Kentucky Utilities Company
Deferred Tax Calculations
1994 Compliance Plan By Approved Project

Project 15 Dust Elimination System

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Monthly Depreciation Expense			Monthly Tax Depreciation			Deferred Income Taxes			Accum Deferred Income Tax Balance
	Book Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Book Depreciation	Tax Depreciation	Elimination as a Result of Final Ruling in Case 93-465	Resulting Tax Depreciation	Deferred Income Taxes	Elimination as a Result of Final Ruling in Case 93-465	Resulting Deferred Income Taxes	
			(2)+(3)			(5)+(6)			(8)+(9)	
Dec-02	\$ 1,396	\$ (1,181)	\$ 216	\$ 270	\$ -	\$ 270	\$ 455	\$ 477	\$ (22)	\$ 1,423
Jan-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	1,563
Feb-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	1,703
Mar-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	1,843
Apr-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	1,983
May-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	2,123
Jun-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	2,263
Jul-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	2,403
Aug-03	1,694	(1,181)	513	859	-	859	337	(477)	(140)	2,543
Sep-03	1,694		1,694	859		859	337		337	94,037
Oct-03	1,694		1,694	859		859	337		337	93,700
Nov-03	1,694		1,694	859		859	337		337	93,363
Dec-03	1,694		1,694	859		859	337		337	93,026
Jan-04	1,607		1,607	608		608	403		403	92,623
Feb-04	1,607		1,607	608		608	403		403	92,220
Mar-04	1,607		1,607	608		608	403		403	91,817
Apr-04	1,607		1,607	608		608	403		403	91,414
May-04	1,607		1,607	608		608	403		403	91,011
Jun-04	1,607		1,607	608		608	403		403	90,608

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2001 - Plan
Project 16 -- Emission Monitoring

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							196,142	
Dec-02	9,775,541	16,202	46,970	30,768	40.3625%	12,419	208,560	(18,994)
Jan-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	224,929	(18,994)
Feb-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	241,297	(18,994)
Mar-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	257,665	(18,994)
Apr-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	274,034	(18,994)
May-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	290,402	(18,994)
Jun-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	306,771	(18,994)
Jul-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	323,139	(18,994)
Aug-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	339,507	(18,994)
Sep-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	355,876	(18,994)
Oct-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	372,244	(18,994)
Nov-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	388,612	(18,994)
Dec-03	9,775,541	16,203	56,756	40,553	40.3625%	16,368	404,981	(18,994)
Jan-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	419,632	(18,994)
Feb-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	434,282	(18,994)
Mar-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	448,933	(18,994)
Apr-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	463,584	(18,994)
May-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	478,235	(18,994)
Jun-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	492,885	(18,994)
Jul-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	507,536	(18,994)
Aug-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	522,187	(18,994)
Sep-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	536,838	(18,994)
Oct-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	551,488	(18,994)
Nov-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	566,139	(18,994)
Dec-04	9,775,541	16,203	52,501	36,298	40.3625%	14,651	580,790	(18,994)
Jan-05	9,775,541	16,203	48,560	32,357	39.5500%	12,797	593,587	(18,994)

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2001 - Plan
Project 17 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Dec-02	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jan-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Feb-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Mar-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Apr-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
May-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jun-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jul-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Aug-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Sep-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Oct-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Nov-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Dec-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jan-04	4,557,790	(125,939)	49,071.47	175,010	40.3625%	70,638	70,638	(107,898)
Feb-04	4,557,790	(125,939)	49,071.47	175,010	40.3625%	70,638	141,277	(107,898)
Mar-04	76,034,071	541,921	2,649,021.21	2,107,100	40.3625%	850,478	991,755	(120,517)
Apr-04	129,358,834	1,082,058	4,804,230.38	3,722,172	40.3625%	1,502,362	2,494,116	(139,454)
May-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	4,782,780	(205,174)
Jun-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	7,071,445	(205,174)
Jul-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	9,360,109	(205,174)
Aug-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	11,648,773	(205,174)
Sep-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	13,937,437	(205,174)
Oct-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	16,226,101	(205,174)
Nov-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	18,514,766	(205,174)
Dec-04	204,840,319	3,345,500	13,645,429.74	10,299,930	40.3625%	4,157,309	22,672,075	(205,174)
Jan-05	204,840,319	1,529,740	2,056,013.00	526,273	39.5500%	208,141	22,880,216	(205,174)

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2003 - Plan
Project 18 -- New Ash Storage

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Dec-02	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jan-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Feb-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Mar-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Apr-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
May-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jun-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jul-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Aug-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Sep-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Oct-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Nov-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Dec-03	4,557,790	-	-	-	40.3625%	-	-	(107,898)
Jan-04	4,557,790	(125,939)	49,071.47	175,010	40.3625%	70,638	70,638	(107,898)
Feb-04	4,557,790	(125,939)	49,071.47	175,010	40.3625%	70,638	141,277	(107,898)
Mar-04	76,034,071	541,921	2,649,021.21	2,107,100	40.3625%	850,478	991,755	(120,517)
Apr-04	129,358,834	1,082,058	4,804,230.38	3,722,172	40.3625%	1,502,362	2,494,116	(139,454)
May-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	4,782,780	(205,174)
Jun-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	7,071,445	(205,174)
Jul-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	9,360,109	(205,174)
Aug-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	11,648,773	(205,174)
Sep-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	13,937,437	(205,174)
Oct-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	16,226,101	(205,174)
Nov-04	187,465,930	1,680,428	7,350,701.71	5,670,274	40.3625%	2,288,664	18,514,766	(205,174)
Dec-04	204,840,319	3,345,500	13,645,429.74	10,299,930	40.3625%	4,157,309	22,672,075	(205,174)
Jan-05	204,840,319	1,529,740	2,056,013.00	526,273	39.5500%	208,141	22,880,216	(205,174)

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 5

Witness: Shannon Charnas

Q-5. Provide the percentage of KU's long-term debt that has a variable interest rate as of the last expense month in the applicable billing period under review.

A-5. For the last expense month of the billing period August 1, 2005, through April 30, 2006, the percentage of KU's long-term debt with a variable rate was 46%.

For the last expense month of the billing period February 1, 2005, through July 31, 2005, the percentage of KU's long-term debt with a variable rate was 47%.

For the last expense month of the billing period August 1, 2004, through January 31, 2005, the percentage of KU's long-term debt with a variable rate was 54%.

For the last expense month of the billing period August 1, 2003, through January 31, 2004, the percentage of KU's long-term debt with a variable rate was 48%.

For the last expense month of the billing period February 1, 2003, through July 31, 2003, the percentage of KU's long-term debt with a variable rate was 68%.

For the last expense month of the billing period August 1, 2002, through April 30, 2005, the percentage of KU's long-term debt with a variable rate was 48%.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 6

Witness: Robert M. Conroy

Billing Period from February 1, 2003 through July 31, 2003

- Q-6. Refer to ES Form 2.10, Plant, CWIP & Depreciation Expense – 1994 Plan, for the April and May 2003 expense months. Explain why the amount shown in the “Eligible Accumulated Depreciation” column, the “Less Eliminations – Final Settlement 93-465” line, was “overstated” for these expense months. KU’s monthly surcharge filing in July 2003 provided corrections for the amounts, but no explanation as to why this error occurred.
- A-6. The spreadsheet used to calculate the Eliminations for Accumulated Reserve consisted of several separate worksheets. One worksheet was labeled “Eliminations Pre-Reserve Adj” and another worksheet was labeled “Eliminations Post-Reserve Adj”. For the April and May 2003 expense month filings, the “Eliminations Pre-Reserve Adj” worksheet was inadvertently used, rather than the correct “Eliminations Post-Reserve Adj” worksheet. As a result of this error, the Accumulated Depreciation elimination was overstated, which resulted in an overstatement of rate base for the expense months of April and May 2003.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 7

Witness: Shannon Charnas

- Q-7. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the March through May 2003 expense months. Explain why the operations and maintenance (“O&M”) expenses for these expense months were higher than the first three expense months in this billing period. The level of detail for this response should go to the expense account number and by generating station.
- A-7. Expenses were higher for these months primarily due to the scheduled outage on Ghent Unit 3 during which significant work was performed on the ash handling equipment and precipitator, resulting in higher expenses recorded in Ash Handling Maintenance (account 512017) and CEMS and Precipitator Maintenance (512011).

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 8

Witness: Shannon Charnas

Billing Period from August 1, 2003 through January 31, 2004

- Q-8. Refer to ES Form 2.31, Inventory of Emission Allowances – Current Vintage Year, for the July 2003 expense month.
- a. Explain the reason(s) for the addition of 238 allowances to the inventory and how the value of \$38,390 was determined.
 - b. Explain the reason(s) for the reduction of 507 allowances from the beginning inventory balance. The surcharge monthly report indicates this reduction was reversed in the September expense month.
- A-8.
- a. Owensboro Municipal Utilities (“OMU”) transferred 238 vintage 1998 allowances to KU, 25 for 2001 backup power and 213 for 2002 backup power. The value of \$38,390 was based on the market value for these allowances at the time the backup power was used.
 - b. The annual true-up to the 2002 vintage year actual commitments of -507 was recorded during February 2003 but not reported in the ECR filing until the July 2003 expense month as a beginning balance adjustment. During September, the adjustment was reversed out of the “Allowances From Purchases” line on the filing and moved to the “Allocated Allowances from EPA” line as an Allocation/Purchase. The true-up remains part of the inventory balance thereafter. Necessary adjustments to inventory are generally made when allowances are surrendered to the EPA, and are reflected in the ECR filings through true-ups accordingly.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 9

Witness: Shannon Charnas

- Q-9. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the June, August, and October 2003 expense months. Explain why the O&M expenses for these expense months were higher than the remaining three expense months in the billing period. The level of detail for this response should go to the expense account number and by generating station.
- A-9. Expenses were higher during these months primarily due to repairs performed on the ash handling equipment at Ghent, which were recorded in the Ash Handling Maintenance account 512017. Repairs performed during June were to ash handling equipment on Ghent Unit 1 as part of the scheduled outage. Additionally, significant repairs were performed during August and October. The ash filtration and spare crushers on all Ghent units were repaired during August, the ash boosters on Ghent Unit 3 were repaired during August, and valves on Ghent Units 2 and 4 were repaired during October.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 10

Witness: Shannon Charnas

Billing Period from August 1, 2002 through July 31, 2004

Q-10. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the December 2003 and March through May 2004 expense months. Explain why the O&M expenses for these months were higher than the remaining two expense months in the billing period. The level of detail for this response should go to the expense account number and by generating station.

A-10. Expenses were higher for these months due primarily to scheduled outages on all Ghent Units during March through May, the expenses for which were recorded in the Ash Handling Maintenance (account 512017), Scrubber Maintenance (account 512005), and CEMS and Precipitator Maintenance (512011) accounts. In addition, significant repairs were performed during December on the ash pump on Ghent Unit 1 (recorded in Ash Handling Maintenance Account 512017) and on the precipitator on Ghent Unit 4 (recorded in the CEMS & Precipitator Maintenance Account 512011).

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 11

Witness: Kent Blake

- Q-11. In Case No. 2000-00439, the Commission ordered that KU's rate of return on common equity for the Post-1994 Plan projects included in its environmental surcharge would be the same rate of return on common equity incorporated in KU's Earnings Sharing Mechanism ("ESM"). The Commission further ordered that this rate of return on common equity would remain unchanged unless the rate in the ESM was changed or discontinued. In Case No. 2003-00434, KU's ESM was discontinued and the rate of return on common equity for environmental surcharge purposes was set at 11.00 percent. In Case No. 2004-00426, the Commission established the rate of return on common equity for the environmental surcharge at 10.5 percent.
- a. Does KU believe that the 10.5 percent rate of return on common equity for the environmental surcharge is reasonable? Explain the response, and include any analyses or evaluations supporting its conclusions.
 - b. If no to part (a), what rate of return on common equity does KU propose for its environmental surcharge? Provide a detailed analysis and testimony supporting KU's position.
- A-11. a. Yes. The Company believes the currently allowed 10.50% rate of return on common equity for the environmental surcharge remains reasonable if not conservative. This rate of return was approved by the Commission in Case No. 2004-00426 on June 20, 2005, and became effective with the July 2005 billing month. Prior to this Order, the Company's ECR billing factors were based on a rate of return on common equity of 11% beginning July 2004 in accordance with the Commission's Order in Case No. 2003-00434. The authorized rate of return on common equity for all billing months in the review period prior to July 2004 was 11.5% based on Orders issued in the various ECR Plan and review proceedings.

Since the Commission's Order on June 20, 2005, long-term interest rates have increased. See the attached (Attachment 1) analysis of 10- and 20-year Treasury bonds, A-rated utility bonds, and Aaa-rated Corporate bonds for the period January 2005 through May 2006. In addition, increases in long-term interest rates are forecasted to continue. See the attached (Attachment 2) extract from the May 26, 2006, *The Value Line Quarterly Economic Review*.

In addition, the authorized 10.50% rate of return on common equity is consistent with recently authorized returns by this Commission and across the country. See the attached (Attachment 3) April 5, 2006, issue of *Regulatory Research Associates Regulatory Focus*, which shows that the average rate of return on common equity authorized for electric and gas utilities during the first quarter of 2006 averaged 10.4% and 10.6%, respectively.

In summary, the Company concludes it would be reasonable, and somewhat conservative, for now to maintain prospectively the current authorized rate of return on common equity of 10.50% for ECR purposes.

INTEREST RATES
January 2005 - May 2006

		10- Year Treasury Bond Yields	20- Year Treasury Bond Yields	A Utility Bond Yields	Aaa Corporate Bond Yields
		(1)	(2)	(3)	(4)
2005	January	4.22 %	4.77 %	5.78 %	5.36 %
	February	4.17	4.61	5.61	5.20
	March	4.50	4.89	5.83	5.40
	April	4.34	4.75	5.64	5.33
	May	4.14	4.56	5.53	5.15
	June	4.00	4.35	5.40	4.96
	July	4.18	4.48	5.51	5.06
	August	4.26	4.53	5.50	5.09
	September	4.20	4.51	5.52	5.13
	October	4.46	4.74	5.79	5.34
	November	4.54	4.83	5.88	5.42
	December	4.47	4.73	5.80	5.38
2006	January	4.42	4.65	5.75	5.29
	February	4.57	4.73	5.82	5.35
	March	4.72	4.91	5.98	5.52
	April	4.99	5.22	6.29	5.84
	May	5.10	5.34	6.40	5.95
6-Month Average Ended:					
	June 2005	4.23	4.66	5.63	5.23
	May 2006	4.71	4.93	6.01	5.56

Source: Cols. (1)&(2) - Federal Reserve Statistical Release.
 Cols. (3)&(4) - Mergent *Bond Record* and Moody's website.

Attachment 2
KU Question No. 11



THE VALUE LINE

Investment Survey®

PAGES 1107-1122
File in page order in the
Selection & Opinion binder.

PART 2

Selection & Opinion

MAY 26, 2006

Dear Subscriber,

As part of our ongoing efforts to keep *The Value Line Investment Survey* the most valuable investment resource for our subscribers, the entire service is now being released on the Web at 8:00AM Eastern time on Thursday. You can find it at www.valueline.com by using your user name and password. Supplements will be available as appropriate. We look forward to continuing to provide you with the most accurate and innovative research tools available.

Faithfully,
Jean S. Lambert Letter

The Quarterly Economic Review In This Issue

The Quarterly Economic Review	1107
Stock Highlight	1113
Stocks for Long-Term Gains	1114
Closing Stock Market Averages as of Press Time	1114
Investors' Datebook: June, 2006	1115
Model Portfolios: Recent Developments	1116
Equity Funds Average Performance	1118
Fixed-Income Funds Average Performance	1118
Selected Yields	1119
Federal Reserve Data	1119
Tracking the Economy	1120
Major Insider Transactions	1120
Market Monitor	1121
Value Line Asset Allocation Model	1121
Industry Price Performance	1121
Changes in Financial Strength Ratings	1121
Stock Market Averages	1122

The *Selection & Opinion* Index appears on page 1250 (March 3, 2006).

In Three Parts: Part 1 is the Summary & Index. This is Part 2, Selection & Opinion. Part 3 is Ratings & Reports. Volume LXI, Number 39.

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ECONOMIC AND STOCK MARKET COMMENTARY

Three months ago, in our last "Quarterly Economic Review," we observed that it looked as though economic growth would "pick up nicely" in the first quarter, which, in fact, it did. However, the unfolding business strength was greater than we expected, with the nation's gross domestic product increasing by a vigorous 4.8%. Contributing to this sharp improvement, versus the prior period's lackluster 1.7% rate of GDP growth, were significant increases in consumer expenditures, U.S. exports, government spending (especially on national defense), and nonresidential construction. On the other hand, the growth in residential building slowed a bit, although such activity did not decline as bearish forecasters had warned might be the case.

We think the momentum built up in the opening quarter will remain largely in place during the current period. Our expectation is that this early 2006

strength will ease only modestly, with the economy growing by a still solid 3.3%-3.5%. That's in line with the growth we had forecast three months ago. Once again, the capital goods sector should lead the way, with solid growth across much of Europe and Asia helping to increase demand for U.S. exports. Continuing gains in personal income, meanwhile, should lead to an additional uptick in personal consumption expenditures, although it is arguable just how much longer consumers will retain their spending pace given near-record oil prices. The lone discordant note is now being sounded by the housing market, where construction activity declined further in April. Sales of new and existing homes also appear to be headed lower.

Some further slowing in the pace of business activity is likely to evolve later this year and in 2007. The major risk in the second half of 2006, and next year as well, involves the once-frothy U.S.

Continued on page 1110

VALUE LINE FORECAST FOR THE U.S. ECONOMY

Statistical Summary for 2005-2007

	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3	2006	2007
GDP AND OTHER KEY MEASURES										
Real Gross Domestic Product	11248	11381	11477	11568	11653	11731	11818	11909	11520	11865
Total Light Vehicle Sales (Mill. Units)	15.8	16.9	16.5	16.4	16.2	16.0	16.3	16.6	16.5	16.4
Housing Starts (Million Units)	2.06	2.13	1.88	1.85	1.83	1.80	1.78	1.78	1.92	1.79
Corporate Economic Profits (\$Bill.)	1293.0	1479.0	1537.0	1461.0	1396.0	1538.0	1583.0	1534.0	1468.0	1527.0
ANNUALIZED RATES OF CHANGE										
Gross Domestic Product (Real)	1.7	4.8	3.4	3.2	3.0	2.7	3.0	3.1	3.5	3.0
GDP Deflator	3.5	3.3	3.4	2.3	2.0	2.1	2.1	2.2	2.8	2.2
CPI-All Urban Consumers	3.2	2.2	4.0	2.7	2.0	2.3	2.3	2.5	2.7	2.4
AVERAGE FOR THE PERIOD										
National Unemployment Rate	4.9	4.7	4.7	4.7	4.7	4.8	4.8	4.9	4.7	4.9
Prime Rate	7.0	7.4	7.9	8.3	8.3	8.3	8.1	7.8	8.0	8.0
10-Year Treasury Note Rate	4.5	4.6	5.1	5.2	5.2	5.2	5.1	5.1	5.0	5.1

Value Line Forecast for the U.S. Economy

	ACTUAL		ESTIMATED					
	2005:4	2006:1	2006:2	2006:3	2006:4	2007:1	2007:2	2007:3
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS								
(2000 CHAIN WEIGHTED \$) BILLIONS OF DOLLARS								
Final Sales	11208	11355	11445	11530	11607	11681	11759	11844
Total Consumption	7925	8032	8092	8152	8210	8267	8328	8390
Nonresidential Fixed Investment	1320	1365	1398	1432	1459	1477	1495	1517
Structures	256	261	267	274	280	282	285	289
Equipment & Software	1081	1122	1149	1174	1194	1209	1224	1242
Residential Fixed Investment	614	618	613	599	583	571	564	558
Exports	1218	1253	1268	1299	1329	1358	1386	1415
Imports	1873	1931	1931	1963	1989	2007	2028	2045
Federal Government	745	764	756	760	761	763	764	766
State & Local Governments	1249	1249	1250	1255	1261	1270	1277	1282
Gross Domestic Product	12766	13021	13236	13392	13535	13699	13853	14011
Real GDP (2000 Chain Weighted \$)	11248	11381	11477	11568	11653	11731	11818	11909
PRICES AND WAGES-ANNUAL RATES OF CHANGE								
GDP Deflator	3.5	3.3	3.4	2.3	2.0	2.1	2.1	2.2
CPI-All Urban Consumers	3.2	2.2	4.0	2.7	2.0	2.3	2.3	2.5
PPI-Finished Goods	7.3	-0.7	4.5	2.3	1.7	1.5	1.8	1.8
Employment Cost Index—Total Comp.	2.8	2.4	3.5	3.5	3.5	3.6	3.5	3.3
Productivity	-0.3	3.2	2.5	2.0	2.0	1.5	1.8	2.0
PRODUCTION AND OTHER KEY MEASURES								
Industrial Prod. (% Change, Annualized)	5.3	4.5	6.0	4.0	3.0	2.5	2.5	2.7
Factory Operating Rate (%)	79.8	80.4	81.0	80.5	80.4	80.3	80.2	80.0
Inventory Change (2000 Chain Weighted \$)	43.0	25.7	32.0	38.0	47.0	50.0	59.0	65.0
Housing Starts (Mill. Units)	2.06	2.13	1.88	1.85	1.83	1.80	1.78	1.78
Existing House Sales (Mill. Units)	6.94	6.80	6.65	6.50	6.20	6.10	6.10	6.00
Total Light Vehicle Sales (Mill. Units)	15.8	16.9	16.5	16.4	16.2	16.0	16.3	16.6
National Unemployment Rate (%)	4.9	4.7	4.7	4.7	4.7	4.8	4.8	4.9
Federal Budget Surplus (Unified, FY, \$Bill)	-119.3	-183.4	85.0	-90.0	-100.0	-150.0	50.0	-55.0
Price of Oil (\$Bbl., U.S. Refiners' Cost)	53.94	55.97	63.75	64.65	61.25	61.25	59.50	60.00
MONEY AND INTEREST RATES								
3-Month Treasury Bill Rate (%)	3.8	4.4	4.8	5.0	5.0	5.0	4.9	4.7
Federal Funds Rate (%)	4.0	4.5	4.9	5.3	5.3	5.3	5.2	4.9
10-Year Treasury Note Rate (%)	4.5	4.6	5.1	5.2	5.2	5.2	5.1	5.1
Long-Term Treasury Bond Rate (%)	4.7	4.6	5.3	5.4	5.4	5.4	5.3	5.3
AAA Corporate Bond Rate (%)	5.4	5.4	6.0	6.2	6.2	6.2	6.1	6.1
Prime Rate (%)	7.0	7.4	7.9	8.3	8.3	8.3	8.1	7.8
INCOMES								
Personal Income (Annualized % Change)	9.4	6.2	6.5	6.0	5.8	5.8	5.5	5.3
Real Disp. Inc. (Annualized % Change)	6.7	3.2	3.0	4.0	4.0	3.8	3.8	3.6
Personal Savings Rate (%)	-0.2	-0.7	-0.5	-0.5	-0.2	0.1	0.2	0.4
Corporate Economic Profits (Annualized \$Bill)	1293.0	1479.0	1537.0	1461.0	1396.0	1538.0	1583.0	1534.0
Yr-to-Yr % Change	15.7	21.3	14.0	13.0	8.0	4.0	3.0	5.0
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE								
Gross Domestic Product	1.7	4.8	3.4	3.2	3.0	2.7	3.0	3.1
Final Sales	-0.2	5.4	3.2	3.0	2.7	2.6	2.7	2.9
Total Consumption	0.9	5.5	3.0	3.0	2.9	2.8	3.0	3.0
Nonresidential Fixed Investment	4.5	14.3	10.0	10.0	8.0	5.0	5.0	6.0
Structures	3.1	8.6	9.0	12.0	9.0	3.0	4.0	5.0
Equipment & Software	5.0	16.4	10.0	9.0	7.0	5.0	5.0	6.0
Residential Fixed Investment	2.8	2.6	-3.0	-9.0	-10.0	-8.0	-5.0	-4.0
Exports	5.0	12.1	5.0	10.0	9.6	9.0	8.6	8.6
Imports	12.1	13.0	-0.1	6.9	5.3	3.8	4.3	3.3
Federal Government	-2.6	10.8	-3.9	1.7	1.0	0.9	0.6	0.6
State & Local Governments	0.3	0.0	0.4	1.5	2.0	2.8	2.3	1.5

Value Line Forecast for the U.S. Economy

	ACTUAL					ESTIMATED				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GROSS DOMESTIC PRODUCT AND ITS COMPONENTS										
(2000 CHAIN WEIGHTED \$) BILLIONS OF DOLLARS										
Final Sales	9921	10036	10304	10702	11113	11484	11804	12158	12547	12974
Total Consumption	6910	7099	7306	7589	7857	8121	8360	8611	8878	9171
Nonresidential Fixed Investment	1180	1072	1085	1187	1289	1413	1507	1583	1662	1778
Structures	306	254	243	248	253	271	287	296	308	323
Equipment & Software	874	820	847	948	1051	1160	1233	1295	1373	1483
Residential Fixed Investment	448	470	509	562	602	603	562	551	557	573
Exports	1037	1013	1031	1118	1195	1287	1401	1539	1683	1811
Imports	1436	1485	1553	1719	1828	1953	2038	2111	2225	2348
Federal Government	601	643	688	724	740	760	765	772	777	786
State & Local Governments	1179	1216	1223	1228	1246	1254	1279	1296	1321	1339
Gross Domestic Product	10128	10470	10971	11734	12487	13296	13935	14614	15369	16194
Real GDP (2000 Chain Weighted \$)	9891	10049	10321	10756	11135	11520	11865	12233	12637	13079
PRICES AND WAGES-ANNUAL RATES OF CHANGE										
GDP Deflator	2.4	1.7	2.0	2.6	2.8	2.8	2.2	2.0	2.1	2.2
CPI-All Urban Consumers	2.8	1.6	2.3	2.7	3.4	2.7	2.4	2.2	2.3	2.5
PPI-Finished Goods	1.9	-1.3	3.2	3.6	4.9	2.0	1.7	1.3	1.5	2.0
Employment Cost Index--Total Comp.	4.1	3.8	4.0	3.9	3.1	3.2	3.4	3.3	3.4	3.5
Productivity	2.2	4.3	3.8	3.4	2.7	2.4	1.8	2.0	2.3	2.5
PRODUCTION AND OTHER KEY MEASURES										
Industrial Prod. (% Change)	-3.4	-0.3	0.0	4.1	3.2	4.4	2.7	2.5	2.7	3.0
Factory Operating Rate (%)	75.4	73.5	73.7	76.7	78.9	80.6	80.1	79.5	80.0	80.5
Inventory Change (2000 Chain Weighted \$)	-31.7	15.2	15.4	49.9	25.0	36.0	61.0	75.0	90.0	105.0
Housing Starts (Mill. Units)	1.60	1.71	1.85	1.95	2.07	1.92	1.79	1.75	1.73	1.80
Existing House Sales (Mill. Units)	5.29	5.65	6.17	6.72	7.06	6.54	6.05	6.00	6.05	6.10
Total Light Vehicle Sales (Mill. Units)	17.1	16.8	16.6	16.9	16.9	16.5	16.4	16.7	17.0	17.5
National Unemployment Rate (%)	4.8	5.8	6.0	5.5	5.1	4.7	4.9	4.8	4.7	4.8
Federal Budget Surplus (Unified, FY, \$Bill)	127.3	-157.8	-377.0	-413.0	-318.0	-310.0	-260.0	-315.0	-295.0	-280.0
Price of Oil (\$Bbl., U.S. Refiners' Cost)	22.95	24.00	28.60	36.91	50.31	61.50	60.00	56.35	50.75	45.00
MONEY AND INTEREST RATES										
3-Month Treasury Bill Rate (%)	3.4	1.6	1.0	1.4	3.1	4.8	4.8	4.6	4.7	4.8
Federal Funds Rate (%)	3.9	1.7	1.1	1.4	3.2	5.0	5.0	4.8	5.0	5.2
10-Year Treasury Note Rate (%)	5.0	4.6	4.0	4.3	4.3	5.0	5.1	5.3	5.4	5.5
Long-Term Treasury Bond Rate (%)	5.5	5.4	5.0	5.1	4.6	5.2	5.3	5.5	5.6	5.8
AAA Corporate Bond Rate (%)	7.1	6.5	5.7	5.6	5.2	6.0	6.1	6.4	6.6	6.6
Prime Rate (%)	6.9	4.7	4.1	4.3	6.2	8.0	8.0	7.8	7.9	8.0
INCOMES										
Personal Income (% Change)	3.5	1.8	3.2	5.9	5.5	6.1	5.5	5.6	5.7	5.8
Real Disp. Inc. (% Change)	1.9	3.1	2.4	3.4	1.5	3.5	3.7	3.7	3.8	3.8
Personal Savings Rate (%)	1.8	2.4	2.1	1.7	-0.4	-0.5	0.3	0.8	1.0	1.2
Corporate Economic Profits (\$Bill)	767.0	886.0	1032.0	1162.0	1352.0	1468.0	1527.0	1603.0	1715.0	1852.0
Yr-to-Yr % Change	-6.2	15.5	16.4	12.6	16.4	8.6	4.0	5.0	7.0	8.0
COMPOSITION OF REAL GDP-ANNUAL RATES OF CHANGE										
Gross Domestic Product	0.8	1.6	2.7	4.2	3.5	3.5	3.0	3.1	3.3	3.5
Final Sales	1.6	1.2	2.7	3.9	3.8	3.3	2.8	3.0	3.2	3.4
Total Consumption	2.5	2.7	2.9	3.9	3.5	3.4	2.9	3.0	3.1	3.3
Nonresidential Fixed Investment	-4.2	-9.2	1.2	9.4	8.6	9.7	6.6	5.0	5.0	7.0
Structures	-2.2	-17.0	-4.3	2.2	2.0	7.0	6.1	3.0	4.0	5.0
Equipment & Software	-4.9	-6.2	3.3	11.9	10.9	10.4	6.3	5.0	6.0	8.0
Residential Fixed Investment	0.2	4.9	8.3	10.3	7.1	0.2	-6.8	-2.0	1.0	3.0
Exports	-5.4	-2.3	1.8	8.4	6.9	7.7	8.8	9.9	9.3	7.6
Imports	-2.7	3.4	4.6	10.7	6.3	6.9	4.3	3.6	5.4	5.5
Federal Government	3.8	7.0	7.0	5.2	2.3	2.8	0.6	0.9	0.7	1.1
State & Local Governments	3.1	3.1	0.6	0.4	1.5	0.6	2.0	1.3	1.9	1.4

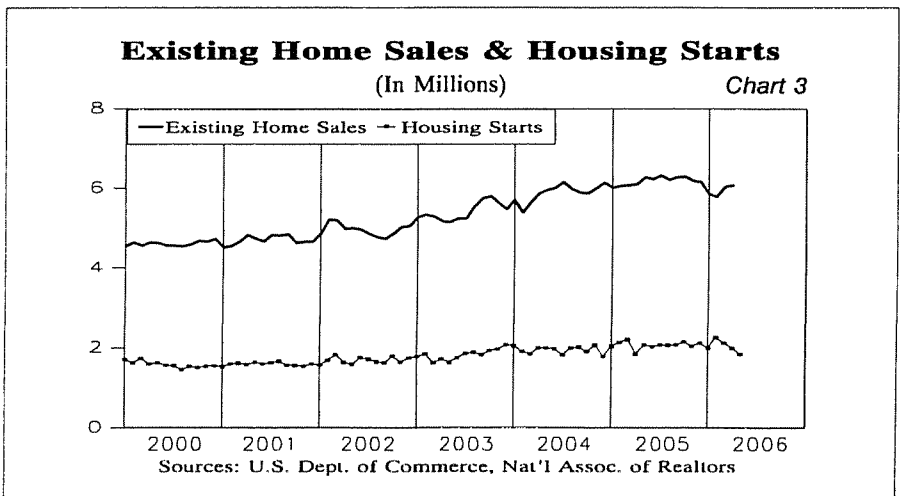
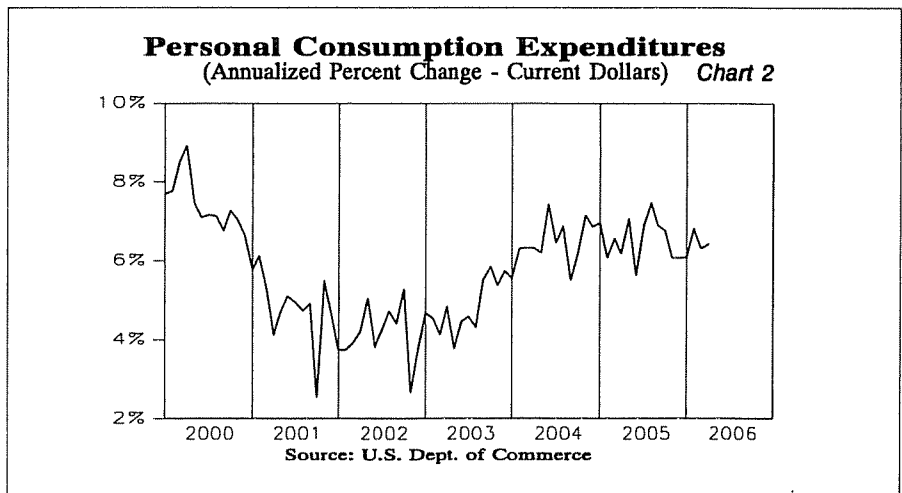
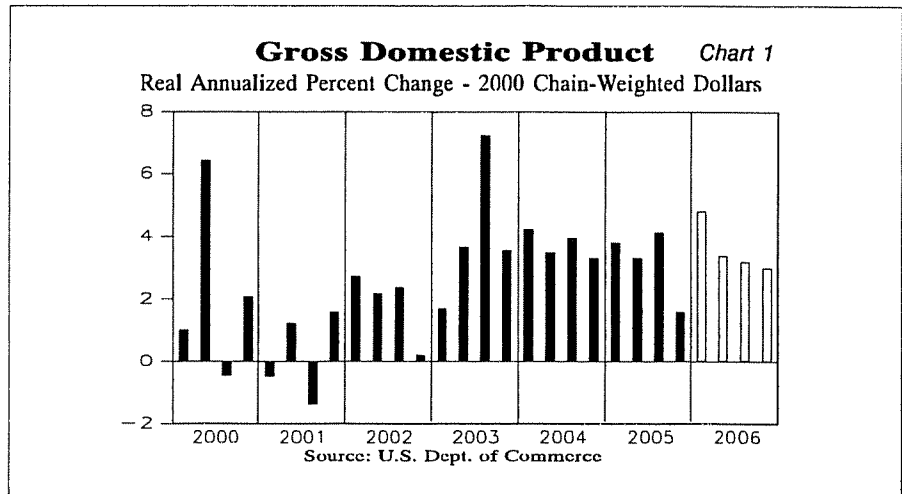
The Quarterly Economic Review

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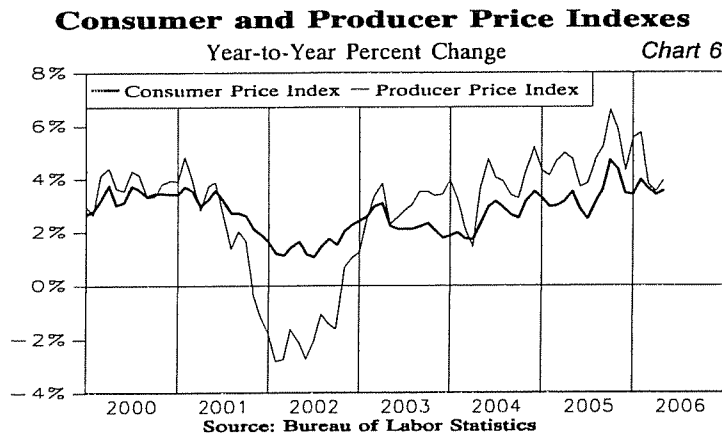
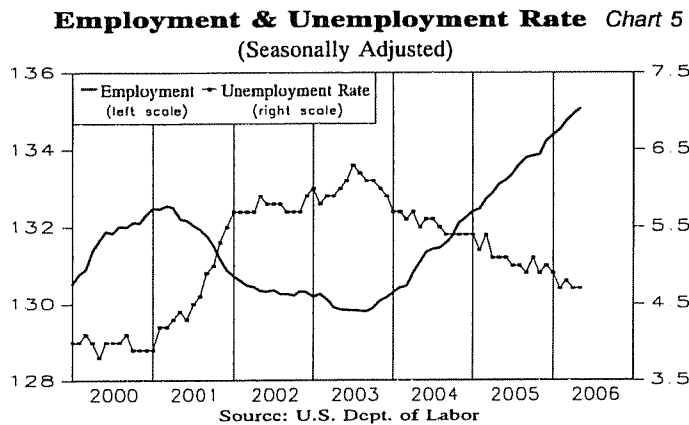
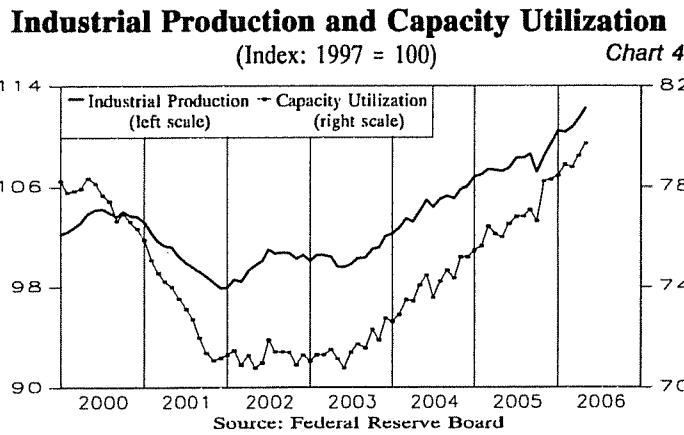
housing market, where a collapse, while unlikely, can't be totally ruled out. High real estate prices and rising mortgage rates are reducing housing affordability for many Americans. The higher cost of heating and cooling one's home isn't helping matters. Our sense is that stabilizing long-term borrowing costs, lower oil prices, and flat-to-lower home prices—all of which we expect in the months ahead—are likely to help produce a soft landing in this sector, rather than a sharp downturn. Should our optimism be well founded, housing should not detract materially from GDP growth, which may still average 3%, or so, from late 2006 through 2007, and a little more than that by the final years of this decade.

Inflation and interest-rate trends are uncertain. Inflation is continuing to show some sharp month-to-month swings as oil prices surge, pull back, then rise again. Backing out the food and energy components—to give us the so-called core rate of inflation—yields a much more stable outcome, with prices remaining in a relatively narrow range. The recent rise in the price of other commodities (e.g., iron ore, copper, and zinc) and a pickup in labor costs pose their own risks to this pricing stability. The stepup in productivity (or labor-cost efficiency) during the first quarter should help lessen the price risks a bit. Interest rates are also charting an uncertain path, as the Federal Reserve's recent decision to raise the Federal Funds rate from 4.75% to 5.00% may not be the last word on monetary tightening. How the interest-rate scenario finally plays out will depend heavily on the likely paths taken by the economy—in terms of growth and inflation.

Global uncertainties are a very serious threat. The risks here have less to do with the developed world, where certain economies in Europe and Asia are performing well, than with the lesser-developed countries, where political and military unrest across the Mideast (notably in Iran and Iraq), and lingering strains



The Quarterly Economic Review



with North Korea, Nigeria, and Venezuela hold the potential to further roil the energy markets.

SOME SPECIFICS

Economic Growth: As noted, the pace of economic growth picked up noticeably during the opening three months of this year (Chart 1), with GDP surging by 4.8% on the strength of increases in personal consumption expenditures (Chart 2), government spending (principally on outlays for defense), and nonresidential fixed investment (i.e., capital spending). Restraining growth was a slower rate of increase in residential construction, as housing demand, which had been red hot for years, cooled down a bit, in response to record home prices and rising mortgage rates (Chart 3).

This solid improvement (following a weak close in the fourth quarter of 2005, in which GDP increased by just 1.7%) is likely to continue through the middle part of this year, with growth of 3.3%-3.5% likely during the current quarter. Helping the economy move forward should be further increases in industrial production and factory use (Chart 4), steady growth in payrolls and low unemployment (Chart 5), and moderate gains in retail spending. We also expect the housing market to soften further and the auto sector to remain spotty. Thereafter, we think GDP growth will average 3%, or so, over the following 12 to 18 months, as higher heating and cooling bills and greater borrowing costs induce economically vulnerable consumers to consider reining in their spending. Business investment in plant and equipment should remain strong, as it often does in the mature stages of an economic expansion, and that should help pick up some of the slack.

It should be noted that our GDP forecast for 2006 and 2007 assumes that oil prices will average \$60-\$65 a barrel, which is somewhat below their recent peak, that the Federal Reserve will be finished raising interest rates by this summer and then start to cut rates next year, and that there

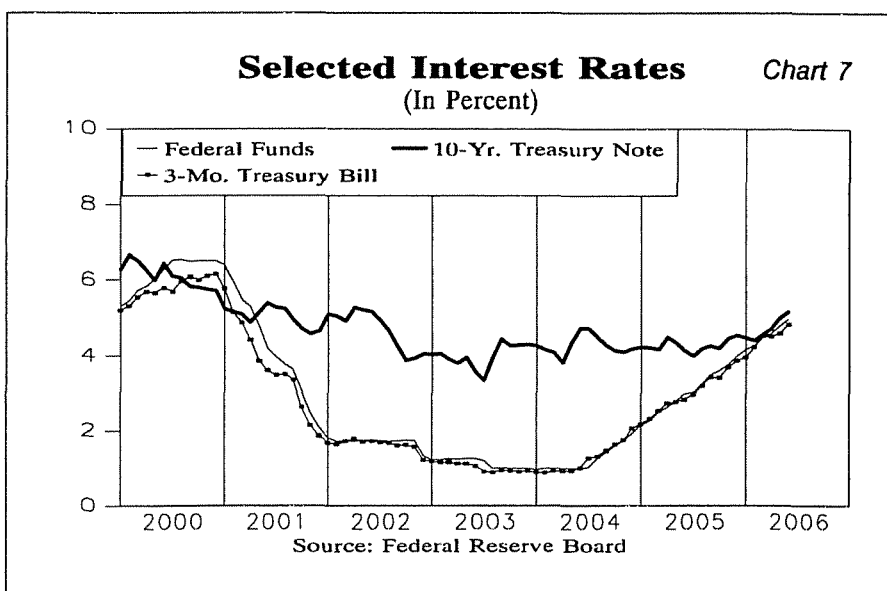
The Quarterly Economic Review

will be no major deterioration on the global front, which is a risky assumption in the post-September 11, 2001 world.

Inflation: Relative pricing stability (excluding food and energy) has been a hallmark of the current business up cycle, as well as over the last two decades. However, there are signs, which suggest that the days of stable inflation may be numbered. We aren't assuming that inflation will suddenly surge. However, we do sense that record oil prices, the relentless rise in industrial materials prices, and the recent rise in wage costs will combine to produce somewhat higher inflation. Helping to limit these likely pricing pressures should be moderating GDP growth, stabilizing energy prices, and additional increases in productivity. Nevertheless, with the outlook for growth brightening in parts of Europe and Asia, it is unlikely we will see a sustained drop in the prices of oil, precious metals, or commodities. However, we may still see a selective easing in producer and consumer prices later this year (Chart 6).

Interest Rates: On May 10th, the Federal Reserve raised the Federal Funds rate from 4.75% to 5.00%, the 16th consecutive increase in that key short-term lending rate. The Fed also indicated that future rate action would be contingent on the strength of the economic data going forward. Given the likely moderation in GDP growth in the second half of this year, we think the Fed will call a halt to its rate tightening initiatives over the summer, with one or two additional rate hikes at most. Such a course should not bring the business expansion to a premature end. As noted, we think the Fed's subsequent moves—which may take place as early as next spring—will focus on reducing rates in recognition of a probable slowing in GDP growth and a likely stabilization of inflation (Chart 7).

Corporate Earnings: The news here continues to be favorable, with key sectors, led by the oil companies and many industrial concerns, routinely reporting solid year-to-year earnings growth. In-



deed, the recent quarter was highly rewarding for Corporate America with increases in the range of 13%-15% for the companies listed in the Standard & Poor's 500 Index. Similar strong profit growth is likely during the current period, with healthy demand, rising productivity, and the careful attention to costs probably combining to generate further stellar bottom-line comparisons. Thereafter, earnings growth is likely to moderate somewhat, which would be consistent with the more restrained increases in GDP we see ahead. Earnings should still trend modestly higher in 2007. Steady income growth also is likely over the coming 3 to 5 years.

THE STOCK MARKET

The recovery in such heretofore moribund industrial sectors as steel, machinery, and aluminum, the record profits in the energy group, and the steady growth in most other sectors had helped—until severe profit-taking set in earlier this month—to give the market a nice lift. In fact, a number of the principal averages—such as the Standard & Poor's 500 Index and the NASDAQ—had, at one point, surged to several-year highs. The Dow Jones Industrial Average, meanwhile, had come to within a whisker of a record close until the aforementioned profit taking set in, while the Value Line

(Arithmetic) Index had earlier climbed to an all-time high.

The modest 2006 market gains to date have come against a backdrop of rising oil prices, surging precious metals prices (especially gold, which recently rose above \$700 an ounce), and soaring commodities, as well as a difficult and threatening global outlook, which continues to defy easy solutions. The market's resilience, which attests to the importance of earnings, is all the more remarkable given the length of the present bull market, which dates back to 2002.

Going forward, the equity market's fundamentals appear solid, as profits seem set to rise further, interest rates seem likely to peak over the summer, the economy is growing steadily, and oil prices should stabilize later this year, which clearly would be helpful in keeping inflation excesses at bay.

Conclusion: The foregoing would seem to be a prescription for a pickup in the stock market in the months ahead, absent a major shock globally or a serious misstep by an overly aggressive Federal Reserve Board. Please refer to the inside back cover of *Selection & Opinion* for our Asset Allocation Model's current reading.

Stock Highlight: MCDERMOTT INT'L (MDR - 44.05)

McDermott International is a worldwide energy services company that operates in three market segments. Its marine construction unit, J. Ray McDermott, is involved in the engineering and installation of offshore energy exploration & production facilities. The company's government operations, BWX Technologies, supplies nuclear components and manages facilities for the U.S. Department of Energy. Lastly, Babcock & Wilcox (B&W) produces coal-powered generation systems for various industries.

During the past year, all of McDermott's business units made great strides in lifting sales and net income closer to full recovery. Share net rose 128%, to \$1.37 (adjusted for a 3-for-2 stock split payable 6/1/06), in 2005, and we expect this measure to double by 2008. Since the start of 2005, the share price has nearly quadrupled, achieving record highs. Volatile McDermott shares are ranked 1 (Highest) for Timeliness, and offer above-average appreciation potential to 2009-2011. In our view, the equity is best considered by momentum investors.

Business is on an Upswing

J. Ray McDermott is the company's largest unit. This operation is currently benefiting from the restoration and expansion of offshore drilling in the Gulf of Mexico area. Given ample global business opportunity,

management has been selective in taking jobs, thus securing good prices. (For example, the Dolphin Energy project in the Middle East will add \$20 million in operating profit to current quarter results.) Margins are quite favorable. J. Ray's backlog has mushroomed to \$2.4 billion at the end of the recent March quarter, up from \$1.1 billion one year ago. Importantly, the unit has bids out for \$3.7 billion worth of business, which augurs well for long-term revenue and earnings streams. McDermott's total backlog stands at \$5.93 billion, or more than double the year-earlier level.

Elsewhere, this year, McDermott has returned to reporting B&W results on a consolidated basis. Last August, management reached a settlement with asbestos claimants (see below), which enabled B&W to come out of bankruptcy in February. The unit is capitalizing on demand for economical coal-fired power generation. Indeed, it holds about a 50% share of the industrial market, and continues to bring in more business.

Also notable, BWX Technologies is part of a group that has won a contract to operate the Department of Energy's nuclear facility at Los Alamos National Laboratory. Over the next 18 years, this turnkey agreement should provide annual revenues of \$80 million and share net of \$0.07-\$0.08 to McDermott.

A solid, long-standing record of service to the U.S. government probably helped to secure participation.

A Richer Cash Position

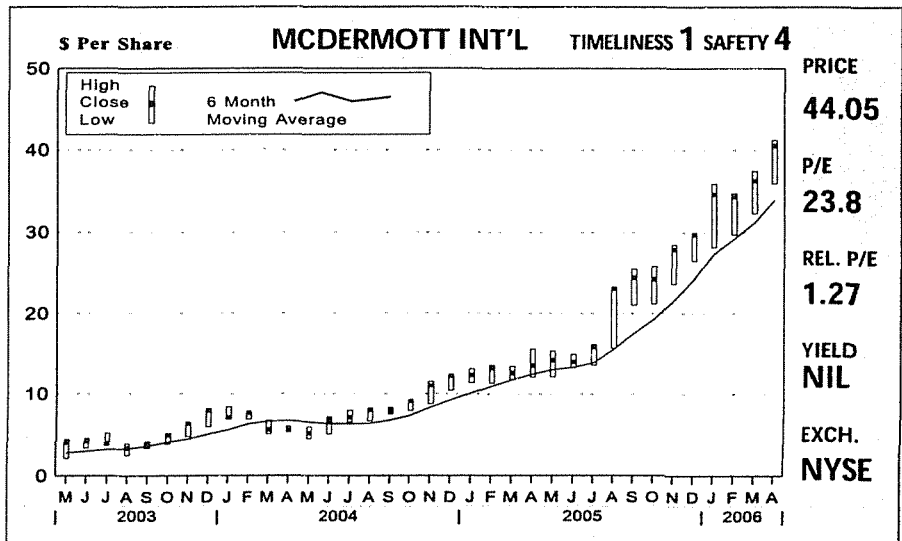
After several years of uneven operating performance, McDermott firmed up results in 2004 and 2005 and cash flow strengthened. This has created greater financial flexibility. This month, the company announced a cash tender offer for \$200 million in J. Ray 11% Senior Secured Notes due 2013. Interest savings should be significant. Too, at the close of the latest quarter, cash on the balance sheet hit a high of \$687 million (including short-term investments). After completion of the tender offer, we expect most of this cash to be set aside for B&W's asbestos claims. According to the above-mentioned settlement, the unit will contribute \$605 million to an asbestos claimant trust, unless the Fairness in Asbestos Injury Resolution (FAIR) Act becomes law by November 30th. (The company would confirm a \$250 million B&W note payable and make a \$355 million cash payment in May 2007.) If the FAIR passes by that date, which is by no means certain, McDermott would only be on the hook for \$25 million. Regardless of the FAIR outcome, McDermott will gain from B&W's positive operating contribution.

Eric M. Gottlieb
Analyst

YEAR	EPS	DIV.	P/E Ratio
2007E	2.40	—	18.4
2006E	1.95	—	22.6
2005A	1.37	—	13.0
2004A	0.60	—	12.6
2003A	d0.85	—	—

STOCK HIGHLIGHT SELECTION

Value Line selects its Stock Highlight from the 100 stocks that have been and currently are ranked 1 (Highest) for probable market performance in the next 12 months. The analysis offered is solely to provide subscribers with a more detailed examination of the individual stock and is not necessarily suggested as a recommendation for a specific portfolio.



(For a full-page report, including company statistics, see page 1393 of Ratings & Reports dated 4/28/06.)
(All per-share numbers are adjusted for a 3-for-2 stock split payable 6/1/06.)

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Stocks for Long-Term Gains

Each week, the *Summary & Index* includes a screen titled "High 3- to 5-year Appreciation Potential" that lists 100 equities under our review with the highest projected capital gains through 2009-2011. Within this list, however, are some very risky issues whose forecasted progress is based on the success of projected turnarounds, which, of course, cannot be assured.

We have greater confidence in our year-ahead ranking system, which is primarily based on historical data, than in our 3- to 5-year projections. Therefore, even if you

have long-term investment goals, the best way to fulfill them, in our judgment, is by maintaining a portfolio of timely stocks. Accordingly, this week we've prepared a screen that focuses on long-term gains, but in a rigorous fashion.

First, we limited our roster to stocks whose price appreciation potential through 2009-2011, calculated by using the mid-point of each stock's target price range, is at least 90%, versus the 45% median for the Value Line universe. We also restricted our selections to companies whose per-share earnings

have grown at an annualized rate of at least 18% over the last five years and whose Safety rank is 3 (Average) or better. Finally, all stocks had to be ranked at least 2 (Above Average) for Timeliness, thus guarding against near-term underperformance. The equities that survived these cuts are listed in descending order of projected long-term appreciation.

As always, we advise investors to consult the most recent stock analyses in *Ratings & Reports* before investing in any of these issues.

Ratings & Reports Page	Ticker	Company Name	Recent Price	3-5 Year Appreciation Potential	E.P.S. Growth Past 5 Years	Timeliness	Safety	P/E Ratio
883	HD	Home Depot	38.01	175%	20.5%	1	2	12.6
2193	FISV	Fiserv Inc.	43.30	130	21.5	2	3	17.5
1075	NSM	National Semic.	27.38	120	36.5	2	3	18.9
885	LOW	Lowe's Cos.	61.27	100	27.0	2	2	15.3
1870	TWX	Time Warner	17.53	100	49.5	2	3	18.3
1712	BBBY	Bed Bath & Beyond	36.24	95	30.5	2	2	18.2
1686	KSS	Kohl's Corp.	57.20	90	20.5	1	3	21.7

CLOSING STOCK MARKET AVERAGES AS OF PRESS TIME

	5/11/2006	5/18/2006	%Change 1 week	%Change 12 months
Dow Jones Industrial Average	11500.73	11128.29	-3.2%	+6.3%
Standard & Poor's 500	1305.92	1261.81	-3.4%	+6.4%
N.Y. Stock Exchange Composite	8526.74	8148.18	-4.4%	+14.6%
NASDAQ Composite	2272.70	2180.32	-4.1%	+7.4%
NASDAQ 100	1657.48	1587.11	-4.2%	+5.2%
American Stock Exchange Index	2012.84	1916.13	-4.8%	+32.1%
Value Line (Geometric)	446.58	426.81	-4.4%	+11.8%
Value Line (Arithmetic)	2104.03	2011.78	-4.4%	+16.7%
London (FT-SE 100)	6042.0	5671.6	-6.1%	+14.6%
Tokyo (Nikkei)	16862.14	16087.18	-4.6%	+48.5%
Russell 2000	757.47	718.47	-5.1%	+18.2%

Investors' Datebook: June, 2006

DATE	EVENT
6/1	Initial Unemployment Claims-8:30 Construction Expenditures, April-10:00 ISM's Purchasing Manager's Index, May-10:00 Weekly Fed Data-4:30 Productivity & Costs (Revised)
6/2	Employment Situation, May-8:30 Factory Orders, April-10:00
6/5	13- & 26-Week Treasury Bill Auction
6/7	Consumer Installment Credit, April-3:00
6/8	Initial Unemployment Claims-8:30 Weekly Fed Data-4:30 Wholesale Trade, April
6/9	Merchandise Trade Balance, April-8:30
6/12	13- & 26-Week Treasury Bill Auction Treasury Budget Report, May-2:00
6/13	Advance Retail Sales, May-8:30 Producer Price Index, May-8:30 Mfg. & Trade: Inventories & Sales, April-10:00
6/14	Consumer Price Index, May-8:30 Real Earnings, May
6/15	Initial Unemployment Claims-8:30 Capacity Utilization, May-9:15 Industrial Production, May-9:15 Weekly Fed Data-4:30
6/19	13- & 26-Week Treasury Bill Auction
6/20	Housing Starts & Building Permits, May-8:30
6/22	Initial Unemployment Claims-8:30 Leading Indicators, May-10:00 Weekly Fed Data-4:30
6/23	Durable Goods Orders, May-8:30
6/26	13- & 26-Week Treasury Bill Auction New Home Sales, May-10:00
6/28	FOMC Meeting
6/29	Initial Unemployment Claims-8:30 Weekly Fed Data-4:30 Agricultural Prices Corporate Profits, 1Q06 (Final) FOMC Meeting Gross Domestic Product, 1Q06 (Final)
6/30	Personal Income and Outlays, May-8:30

Source: Office of Management & Budget.

Model Portfolios: Recent Developments

PORTFOLIO I

The first two months of the June quarter have been particularly difficult for Portfolio I, as it has underperformed the major market benchmarks by a considerable margin. Although there have been instances where investors either were disappointed in or grew wary over one or more of our selections' prospects, the general motivation appears to be one of profit taking. We note that the portfolio had a strong first quarter, making it ripe for such action. In the ensuing interim, we have replaced a number of our holdings with stocks that should work to stem the current losses. Meanwhile, in the arena of good news/bad news, Dell has announced that it will start using *Advanced Micro Devices* microprocessors in its server products, giving a large boost to *AMD* shares and support to the semiconductor maker's prospects. On the other hand, a cloud has recently gathered over *RSA Security* stock, as there seems to be some concern over the timing of stock option grants to executive management. We are making no changes this week.

PORTFOLIO II

Portfolio II has been weighed down by the market's recent selloff. Most of the stocks have traded lower lately, erasing the modest gains recorded by the portfolio in the opening weeks of the June quarter. Two of our hardest hit equities in the recent downturn have been *Microchip Technology* and *Textron*, which, not surprisingly, have the two lowest scores, 30 and 60, respectively, for Price Stability among our holdings. (We would attribute most of the recent downturn in *Wachovia* shares to investor skittishness regarding the bank's proposed \$25 billion acquisition of a California thrift rather than trends in the broader market.) Still, in keeping with its relatively conservative posture, the portfolio has a median Price Stability of 90, on a scale of 5 to 100. It follows then that our holdings overall would perform relatively well during rocky market stretches. The portfolio's performance thus far in the June quarter, though hardly exciting on an absolute basis, seems to bear this out. We are making no changes to our holdings this week.

PORTFOLIO III

Portfolio III has drifted lower in recent days, as investor fears of rising inflation and further interest rate hikes by the Federal Reserve have taken the air out of the broader market averages. In this climate, even companies that report healthy, but not spectacular, financial results are seeing their stock prices come under pressure. *Home Depot*, for instance, posted better-than-expected share-net growth of 23% during the April interim, thanks to gross margin improvement, good expense management, and a strong sales performance from the former *Hughes Supply* operations. Yet, its shares retreated when Wall Street raised questions about unexciting market-share trends and the company's decision to no longer report same-store sales figures. That said, we believe that *Home Depot* has a bright future. Growth out to decade's end will likely be fueled by additional margin expansion, and a strategic shift away from retail and toward the highly profitable (and fairly stable) commercial business. We are making no changes to Portfolio III this week.

PORTFOLIO I: STOCKS WITH ABOVE-AVERAGE YEAR-AHEAD PRICE POTENTIAL

(primarily suitable for more aggressive investors)

Ratings & Reports Page	Ticker	Company	Recent Price	Timeliness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
1050	AMD	Advanced Micro Dev.	30.77	1	4	23.1	Nil	1.95	B+	Semiconductor
374	ABCO	Advisory Board	50.64	2	3	34.2	Nil	0.95	A	Information Services
126	A	Agilent Technologies	34.79	1	3	24.0	Nil	1.55	B++	Precision Instrument
1027	BHE	Benchmark Electronics	25.95	1	3	18.1	Nil	1.55	B+	Electronics
590	BER	Berkley (W.R.)	34.90	1	3	11.7	0.5	0.85	B+	Insurance (Prop/Cas.)
775	ESRX	Express Scripts 'A'	76.02	2	3	24.8	Nil	1.05	A	Pharmacy Services
1426	GS	Goldman Sachs	148.21	2	1	9.2	0.9	1.30	A++	Securities Brokerage
1544	HANS	Hansen Natural Corp.	186.83	1	3	52.9	Nil	0.85	B+	Beverage (Soft Drink)
776	HLEX	HealthExtras Inc.	28.61	2	3	42.1	Nil	1.05	B+	Pharmacy Services
1113	HPQ	Hewlett-Packard	32.16	1	3	17.9	1.0	1.40	A+	Computers/Peripherals
1067	ISIL	Intersil Corp 'A'	27.43	1	3	28.9	0.7	1.85	B+	Semiconductor
1298	MPS	MPS Group	15.00	1	3	23.1	Nil	1.20	B	Human Resources
223	MDT	Medtronic, Inc.	49.19	2	1	20.7	0.9	0.80	A++	Medical Supplies
226	MDCC	Molecular Devices	28.99	2	3	26.4	Nil	0.95	B+	Medical Supplies
2210	PAYX	Paychex, Inc.	38.68	1	3	31.2	1.7	1.15	A	Computer Software/Svcs
2212	RSAS	RSA Security	17.39	1	3	32.2	Nil	1.70	B++	Computer Software/Svcs
230	RMD	ResMed Inc.	47.33	2	3	35.6	Nil	0.95	B++	Medical Supplies
1954	SLB	Schlumberger Ltd.	65.93	1	3	27.1	0.8	1.10	A+	Oilfield Svcs/Equip.
908	SCSS	Select Comfort	36.26	1	3	28.1	Nil	0.85	A	Furn/Home Furnishings
354	SRCL	Stericycle Inc.	62.50	2	3	27.1	Nil	0.80	B+	Environmental

To qualify for purchase in the above portfolio, a stock must have a Timeliness Rank of 1 and a Financial Strength Rating of at least B+. If a stock's Timeliness rank falls below 2, it will be automatically removed. Stocks in the above portfolio are selected and monitored by Charles Clark, Assistant Research Director.

PORTFOLIO II: STOCKS FOR INCOME AND POTENTIAL PRICE APPRECIATION*(primarily suitable for more conservative investors)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	Financial Strength	Industry Name
593	CB	Chubb Corp.	50.59	3	2	11.6	2.0	1.05	A	Insurance (Prop/Cas.)
948	CL	Colgate-Palmolive	60.98	3	1	21.7	2.1	0.60	A++	Household Products
1966	EMN	Eastman Chemical	55.06	3	3	10.7	3.2	1.05	B+	Chemical (Diversified)
788	ETN	Eaton Corp.	76.28	3	1	12.8	1.8	1.10	A+	Auto Parts
1383	FO	Fortune Brands	75.99	NR	1	15.0	1.9	NMF	A+	Diversified Co.
1011	GE	Gen'l Electric	34.42	3	1	17.9	2.9	1.30	A++	Electrical Equipment
1493	HNZ	Heinz (H.J.)	41.03	3	1	20.2	2.9	0.65	A+	Food Processing
1166	HCBK	Hudson City Bancorp	13.52	2	3	24.6	2.3	0.85	B+	Thrift
1389	ITT	ITT Industries	55.05	3	1	19.3	0.8	0.90	A	Diversified Co.
218	JNJ	Johnson & Johnson	60.13	3	1	16.6	2.5	0.70	A++	Medical Supplies
447	KMI	Kinder Morgan	85.10	3	3	17.6	4.2	0.95	B+	Natural Gas (Div.)
1072	MCHP	Microchip Technology	33.50	2	3	23.8	2.6	1.30	B+	Semiconductor
943	SON	Sonoco Products	29.75	3	2	14.9	3.2	1.00	A	Packaging & Container
2123	SNV	Synovus Financial	27.00	3	2	14.8	3.0	1.05	B++	Bank
1405	TXT	Textron, Inc.	93.48	3	3	19.3	1.7	1.20	A	Diversified Co.
263	UPS	United Parcel Serv.	79.73	2	1	21.1	1.9	0.75	A+	Air Transport
629	USB	U.S. Bancorp	31.20	3	3	12.2	4.3	1.15	B++	Bank (Midwest)
1665	VFC	V.F. Corp.	61.50	3	2	12.7	3.6	0.95	A	Apparel
2125	WB	Wachovia Corp.	54.01	3	2	11.7	3.8	1.05	A	Bank
2127	WFC	Wells Fargo	66.47	3	1	13.7	3.1	0.85	A+	Bank

To qualify for purchase in the above portfolio, a stock must have a yield that is in the top half of the Value Line universe, a Timeliness Rank of at least 3 (unranked stocks may be selected occasionally), and a Safety Rank of 3 or better. If a stock's Timeliness Rank falls below 3, that stock will be automatically removed. Stocks are selected and monitored by Robert M. Greene, CFA, Senior Industry Analyst.

PORTFOLIO III: STOCKS WITH LONG-TERM PRICE GROWTH POTENTIAL*(primarily suitable for investors with a 3- to 5-year horizon)*

Ratings & Reports Page	Ticker	Company	Recent Price	Time-liness	Safety	P/E	Yield%	Beta	3- to 5-yr Appreciation Potential	Industry Name
1202	AFL	Aflac Inc.	47.44	3	2	17.6	1.1	0.90	35 - 90%	Insurance (Life)
1533	BUD	Anheuser-Busch	46.27	4	1	19.0	2.3	0.60	50 - 85	Beverage (Alcoholic)
1580	BFAM	Bright Horizons Family	36.70	3	3	25.7	Nil	0.80	35 - 120	Educational Services
1252	BMJ	Bristol-Myers Squibb	24.13	3	2	20.8	4.6	1.00	25 - 65	Drug
1719	CDWC	CDW Corp.	55.40	3	3	16.7	0.8	1.20	15 - 80	Retail (Special Lines)
1864	DIS	Disney (Walt)	29.76	1	3	19.8	0.9	1.35	35 - 100	Entertainment
1597	ERTS	Electronic Arts	42.18	5	3	55.5	Nil	1.15	40 - 125	Entertainment Tech
883	HD	Home Depot	38.01	1	2	12.6	1.6	1.10	135 - 215	Retail Building Supply
1495	HRL	Hormel Foods	33.26	3	1	17.1	1.7	0.70	50 - 95	Food Processing
218	JNJ	Johnson & Johnson	60.13	3	1	16.6	2.5	0.70	40 - 75	Medical Supplies
223	MDT	Medtronic, Inc.	49.19	2	1	20.7	0.9	0.80	95 - 135	Medical Supplies
604	PRE	PartnerRe Ltd.	61.88	4	3	13.8	2.6	1.10	20 - 85	Insurance (Prop/Cas.)
1547	PEP	PepsiCo, Inc.	59.65	3	1	20.7	2.0	0.65	35 - 70	Beverage (Soft Drink)
1753	PETM	PetSmart, Inc.	27.38	3	3	20.9	0.5	0.95	65 - 135	Retail (Special Lines)
316	SBUX	Starbucks Corp.	36.41	2	3	52.0	Nil	0.80	35 - 90	Restaurant
769	TMX	Telefonos de Mexico ADR	22.06	3	3	9.3	3.6	0.85	35 - 105	Foreign Telecom.
653	UNH	UnitedHealth Group	46.89	3	1	17.1	0.1	0.65	105 - 145	Medical Services
1772	WSM	Williams-Sonoma	40.92	3	3	22.2	1.0	1.20	35 - 95	Retail (Special Lines)
1513	WWY	Wrigley (Wm.) Jr.	47.20	5	1	24.8	2.2	0.60	60 - 90	Food Processing
1087	XLNX	Xilinx Inc.	27.04	2	3	24.8	1.3	1.75	65 - 140	Semiconductor

To qualify for purchase in the above portfolio, a stock must have worthwhile and longer-term appreciation potential. Among the factors considered for selection are a stock's Timeliness and Safety Rank and its 3- to 5-year appreciation potential. (Occasionally a stock will be unranked (NR), usually because of a short trading history or a major corporate reorganization.) Stocks in the above portfolio are selected and monitored by Justin Hellman, Senior Industry Analyst.

Equity Funds Average Performance

	TOTAL RETURN*				
	Percent Change through April, 2006				
	One Month	Three Month	Year-to-Date	One Year	Five Year (Annualized)
Performance Objective					
Aggressive Growth	0.68	2.29	7.80	24.60	2.92
Growth	0.91	2.16	6.10	19.80	3.47
Growth/Income	1.67	3.18	6.40	17.40	3.82
Income	1.98	3.45	6.60	20.50	5.81
Balanced	0.94	1.70	3.90	11.40	3.92
International					
European Equity	5.55	11.31	19.20	37.90	10.27
Foreign Equity	5.23	7.95	16.30	41.50	11.94
Global Equity	3.08	5.38	11.20	28.70	6.73
Pacific Equity	4.26	7.27	14.70	43.50	11.89
Sector					
Energy/Natural Resources	6.72	2.25	18.20	60.50	18.72
Financial Services	2.94	5.57	8.50	23.10	8.40
Health	-3.56	-3.09	-0.40	12.80	3.06
Precious Metals	12.34	13.12	35.20	106.10	35.88
Real Estate	-3.04	3.45	10.20	25.70	19.85
Technology	0.34	1.56	8.20	30.50	-3.18
Utilities	1.65	2.08	6.20	17.80	1.43
Other					
Convertible	0.87	1.89	5.80	16.80	4.73
Flexible	1.18	1.91	4.80	12.60	4.17
Specialty	2.00	4.30	8.80	22.30	4.42
Small Company	0.54	4.38	12.50	31.00	9.29
S&P 500	1.34	2.88	5.60	15.40	2.69

Source: The Value Line Mutual Fund Survey

* Dividends plus capital appreciation. Dividends are reinvested as of the ex-dividend date. The returns are arithmetic averages based on the performances of all funds within each category.

Fixed-Income Funds Average Performance

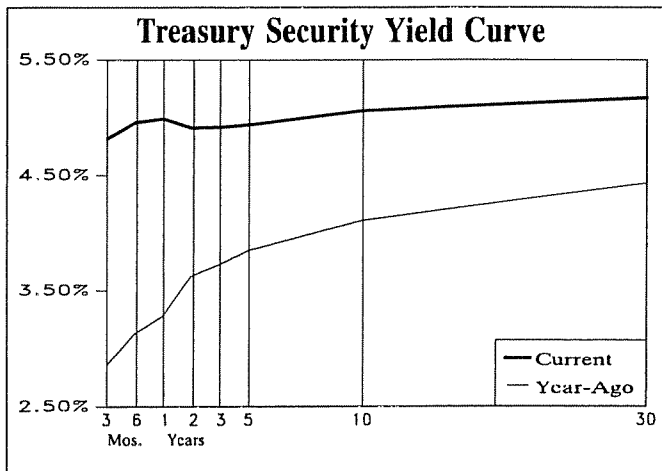
	TOTAL REINVESTMENT*				
	Percent Change through April, 2006				
	One Month	Three Month	Year-to-Date	One Year	Five Year (Annualized)
U.S. Government and Agency Bond					
Short term—U.S. Gov't	0.17	0.15	0.30	0.80	2.37
Immediate term—U.S. Gov't	-0.16	-0.70	-0.80	-0.10	3.67
Long term—U.S. Gov't	-0.39	-1.24	-1.40	-0.50	3.87
GNMA	-0.04	-0.19	Nil	1.40	3.72
Corporate Bond					
High Quality	-0.07	-0.52	-0.50	0.70	4.12
High Yield	0.56	1.69	2.90	7.60	5.96
International	1.27	0.70	1.90	3.00	8.20
Municipal Bond					
California Tax Exempt	-0.23	-0.27	-0.10	1.40	4.27
New York State Tax Exempt	-0.19	-0.21	-0.10	1.20	4.00
Other States Tax Exempt	-0.03	-0.04	0.20	2.10	4.19

Source: The Value Line Mutual Fund Survey

* The cumulative rate of investment growth, including the reinvestment of dividend income and capital gains distributions as of the ex-dividend date. The investment objective averages are arithmetic averages calculated on the basis of the total reinvested rates of return produced by all funds within each investment objective category.

Selected Yields

	Recent (5/18/06)	3 Months Ago (2/16/06)	Year Ago (5/19/05)		Recent (5/18/06)	3 Months Ago (2/16/06)	Year Ago (5/19/05)
TAXABLE							
Market Rates							
Discount Rate	6.00	5.50	4.00				
Federal Funds	5.00	4.50	3.00				
Prime Rate	8.00	7.50	6.00				
30-day CP (A1/P1)	5.00	4.49	3.02				
3-month LIBOR	5.19	4.77	3.28				
Bank CDs							
6-month	3.06	2.89	2.26				
1-year	3.87	3.46	2.77				
5-year	4.03	3.97	3.80				
U.S. Treasury Securities							
3-month	4.82	4.53	2.86				
6-month	4.96	4.68	3.13				
1-year	4.99	4.70	3.29				
5-year	4.94	4.58	3.85				
10-year	5.06	4.58	4.11				
10-year (inflation-protected)	2.37	2.08	1.64				
30-year	5.17	4.57	4.43				
30-year Zero	5.06	4.62	4.45				
Mortgage-Backed Securities							
GNMA 6.5%	6.01	5.33	4.96				
FHLMC 6.5% (Gold)	6.19	5.88	5.09				
FNMA 6.5%	6.15	5.74	4.86				
FNMA ARM	4.81	4.47	3.48				
Corporate Bonds							
Financial (10-year) A	6.01	5.50	4.89				
Industrial (25/30-year) A	6.28	5.68	5.36				
Utility (25/30-year) A	6.28	5.63	5.25				
Utility (25/30-year) Baa/BBB	6.59	5.98	5.61				
Foreign Bonds (10-Year)							
Canada	4.32	4.19	4.09				
Germany	4.03	3.51	3.35				
Japan	1.95	1.57	1.27				
United Kingdom	4.58	4.17	4.37				
Preferred Stocks							
Utility A	7.25	7.07	6.96				
Financial A	6.37	6.22	5.94				
Financial Adjustable A	5.52	5.52	5.52				



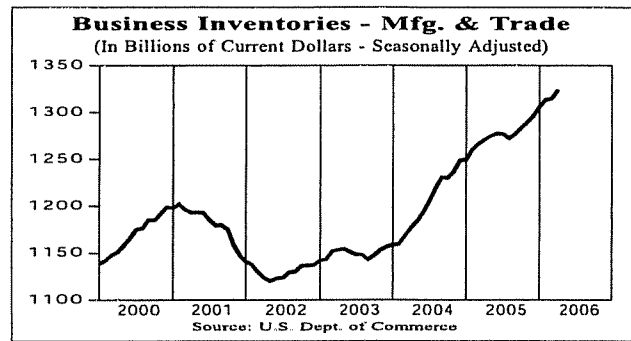
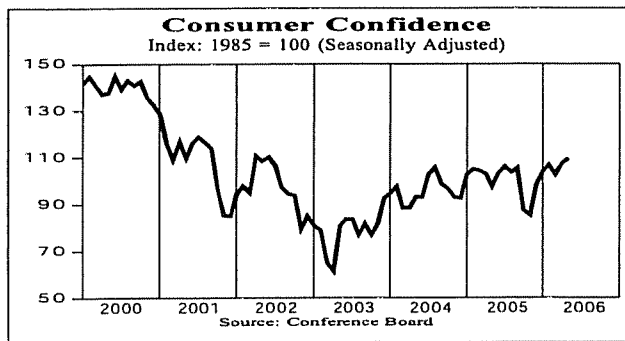
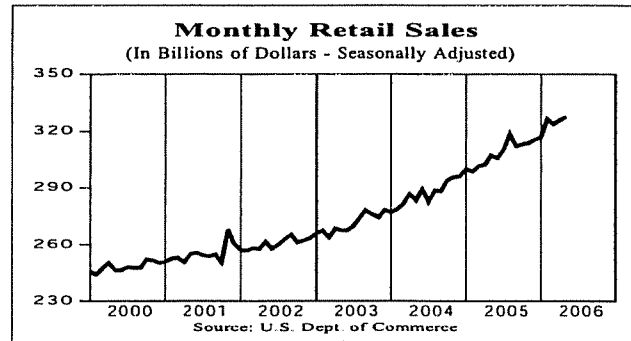
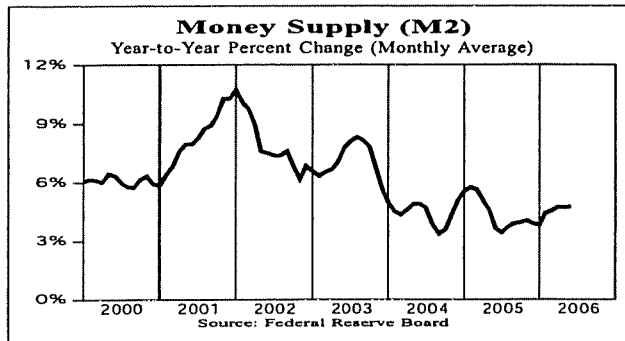
TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.58	4.42	4.25				
25-Bond Index (Revs)	5.24	5.14	4.81				
General Obligation Bonds (GOs)							
1-year Aaa	3.62	3.26	2.72				
1-year A	3.75	3.38	2.89				
5-year Aaa	3.67	3.50	2.98				
5-year A	3.95	3.78	3.28				
10-year Aaa	4.10	3.86	3.49				
10-year A	4.42	4.17	3.84				
25/30-year Aaa	4.53	4.36	4.30				
25/30-year A	4.79	4.61	4.54				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.65	4.37	4.31				
Electric AA	4.66	4.44	4.44				
Housing AA	4.70	4.63	4.65				
Hospital AA	4.90	4.79	4.48				
Toll Road Aaa	4.77	4.63	4.44				

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	5/10/06	4/26/06	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	2145	1466	679	1678	1694	1730	
Borrowed Reserves	156	103	53	160	147	221	
Net Free/Borrowed Reserves	1989	1363	626	1518	1547	1509	

MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Growth Rates Over the Last...			
	5/8/06	5/1/06	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	1382.8	1388.3	-5.5	-0.1%	3.5%	1.2%	
M2 (M1+savings+small time deposits)	6770.9	6794.8	-23.9	2.2%	4.2%	4.4%	

Tracking the Economy



Major Insider Transactions†

PURCHASES

Latest Full-Page Report	Timeliness Rank	Company	Insider, Title	Date	Shares Traded	Shares Held(a)	Price Range	Recent Price
2138	3	Aon Corp.	E.R. Martin, Dir.	5/8/06	5,000	10,000	\$37.81-\$37.82	35.57
410	3	Chesapeake Energy	A.K. McClendon, Chair.	5/5/06-5/9/06	400,000	19,463,552	\$32.54-\$33.19	29.96
1488	-	Dean Foods	A.J. Bernon, Pres.	5/5/06	3,500	597,944	\$36.70	35.64
1947	2	Helix Energy Solutions	O.E. Kratz, Chair.	5/3/06	15,000	4,995,147	\$40.08	39.11
1967	3	Hexcel Corp.	M.L. Solomon, Dir.	5/8/06-5/9/06	25,000	93,354	\$23.11-\$23.20	21.55
1587	3	Laureate Education	R. Appadoo, Pres.	5/8/06	30,000	59,664	\$48.74	46.27
1372	3	Watts Water Techn.	R.E. Jackson Jr., Dir.	5/9/06	5,000	13,669	\$38.50	36.35

SALES

Latest Full-Page Report	Timeliness Rank	Company	Insider, Title	Date	Shares Traded	Shares Held(a)	Price Range	Recent Price
2231	-	Google, Inc.	K. Shriram, Dir.	5/2/06	150,000	12,681	\$390.00-\$402.00	374.50
2231	-	Google, Inc.	S. Brin, Pres.	5/2/06-5/3/06	264,499	NA	\$390.00-\$401.00	374.50
215	2	Intuitive Surgical	R.W. Duggan, Dir.	5/10/06	55,000	716,736	\$129.05	115.43
874	3	NVR, Inc.	D.C. Schar, Chair.	5/10/06	16,833	413,059	\$739.88-\$749.00	667.00
419	2	Occidental Petroleum	S.I. Chazen, CFO	5/9/06	114,000	932,768	\$104.52	92.86
419	2	Occidental Petroleum	J.W. Morgan, VP	5/9/06	100,000	328,995	\$105.43	92.86
1509	5	Tyson Foods 'A'	D.J. Tyson, Dir.	5/2/06	750,000	NA	\$14.64	15.17

* Beneficial owner of more than 10% of common stock.

(a) Beneficial ownership at end of month in which transaction occurred.

† Includes only large transactions in U.S.-traded stocks; excludes shares held in the form of limited partnerships, excludes options & family trusts.

Major Insider Transactions are obtained from Vickers Stock Research Corporation.

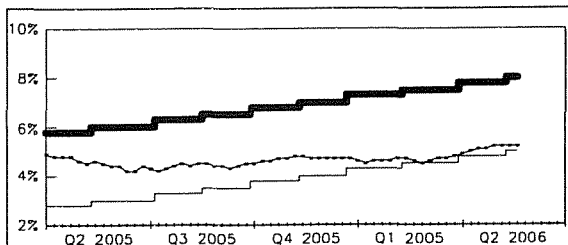
Market Monitor

Valuations and Yields	5/18	5/11	13-week range	50-week range	Last market top (3-7-2005)	Last market bottom (10-9-2002)
Median price-earnings ratio of VL stocks	18.7	19.6	18.5 - 19.6	17.5 - 19.6	18.9	14.1
P/E (using 12-mo. est'd EPS) of DJ Industrials	16.2	16.6	16.1 - 16.6	15.3 - 16.8	16.5	15.2
Median dividend yield of VL stocks	1.6%	1.6%	1.5 - 1.6%	1.5 - 1.7%	1.6%	2.4%
Div'd yld. (12-mo. est.) of DJ Industrials	2.4%	2.3%	2.3 - 2.4%	2.2 - 2.5%	2.2%	2.6%
Prime Rate	8.0%	8.0%	7.5 - 8.0%	6.0 - 8.0%	5.5%	4.8%
Fed Funds (Target)	5.0%	5.0%	4.5 - 5.0%	3.0 - 5.0%	2.5%	1.8%
91-day T-bill rate	4.8%	4.8%	4.6 - 4.8%	3.0 - 4.8%	2.7%	1.6%
Moody's Aaa Corporate bond yield	5.9%	6.0%	5.3 - 6.0%	4.9 - 6.0%	5.4%	6.1%
30-year Treasury bond yield	5.2%	5.2%	4.5 - 5.2%	4.2 - 5.2%	4.7%	4.7%
Bond yield minus average earnings yield	0.6%	0.9%	-0.1 - 0.9%	-0.6 - 0.9%	0.1%	-1.0%

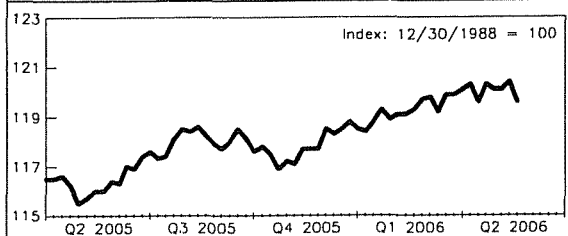
Market Sentiment	Wk. Ending 5/18	Wk. Ending 5/11	10-week average	13-week range	Last market top (3-7-2005)	Last market bottom (10-9-2002)
% of total NYSE short sales by:						
Public	57	59	58	56 - 59	46	53
NYSE specialists	13	12	13	10 - 15	26	37
Other NYSE members	30	29	30	28 - 31	28	10
Total NYSE short sales/total NYSE volume	13.7%	13.6%	13.7%	13.0 - 14.1%	12.9%	12.9%
Short interest/avg. daily volume (5 weeks)	4.9	5.1	5.2	4.8 - 5.4	5.1	5.3
Odd-lot sales/purchases	1.1	1.0	1.1	0.9 - 1.2	1.3	1.1
CBOE put volume/call volume	1.28	.89	.87	.58 - 1.28	.80	.96

VALUE LINE ASSET ALLOCATION MODEL <i>(Based only on economic and financial factors)</i>		
	Current (effective 2/11/05)	Previous
Common Stocks	75%-85%	70%-80%
Cash and Treasury Issues	25%-15%	30%-20%

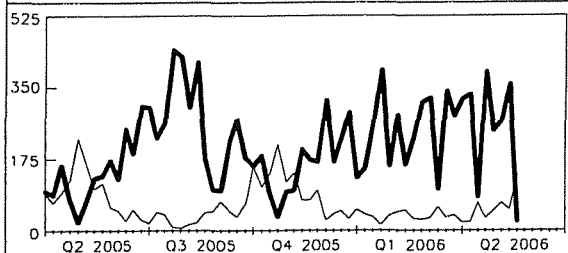
INDUSTRY PRICE PERFORMANCE LAST SIX WEEKS ENDING 5/17/2006	
7 Best Performing Industries	
Cable TV	+8.7%
Trucking	+6.6%
Beverage (Soft Drink)	+5.5%
Maritime	+4.6%
Auto Parts	+2.9%
Tobacco	+2.4%
Chemical (Basic)	+2.2%
7 Worst Performing Industries	
Homebuilding	-22.1%
Cement & Aggregates	-16.0%
Biotechnology	-15.2%
Water Utility	-13.9%
Wireless Networking	-13.4%
Telecom. Equipment	-13.2%
Retail Building Supply	-11.3%
The corresponding change in the Value Line Arithmetic Average is -4.1%	



INTEREST RATES		
	Recent	Previous Week
Prime Rate	8.0%	8.0%
Federal Funds	5.0%	5.0%
30-Year Treasury Bond	5.2%	5.2%



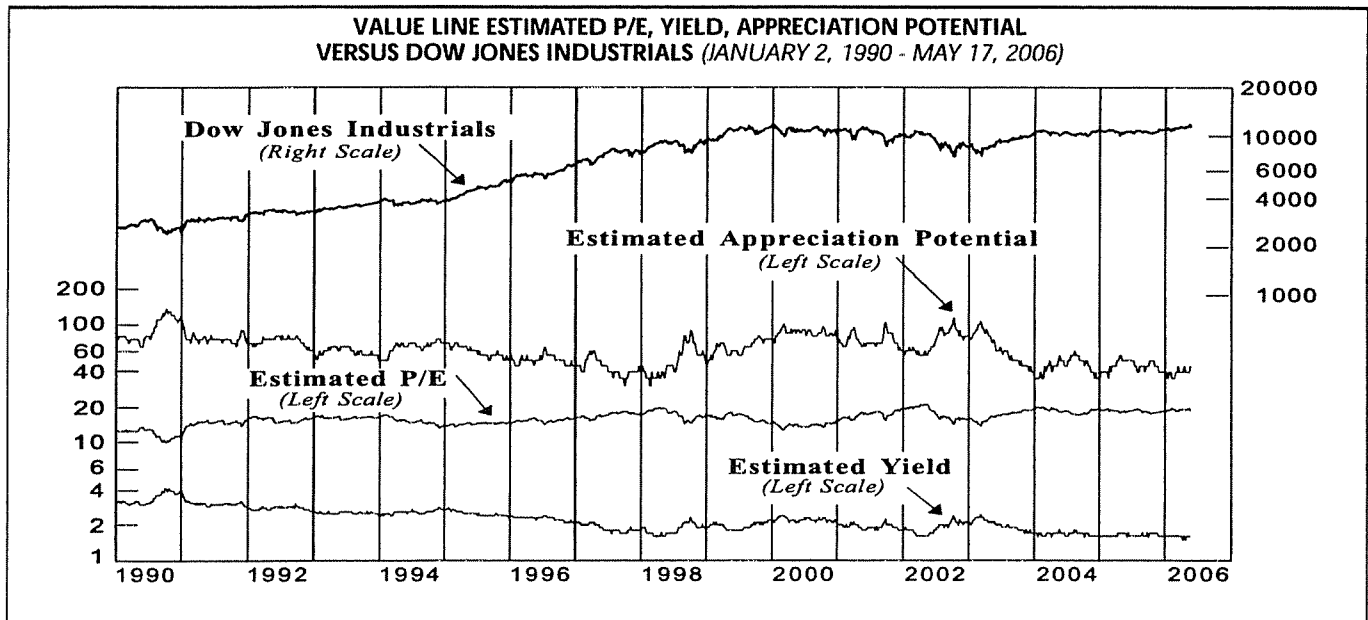
VALUE LINE UNIVERSE		
	Recent	Previous Week
Advances	136	1073
Declines	1500	553
Issues Traded	1639	1640
Market Value (\$ Trillion)	17.704	18.619



VALUE LINE COMPOSITE		
	Recent	Previous Week
New Highs	23	356
New Lows	137	52

CHANGES IN FINANCIAL STRENGTH RATINGS			
Company	Prior Rating	New Rating	Ratings & Reports Page
Franklin Resources	B++	A	2150

Stock Market Averages



THE VALUE LINE GEOMETRIC AVERAGES

	Composite 1610 stocks	Industrials 1495 stocks	Rails 7 stocks	Utilities 108 stocks
5/12/2006	439.93	373.74	2352.86	263.21
5/15/2006	437.96	371.92	2326.94	263.72
5/16/2006	436.81	370.91	2327.47	263.32
5/17/2006	429.70	364.90	2263.89	259.27
5/18/2006	426.81	362.30	2210.94	259.07
%Change last 4 weeks	-5.9%	-6.1%	-6.6%	-3.0%

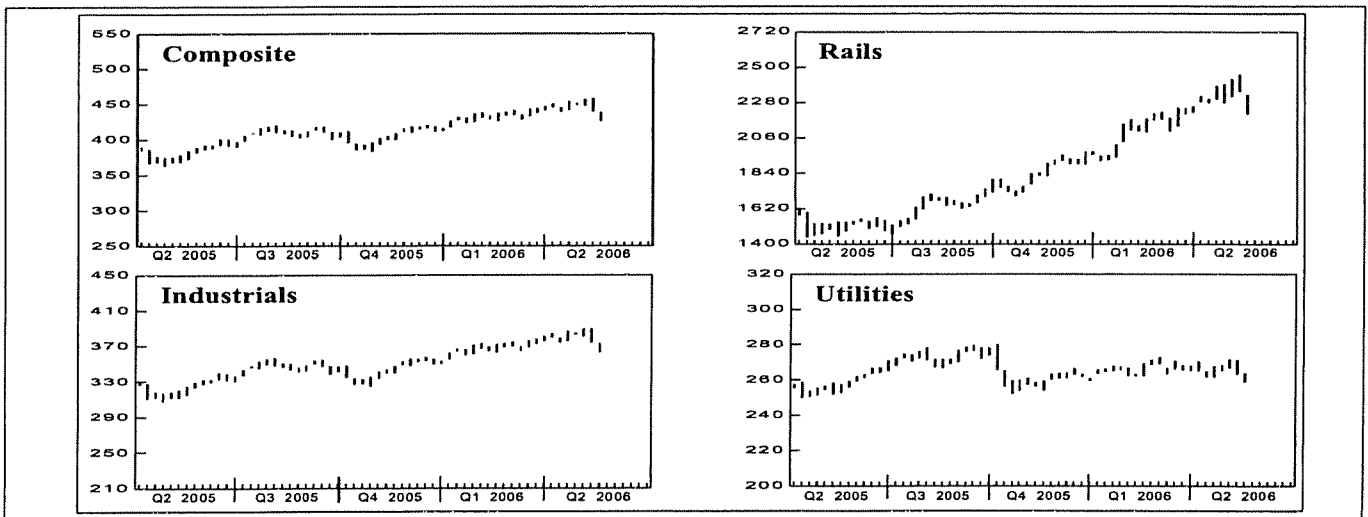
**Arithmetic
Composite
1610 stocks**

2073.05
2062.94
2058.26
2025.10
2011.78
-5.6%

THE DOW JONES AVERAGES

Composite 65 stocks	Industrials 30 stocks	Transportation 20 stocks	Utilities 15 stocks
3917.73	11380.99	4840.54	400.07
3929.60	11428.77	4846.35	401.51
3911.71	11419.89	4798.44	400.01
3827.82	11205.61	4670.97	392.62
3804.31	11128.29	4627.33	393.25
-1.6%	-1.9%	-1.7%	-0.7%

WEEKLY VALUE LINE GEOMETRIC AVERAGES (APRIL 1, 2005 - MAY 18, 2006)



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Attachment 3
KU Question No. 11

REGULATORY FOCUS

.....

Regulatory Study
April 5, 2006

MAJOR RATE CASE DECISIONS--JANUARY-MARCH 2006

For the first three months of 2006, the average electric equity return authorization by state commissions was 10.38% (three determinations), compared to the 10.54% average in calendar-2005. The average gas equity return authorization for the first quarter of 2006 was 10.63% (six determinations), compared to the 10.46% average in calendar-2005. During the first quarter of 2006, there were no telecommunications equity return authorizations.

After reaching a low in the late-1990's and early-2000's, the number of equity return determinations for energy companies increased somewhat beginning in 2002 and reached a ten-year high in 2005. Relatively low inflation and interest rates, competitive pressures, technological improvements, the use of settlements that do not specify return parameters, and a reduced number of companies due to mergers may prevent the number of yearly determinations from substantially increasing further. However, increased costs and the need for generation and delivery system infrastructure upgrades and expansion at many companies argue for at least a modest increase in the number of cases to be filed and decided over the next several years. We also note that electric industry restructuring in many states has led to the unbundling of rates, with state commissions authorizing revenue requirement and return parameters for transmission and/or distribution operations only (which we footnote in our chronology table), complicating data comparability. The tables included in this study are extensions of those contained in the January 12, 2006 Regulatory Study entitled *Major Rate Case Decisions--January 2004-December 2005--Supplemental Study*. Refer to that report for information concerning individual rate case decisions that were rendered in 2004 and 2005.

The table on page 2 shows annual average equity returns authorized since 1996, and by quarter since 2000, in major electric, gas, and telecommunications rate decisions, followed by the number of determinations during each period. The tables on page 3 present the composite industry data for items in the chronology of this and earlier reports, summarized annually since 1996, and quarterly for the most recent nine quarters. The individual electric, gas, and telecommunications cases decided in the first three months of 2006 are listed on pages 4 and 5, with the decision date shown first, followed by the company name, the abbreviation for the state issuing the decision, the authorized rate of return (ROR), return on equity (ROE), and percentage of common equity in the adopted capital structure. Next we show the month and year in which the adopted test year ended, whether the commission utilized an average or a year-end rate base, and the amount of the permanent rate change authorized. The dollar amounts represent the permanent rate change ordered at the time decisions were rendered. Summary data for 2005 is also included for comparative purposes. A case is generally considered "major" if the rate change initially requested was \$5 million or greater, or the authorized rate change was at least \$3 million. Gas rate requests that are considered in conjunction with major electric requests are recorded and reported as individual cases, regardless of size. Fuel adjustment clause rate changes are not reflected in this study.

Average Equity Returns Authorized January 1988 - March 1998

(Return Percent - No. of Observations)

	Period	Electric Utilities	Gas Utilities	Telephone Utilities
1988	Full Year	12.79 (33)	12.85 (31)	13.13 (13)
1989	Full Year	12.97 (27)	12.88 (31)	12.97 (15)
1990	Full Year	12.70 (44)	12.67 (31)	12.91 (9)
1991	Full Year	12.55 (45)	12.46 (35)	12.89 (16)
1992	1st Quarter	12.37 (12)	12.42 (5)	12.25 (2)
	2nd Quarter	11.83 (12)	11.98 (3)	--- (0)
	3rd Quarter	12.03 (8)	11.87 (5)	12.35 (2)
	4th Quarter	12.12 (16)	11.94 (16)	12.23 (3)
1992	Full Year	12.09 (48)	12.01 (29)	12.27 (7)
1993	1st Quarter	11.84 (7)	11.75 (4)	12.20 (1)
	2nd Quarter	11.64 (9)	11.71 (6)	12.36 (4)
	3rd Quarter	11.15 (6)	11.39 (13)	11.65 (1)
	4th Quarter	11.07 (10)	11.15 (22)	11.45 (6)
1993	Full Year	11.41 (32)	11.35 (45)	11.83 (12)
1994	1st Quarter	11.20 (10)	11.12 (5)	11.05 (3)
	2nd Quarter	11.13 (5)	10.81 (5)	12.46 (3)
	3rd Quarter	12.75 (1)	10.95 (2)	--- (0)
	4th Quarter	11.41 (15)	11.64 (16)	11.88 (5)
1994	Full Year	11.34 (31)	11.35 (28)	11.81 (11)
1995	1st Quarter	11.96 (8)	--- (0)	--- (0)
	2nd Quarter	11.36 (9)	11.00 (1)	11.84 (4)
	3rd Quarter	11.33 (6)	11.07 (3)	12.50 (1)
	4th Quarter	11.53 (10)	11.56 (12)	12.25 (3)
1995	Full Year	11.55 (33)	11.43 (16)	12.08 (8)
1996	1st Quarter	11.28 (2)	11.45 (2)	11.70 (2)
	2nd Quarter	11.46 (9)	10.88 (6)	11.30 (1)
	3rd Quarter	10.76 (3)	11.25 (2)	12.25 (1)
	4th Quarter	11.58 (8)	11.32 (10)	--- (0)
1996	Full Year	11.39 (22)	11.19 (20)	11.74 (4)
1997	1st Quarter	11.30 (4)	11.31 (7)	11.80 (1)
	2nd Quarter	11.62 (3)	11.70 (1)	11.60 (1)
	3rd Quarter	12.00 (1)	12.00 (1)	11.70 (1)
	4th Quarter	11.08 (4)	11.01 (5)	11.35 (2)
1997	Full Year	11.36 (12)	11.28 (14)	11.56 (5)
1998	1st Quarter	11.49 (5)	12.20 (1)	11.30 (1)

Electric Utilities--Summary Table*

	Period	ROR %	ROE %	Eq. as % Cap. Struc.	Amt. \$ MIL.
1996	Full Year	9.21 (20)	11.39 (22)	44.34 (20)	-5.6 (38)
1997	Full Year	9.16 (12)	11.40 (11)	48.79 (11)	-553.3 (33)
1998	Full Year	9.44 (9)	11.66 (10)	46.14 (8)	-429.3 (31)
1999	Full Year	8.81 (18)	10.77 (20)	45.08 (17)	-1,683.8 (30)
2000	Full Year	9.20 (12)	11.43 (12)	48.85 (12)	-291.4 (34)
2001	Full Year	8.93 (15)	11.09 (18)	47.20 (13)	14.2 (21)
2002	Full Year	8.72 (20)	11.16 (22)	46.27 (19)	-475.4 (24)
2003	Full Year	8.86 (20)	10.97 (22)	49.41 (19)	313.8 (22)
2004	1st Quarter	8.94 (3)	11.00 (3)	44.94 (3)	-716.4 (4)
	2nd Quarter	7.88 (6)	10.54 (6)	45.59 (6)	641.8 (11)
	3rd Quarter	9.01 (2)	10.33 (2)	45.05 (2)	119.4 (4)
	4th Quarter	8.55 (7)	10.91 (8)	49.64 (6)	1,047.8 (11)
2004	Full Year	8.44 (18)	10.75 (19)	46.84 (17)	1,092.6 (30)
2005	1st Quarter	8.57 (6)	10.51 (7)	44.55 (7)	482.1 (8)
	2nd Quarter	8.27 (5)	10.05 (7)	48.30 (5)	180.2 (9)
	3rd Quarter	7.78 (4)	10.84 (4)	43.58 (4)	40.2 (5)
	4th Quarter	8.37 (11)	10.75 (11)	48.55 (11)	671.2 (14)
2005	Full Year	8.31 (26)	10.54 (29)	46.73 (27)	1,373.7 (36)
2006	1st Quarter	8.13 (3)	10.38 (3)	50.25 (3)	439.0 (9)

Gas Utilities--Summary Table*

1996	Full Year	9.25 (23)	11.19 (20)	47.69 (19)	193.4 (34)
1997	Full Year	9.13 (13)	11.29 (13)	47.78 (11)	-82.5 (21)
1998	Full Year	9.46 (10)	11.51 (10)	49.50 (10)	93.9 (20)
1999	Full Year	8.86 (9)	10.66 (9)	49.06 (9)	51.0 (14)
2000	Full Year	9.33 (13)	11.39 (12)	48.59 (12)	135.9 (20)
2001	Full Year	8.51 (6)	10.95 (7)	43.96 (5)	114.0 (11)
2002	Full Year	8.80 (20)	11.03 (21)	48.29 (18)	303.6 (26)
2003	Full Year	8.75 (22)	10.99 (25)	49.93 (22)	260.1 (30)
2004	1st Quarter	8.52 (4)	11.10 (4)	45.61 (4)	56.3 (6)
	2nd Quarter	8.21 (3)	10.25 (2)	46.90 (2)	121.7 (9)
	3rd Quarter	8.27 (8)	10.37 (8)	42.92 (8)	113.4 (8)
	4th Quarter	8.40 (6)	10.66 (6)	49.72 (6)	12.1 (8)
2004	Full Year	8.34 (21)	10.59 (20)	45.90 (20)	303.5 (31)
2005	1st Quarter	8.19 (3)	10.65 (2)	43.00 (1)	50.8 (4)
	2nd Quarter	8.17 (5)	10.54 (5)	47.69 (4)	99.5 (6)
	3rd Quarter	8.15 (6)	10.47 (5)	49.54 (5)	75.3 (7)
	4th Quarter	8.33 (15)	10.40 (14)	49.03 (14)	232.8 (17)
2005	Full Year	8.25 (29)	10.46 (26)	48.66 (24)	458.4 (34)
2006	1st Quarter	8.62 (6)	10.63 (6)	51.18 (6)	138.7 (6)

Telephone Utilities--Summary Table*

1996	Full Year	9.65 (2)	11.74 (4)	56.00 (2)	-348.2 (11)
1997	Full Year	9.57 (5)	11.56 (5)	55.84 (5)	-154.4 (7)
1998	Full Year	9.37 (1)	11.30 (1)	52.00 (1)	-323.3 (13)
1999	Full Year	11.34 (1)	13.00 (1)	66.90 (1)	-570.1 (19)
2000	Full Year	9.52 (2)	11.38 (2)	56.59 (2)	-390.4 (14)
2001	Full Year	9.61 (1)	---	---	-130.0 (8)
2002	Full Year	---	---	---	7.7 (4)
2003	Full Year	---	---	---	-62.6 (2)
2004	1st Quarter	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
	2nd Quarter	---	---	---	---
	3rd Quarter	---	---	---	---
	4th Quarter	---	---	---	---
2004	Full Year	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
2005	1st Quarter	---	---	---	---
	2nd Quarter	---	---	---	71.9 (2)
	3rd Quarter	8.72 (1)	10.50 (1)	54.00 (1)	-8.2 (1)
	4th Quarter	---	---	---	---
2005	Full Year	8.72 (1)	10.50 (1)	54.00 (1)	63.7 (3)
2006	1st Quarter	---	---	---	---

* Number of observations in each period indicated in parentheses.

<u>Date</u>	<u>Company (State)</u>	<u>ROR</u> <u>%</u>	<u>ROE</u> <u>%</u>	<u>Common</u> <u>Eq. as %</u> <u>Cap. Str.</u>	<u>Test Year</u> <u>&</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
ELECTRIC UTILITY DECISIONS						
2005	FULL-YEAR: AVERAGES/TOTAL	8.31	10.54	46.73		1373.7
	MEDIAN	8.08	10.25	44.59		---
	OBSERVATIONS	26	29	27		36
1/5/06	Northern States Power (WI)	8.94 (G)	11.00	53.66	12/06-A	43.4
1/25/06	Wisconsin Electric Power (WI)	---	---	---	---	229.7 (1)
1/27/06	United Illuminating (CT)	6.88 (2)	9.75	48.00	12/04-A	35.6 (Di,Z,2)
2/22/06	PacifiCorp (WY)	---	---	---	---	25.0 (B,Z)
2/23/06	Aquila Networks-MPS (MO)	---	---	---	---	22.4 (B)
2/23/06	Aquila Networks-L&P (MO)	---	---	---	---	3.9 (B)
3/3/06	Interstate Power and Light (MN)	8.58	10.39	49.10	12/04-A	1.2 (I,B)
3/14/06	Kentucky Power (KY)	---	---	---	---	41.0 (B)
3/29/06	Entergy Gulf States (LA)	---	---	---	---	36.8 (I,B)
2006	1ST QUARTER: AVERAGES/TOTAL	8.13	10.38	50.25		439.0
	MEDIAN	8.58	10.39	49.10		---
	OBSERVATIONS	3	3	3		9

GAS UTILITY DECISIONS						
2005	FULL-YEAR: AVERAGES/TOTAL	8.25	10.46	48.66		458.4
	MEDIAN	8.42	10.23	47.14		---
	OBSERVATIONS	29	26	24		34
1/5/06	Northern States Power (WI)	8.94 (G)	11.00	53.66	12/06-A	3.9
1/25/06	Wisconsin Electric Power (WI)	8.52 (G)	11.20	56.34	12/06-A	21.4
1/25/06	Wisconsin Gas (WI)	8.29 (G)	11.20	50.20	12/06-A	38.7
2/3/06	Public Service of Colorado (CO)	8.70	10.50	55.49	12/04-A	22.5 (B)
2/23/06	Southwest Gas (AZ)	8.40	9.50	40.00 (Hy)	8/04-YE	49.3
3/1/06	Aquila (IA)	8.88	10.40 (E)	51.39	12/04-A	2.9 (I,B)
2006	1ST QUARTER: AVERAGES/TOTAL	8.62	10.63	51.18		138.7
	MEDIAN	8.61	10.75	52.53		---
	OBSERVATIONS	6	6	6		6

TELEPHONE UTILITY DECISIONS						
2005	FULL-YEAR: AVERAGES/TOTAL	8.72	10.50	54.00		63.7
	MEDIAN	8.72	10.50	54.00		---
	OBSERVATIONS	1	1	1		3
2006	1ST QUARTER: AVERAGES/TOTAL	---	---	---		---
	MEDIAN	---	---	---		---
	OBSERVATIONS	0	0	0		0

FOOTNOTES

- A- Average
 - B- Order followed stipulation or settlement by the parties. Decision particulars not necessarily precedent-setting or specifically adopted by the regulatory body.
 - Di- Rate change applicable to electric distribution rates only.
 - E- Estimated
 - G- Return on capital
 - Hy- Hypothetical capital structure utilized
 - I- Interim rates implemented prior to the issuance of final order, normally under bond and subject to refund.
 - YE- Year-end
 - Z- Rate change implemented in multiple steps.
 - * Capital structure includes cost-free items or tax credit balances at the overall rate of return.
- (1) The electric rate increase was not supported by a traditional cost-of-service analysis, but reflected recovery of certain specific costs.
- (2) Indicated rate increase to be phased-in over four years, with a 6.88% ROR authorized for 2006, 6.89% for 2007, 7.09% for 2008, and 7.48% for 2009.

Dennis Sperduto

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 12

Witness: Kent Blake / Robert M. Conroy / Steve Seelye

- Q-12. KRS 278.183(3) provides that during the 2-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.
- a. Provide the surcharge amount that KU believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.
 - b. The surcharge factor reflects a percentage of revenue approach, rather than a per kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into KU's base rates. Include any analysis that KU believes supports its position.
 - c. Provide the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") that reflects all environmental surcharge amounts previously incorporated into existing base rates and the amount determined in part (a). Include all supporting calculations, workpapers, and assumptions.
 - d. Does KU believe that there will need to be modifications to either the surcharge mechanism or the monthly surcharge reports, other than a revision to BESF, as a result of incorporating additional environmental surcharge amounts into KU's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.
- A-12. a. KU proposes a roll-in of \$23,731,313 of environmental surcharge revenues into base rates. Please see the attached schedule for the determination of the roll-in amount.

- b. The Commission previously approved KU's proposed roll-in methodology in Case No. 2003-00068¹ as part of the approval of the written unanimous settlement which spread the amount of the roll-in equally to every tariff subject to the environmental surcharge. In this proceeding, in response to the Commission's inquiry, KU is presenting the total revenue method and an alternative methodology for allocating the roll-in amounts to the various classes of service in a way that gives some recognition to the inter-class rate subsidies that currently exists in KU's base rates. While either method will effectively incorporate the correct amount of surcharge revenues and expenses into base rates, the appropriateness of either method is a policy question for this Commission.

The evidence presented by Mr. Seelye clearly shows there are classes with high rates of return that are providing larger contributions to the companies operating income than those classes with low rates of return. KU will be guided by the Commission's decision in this case on whether the change in base rates associated with the ECR roll-in should be accomplished in a way that gives some recognition to the inter-class rate subsidies in current base rates. If the Commission determines the roll-in should be calculated using the total revenue method, KU will submit the proposed changes in base rates and supporting schedules following the issuance of the Commission's order in this proceeding based upon the most recent 12-month information then available, to be effective for bills rendered on and after the second full billing month following the month in which an order is received.

- c. Attached is an illustrative calculation of the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") using the 12-month period ending February 2006. As discussed in response to No. 12(b) above, KU will recalculate this value following the Commission's order in this proceeding based upon the most recent 12-month period for which information is available.
- d. Please see the testimony of Mr. Robert Conroy for a discussion of the modifications to either the surcharge mechanism or the monthly surcharge reports, other than a revision to BESF, as a result of incorporating additional environmental surcharge amounts into KU's existing base rates.

¹ *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 Periods Ending January 31, 2001, July 31, 2001, January 31, 2002, and January 31, 2003 and for the Two-Year Billing Periods Ending July 31, 2000 and July 31, 2002*, Case No. 2003-00068, Order (October 17, 2003).

Calculation of Revenue Requirement for Roll-In:

Environmental Compliance Rate Base		Post-1994 Plan at Feb. 28, 2005
Pollution Control Plant in Service	ES Form 2.0, February 2005	228,043,545
Pollution Control CWIP Excluding AFUDC	ES Form 2.0, February 2005	<u>11,575,817</u>
	Subtotal	<u>239,619,362</u>
Additions:		
Emission Allowances, net of baseline	ES Form 2.0, February 2005	3,267,894
Cash Working Capital Allowance	ES Form 2.0, February 2005	<u>70,820</u>
	Subtotal	<u>3,338,714</u>
Deductions:		
Accumulated Depreciation on Pollution Control Plant	ES Form 2.0, February 2005	4,686,933
Pollution Control Deferred Income Taxes	ES Form 2.0, February 2005	24,671,753
Pollution Control Deferred Investment Tax Credit	ES Form 2.0, February 2005	<u>-</u>
	Subtotal	<u>29,358,686</u>
	Environmental Compliance Rate Base	<u>213,599,390</u>
Rate of Return -- Environmental Compliance Rate Base	ES Form 1.1, February 2005	11.19%
Return on Environmental Compliance Rate Base		<u>23,901,772</u>
Pollution Control Operating Expenses		
12 Month Depreciation and Amortization Expense	See Support Schedule A	4,660,801
12 Month Taxes Other than Income Taxes	See Support Schedule A	302,116
12 Month Operating and Maintenance Expense	See Support Schedule A	495,737
12 Month Emission Allowance Expense, net of amounts in base rates	See Support Schedule A	<u>3,966,679</u>
Total Pollution Control Operating Expenses		<u>9,425,333</u>
Gross Proceeds from By-Product & Allowance Sales	See Support Schedule B	
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount		
Return on Environmental Compliance Rate Base		23,901,772
Pollution Control Operating Expenses		9,425,333
Less Gross Proceeds from By-Product & Allowance Sales		<u>-</u>
Roll In Amount		<u>33,327,105</u>
Jurisdictional Allocation Ratio -- Roll In	See Support Schedule C	<u>77.5263%</u>
Jurisdictional Revenues for 12 Months for Roll In	See Support Schedule C	<u>-</u>
Roll In Jurisdictional Environmental Surcharge Factor:		
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount		33,327,105
Jurisdictional Allocation Ratio -- Roll In		<u>77.5263%</u>
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Gross Roll In Amount		25,837,275
Less Jurisdictional Environmental Revenue Previously Rolled In (Case No. 2003-434)		2,105,962
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Net Roll In Amount		23,731,313
Base Revenues, 12 Months ending February 2006		\$ 803,794,907
BESF (total roll-in divided by base revenue)		3.2144%

Support Schedule A

12 Month Balances for Selected Operating Expense Accounts

	Depreciation & Amortization Steam Plant	Taxes Other	Operating and Maintenance		Emission
		than Income	Expense		Allowance
		Taxes	FERC 506	FERC 512	Expense
Mar-04	115,420	24,371	59,175	-	370,264
Apr-04	229,138	24,347	6,548	806	254,919
May-04	350,301	24,275	6,660	1,599	403,762
Jun-04	426,532	24,275	127,078	3,420	406,316
Jul-04	426,532	24,275	142,648	3,544	424,744
Aug-04	426,532	24,275	40,284	19,021	383,291
Sep-04	426,532	24,275	-	3,369	402,667
Oct-04	426,532	24,275	-	15,726	379,058
Nov-04	426,532	24,275	-	26,287	224,493
Dec-04	471,364	24,275	-	23,318	402,521
Jan-05	467,034	29,599	-	8,063	222,916
Feb-05	468,350	29,599	-	8,191	150,074
less Base Rate amount					(58,346)
Totals	4,660,801	302,116	382,393	113,344	3,966,679

Support Schedule B

12 Month Balances for Allowance Sales and By-Product Sales

	Total Proceeds	Proceeds from	Total All Sale Proceeds
	from Allowance Sales	By-Product Sales	
	ES Form 2.0	ES Form 2.0	
Mar-04	-	-	-
Apr-04	-	-	-
May-04	-	-	-
Jun-04	-	-	-
Jul-04	-	-	-
Aug-04	-	-	-
Sep-04	-	-	-
Oct-04	-	-	-
Nov-04	-	-	-
Dec-04	-	-	-
Jan-05	-	-	-
Feb-05	-	-	-
Totals	-	-	-

Support Schedule C

12 Month Balances for Jurisdictional Revenues and Allocation Ratio

	KY Retail	Total Company	KY Retail Allocation Ratio	Base Energy, Customer and Demand Revenue
	Revenues, Excl. Envir. Surch. Revenues	Revenues, Excluding Envir. Surch. Revenues		
	ES Form 3.0	ES Form 3.0		
Mar-04	\$ 55,906,653	\$ 72,465,683	77.1491%	Mar-05 \$ 54,942,279
Apr-04	55,915,704	67,823,859	82.4425%	Apr-05 62,455,383
May-04	52,960,786	71,169,612	74.4149%	May-05 76,910,974
Jun-04	60,227,361	75,504,883	79.7662%	Jun-05 75,476,049
Jul-04	64,790,352	81,242,309	79.7495%	Jul-05 75,708,051
Aug-04	65,758,559	79,744,497	82.4616%	Aug-05 65,534,842
Sep-04	65,171,529	84,079,412	77.5119%	Sep-05 60,724,293
Oct-04	59,127,901	81,620,493	72.4425%	Oct-05 73,987,839
Nov-04	57,912,633	71,638,906	80.8396%	Nov-05 67,295,875
Dec-04	68,361,026	88,836,819	76.9512%	Dec-05 65,931,601
Jan-05	74,279,117	100,580,408	73.8505%	Jan-06 65,015,690
Feb-05	71,116,061	94,677,166	75.1143%	Feb-06 59,812,030
				Total \$ 803,794,907
Totals	\$ 751,527,681	\$ 969,384,046	77.5263%	

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 13

Witness: Robert M. Conroy

Q-13. In order to reflect the impact of the Partial Settlement Agreement, Stipulation and Recommendation approved in the June 30, 2004 Order in Case No. 2003-00434, KU modified the Post-1994 Plan environmental compliance rate base to recognize a SO₂ emission allowance inventory "baseline" when determining the SO₂ emission allowance inventory balance included in the rate base. This incremental approach allowed for the recognition of a portion of the SO₂ emission allowance inventory balance being incorporated into existing base rates. Would KU agree, that in conjunction with any "roll-in" of the surcharge approved in this case, that this emission allowance inventory "baseline" calculation should be discontinued and the balance of SO₂ emission allowance inventory recovered as part of existing base rates should be reflected in the BESF calculation? Explain the response.

A-13. No. KU does not agree that the baseline elimination should be discontinued subsequent to the effective date of the roll-in. To do so would result in double recovery of the return on the "baseline" allowance inventory amount.

KU's current base rates, were established by the Commission in its Order dated June 30, 2004 in Case No. 2003-00434 based upon its analysis of KU's revenue requirement found justifiable by the record and an electric revenue requirement recommended pursuant to a partial settlement and stipulation. As part of the partial settlement and stipulation and as approved by the Commission's Order, KU's 1994 environmental compliance plan was removed from recovery through the environmental surcharge filings and recovered through base rates. KU's rate base at September 30, 2003 included \$69,415 in emission allowances inventory. Therefore, KU's current base rates include a return on the jurisdictional portion of those allowances.

Upon the effective date of the roll-in, KU will continue to calculate a return on total environmental compliance rate base in its monthly filing forms. The resulting revenue requirement will be reduced by the portion of ECR-related revenue collected through base rates as a result of the roll-in. However, if KU does not continue to reduce its environmental rate base by the emission allowance inventory included in base rates, then KU will be including a calculated return on

those allowances in its monthly environmental revenue requirement, and the monthly reduction resulting from the roll-in will not include an amount associated with that return.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 14

Witness: Shannon Charnas / Robert M. Conroy

Billing Period from August 1, 2004 through January 31, 2005

No questions specifically related to this billing period.

Billing Period from February 1, 2005 through July 31, 2005

Q-14. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, and ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the December 2004, February 2005, and March 2005 expense months.

- a. For the December 2004 expense month, KU reported \$550,307 in nitrogen oxide (“NOx”) O&M expenses. Explain why the NOx O&M expenses reported in December 2004 were significantly higher than the amounts reported in any of the subsequent months in the billing period.
- b. Reconcile the \$550,307 shown as “2nd Previous Month” on ES Form 2.40 for the February 2005 expense month with the amounts shown as “11th Previous Month” through “3rd Previous Month” on ES Form 2.40 for the March 2005 expense month. Include an explanation of how the lump sum amount was assigned or allocated to the various months.
- c. For the December 2004 expense month, KU showed that approximately \$205 million in construction work in progress related to its Selective Catalytic Reduction (“SCR”) equipment was reclassified as eligible plant in service. Given this information, and the Commission’s instructions in Case No. 2000-00439 concerning NOx O&M expenses, explain how KU could claim any NOx O&M expenses for the 4th through the 11th previous month, as shown on ES Form 2.40 for the March 2005 expense month.

A-14. a. KU’s filing for the December 2004 expense month made with the Commission on January 21, 2005 showed \$550,307 on ES Form 2.40 as the current month expenses; however, it represented the full year’s expenses. As indicated in the correspondence for the filing made on January 21, 2005, KU

was still finalizing the supporting documentation for the December expense month. That supporting documentation was subsequently filed on January 26, 2005 and included the detailed breakdown of the monthly expenses for 2004 (See Exhibit 1, Page 4 of 60 contained in the filing made on January 26, 2006 reproduced and attached to this response).

- b. Amounts for the 11th previous month through 3rd previous month reported in March 2005 represent the actual amounts for the month as discussed in part a above. There was no lump sum allocation – these were the actual expenses for those months. The January and February 2005 expense month filings inadvertently used the data from the original December 2004 expense month filing made on January 21, 2005 instead of the actual monthly expenses. However, the recalculation of Retail E(m) provided in response to Question No. 3 corrects any errors in revenue requirement caused by the January and February 2005 filings.
- c. The reclassification of CWIP to plant in service that KU reported in December 2004 actually occurred over a period beginning with December 2003 and continuing through December 2004. As assets were placed in-service beginning in 2003, KU began incurring O&M expenses. The O&M amounts reported in the 4th through 11th previous months in the March 2005 expense month filing are the O&M expenses actually incurred in those months. KU did not recover any O&M expenses prior to the installation of the equipment.

ES FORM 2.40

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
O&M Expenses and Determination of Cash Working Capital Allowance

For the Month Ended December 31, 2004

1994 Plan		2001 Plan	
Incremental O&M Expenses	Amount	NOx O&M Expenses	Amount
11th Previous Month	-	11th Previous Month	\$34,504
10th Previous Month	-	10th Previous Month	\$36,319
9th Previous Month	-	9th Previous Month	\$59,175
8th Previous Month	-	8th Previous Month	\$7,354
7th Previous Month	-	7th Previous Month	\$8,259
6th Previous Month	-	6th Previous Month	\$130,498
5th Previous Month	-	5th Previous Month	\$146,192
4th Previous Month	-	4th Previous Month	\$59,305
3rd Previous Month	-	3rd Previous Month	\$3,369
2nd Previous Month	-	2nd Previous Month	\$15,726
Previous Month	-	Previous Month	\$26,287
Current Month	-	Current Month	\$23,318
Total 12 Month O&M	\$ -	Total 12 Month O&M	\$550,306
Less Baseline (12 Months End 05/31/94)			
12 Months Incremental O&M	-		
Monthly Incremental O&M	\$ -		

Determination of Working Capital Allowance			
12 Months Incremental O&M Expenses	\$0	Total 12 Months O&M Expenses	\$550,306
One Eighth (1/8) of 12 Month Incremental O&M Expenses	\$0	One Eighth (1/8) of 12 Month Incremental O&M Expenses	\$68,788
Pollution Control Cash Working Capital Allowance - 1994 Plan	\$0	Pollution Control Cash Working Capital Allowance - 2001 Plan	\$68,788

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 15

Witness: Shannon Charnas

Billing Period from August 1, 2005 through January 31, 2006

- Q-15. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the October and November 2005 expense months. Explain why the O&M expenses reported in these months are lower than the four previous expense months.
- A-15. Expenses recorded in the NOx operation accounts 506104 and 506105 were lower during October and November 2005 than they were during June through September 2005 due primarily to increased ammonia purchases during June through September which were necessary to operate the SCR equipment at Ghent. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September) beginning in 2004.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 16

Witness: John P. Malloy

- Q-16. Refer to ES Form 2.11, Plant, CWIP & Depreciation Expense – Post-1994 Plan, for the November 2005 expense month. For each project shown on this schedule that is not considered completed, provide a description of the status of the project as of the end of the November 2005 expense month.
- A-16. Per the Commission's Order dated May 22, 2006, this information is being provided as of the end of the February 2006 expense month.

Project 16: KU NO_x Modifications

The project is considered completed

Project 17: KU NO_x SCR

CWIP balance at February 28, 2006: \$139,968

KU is installing an additional catalyst layer at Ghent 1. Additional layers for Ghent 3 and 4 will be installed in the future.

Project 18: Ghent Ash Pond Dike Elevation

The project is considered completed

Project 19: Ash Handling at Ghent 1 and Ghent Station

CWIP balance at February 28, 2006: \$2,433

Construction on this project began in January 2006. KU expects to follow the schedule for the project as discussed in Case No. 2004-00426 with completion by 2010.

Project 20: Ash Treatment Basin Expansion at E.W. Brown Station

CWIP balance at February 28, 2006: \$2,079,345

The expansion of the Ash Treatment Basin at E. W. Brown is in the engineering and design phase. Completion of Phase 1 is expected by 2010.

Project 21: FGD's at all at E.W. Brown Units and at Ghent 2, 3 and 4

CWIP balance at February 28, 2006: \$31,024,821

Construction on the Ghent 3 FGD is progressing with completion expected in 2007. Engineering and design is being completed on the Ghent 4 FGD with construction to begin over the next several months. Completion of the Ghent 4 FGD is expected to be by June 2007. Engineering and design is underway for the Ghent 2 and E. W. Brown FGDs with completion of construction expected to occur in 2008 and 2009, respectively.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 17

Witness: Shannon Charnas

- Q-17. 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 6-month review case. Provide the following information as of November 30, 2005:
- 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.
 - c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-17. Per the Commission's Order dated May 22, 2006, the requested information is being provided as of February 28, 2006.
- a. Please see the attachment.
 - b. Please see the attachment.
 - c. Please see the attachment.

Kentucky Utilities Company
Outstanding Balances - Capitalization
As of February 28, 2006

1	2	3
	Outstanding Balance Total Company	Outstanding Balance KY Jurisdictional 88.00%
1 Long-Term Debt	\$708,563,900	\$623,500,804
2 Short-Term Debt	\$109,178,000	\$96,071,181
3 Common Equity	\$1,068,366,097	\$940,108,747

Kentucky Utilities Company
Blended Interest Rates
As of February 28, 2006

	1
	<u>Blended Interest Rate Total Company</u>
1 Long-Term Debt	4.42%
2 Short-Term Debt	4.51%

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
February 28, 2006

LONG-TERM DEBT									
	Due	Rate	Principal	Annualized Cost					Embedded Cost
				Interest(Income)	Amortized Debt Issuance Expense	Premium	Amortized Loss-Required Debt	Total	
First Mortgage Bonds:									
Series P	05/15/07	7.920%	53,000,000	4,197,600	43,584	-	221,676	4,462,860	8,420
Pollution Control Bonds - SECURED:									
Series 10	11/01/24	3.185% *	54,000,000	1,719,684	20,568	-	-	1,740,252	3,220
Series 11 - Series A	05/01/23	3.070% *	12,900,000	396,030	17,292	-	16,788	430,110	3,330
Series 12	02/01/32	3.200% *	20,930,000	669,760	4,104	-	36,300	710,164	3,390
Series 13	02/01/32	3.200% *	2,400,000	76,800	2,856	-	4,164	83,820	3,480
Series 14	02/01/32	3.200% *	2,400,000	76,800	1,140	-	15,660	93,600	3,900
Series 15	02/01/32	3.200% *	7,400,000	236,800	3,180	-	12,744	252,724	3,420
Series 16	10/01/32	3.113% *	96,000,000	2,988,480	72,708	-	186,036	3,247,224	3,380
Series 17	10/01/34	3.130% *	50,000,000	1,565,000	40,068	-	53,940	1,659,008	3,320
Series 18	06/01/35	3.118% *	13,266,950	413,664	15,288	-	-	428,952	3,230
Series 19	06/01/35	3.107% *	13,266,950	412,204	15,300	-	-	427,504	3,220
Called Bonds			-	-	-	-	203,772	203,772	-
Interest Rate Swaps:									
JP Morgan Chase Bank-Series P	05/15/07	1		(906,449)				(906,449)	
Notes Payable to Fidelia Corp	04/30/13	4.55%	100,000,000	4,550,000	-	-	-	4,550,000	4,550
Notes Payable to Fidelia Corp.	08/15/13	5.31%	75,000,000	3,982,500	-	-	-	3,982,500	5,310
Notes Payable to Fidelia Corp	11/24/10	4.24%	33,000,000	1,399,200	-	-	-	1,399,200	4,240
Notes Payable to Fidelia Corp	01/16/12	4.39%	50,000,000	2,195,000	-	-	-	2,195,000	4,390
Notes Payable to Fidelia Corp	07/08/15	4.74%	50,000,000	2,367,500	-	-	-	2,367,500	4,735
Notes Payable to Fidelia Corp	12/21/15	5.36%	75,000,000	4,020,000	-	-	-	4,020,000	5,360
Total			708,563,900	30,360,573	236,088	-	751,080	31,347,741	4.424%

SHORT TERM DEBT								
	Rate	Principal	Annualized Cost				Embedded Cost	
			Interest	Expense	Premium	Loss		
Notes Payable to Associated Company	4.510% *	109,178,000	4,923,928	-	-	-	4,923,928	4,510
Total		109,178,000	4,923,928	-	-	-	4,923,928	4.510%

* Composite rate at end of current month

1 Additional interest due to Swap Agreements:

Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Variable KU Swap Position	Fixed Counterparty Swap Position
Series P - FMB	53,000,000	May 15, 2007	To Pay: IOR +207 bps	7.920%

2 Series M, P and R bonds were redeemed in 1993, 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 6/1/2006, 5/15/27 and 6/1/25 respectively) of the bonds as loss on required debt.

Kentucky Utilities Company
 Outstanding Balances - Adjusted Jurisdictional Capitalization
 As of February 28, 2006

1	2	3	4	5
	Electric Only	Capital Structure	Cost Rate	Weighted Average Cost of Capital
1 Long-Term Debt	528,855,431	37.957%	4.42%	1.68%
2 Short-Term Debt	81,486,773	5.849%	4.51%	0.26%
3 Common Equity	782,949,614	56.194%	10.50%	5.90%
4 Total	1,393,291,818			7.84%
		Rate of Return Grossed Up:		11.52%

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 18

Witness: Robert M. Conroy (a) / Keith Yocum (a,b)

Q-18. Provide the following information concerning KU's SO₂ emission allowance inventory:

- a. The number of emission allowances in the ending inventory balance as of December 31, 2005. The ending balance should reflect all available past vintage years of emission allowances through the 2005 vintage year. Also show the portion of the ending balance represented by allowances received from Owensboro Municipal Utilities ("OMU").
- b. For each year in the period 2006 through 2016:
 - (1) Indicate the number of emission allowances allocated or expected to be allocated by the Environmental Protection Agency for KU's generating units.
 - (2) Indicate the number of emission allowances estimated to be received from OMU.
 - (3) Indicate the number of emission allowances KU estimates it will utilize in conjunction with the operation of its generating units. Reflect the changes resulting from the adoption of the Clean Air Interstate Rule.
 - (4) If available, indicate any other estimated additions or withdrawals of emission allowances from KU's emission allowance inventory. Include a description of the type of addition or withdrawal.

A-18. a. The number of emission allowances in the KU ending inventory balance as of December 31, 2005 is 73,146. However, once allowances are moved to inventory, they are not separately tracked. Thus, KU cannot specifically identify the portion of the inventory balance that relates to the allowances received from OMU. The number of excess and backup allowances received from OMU, through 2005 totals 68,523.

b. See lines in the table below for the response to each part.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
(1) EPA Allocation to KU	83,343	83,343	83,343	83,343	36,746	36,746	36,746	36,746	36,746	25,759	25,759
(2) Estimated Allowances Received from OMU	500	500	500	500	0	0	0	0	0	0	0
(3) Estimated KU Allowance Usage	141,815	130,517	113,529	53,020	33,122	30,659	30,394	30,429	30,249	28,485	27,601
(4) Estimated Addition (from LG&E)	34,826	26,674	4,686	0	0	0	0	0	0	0	0
(4) Estimated Withdrawal (to LG&E)	0	0	0	0	0	0	0	0	11,145	23,952	20,039

- (4) It is anticipated that LG&E will need to transfer allowances to KU in 2006-2008, which will allow KU to meet emission compliance. Projections indicate that KU will need to transfer allowances to LG&E in 2014-2016 to assist LG&E in meeting compliance.

Notes: Item (1) above was adjusted to reflect the impact of CAIR surrender ratios and item (3) reflects the actual tons emitted by the units.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 19

Witness: Keith Yocum

Q-19. Through the end of 2016, does KU plan on achieving SO2 emission limit compliance for its generating units only through the operation of its currently in service emission control equipment, emission control equipment certificated and included in its environmental compliance plans, and the consumption of emission allowances? If no, describe KU's current plans for SO2 emission limit compliance at its generating units through the end of 2016.

A-19. Yes. KU is projected to fall below its minimum bank in the years of 2006-2008. However, with the additional surplus from LG&E, the Combined Companies' minimum allowance bank is projected to comply with its combined emission limit during those years. KU may therefore receive transferred allowances from the surplus of LG&E when needed during 2006-2008 to meet compliance levels through 2016.

Projections for Kentucky Utilities Company

	Beginning Bank	EPA Allocation	OMU Excess	Projected Emissions	Projected Ending Bank	Desired Bank Level	Purchases			Total Required Purchases
							Transfer To LG&E	Transfer from LG&E	Market	
2006	73,146	83,343	500	141,815	15,174	50,000	0	34,826	0	34,826
2007	50,000	83,343	500	130,517	3,326	30,000	0	26,674	0	26,674
2008	30,000	83,343	500	113,529	314	5,000	0	4,686	0	4,686
2009	5,000	83,343	500	53,020	35,823	5,000	0	0	0	0
2010	35,823	36,746	0	33,122	39,448	5,000	0	0	0	0
2011	39,448	36,746	0	30,659	45,536	5,000	0	0	0	0
2012	45,536	36,746	0	30,394	51,889	5,000	0	0	0	0
2013	51,889	36,746	0	30,429	58,206	5,000	0	0	0	0
2014	58,206	36,746	0	30,249	64,704	5,000	11,145	0	0	0
2015	53,558	25,759	0	28,485	50,833	5,000	23,952	0	0	0
2016	26,881	25,759	0	27,601	25,039	5,000	20,039	0	0	0

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated April 25, 2006**

Case No. 2006-00129

Question No. 20

Witness: Shannon Charnas / Robert M. Conroy

Q-20. While reviewing the monthly surcharge filings corresponding to the billing periods included in the 6-month and 2-year reviews, it has been observed that KU has had to file at least one revision or correction to previously filed monthly surcharge reports within each 6-month block of time. These revisions or corrections dealt with errors or inadvertent omissions KU discovered after the filing of the applicable monthly surcharge report.

- a. Describe the processes employed by KU to collect and assemble the information submitted in the monthly surcharge filings.
- b. Describe the internal controls employed by KU to ensure that the data provided in the processes described in part (a) are accurate and current.

A-20. a. In late 2004, with the number of projects added to the Companies' Compliance Plan, the complexity of the mechanism and the details contained in each amended ECR Plan increasing, the Companies began an initiative to fully document the process for developing the Environmental Cost Recovery filings and assure the accuracy of the information in and calculation of the monthly rate filings. Through this process over the last several years, the ECR Process Document has been developed to identify areas within the Companies that have an input into the development of the data for the monthly filings. This document is viewed as a written description of the ECR process which is revised and updated for improvements over time. It includes the following:

- historical summaries,
- listings of approved ECR projects,
- identification and explanation of the various forms used in the filing, and
- documentation of the data sources used to prepare the filings,

It also serves as a general education tool for personnel to better understand the ECR process.

As improvements are identified or as new projects and forms are approved, this document is updated to incorporate the changes.

Through this process improvement initiative, a number of issues surfaced resulting in the various revisions being required to the monthly filings, including areas for process improvements. Four general areas have been identified:

- Inability to specifically denote a project as “ECR” within the fixed assets system and automatically report on those projects
- Data entry errors
- Spreadsheet formula changes
- Catch-up depreciation for in-service date of project

The Companies have incorporated processes into the ECR Process Document to resolve the issues associated with the areas identified above. For instance, the Companies now maintain a controlled listing of approved projects with the level of detail necessary to track expenditures for inclusion in the monthly ECR filings (see Appendix III in the attached ECR Process Document). This listing is something that cannot be tracked and reported from within the accounting system, so a manual process with several controls was created to track these expenditures. In addition, the Companies have made, and will continue to seek out, improvements in communication methods and the transfer of data between departments in order to minimize the potential for data entry errors. The various departments responsible for providing data used in the monthly filing have multi-level reviews and controls placed on the spreadsheets used in the process.

The Companies’ policy regarding catch-up depreciation is another area that resulted in revisions to ECR filings during the review periods. It is the Company’s policy to unitize assets no sooner than 90 days following the actual date the equipment was placed in service to allow for all the charges to be accumulated and also allow time to gather the appropriate amount of detail to be recorded. This process results in catch-up depreciation, as the accounting system calculates depreciation expense as of the actual in-service date, not the unitization date. The purpose of the 90-day period is to allow for the complete charges to be booked prior to unitizing the asset.

In order to reduce the need for catch-up depreciation on ECR projects and revisions to the ECR filings, the Companies are implementing a change in policy to record an accrual for the estimated remaining cost of the asset in the month in which the asset goes into service. This process will allow the approximate full amount of the costs to be booked and depreciation to be timely recorded and included in the ECR filing, with only minimal adjustments as actual costs are received. The Companies believe this process

will eliminate the need for revisions to the filings, as any minor adjustments needed could be included in the next month's ECR filing.

The development of the ECR Process Document has allowed for improved communication across departments, improved understanding of the monthly filings, and will assist in reducing the necessity to revise past monthly filings.

The current version of the Environmental Cost Recovery Process Document is attached to this response. Updates of this process document will be provided to the Commission upon request in connection with the six-month or two-year reviews.

Accurate monthly ECR filings are of the utmost importance to the Company. The Company will continue to make timely corrections, as necessary, to its monthly ECR filings while pursuing further improvements in its processes for preparing the monthly filings.

- b. See response to part a.

**Attachment to KU
Question No. 20 (a)**

**Environmental Cost Recovery Surcharge
Monthly Filings**

Process Document

Louisville Gas and Electric Company

And

Kentucky Utilities Company

June 2006

Environmental Cost Recovery Surcharge Process Document

Table of Contents

I. Introduction

II. Background

III. Explanation of Forms

IV. Data Input and Data Sources

V. Appendices

- a. Appendix I – ECR Statute**
- b. Appendix II – Amended Plan Composite Exhibits**
- c. Appendix III – Detailed Approved Project Listing**
- d. Appendix IV – LG&E Monthly Filing Forms**
- e. Appendix V – KU Monthly Filing Forms**
- f. Appendix VI – Timeline of Data Input Requirement**

VI. Attachment 1

I. Introduction

This document is designed to assist in the understanding of the Environmental Cost Recovery (“ECR”) mechanism and the process for preparing the monthly filing for cost recovery. There are numerous departments throughout E.ON U.S. that support the development of the monthly ECR filing made by the State Regulation and Rates Department. These departments include:

- Energy Services Forecasting and Budgeting
- Environmental Affairs
- Property Accounting
- Regulatory Accounting and Reporting
- Revenue Accounting
- Utility Tax

Louisville Gas and Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”) are allowed, pursuant to Kentucky Revised Statute (KRS) 278.183, to recover the “costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal” for approved projects as part of the Company’s compliance plan. The Companies must first file with the Kentucky Public Service Commission (“KPSC”) an application seeking approval of projects associated with the compliance plan. Once the KPSC approves a project, the costs associated with the project are included in the monthly ECR filing and are subject to KPSC oversight through the 6-month and 2-year review proceedings.

II. Background

KRS 278.183 (See Appendix I) allows utilities to recover the “costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal” for approved projects as part of the Company’s compliance plan. The utilities are entitled to earn a reasonable return on construction costs, capital expenditures, and operating expenses associated with compliance with the Federal Clean Air Act as amended (“CAAA”). Operating expenses include operation & maintenance costs, income taxes, property taxes, other applicable taxes, and depreciation expenses for the environmental facilities.

KRS 278.183 was effective July 14, 1992 and allowed any utility to file for cost recovery beginning January 1, 1993. It allows recovery of cost for compliance with the CAAA for expenses not already included in existing rates through an Environmental Cost Recovery surcharge which is reflected on customer bills in the second month following the month in which the costs are incurred. The recovery is limited to projects that are included in the Company’s Compliance Plan(s) and have been approved by the Kentucky Public Service Commission (KPSC). The filing requirements for a new ECR plan consist of a 30 day notice of intent, application, testimony, and a tariff containing the terms and conditions of the proposed surcharge. Within six months of submittal, the KPSC is required by statute to schedule a hearing, consider the plan, establish a reasonable return on compliance-related capital expenditures, and issue an order approving or denying the application of the surcharge. A list of approved ECR projects is attached as Appendix II with a detailed listing of those Capital and O&M projects approved by the KPSC shown in Appendix III.

During October 1994, Louisville Gas & Electric Company submitted an application (Case No. 94-332) with the KPSC for authority to assess an ECR surcharge pursuant to KRS 278.183. The KPSC on April 6, 1995 issued an order in Case No. 94-332 approving full cost recovery of qualified environmental projects. The approved methodology involves calculation of a monthly surcharge factor which is applied to customer bills. The mechanism is filed monthly and reviewed on a 6-month and 2-year basis by the KPSC. Kentucky Utilities Company filed a similar application (Case No. 93-465) and received a final KPSC Order on July 19, 1994.

History to Present of LG&E’s Environmental Compliance Plan

LG&E’s original plan and environmental surcharge were approved by the KPSC in 1995 (“1995 Plan”) in Case No. 1994-00332. The plan included capital projects for sulfur dioxide (SO₂) removal systems, low nitrogen oxide (NO_x) burners, and fly ash.

On October 20, 2000, LG&E filed an amended plan (“2001 Plan”) in Case No. 2000-00386 to include one additional project necessary for the Company to comply with NO_x and other emission limits mandated by the Environmental Protection Agency (“EPA”) and the CAAA. On April 18, 2001 the KPSC issued an order approving the 2001 Plan.

As part of the KPSC's 6-month and 2-year reviews (Case No. 2002-00193), LG&E began using the base-current methodology to calculate the monthly ECR factor in which a portion of the approved environmental projects are "rolled-in" to base rates. LG&E's jurisdictional environmental surcharge revenue requirement through April 30, 2001 was incorporated in the base period surcharge factor ("BESF"). This amount is then deducted from current period surcharge factor ("CESF") to determine the amount of the ECR to be collected in the current billing month.

On August 12, 2002, LG&E filed an amended plan ("2003 Plan") in Case No. 2002-00147 to include five additional projects required for environmental compliance pursuant to the requirements in KRS 278.183. On February 11, 2003, the KPSC approved four of the five projects for inclusion in the Company's ECR surcharge. The project not approved was denied without prejudice such that LG&E could refile at a later date when costs are known with greater certainty.

As part of the LG&E Rate Case (Case No. 2003-00433), the capital & operating expenses for the 1995 Plan which included 5 projects and were previously approved in Case No. 1994-00332, were included in the determination of base rates and removed from the monthly ECR filing.

On December 20, 2004, LG&E filed an amended plan ("2005 Plan") in Case No. 2004-00421 to include seven additional projects necessary for environmental compliance. This filing included the project previously denied by the KPSC in Case No. 2002-00147. On June 20, 2005 the KPSC issued an Order approving the inclusion of the 2005 Plan in the Company's ECR Surcharge.

History to Present of KU's Environmental Compliance Plan

KU's original compliance plan and environmental surcharge were approved by the KPSC in 1994 ("1994 Plan") in Case No. 1993-00465. There were 15 capital projects associated with the 1994 Plan. The capital projects included a scrubber at Ghent Unit 1, ash pond & precipitator enhancements, and other pollution control equipment.

On October 20, 2000, KU filed an amended plan ("2001 Plan") in Case No. 2000-00439 to include two new pollution control projects necessary for the Company to comply with NOx and other emission limits mandated by the EPA and the CAAA. On April 18, 2001 the KPSC issued an order approving the 2001 Plan.

On August 12, 2002, KU filed an amended plan ("2003 Plan") in Case No. 2002-00146 to include one additional capital project as required for environmental compliance. The project included was a modification to the ash pond dike at the Ghent generating system. On February 11, 2003, the KPSC approved four of the five projects for inclusion in the Company's ECR surcharge.

As part of the KPSC's 6-month and 2-year reviews (Case No. 2003-00068), KU began using the base-current methodology to calculate the monthly ECR factor in which a portion of the approved environmental projects are "rolled-in" to base rates. KU's jurisdictional environmental surcharge revenue requirement through May 31, 2002 was incorporated in the base period surcharge factor ("BESF"). This amount was then deducted from current period surcharge factor ("CESF") to determine the amount of the ECR to be collected in the current billing month.

As part of the KU Rate Case (Case No. 2003-00434), the capital and operating expenses for the 1994 Plan which included 15 projects and were previously approved in Case No. 1993-00465, were included in the determination of base rates and removed from the monthly ECR filing.

On December 20, 2004, under Case No. 2004-00426, KU filed an environmental Compliance Plan consisting of four projects which included ash handling equipment, ash treatment basin, and construction of a FGD at the Ghent generating station.

On December 20, 2004, KU filed an amended plan ("2005 Plan") in Case No. 2004-00426 to include four additional projects necessary for environmental compliance. On June 20, 2005 the KPSC issued an Order approving the inclusion of the 2005 Plan in the Company's ECR Surcharge.

Process of Identifying Projects to be included for recovery in Monthly Reporting

Upon issuance of a KPSC Order approving the Companies' new ECR Plan filing, the detailed listing of projects shown in Appendix III is updated by the State Regulation and Rates Department to include the detailed projects from the new ECR Plan filing. This detailed listing is then provided to Energy Services' Forecasting and Budgeting Department to identify the AIP project number for each of the approved projects and to track the initiation of the project. Finally, this listing of projects is provided to Property Accounting to identify the monthly expenditures to include in the Monthly Reporting filing made with the KPSC. No AIP projects are added or deleted without the consent of the State Regulation and Rates Department.

Monthly Reporting

The KPSC, in its Order approving the plan, prescribes the required forms to be used in the monthly filing for ECR surcharge. The forms currently used are identified below and a set of the current forms is contained in Appendix IV (LG&E) and V (KU)

ES Form 1.0

Calculation of Monthly Billed Environmental Surcharge Factor (MESF) to be applied to customer bills beginning with the identified billing cycle

ES Form 1.1 (LG&E) and ES Form 1.00 (KU)
Calculation of Total E(m) and Jurisdictional Environmental Surcharge Billing Factor (CESF)

ES Form 2.00
Determination of the component Revenue Requirements of Environmental Compliance Costs including environmental compliance rate base, pollution control operations expense, proceeds from by-product and allowance sales and true-up adjustments for over/under recover of monthly surcharge due to timing differences

ES Form 2.11 and ES Form 2.12 (LG&E only)
Plant in-service, accumulated depreciation, CWIP, Depreciation Expense, deferred taxes and property tax expense for each Compliance Plan project and for any retirements or replacements resulting from the implementation of any projects

ES Form 2.30
Inventory of Emission Allowances

ES Form 2.31
Inventory of Emission Allowances – Current Vintage Year, including a separation between steam units and other power generation

ES Form 2.40
O&M Expenses and Determination of Cash Working Capital Allowance

ES Form 2.50
Pollution Control – Operations & Maintenance Expenses

ES Form 3.00
Monthly Average Revenue Computation of R(m) including the determination of jurisdictional allocation percentage

ES Form 3.10
Reconciliation of Reported Revenues

Six-Month and Two-Year Review Reporting

As required by KRS 278.183 the KPSC is required to perform 6-month and 2-year reviews of the operation of the Companies' ECR surcharge. Such reviews will include:

1. Recap of Billing Factors and Revenue collected through base rates
2. Recap of Environmental Compliance Rate Base
3. Recap of Operating Expenses

III. Explanation of Forms

An example of each form for LG&E and KU listed below can be found in Appendices IV and V, respectively.

ES Form 1.0

This form is linked to other worksheets and calculates the Monthly Environmental Surcharge Factor (“MESF”). The MESF is calculated by taking the difference between the Current Period Jurisdictional Environmental Surcharge Factor (“CESF”) and the Base Period Jurisdictional Environmental Surcharge (“BESF”). The MESF represents the monthly percentage which is applied to customer bills as a charge or credit. The CESF is a compilation of the current monthly eligible environmental equipment (not in base rates) as a percentage of the 12 month average monthly retail revenue. The BESF represents KPSC approved environmental projects incorporated into base rates and is fixed based on the two year ECR review.

ES Form 1.1 (LG&E) and ES Form 1.00 (KU)

The purpose of these forms is to calculate the Environmental Surcharge Billing Factor or the CESF. This form is formulaic and pulls data from various worksheets within the file to calculate the CESF. The CESF is one component used in ES Form 1.0 to calculate the MESF. There are two steps involved in calculating the CESF.

The first step is to calculate the total revenue requirement which involves determination of environmental rate base and operating expenses for each KPSC approved ECR project. The Total Environmental Compliance Rate Base is calculated on ES Form 2.00 and is divided by 12 to obtain the monthly rate base. This amount is multiplied by the KPSC approved rate of return for each approved ECR plan. The KPSC allows a return on Environmental Compliance Rate Base which includes Net Plant, CWIP, Emission Inventory Allowances, Cash Working Capital, Accumulated Depreciation, Deferred Income Taxes, and Deferred Investment Tax Credits. Next, the Pollution Control Operating Expenses and the Gross Proceeds From By-Products and Allowance Sales from ES Form 2.00 are added to derive at the Non-Jurisdictional Revenue Requirement. The formula for calculating the total revenue requirement is as follows:

Calculation of E(m)

$$E(m) = [(RB/12) (ROR-DR)(TR/(1-TR))] + OE, \text{ where}$$

$$E(m) = \text{Total Revenue Requirement}$$

- RB = Environmental Compliance Rate Base
- ROR = Rate of Return on the Environmental Compliance Rate Base
- DR = Debt Rate (both short-term and long-term debt)
- TR = Composite Federal & State Income Tax Rate
- OE = Pollution Control Operating expenses

Second, the CESF calculation is performed by multiplying the Non-Jurisdictional Revenue Requirement by the Retail Allocation Ratio for the Current Expense Month from ES Form 3.00 and adding in the monthly true-up adjustment and any other monthly adjustments. This amount is divided by the Average Monthly Retail Revenues excluding Environmental Surcharge Revenues for the 12 months ending current expense month from ES Form 3.00 to derive at the CESF. The formula for calculating the CESF is as follows:

Calculation of Jurisdictional Environmental Surcharge Billing Factor

$$\text{CESF} = [(E(m)*RAR)+ADJ]/\text{Retail } E(m), \text{ where}$$

- CESF = Current Monthly Surcharge Billing Factor
- E(m) = Total Revenue Requirement
- RAR = Retail Allocation Ratio for Current Expense Month
- ADJ = Adjustment for Over/(Under) Recovery for Monthly True-Up
- Retail E(m) = Average Monthly Retail Revenue for the 12 Months Ending with the Current Expense

The CESF is one of two factors that are used in calculating the MESF on ES Form 1.0. The other factor or the BESF is a set monthly factor and remains in effect until the completion of the 6-month ECR review case.

ES Form 2.00 - Revenue Requirements of Environmental Compliance Costs

This form calculates the Revenue Requirements of Environmental Compliance Costs for the current expense month and has the following four sections:

1. Determination of Environmental Compliance Rate Base
2. Determination of Pollution Control Operating Expenses
3. Proceeds from By-Products and Allowance Sales
4. True-up Adjustment: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

Section One: Determination of Environmental Compliance Rate Base

All data in this section is formulaic. Total rate base numbers are calculated for each approved ECR plan and are utilized on ES Form 1.1 (LG&E) or

ES Form 1.00 (KU) in determination of the CESF. This section is populated with data from ES Forms 2.11, 2.12, 2.30, 2.31, 2.40, and 2.50.

The first calculation involves the Determination of the Environmental Compliance Rate Base. The sources of the data are Property Accounting and Utility Tax. The primary determinants are:

1. Eligible Pollution Control Plant
2. Eligible Pollution Construction Work in Progress (CWIP) excluding AFUDC
3. Inventory – Spare Parts, Limestone, and Emission Allowances
4. Cash Working Capital Allowance
5. Accumulated Depreciation on Eligible Pollution Control Plant
6. Pollution Control Deferred Income Taxes
7. Pollution Control Deferred Investment Tax Credit

The above items are explained in detail in ES Forms 2.11, 2.12, 2.31, 2.40, and 2.50. The KPSC allows the Companies an opportunity to earn a fair rate of return on each of these items. The KPSC approved rate of return for each plan is shown on ES Form 1.1 (LG&E) and ES Form 1.00 (KU).

To the extent that there is a level of inventory (limestone or emission allowances) included in base rates, that level is deducted from the determination of the environmental compliance rate base.

Section Two: Determination of Pollution Control Expenses

The data in this section is formulaic and is populated based on information from ES Forms 2.11, 2.12, 2.30, 2.31, 2.40, and 2.50 and dependent on the approved ECR plan. This information is utilized on ES Form 1.1 (LG&E) and ES Form 1.00 (KU) in the determination of the CESF.

The next step is the Determination of Pollution Control Operating Expenses with a breakout of the following items:

1. Monthly Operations & Maintenance Expense
2. Monthly Depreciation & Amortization Expense
3. Monthly Property & Other Applicable Taxes (LG&E Only)
4. Monthly Taxes Other than Income Taxes (KU Only)
5. Monthly Insurance Amount
6. Monthly Emission Allowance Expense
7. Monthly Permitting Fee (LG&E Only)
8. Amortization of Mill Creek Ash Dredging (LG&E Only)
9. Operations & Maintenance Expenses Associated with 2003 Compliance Plan (LG&E Only)

The above items are explained in detail in the sections for ES Forms 2.11, 2.12, 2.30, 2.31, 2.40, and 2.50.

To the extent that there is a level of operation and maintenance expenses (retirements, replacement, or emission allowances) included in base rates, that level is deducted from the determination of the environmental compliance rate base.

Section Three: Proceeds from By-Products and Allowance Sales

This section calculates the net proceeds from the sale of scrubber by-products and emission allowances and is an offsetting credit to the pollution control operating expenses in determining the environmental compliance revenue requirement on ES Form 1.1 (LG&E) and ES Form 1.00 (KU).

To the extent that there is a level of by-product proceeds or emission allowance proceeds included in base rates, that amount is deducted from any proceeds received in the current expense month for ECR recovery. Annually the Companies receive emission allowance proceeds from the EPA SO₂ allowance auction.

Section Four: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

The data in this section is key entered based on data from two expense periods prior to the current filing except for the Environmental Surcharge Revenue for the Current Month which is formulaic and is from ES Form 3.00.

ES Form 2.11 and ES Form 2.12 – Determination of Environmental Compliance Rate Base

ES Forms 2.11 and 2.12 (LG&E Only) calculate Eligible Plant in Service (PIS), CWIP, and Depreciation Expense for the 2001, 2003, and 2005 Plans for LG&E and KU. The source of this information is the Property Accounting and Tax Departments.

The primary column headings for these forms are Eligible Plant in Service, Eligible Accumulated Depreciation, CWIP Excluding AFUDC, Unamortized Investment Tax Credit (KU Only), Deferred Taxes, Monthly Depreciation Expense, and Monthly Property Tax Expense.

Each month, the Property Accounting Department receives a report provided by Energy Services Forecasting and Budgeting which tracks construction expenditures charged to the project via tasks in the Oracle Fixed Assets System (OFAS) for all ECR approved projects. These costs are considered CWIP while the project is being built. When the projects are complete they are reclassified from CWIP to PIS on the financial records of the company. Next, this information is keyed into the OFAS by Property Accounting. OFAS allocates depreciation by plant and unit. The FERC accounts for Plant in Service, CWIP, Accumulated Depreciation, and Monthly Depreciation are 101001, 107001, 108005, and 403001.

Deferred Taxes and Monthly Property Tax Expense are calculated annually by the Utility Tax Department and will change only at the beginning of a calendar year or if a new project is added to the compliance plan and is approved by the KPSC.

The data for the current expense month is entered on the appropriate line items on ES Forms 2.11 and 2.12 (LG&E Only). This information is utilized in the calculation of rate base and in the determination of pollution control operating expenses on ES Form 2.00.

ES Form 2.30 – Inventory of Emission Allowances

ES Form 2.30 details the Inventory of Emission Allowances for the current year through 2033.

Emissions are tracked at each plant and recorded. This information is provided to a Senior Engineer who analyzes the data and tracks the inventory levels by plant. Monthly allowance usage is provided to the Regulatory Accounting and Reporting department. The quantity, dollar value, and the dollars per allowance are maintained by the Regulatory Accounting and Reporting department on a monthly basis. This department prepares a schedule with the beginning inventory, monthly utilization, and ending inventory which are reported on ES Form 2.30. The associated expenses flow through as operating expenses; the value of remaining allowances on the Company's books is an asset in FERC Account 158101.

ES Form 2.31 – Inventory of Emission Allowances – Current Vintage Year

ES Form 2.31 provides prior and current monthly allowance usage and inventory balances. The beginning inventory plus any allocations or purchases and monthly utilization less allowance sales are used to calculate ending inventory. The monthly allowance utilization is separated between Steam Power & Other Power Generation. Cost recovery related to other power generation (Combustion Turbines) is disallowed.

Refer to the explanation in ES Form 2.30 for explanations regarding the tracking, reporting, and analysis associated with emission allowances.

ES Form 2.40 – O&M Expenses and Determination of Cash Working Capital Allowance

ES Form 2.40 is used to calculate the O&M expense from ES Form 2.50 for SCR/NO_x Reduction (FERC Accounts 506104, 506105 and 512101), SO₂ reduction (FERC Accounts 502006 and 512005) and for LG&E O&M expenses associated with the dredging of the Mill Creek Ashpond as approved in the 2005 Plan. The form lists 12 months of O&M expense and is used in the Determination of the Cash Working Capital Allowance. The KPSC approved method of calculating the Cash Working Capital Allowance is to take 1/8th of the 12 month O&M expense. This is one component involved in the rate base calculation on ES Form 2.0 and affects the 2001 & 2005 Plans.

ES Form 2.50 – Pollution Control – Operations & Maintenance Expenses for Current Month

Form 2.50 is used to calculate the O&M expense for NO_x Reduction for the 2001 Plan and the SO₂ reduction for the 2005 Plan. The current monthly amounts are based on ending balances for FERC accounts 506104, 506105, 512101, 502006 and 512005 for the specific plants. In addition, LG&E is allowed O&M recovery (amortized over a four year period) for the dredging of the Mill Creek Ashpond as approved in the 2005 Plan. The total expenses calculated are utilized on ES Form 2.40.

ES Form 3.00 – Monthly Average Revenue Computation of R(m)

ES Form 3.0 computes the average monthly revenue for the most recent 12 month period by examining base rate revenues, fuel clause revenues, and environmental surcharge revenues, and off-system sales. This value is used on ES Form 1.1 (LG&E) and ES Form 1.00 (KU) as Jurisdictional R(m). This form is formulaic and is a component of the over/under recovery of monthly surcharge due to timing differences on ES Form 2.00 and calculates the Jurisdictional Allocation Factor utilized on ES Form 1.10. The base, fuel clause, and environmental surcharge revenues are provided by the Revenue Accounting Department.

ES Form 3.10 – Reconciliation of Reported Revenues

The purpose of this form is to reconcile total company revenue as reported on the financial statements to total company revenue for ECR purposes. ES Form 3.10 categorizes company revenues into the following three areas:

- Kentucky Retail
- Non-Jurisdictional

- Reconciling Revenues

Kentucky Retail Revenue

Kentucky Retail Revenue for ECR purposes is made up of billed monthly electric revenues, the monthly merger surcredit adjustment plus monthly fuel clause revenue and is utilized in ES Form 3.00 in determining the current monthly average revenue. This information is provided by the Revenue Accounting Department.

Non-Jurisdictional Revenue

Non-Jurisdictional Revenues represents monthly activity for Tennessee & Virginia Retail (KU only) reported from the Customer Information System (CIS), Wholesale Revenues for Municipals only, off system sales of electricity to other utilities and intersystem sales between the utilities. The monthly activity excluding the CIS transactions are for FERC Accounts 447021, 447005, 447050, 447055, 447043, and 447045.

Reconciling Revenues

This section represents the items that are excluded from total ECR revenue which include brokered, unbilled, rate refunds, monthly merger surcredit settlement amortization, and miscellaneous revenues.

- Brokered Revenues represents the monthly activity for FERC Accounts 447100, 447103, and 447200.
- Unbilled information prepared by Revenue Accounting
- Rate refunds represent monthly activity for FERC Accounts 449102 and 449105.
- Monthly Merger Surcredit Settlement Amortization is through 2008 and is the monthly activity for FERC Account 186024.
- Miscellaneous Revenue represents monthly activity for FERC Accounts 451101-456028.
- Total Company Revenue comes from the monthly financial statements.

This information is utilized in ES Form 3.00 and is provided by Regulatory Accounting and Reporting and the Revenue Accounting areas. For information on data input refer to the data entry section of this report.

IV. Data Input and Data Source

The monthly ECR filing is due to the KPSC offices 10 days prior to the start of the upcoming billing cycle. A timeline of data input requirements is shown in Appendix VI along with a sample of the filing date requirement with the effective billing cycle dates.

1. The ECR files are located on the departmental drive in a folder called “Environmental Surcharge Report Monthly Filings” in the respective companies by year and month. For example, the file path for the May 2006 KU filing is: drive:/Environmental Surcharge Report Monthly Filings/KU/2004/ KU ECR 2006-03 May 06 Service.xls
2. Open up the previous month file and save it as the current month file.
3. Data input occurs in selective cells in ES Forms 1.00, 1.10, 2.00, 2.11, 2.12, 2.30, 2.31, 2.40, 2.50, and 3.10. The majority of the filing is linked to other cells within the report, thereby eliminating duplicate data entry. The data that requires updating is listed below in each form. Data which needs to be updated is noted with blue text in the appropriate cells.

ES Form 1.00

1. Update the current expense month
2. Update the Effective Date for Billing based on the Meter Reading Schedule supplied by Revenue Accounting (**See sample contained in Appendix VI**)
3. Update the Date Submitted with the filing date

After the filing has been reviewed, the Manager, Rates signs this form.

Data sources: ES Forms 1.10, 2.00, 2.11, 2.12, 2.30, 2.31, 2.40, 2.50, 3.0, and 3.1

ES Form 1.00a

This form is formulaic and is signed by the preparer and another member of the State Regulation and Rates Department who verifies the calculations. This form is not part of the information that is filed with the KPSC.

Data Sources: ES Forms 1.00 and 1.10

ES Form 1.10

This form is formulaic.

Data Sources: ES Forms 2.00 and 3.00

ES Form 2.00

All sections of this form are formulaic except for the Over/Under Recovery portion of the form which is updated as follows:

1. From the filing made two months prior to the current filing enter the MESF, the Net Jurisdictional E(m) and update the month.

Data Sources: ES Forms 2.11, 2.12, 2.30, 2.31, and 2.40

ES Forms 2.11 & 2.12

Data received by Property Accounting from Energy Services Forecasting and Budgeting is used to calculate monthly PIS, Accumulated Depreciation, CWIP, Deferred Tax, Monthly Depreciation, and Monthly Property Tax expenditures. Data for ES Forms 2.11 and 2.12 are linked to worksheets within the spreadsheet.

1. The ECR files for Property Accounting are located on the departmental drive, (propacct on 'fs10') in a folder called "ECR-LG&E and KU" in the respective companies by year and month. For example, the file path for the January 2006 LG&E filing is: I:/ ECR-LG&E AND KU / LGE ECR FILES / LGE ECR 2006 / LGE January-06.xls.
2. Open up the previous month file and save it as the current month file.
3. Data for the ES Forms 2.11 and 2.12 are linked from worksheets in the file. Data entry procedures are as follows:
 - a. Column 1 of the form contains the Plan Year and description of the ECR project. This description is the same wording for the project as outlined in the KPSC order approving the ECR plan.
 - b. In the determination of "Eligible Plant in Service", all ECR Project addition numbers come from the worksheet "CAP-01&03&05Plan". Once an ECR project is completely unitized this number will not change. (There may be several AIP projects to one ECR Project.) Projects are added to this worksheet as they are unitized and the dollars move from CWIP to PIS. All AIP projects related to one ECR project are summed together. ECR project retirement numbers come from the worksheet "Def Taxes RET 01 03 05". Once all retirements are made relating to an ECR project, this number will not change. This worksheet is updated as retirements are made in conjunction with the addition project.
 - c. Column 3 "Eligible Accumulated Depreciation" – For the addition projects, the accumulated depreciation number comes from the worksheet "CAP-01&03&05Plan". This number is calculated by multiplying the addition cost by the depreciation rate, dividing by 12 to obtain a monthly rate, and then adding this amount to the previously accumulated depreciation amount. (Use ½ for the first month's depreciation). These numbers will change every month. All AIP projects related to one ECR project are summed together. ECR project retirement numbers come from the worksheet "Def Taxes RET 01 03 05". This number is calculated by multiplying the cost times the depreciation rate, dividing by 12 to obtain a monthly rate, and then multiplying this amount times the number of months from the in service date of the asset retired to the latest rate case date (Currently 09/30/2003). (Again, use ½ for the first month's

- depreciation). Once all retirements are made relating to an ECR project, this number will not change.
- d. Column 4 “CWIP Amount” – Amounts for this column come from the worksheet “CWIP”. An Oracle Discoverer report is ran to determine the CWIP amounts for each eligible ECR project through the current month. In the case of KU, the amount related to AFUDC is also determined. These amounts are entered onto the “CWIP” worksheet. The AIP projects relating to the approved ECR projects are determined by reviewing the Generation Services monthly file.
 - e. Column 5 “Eligible Net Plant in Service” – This column is the total of the column 2 minus column 3 plus column 4.
 - f. Column “Unamortized ITC” (KU Only) is currently blank. No current ECR projects have ITC calculated. The Tax Department is responsible for notifying Property Accounting if a project has ITC calculations.
 - g. Column “Deferred Tax Balance” – Amounts for the ECR addition projects come from the worksheet “Def Taxes Add 01 03 05”. These numbers are calculated at the beginning of the year and each time a new addition is added. Property Accounting uses the existing pattern to make these calculations. These numbers have to be approved by the Tax Department. The amount is determined by subtracting the accumulated book depreciation from the accumulated tax depreciation and multiplying the result times the combined federal and state tax rates. This number is divided by 12 to obtain a monthly amount. This monthly amount is then added to the previous month’s deferred tax total. The amount for the ECR retirement projects come from the worksheet “Def Taxes Ret 01 03 05”. The amount is determined by subtracting the accumulated book depreciation from the accumulated tax depreciation and multiplying the result times the combined federal and state tax rates. This amount does not change.
 - h. Column “Monthly Depreciation Expense” - For the addition projects, the accumulated depreciation number comes from the worksheet “CAP-01&03&05Plan”. This number is calculated by multiplying the cost by the depreciation rate, divided by 12 to obtain a monthly rate. (Use ½ for the first month’s depreciation). ECR project retirement numbers come from the worksheet “Def Taxes RET 01 03 05”. The number is calculated by multiplying the cost times the depreciation rate, divided by 12 to obtain a monthly rate.
 - i. Column “Monthly Property Tax Expense” – Amounts for this column come from the worksheet “Prop Taxes”. Property Taxes for ECR addition projects are calculated at the beginning of the year based on year end expenditures. The Tax Department reviews and approves these calculations. These numbers do not change during the current year. The Net Expenditure for an ECR project at year end (Plant in Service minus Accumulated Depreciation plus CWIP) is multiplied by the property tax rate. This amount is divided by 12 to obtain the monthly amount reported. Property Taxes for ECR Retirements are calculated by multiplying the tax

rate times the net plant at the time of the retirement. (Plant in Service less Accumulated Depreciation).

4. The State Regulation and Rates Department enters the Eligible Plant in Service, Eligible Accumulated Depreciation, CWIP Amount Excluding AFUDC, Deferred Tax Balance, Monthly Depreciation Expense and Monthly Property Tax Expense into the appropriate fields by capital project.

Data sources: The Energy Services Forecasting and Budgeting monthly report lists the projects that have been approved for ECR recovery per the KPSC order. The data for Eligible Plant in Service is obtained from the Fixed Asset Module ("FA") in Oracle as the project is unitized to Plant in Service and is input by the Property Accounting Department. Accumulated Depreciation is a manual calculation using current depreciation rates. CWIP figures are obtained from the Project Accounting Module ("PA") in Oracle. Monthly Depreciation is a manual calculation using current depreciation rates. Deferred Taxes and Monthly Property Tax Expense are calculated annually by the Property Accounting Department using established formulas and reviewed by the Tax Department. The calculations are based on year end values for the upcoming year and are done in Microsoft Excel. Property Tax expense remains level throughout the year. The Deferred Tax Balance changes monthly due to depreciation and as additional project expenditures move from CWIP to Plant in Service. This data is input into an Excel spreadsheet which is linked to Form 2.11, 2.12 and forwarded to the State Regulation and Rates Department.

Note: The costs associated with the projects classified prior to Oracle 11i implementation, were not loaded into the PA of Oracle. As a result this process cannot be automated. Additionally, the Fixed Assets Module ("FA") has asset numbers and original costs, but does not have depreciation amounts by asset. KU & LG&E use the group method for depreciation purposes, therefore, to get the depreciation for a given asset requires a manual calculation. The ECR is calculated based on project totals and not individual assets.

ES Form 2.30

1. Update the Number of Allowances and the Total Dollar Value for the current year received from Revenue Accounting and Reporting.
2. Update the Number of Allowances for future periods.

Data Source: See information for ES Form 2.31

ES Form 2.31

1. Update the Beginning Inventory allowances and dollars received from Revenue Accounting and Reporting.
2. Update the quantity and dollars for any monthly Allocations or Purchases
3. Update the monthly Steam Power & Other Power Generation allowances and dollars utilized for the month.
4. Update the quantity and dollars associated with monthly allowances that were sold.

Data Source: Each month, Regulatory Accounting and Reporting receives the current month commitments from an Environmental Engineer in Environmental Affairs. An average price is calculated each month by dividing the prior month ending inventory dollars by the prior month ending inventory units. The current month commitments are multiplied by the average price to arrive at a utilized price for the current month. The current month commitments are then added to the beginning inventory to get a new ending inventory. This calculation is done for the monthly journal entry by the end of the 4th working day. This ending inventory is recorded on the Current Year line of ES Form 2.30. Combustion Turbine (“CT”) inventory is recorded separately from steam inventory and CT allowance usage is excluded from recovery. Anything out of the ordinary for the current month is recorded in the Comments and Explanations column. This form is also updated annually to account for the new vintage year’s allowances. Once completed, this form is emailed to the State Regulation and Rates Department by the end of the 10th working day.

ES Form 2.40

1. Select the data from the 10th Previous Month through the Current Month.
2. Copy & Paste the data into the cell for the 11th Previous Month and the data will be pasted into all the cells except for the Current Month.
3. The current month O&M Expense pulls data from ES Form 2.50.

Data Source: ES Form 2.50.

ES Form 2.50

1. Enter the current month O&M Expense for the approved projects.

Data Source: The information for this Form originates in Oracle and is obtained by an Accounting Analyst in Regulatory Accounting and Reporting running a Discoverer report for the O&M projects that have been approved. Once a project has been approved for recovery, the State Regulation and Rates Department notifies the Regulatory Accounting and Reporting Department. Once we start incurring expenses on these approved projects (this could be months or a year after the project is approved) Energy Services Forecasting and Budgeting or State Regulation and Rates will notify Regulatory Accounting and Reporting that the charges have started and also whether the charges can be run by account or a project and task. These amounts are broken out by plant. For Account 502006-Scrubber Operations and Account 512005-Scrubber Maintenance, Trimble County is the only plant to date with recoverable charges for LG&E. The increased use of limestone beyond the level currently indicated in base rates due to costs associated with the Trimble County 1 FGD Project 16 is recoverable. To calculate this amount, take 1/12th of the limestone expense included in current base rates and subtract the monthly actual amount. The difference is eligible for recovery. Once completed, this form is emailed to the State Regulation and Rates Department by the end of the 10th working day.

ES Form 3.00

1. Update the column containing the months with the most recent 12 months.
2. Select data from the second to last oldest month for Base Rate, Fuel Clause, and Environmental Surcharge Revenues and paste the data into the cells for the 11 months prior to the current month.
3. Repeat Step 1 for the Total Including the Off-System Sales Column
4. Update the Month column with the current month. The current month data is linked to data in Form 3.10.

Data Source: ES Form 3.10

ES Form 3.10

1. The base revenue by revenue class for LG&E is calculated by Revenue Accounting utilizing a spreadsheet. The billed revenue by class and component are input into the spreadsheet from the Sales by Rates CIS report. Base revenue is then adjusted by the amount of the July 2005 FAC roll-in (removing this amount from base revenue total and added it to the FAC total). This adjustment is shown on the spreadsheet to facilitate reconciliation to CIS and the Oracle general ledger.

The following data input is utilized by the KU Revenue Accounting Department to produce ES Form 3.10.

2. CIS Report CA7680, Environmental Surcharge-Monthly Average Computation (ES Form 3.0) is generated from CIS on the evening of the second business day of the month. When this report was originally designed, all data that was needed to be reported on ES Form 3.0 of the ECR billing factor filing existed in CIS. This report was ES Form 3.0. In the present, however, there are other items recorded to the G/L outside of CIS, so State Regulation and Rates must adjust certain numbers on the CIS-generated report to get the actual ES Form 3.0 used in the monthly ECR billing factor filing.)
3. CIS Report CA7120A, Bill Frequency Report, is generated from CIS on the evening of the second business day of the month. It details monthly billed revenue data by CIS rate code at various levels of usage. It concludes with a summary of monthly billed revenue data by tariff.
4. Monthly billed demand, energy and customer charge revenue for KU is gathered on the third business day of the month and provided to State Regulation and Rates for use in calculating the monthly ECR over-/under-recovery status. Sales to TN customers, as well as revenues associated with the Company's curtailable service rider (CSR) are noted so that they may be subtracted from these revenues since these items are not subject to the ECR mechanism
5. This spreadsheet is prepared on the fourth business day and shows monthly unbilled revenue accrual totals (\$ and MWH) by company (i.e. KU and ODP) by

revenue class. A running history of monthly unbilled revenue accrual totals are on this report which allows for easy calculation of net unbilled revenues for any time period (e.g. monthly, quarterly, year-to-date, etc.)

6. The LG&E/KU Revenue Volume Analysis is prepared and reviewed monthly by the Revenue Accounting Department. The Revenue Volume Analysis is completed on the 6th business day and then shared with the State Regulation and Rates Department.
7. For LG&E, the Reconciliation of Reported Revenues for LG&E is run from Oracle Financial Management System (OFMS) by the State Regulation and Rates Department and KU is provided by the Revenue Accounting Department. The data is input into all cells except for the Base Rate line item which is a calculation.

Data Source: The data used for this form is obtained from OFMS and the Revenue Accounting Department. The sources of the data are the Customer Information System (CIS), selected accounts from the General Ledger Trial Balance, and OFMS. The Reconciliation of Reported Revenues for LG&E is run from OFMS and KU is provided by the Revenue Accounting Department. As of February 2006 a facsimile of ES Form 3.10 is printed directly from Oracle by the State Regulation and Rates Department.

A flow chart for the ECR filing process is shown in Attachment 1. This flow chart outlines the establishment of approved projects and the flow of data across departments for the development of the monthly ECR filing.

APPENDIX I

278.183 Surcharge to recover costs of compliance with environmental requirements for coal combustion wastes and by-products -- Environmental compliance plan, review and adjustment.

- (1) Notwithstanding any other provision of this chapter, effective January 1, 1993, a utility shall be entitled to the current recovery of its costs of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal in accordance with the utility's compliance plan as designated in subsection (2) of this section. These costs shall include a reasonable return on construction and other capital expenditures and reasonable operating expenses for any plant, equipment, property, facility, or other action to be used to comply with applicable environmental requirements set forth in this section. Operating expenses include all costs of operating and maintaining environmental facilities, income taxes, property taxes, other applicable taxes, and depreciation expenses as these expenses relate to compliance with the environmental requirements set forth in this section.
- (2) Recovery of costs pursuant to subsection (1) of this section that are not already included in existing rates shall be by environmental surcharge to existing rates imposed as a positive or negative adjustment to customer bills in the second month following the month in which costs are incurred. Each utility, before initially imposing an environmental surcharge pursuant to this subsection, shall thirty (30) days in advance file a notice of intent to file said plan and subsequently submit to the commission a plan, including any application required by KRS 278.020(1), for complying with the applicable environmental requirements set forth in subsection (1) of this section. The plan shall include the utility's testimony concerning a reasonable return on compliance-related capital expenditures and a tariff addition containing the terms and conditions of a proposed surcharge as applied to individual rate classes. Within six (6) months of submittal, the commission shall conduct a hearing to:
 - (a) Consider and approve the plan and rate surcharge if the commission finds the plan and rate surcharge reasonable and cost-effective for compliance with the applicable environmental requirements set forth in subsection (1) of this section;
 - (b) Establish a reasonable return on compliance-related capital expenditures; and
 - (c) Approve the application of the surcharge.
- (3) The amount of the monthly environmental surcharge shall be filed with the commission ten (10) days before it is scheduled to go into effect, along with supporting data to justify the amount of the surcharge which shall include data and information as may be required by the commission. At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

- (4) The commission may employ competent, qualified independent consultants to assist the commission in its review of the utility's plan of compliance as specified in subsection (2) of this section. The cost of any consultant shall be included in the surcharge approved by the commission.
- (5) The commission shall retain all jurisdiction granted by this section and KRS 278.020 to review the environmental surcharge authorized by this section and any complaints as to the amount of any environmental surcharge or the incorporation of any environmental surcharge into the existing base rate of any utility.

Effective: July 14, 1992

History: Created 1992 Ky. Acts ch. 102, sec. 1, effective July 14, 1992.

APPENDIX II
Amended Plan Composite Exhibits

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL COMPLIANCE PLAN**

Project	Air Pollutant or Waste/By-Product To Be Controlled	Control Facility	Generating Station	Environmental Regulation	Environmental Permit	Actual or Scheduled Completion
1995 Plan (eliminated from ECR and included in Base Rate during the 2004 Rate Case)						
1	S02	Scrubber	Mill Creek Station	Agreed Order (1-92) APCD Regulation 6.07	JCAPCD Permit No.	
2	S02	Scrubber	Mill Creek Station	Agreed Order (7-92) APCD Regulation 1.09	JCAPCD Permit No.	
3	Fly Ash	Precipitator	CR 4	Agreed Order (1-92) APCD Regulation 6.07	JCAPCD Permit No.	
4	S02/NOx/Fly Ash	Emission Monitors	All Plants	CAAA Section 412 40 CFR 75 401 KAR 59:015; 61:015 APCD Regulation 6.02	Phase I Acid Rain Permits	
5	NOx	Boiler Modifications	All Plants	CAAA Section 182, Section 407 40 CFR 76 APCD Regulation 6.42	Phase I Acid Rain Permits	
2001 Plan						
6	NOx	SCR and NOx Control Equipment	Various	CAAA Sec. 110 40 CFR Part 51 CAAA Sec. 126 40 CFR Part 52 & 97 401 KAR 51:200	Title V Operating Permits	2001-2002
2003 Plan						
7	Fly Ash & SO ₂	Wet Stack Conversion	Mill Creek	Dist Regs 1.09& 1.12	JAPCD Agreed Order	2001-2004
8	Fly Ash	Electrostatic Precipitators	All Plants	401 KAR 59:015 Dist. Regs. 6.07 & 7.06	Title V Operating Permits	2001-2006
9	SO ₂	FGD Make-up Water System	Mill Creek Station	CAAA Sec. 405 40 CFR Part 72	Phase II Acid Rain Permit	2002

Project	Air Pollutant or Waste/By-Product To Be Controlled	Control Facility	Generating Station	Environmental Regulation	Environmental Permit	Actual or Scheduled Completion
10	SO ₂	FGD system enhancement	MC3, MC4	CAAA Sec. 405 40 CFR Part 72	Phase II Acid Rain Permit	2001
2005 Plan						
11	Fly & Bottom Ash	Landfill	Mill Creek Station	401 KAR Chapter 5 401 KAR Chapter 45	KPDES - KY0003221 KDWM - 056-00029	2008
12	Fly & Bottom Ash	Landfill	Cane Run Station	401 KAR Chapter 5 401 KAR Chapter 45	KPDES - KY0002062 KDWM - 056-00030	2015
13	SO ₂	Flue Gas Desulfurization	Trimble Co. Unit 1	Clean Air Act (1990)	Title V Operating Permit V-02-043	2009
14	SO ₂	Flue Gas Desulfurization	Cane Run Unit 6	Clean Air Act (1990)	Title V Operating Permit 175-00-TV (R1)	2009
15	SO ₂	Flue Gas Desulfurization	Cane Run Unit 5	Clean Air Act (1990)	Title V Operating Permit 175-00-TV (R1)	2008
16	SO ₂	Flue Gas Desulfurization	Trimble Co. Unit 1	Clean Air Act (1990)	Title V Operating Permit V-02-043	2005
17	SO ₂	Emission Allowances	All Plants	Clean Air Act (1990)	Phase II Acid Rain Permits	2010

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL COMPLIANCE PLAN**

Project	Air Pollutant or Waste/By-Product To Be Controlled	Control Facility	Generating Station	Environmental Regulation*	Environmental Permit	Actual or Scheduled Completion
1994 Plan (eliminated from ECR and included in Base Rate during the 2004 Rate Case)						
1	SO ₂	Scrubber	GH-1	CAAA Sec. 404 40 CFR Part 72 401 KAR 50:035	Phase I Acid Rain Permits KYDAQ Permit No. C-92-121	
2	Gypsum	Gypsum Facility	Ghent Station	CAAA Sec. 404 40 CFR Part 72 401 KAR 5:005, 5:031, 5:050, 5:055, 5:060 & 5:065	Phase I Acid Rain Permits KPDES Permit No. KY0002038 & KYDOW Const. Permit No. 5131	
3	SO ₂	Flue Gas Dispersion	EWB-2 EWB-3	401 KAR 53:010	KYDAQ Permit No. 0-86-068	
4	SO ₂ /NO _x /Fly Ash	Emission Monitors	All Plants	CAAA Sec. 412 40 CFR Part 75 401 KAR 59:015 & 61:015	Phase I Acid Rain Permits KYDAQ Air Permits to Operate	
5	NO _x	Burner Modifications	EWB-1 EWB-3	CAAA Sec. 407 40 CFR Part 76	Phase I Acid Rain Permits	
6	NO _x	Burner Modifications	EWB-2 GH-1 GR-4	CAAA Sec. 407 40 CFR Part 76	Phase I Acid Rain Permits	
7	Fly & Bottom Ash	Elevating of Ash Pond	Brown Station	401 KAR 5:005, 5:031, 5:050, 5:055, 5:060 & 5:065	KPDES Permit No. KY0002020 & KYDOW Construction Permit No. 3949	
8	Fly & Bottom Ash	New Ash Pond	Ghent Station	401 KAR 5:005, 5:031, 5:050, 5:055; 5:060 & 5:065	KPDES Permit No. KY0002038 & KYDOW Const. Permit No. 5132	
9	Fly & Bottom Ash	Precipitator & Ash Handling	GH-4	40 CFR Part 60 Subpart D 401 KAR 59:015 401 KAR 5:005, 5:031, 5:050, 5:055, 5:060 &	USEPA PSD Permit KYDAQ Permit No. C-77-15 & KYDAQ Permit No. 0-85-48	

Project	Air Pollutant or Waste/By-Product To Be Controlled	Control Facility	Generating Station	Environmental Regulation*	Environmental Permit	Actual or Scheduled Completion
				5:065	KPDES Permit No. KY0002038	
10	Fly & Bottom Ash	Ash Pond Filtration System	GH-3 GH-4	40 CFR Part 423	NPDES Permit No. KY0002038	
11	Fly Ash	Precipitators	All Plants	401 KAR 59:015 & 61:015	KYDAQ Air Permits to Operate	
12	Fly Ash	Precipitator	GH-1	401 KAR 61:015 CAAA Sec. 404	KYDAQ Permit No. 0-85-048 Phase I Acid Rain Permit	
13	Fly Ash	Precipitator	EWB-1	401 KAR 61:015 CAAA Sec. 404	KYDAQ Permit No. 0-86-068 Phase I Acid Rain Permit	
14	Dry Fly Ash Handling	Dry Fly Ash Handling Equipment	Brown Station	401 KAR 5:005, 5:031, 5:050, 5:055, 5:060 & 5:065	KPDES Permit No. KY0002020	
15	Fugitive Dust	Dust Elimination Systems	Brown & Ghent Stations	401 KAR 59:010, 59:155, 61:020, & 63:010	KYDAQ Permit Nos. 0-86-068 & 0-85-048	
2001 Plan						
16	NOx	Advanced Low NOx Burner Systems	Ghent-2 Ghent-4	CAAA Sec 407 40 CFR Part 76	Phase II Acid Rain Permit	2000 1999
17	NOx	SCR and NOx Control Equipment	Various	CAAA Sec. 110 40 CFR Part 51 CAAA Sec. 126 40 CFR Part 52 & 97 401 KAR 51:200	Title V Operating Permits	2001-2003
2003 Plan						
18	Fly & Bottom Ash	Ash Pond Dike Elevation	Ghent Station	401 KAR 5:005, 5:031, 5:050, 5:055; 5:060, 5:065 & 5.080	KPDES Permit No. 0002038	2003
2005 Plan						
19	Fly & Bottom Ash	Ash Handling Equipment	Ghent Station	401 KAR Chapter 5	KPDES - KY0002038	2009
20	Fly & Bottom Ash	Ash Treatment	E.W. Brown	401 KAR Chapter 5	KPDES - KY0002020	2009

Project	Air Pollutant or Waste/By-Product To Be Controlled	Control Facility	Generating Station	Environmental Regulation*	Environmental Permit	Actual or Scheduled Completion
		Basin (Phase I)	Station			
21	SO ₂	Flue Gas Desulfurization	Ghent 2 Ghent 3 Ghent 4 E.W. Brown Station	Clean Air Act (1990)	Title V Operating Permit Ghent - V-97-025 E.W. Brown -(O-86-068)	2008 2007 2009 2009
22	SO ₂	Emission Allowances	All Plants	Clean Air Act (1990)	Phase II Acid Rain Permits	2009

APPENDIX III
Detailed Approved Project Listing

Louisville Gas and Electric Company KPSC Approved ECR Projects

Capital Projects

<u>ECR Project Number</u>	<u>Control Facility</u>	<u>Plant/Unit</u>	<u>T-Sheet Number</u>	<u>AIP Project Number</u>	<u>Project Description</u>	
<u>2001 Plan</u>	LGE-6	SCR and NOx Control Equipment	Various	107182	NOx equipment and SCRs for TC1, MC3 and MC4	
			TC1	121245	TC Air Heater Baskets	
			MC4	121120	LG&E NOX MC4 Fans and Ash Hopper	
			MC3	120530	MC3 Catalyst Replacement	
			MC4	117616	MC4 Catalyst Replacement	
			TC1	117989	TC1 Catalyst Replacement	
<u>2003 Plan</u>	LGE-7	Mill Creek Wet Stack Conversion	MC1	110613	Mill Creek 1 Wet Stack Conversion	
			MC2	110615	Mill Creek 2 Wet Stack Conversion	
			MC3	110616	Mill Creek 3 Wet Stack Conversion	
			MC4	110617	Mill Creek 4 Wet Stack Conversion	
			MC3	116051	Mill Creek 3 FGD Outlet Ductwork	
	LGE-8	Electrostatic Precipitators	MC-2/3	101299	Mill Creek 2 Refurbish Precipitator	
			MC3	103860	Mill Creek 3 Refurbish Precipitator ("B" Side)	
			MC3	116046	Mill Creek 3 Refurbish Precipitator ("A" Side)	
	LGE-9	FGD Make-up Water System	CR-5	114687	Cane Run 5 Refurbish Precipitator	
	LGE-10	FGD System Enhancement	Mill Creek	112703	Clearwell Water System - Mill Creek	
		MC3, MC4	107360	FGD Absorber Trays - Mill Creek 3&4		
<u>2005 Plan</u>	LGE-11	Landfill	MC	MC-05-001	112767	MC Landfill Expansion (ECR)
				MC-05-017	117450	MC Wet Ash Loading System "B"
				MC-06-013	121579	MC Wet Ash Loading System "A"
	LGE-12	Landfill	CR	CR-MY-010	117136	CR Landfill Expansion
	LGE-13	FGD Refurbishment	TC-1	TC-07-007	121587	TC Scrubber Modual Refurbishment
				TC-07-008	121588	TC Recycle Pump Piping Replacement
				TC-08-005	121589	TC SDRS Structural Refurbishment

Louisville Gas and Electric Company KPSC Approved ECR Projects

Capital Projects

ECR Project Number	Control Facility	Plant/Unit	T-Sheet Number	AIP Project Number	Project Description
			TC-09-005	121590	TC Scrubber Modul Refurbishment
			TC-09-006	121591	TC Recycle Pump Piping Replacement
LGE-14	FGD Refurbishment	CR-6	CR-05-130	121165	CR6 SDRS Mist Eliminator Chevron Replacement
			CR-05-140	118138	CR6 SDRS Piping Replacement
			CR-07-060	121622	CR6 SDRS Expansion Joint Replacement
			CR-07-100		CR6 SDRS Thickener Rake Replacement
			CR-07-110		CR6 SDRS Inlet Duct Insulation & Lagging Repl
			CR-07-150	118134	CR6 SDRS Tank Replacement
			CR-09-030	121623	CR6 SDRS Ductwork Replacement
			CR-09-090	121624	CR6 SDRS Module Re-lining
			CR-09-150	120941	CR6 SPP Belt Filter
			CR-09-180	121625	CR SDRS Tank Replacement
LGE-15	FGD Refurbishment	CR-5	CR-05-150	118139	CR5 Recycle Pump Liner Replacment
			CR-06-40	121626	CR5 SDRS Recycle Piping Replacement
			CR-06-50	121627	CR5 SDRS Fixed Grid Wash System
			CR-05-024	121628	CR5 SDRS Module Spray Header Replacement
			CR-08-080	121629	CR5 SDRS Module and Duct Lining Repl
LGE-16	FGD Enhancement	TC-1		119943	Scrubber Improvements at Trimble County Unit 1

Louisville Gas and Electric Company KPSC Approved ECR Projects

Operation and Maintenance

ECR Project Number	Control Facility	Plant/Unit	Incremental to Amount included in Base Rates	O&M Expense Account	Project Description	
<u>2001 Plan</u>	LGE-6	SCR and NOx Control Equipment	Mill Creek 3 & 4	No	506104	NOx Operation -- Consumables
			Mill Creek 3 & 4	No	506105	NOx Operation -- Labor and Other
			Mill Creek 3 & 4	No	512101	NOx Maintenance
			Trimble County 1	No	506104	NOx Operation -- Consumables
			Trimble County 1	No	506105	NOx Operation -- Labor and Other
			Trimble County 1	No	512101	NOx Maintenance
<u>2003 Plan</u>	No O&M Recovery					
<u>2005 Plan</u>	LGE-11	Landfill	Mill Creek	No	MCASHECR	Ash Pond Dredging
	LGE-16	FGD Enhancement	Trimble County 1	Yes	502006	Scrubber Operations
					512005	Scrubber Maintenance
LGE-17	SO2 Emission Allowances	All	No		SO2 Emission Allowance expense from Coal Units only	

Kentucky Utilities Company KPSC Approved ECR Projects

Capital Projects

<u>ECR Project Number</u>	<u>Control Facility</u>	<u>Plant/Unit</u>	<u>T-Sheet Number</u>	<u>AIP Project Number</u>	<u>Project Description</u>	
<u>2001 Plan</u>	KU-16	Advanced Low Nox Burners	GH-2 GH-4	23037	Ghent 2 low Nox burners	
				24756	Ghent 4 low Nox burners	
	KU-17	SCR and NOx Control Equipment	Various	107198	Nox Control and SCRs for GH 1, GH 3, and GH 4	
				120611	GH1 Catalyst Replacement	
				121593	GH3 Catalyst Replacement	
			121594	GH4 Catalyst Replacement		
<u>2003 Plan</u>	KU-18	Ash Pond Dike Elevation	Ghent	110450	Ghent Ash Pond Phase 2	
<u>2005 Plan</u>	KU-19	Ash Handling Equipment	Ghent	GH-05-056	120609	GH1 Ash Pipe Replacement
					121598	GH2 Ash Pipe Replacement
					121596	GH3 Ash Pipe Replacement
					121597	GH4 Ash Pipe Replacement
					121598	GH Ash Booster Pumps
	KU-20	Ash Treatment Basin (Phase I)	Brown	BR-05-001	119961	BR Ash Pond Exp Engineering 05-07 (ECR)
				BR-08-001	119961	BR Ash Pond Expansion 08 (ECR)
	KU-21	FGDs	GH-2 GH-3 GH-4 Ghent Brown all		119962	GH 2 FGD
					118251	GH 3 FGD
					120208	GH 4 FGD
				120209	Ghent Station Common FGD equipment	
				120210	BR FGD	
			119659	FGD Common		

Kentucky Utilities Company KPSC Approved ECR Projects

Operation and Maintenance

<u>ECR Project Number</u>	<u>Control Facility</u>	<u>Plant/Unit</u>	<u>Incremental to Amount included in Base Rates</u>	<u>O&M Expense Account</u>	<u>Project Description</u>	
<u>2001 Plan</u>	KU-17	SCR and Nox Control Equipment	Ghent 1, 3, 4	No	506104	NOx Operation -- Consumables
			Ghent 1, 3, 4	No	506105	NOx Operation -- Labor and Other
			Ghent 1, 3, 4	No	512101	NOx Maintenance
<u>2003 Plan</u>	No O&M Recovery					
<u>2005 Plan</u>	KU-21	FGDs	Ghent 2, 3, 4	No	502006	Scrubber Operations
			Ghent 2, 3, 4	No	512005	Scrubber Maintenance
			E. W. Brown	No	502006	Scrubber Operations
			E. W. Brown	No	512005	Scrubber Maintenance
	KU-22	SO2 Emission Allowances	All	Yes		SO2 Emission Allowance expense from Coal Units only

APPENDIX IV
LG&E Monthly Filing Forms

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Calculation of Monthly Billed Environmental Surcharge Factor - MESF

For the Expense Month of March 2006

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

CESF = Current Period Jurisdictional Environmental Surcharge Factor
BESF = Base Period Jurisdictional Environmental Surcharge Factor

Calculation of MESH:

CESF, from ES Form 1.1	=	5.66%
BESF, from Case No. 2003-00433	=	2.38%
MESH	=	3.28%

Effective Date for Billing: April Billing Cycle beginning on May 3, 2006

Submitted by: _____

Title: Manager, Rates

Date Submitted: April 21, 2006

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Calculation of E(m) and
Jurisdictional Surcharge Billing Factor

For the Expense Month of March 2006

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR-DR)(TR/(1-TR))] + OE$, where
 RB = Environmental Compliance Rate Base
 ROR = Rate of Return on the Environmental Compliance Rate Base
 DR = Debt Rate (both short-term and long-term debt)
 TR = Composite Federal & State Income Tax Rate
 OE = Pollution Control Operating Expenses

		Environmental Compliance Plans
RB	=	\$219,617,795
RB / 12	=	\$18,301,483
$(ROR + (ROR - DR) (TR / (1 - TR)))$	=	10.39%
OE	=	\$671,349
BAS	=	
E(m)	=	\$2,572,873

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Retail Allocation Ratio for Current Expense Month	=	83.21%
Retail E(m) = Total E(m) x Jurisdictional Allocation Ratio	=	\$2,140,887
Adjustment for Monthly True-Up (from Form 2.0)	=	\$236,830
Adjustment for Projects 6,7,11, & 14 Expenditures (Exhibit 1)	=	\$810,741
Net Retail E(m) = Retail E(m) minus Adjustment for Over/(Under) Recovery plus/minus Adjustment for Monthly True-Up	=	\$3,188,458
Retail R(m) = Average Monthly Retail Revenue for the 12 Months Ending with the Current Expense Month	=	\$56,343,377
Retail Environmental Surcharge Billing Factor: CESF = Net Retail E(m) / Retail R(m) ; as a % of Revenue	=	5.66%

LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of March 2006

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant	\$225,829,493	
Eligible Pollution CWIP Excluding AFUDC	\$11,107,195	
Inventory-Emission Allowances per Form 2.31	\$0	
Cash Working Capital Allowance	\$206,855	
Deferred Debit Balance-Mill Creek Ash Dredging	\$0	
Subtotal		\$237,143,542
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	\$12,041,249	
Pollution Control Deferred Income Taxes	\$5,484,498	
Pollution Control Deferred Investment Tax Credit	\$0	
Subtotal		\$17,525,747
Environmental Compliance Rate Base		\$219,617,795

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$90,770
Monthly Depreciation & Amortization Expense	\$575,202
Monthly Property & Other Applicable Taxes	\$27,970
Monthly Insurance Expense	\$0
Monthly Emission Allowance Expense	\$0
Monthly Permitting Fees	\$0
Amortization of Mill Creek Ash Dredging	
Less : Reduction of O&M Expenses associated with 2003 Compliance Plan	\$22,593
Less : Operating Expenses Associated with Retirements or Replacements Occuring Since Last Roll-In of Surcharge into Existing Rates	
Total Pollution Control Operations Expense	\$671,349

Proceeds From By-Product and Allowance Sales

	Gross Proceeds	Sales Expenses	Net Proceeds
Allocated Allowance from EPA	\$0	\$0	\$0
Scrubber By-Products Sales	\$0	\$0	\$0
Total Proceeds from Sales	\$0	\$0	\$0

True-up Adjustment: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

A. MESF for January Expense Month	0.53%
B. Net Jurisdictional E(m) for January Expense Month	1,640,740
C. Environmental Surcharge Revenue, current month (from Form 3.00)	268,594
D. Retail E(m) recovered through base rates (Base Revenues, Form 3.0 times 2.38%)	1,135,317
E. Over/(Under) Recovery due to Timing Differences ((D + C) - B)	(236,830)
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
 Plant, CWIP & Depreciation Expense - Post-1995 Plan

For the Month Ended March 31, 2006

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Eligible Plant In Service	Eligible Accumulated Depreciation	CWIP Amount Excluding AFUDC	Eligible Net Plant In Service	Deferred Tax Balance as of 3/31/2006	Monthly Depreciation Expense	Monthly Property Tax Expense
				(2)-(3)+(4)			
2001 Plan							
Project 6 - LGE NOx	\$ 183,455,372	\$ 12,635,607	\$ 5,321,912	\$ 176,141,677	\$ 5,788,790	\$ 428,131	\$ 21,927
Subtotal	\$ 183,455,372	\$ 12,635,607	\$ 5,321,912	\$ 176,141,677	\$ 5,788,790	\$ 428,131	\$ 21,927
Less Retirements and Replacement Subsequent to a 2001 Plan Roll-in	\$ 2,990,028	\$ 1,492,495	\$ 0	\$ 1,497,533	\$ 554,063	\$ 6,273	\$ 161
2003 Plan							
Project 7 - Mill Creek FGD Scrubber Conversion	\$ 30,861,686	\$ 3,654,613	\$ -	\$ 27,207,073	\$ 429,485	\$ 115,079	\$ 3,444
Project 8 - Precipitator Upgrades - All Plants	11,929,133	1,054,594	-	10,874,539	423,994	28,278	1,370
Project 9 - Clearwell Water System - Mill Creek	1,197,310	182,510	-	1,014,800	21,920	5,368	129
Project 10 - SO ₂ Absorber Trays - Mill Creek 3 & 4	2,734,621	661,231	-	2,073,389	40,178	11,303	263
Subtotal	\$ 46,722,751	\$ 5,552,949	\$ -	\$ 41,169,802	\$ 915,577	\$ 160,028	\$ 5,206
Less Retirements and Replacement Included in Base Rates	\$ 7,839,520	\$ 4,745,191	\$ -	\$ 3,094,329	\$ 742,232	\$ 24,316	\$ 387
Net Totals	\$ 219,348,575	\$ 11,950,870	\$ 5,321,912	\$ 212,719,616	\$ 5,408,072	\$ 557,570	\$ 26,585

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Plant, CWIP & Depreciation Expense - 2005 Plan

For the Month Ended March 31, 2006

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Eligible Plant In Service	Eligible Accumulated Depreciation	CWIP Amount Excluding AFUDC	Eligible Net Plant In Service	Deferred Tax Balance as of 3/31/2006	Monthly Depreciation Expense	Monthly Property Tax Expense
				(2)-(3)+(4)			
2005 Plan							
Project 11 - Special Waste Landfill Expansion at Mill Creek	\$ 2,282,982	\$ 35,338	\$ 676,655	\$ 2,924,299	\$ 31,933	\$ 5,568	\$ 367
Project 12 - Special Waste Landfill Expansion at Cane Run Sta	-	-	1,806,496	1,806,496	-	-	196
Project 13 - Scrubber Refurbishment at Trimble County Unit 1	-	-	-	-	-	-	-
Project 14 - Scrubber Refurbishment at Cane Run Unit 6	-	-	257,651	257,651	-	-	17
Project 15 - Scrubber Refurbishment at Cane Run Unit 5	-	-	-	-	-	-	-
Project 16 - Scrubber Improvements at Trimble County Unit 1	4,281,077	68,087	3,044,481	7,257,471	66,862	12,379	813
Subtotal	\$ 6,564,059	\$ 103,425	\$ 5,785,283	\$ 12,245,917	\$ 98,795	\$ 17,947	\$ 1,393
Less Retirements and Replacement Included in Base Rates	\$ 83,141	\$ 13,046	\$ -	\$ 70,095	\$ 22,369	\$ 315	\$ 9
Net Totals	\$ 6,480,918	\$ 90,379	\$ 5,785,283	\$ 12,175,822	\$ 76,426	\$ 17,632	\$ 1,385

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances

For the Month Ended March 31, 2006

Vintage Year	Number of Allowances	Total Dollar Value Of Vintage Year	Comments and Explanations
Current Year	147,529	\$ 19,927.96	Dollar value represents the transfer of allowances from IMPA
2007	64,864		at current market prices to compensate LG&E for allowances
2008	64,864		used in generating power for IMPA
2009	64,864		
2010	62,379		
2011	62,379		
2012	62,379		
2013	62,379		
2014	62,379		
2015	62,379		
2016	62,379		
2017	62,379		
2018	62,379		
2019	62,379		
2020	62,379		
2021	62,379		
2022	62,379		
2023	62,379		
2024	62,379		
2025	62,379		
2026 - 2034	561,411		

In the "Comments and Explanation" Column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

**LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances - Current Vintage Year**

For the Expense Month of March 2006

	Beginning Inventory	Allocations/Purchases	Utilized (Steam Power)	Utilized (Other Power Generation)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS	150,682	0	3,153	0	0	147,529	
Dollars	\$ 20,369	\$ -	\$ 441	\$ -	\$ -	\$ 19,928	
\$/Allowance	\$ 0.14	\$ -	\$ 0.14	\$ -	\$ -	\$ 0.14	
ALLOCATED ALLOWANCES FROM EPA: STEAM	150,647	0	3,153	0	0	147,494	
Dollars	\$ 20,364	\$ -	\$ 441	\$ -	\$ -	\$ 19,923	
\$/Allowance	\$ 0.14	\$ -	\$ 0.14	\$ -	\$ -	\$ 0.14	
ALLOCATED ALLOWANCES FROM EPA: OTHER POWER GENERATION	35	0	0	0	0	35	
Quantity	35	0	0	0	0	35	
Dollars	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 5	
\$/Allowance	\$ 0.14	\$ -	\$ -	\$ -	\$ -	\$ 0.14	
ALLOWANCES FROM PURCHASES:							
From Market:	0	0	0	0	0	0	
Quantity	0	0	0	0	0	0	
Dollars	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
From KU:							
Quantity	0	0	0	0	0	0	
Dollars	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Cantor-Fitzgerald Market Price for SO2 emission allowances at [date]: [\$ amount]							

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor.

Emission allowance inventory balance is due to the return of emission allowances from IMPA, received at current market value. Per the Commission's Order in Case No. 95-060, "An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company As Billed from August 1, 1994 to January 31, 1995," "...nor does returning the allowance in kind constitute a purchase." (Order at 5.) The Company concluded from this Order that allowance inventory and expense resulting from the return of allowances in kind is not recoverable through the ECR.

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
O&M Expenses and Determination of Cash Working Capital Allowance

For the Month Ended March 31, 2006

O&M Expenses	
11th Previous Month	\$51,105
10th Previous Month	\$212,888
9th Previous Month	\$156,142
8th Previous Month	\$319,383
7th Previous Month	\$153,214
6th Previous Month	\$392,286
5th Previous Month	\$61,125
4th Previous Month	\$29,491
3rd Previous Month	\$94,738
2nd Previous Month	\$8,458
Previous Month	\$85,240
Current Month	\$90,770
Total 12 Month O&M	\$1,654,841
One Eighth (1/8) of 12 Month O&M Expense	1/8
Pollution Control Cash Working Capital Allowance	\$206,855

LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Pollution Control - Operations & Maintenance Expenses
For the Month Ended March 31, 2006

O&M Expense Account	Mill Creek	Trimble County	Total
2001 Plan			
506104 - NOx Operation -- Consumables	0	0	0
506105 - NOx Operation -- Labor and Other	952	2,464	3,416
512101 - NOx Maintenance	14,567	4,381	18,947
Total 2001 Plan O&M Expenses	15,519	6,845	22,363
2005 Plan			
502006-Scrubber Operations	0	68,407	68,407
512005-Scrubber Maintenance	0	0	0
Ashpond Dredging Expense	0	0	0
Total 2005 Plan O&M Expenses	0	68,407	68,407

LOUISVILLE GAS AND ELECTRIC COMPANY ENVIRONMENTAL SURCHARGE REPORT

Monthly Average Revenue Computation of R (m)
For the Month Ended March 31, 2006

	Billed Retail Revenues					Wholesale Revenues	Total Company Revenues	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Month	Base Rate Revenues	Fuel Clause Revenues	Environmental Surcharge Revenues	Total (2)+(3)+(4)	Total Excluding Environmental Surcharge (5)-(4)	Total Including Off-System Sales (See Note 1)	Total (5)+(7)	Total Excluding Environmental Surcharge (8)-(4)
Apr-05	44,196,989	(975,983)	296,537	\$ 43,517,543	\$ 43,221,006	14,425,519	\$ 57,943,062	\$ 57,646,524
May-05	43,318,298	24,298	402,786	43,745,382	43,342,596	19,501,205	63,246,587	62,843,802
Jun-05	57,877,536	1,079,621	908,066	59,865,223	58,957,157	16,273,168	76,138,391	75,230,325
Jul-05	70,823,561	(88,787)	264,696	70,999,471	70,734,775	6,380,374	77,379,845	77,115,149
Aug-05	73,455,702	3,061,961	1,430,295	77,947,957	76,517,662	13,312,090	91,260,047	89,829,753
Sep-05	69,173,327	4,618,463	1,845,097	75,636,887	73,791,790	23,635,974	99,272,861	97,427,764
Oct-05	53,809,117	3,954,479	274,845	58,038,442	57,763,596	19,498,751	77,537,192	77,262,347
Nov-05	45,099,200	1,030,627	166,492	46,296,319	46,129,827	29,369,656	75,665,975	75,499,483
Dec-05	51,780,231	2,669,412	430,592	54,880,234	54,449,642	36,574,423	91,454,657	91,024,065
Jan-06	53,762,432	908,143	374,323	55,044,898	54,670,576	26,013,419	81,058,317	80,683,995
Feb-06	48,659,778	(928,571)	207,650	47,938,858	47,731,208	11,830,429	59,769,288	59,561,637
Mar-06	47,702,385	1,108,308	268,594	49,079,287	48,810,693	9,847,917	58,927,203	58,658,610
Average Monthly Retail Revenues, Excluding Environmental Surcharge, for 12 Months Ending Current Expense Month.					\$ 56,343,377			
Retail Allocation Percentage for Current Month (Environmental Surcharge Excluded from Calculations): Expense Month Kentucky Retail Revenues Divided by Expense Month Total Company Revenues: Column (6) / Column (9) =							83.21%	
						Note 1 - Excludes Brokered Sales, Total for Current Month =	\$ 163,125	

**LOUISVILLE GAS & ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Reconciliation of Reported Revenues

For the Month Ended March 31, 2006

	Revenues per ES Form 3.0	Revenues per Income Statement
Kentucky Retail Revenues		
Base Rates	\$ 47,702,385.44	\$ 47,702,385.44
Fuel Adjustment Clause	1,108,307.90	1,108,307.90
Environmental Surcharge		268,593.50
DSM DBA Billed		-
Total Kentucky Retail Revenues for Environmental Surcharge Purposes = \$ 48,810,693.34		
Non -Jurisdictional Revenues		
InterSystem (Total Less Transmission Portion Booked in Account 447)	9,847,916.53	9,847,916.53
Total Non-Jurisdictional Revenues for Environmental Surcharge Purposes = 9,847,916.53		
Total Company Revenues for Environmental Surcharge Purposes = \$ 58,658,609.87		
Reconciling Revenues		
Brokered	163,125.10	163,125.10
InterSystem (Transmission Portion Booked in Account 447)		-
Unbilled		4,331,776.00
Rate Refunds		-
DSM Revenues from Lost Sales		-
Merger Surcredit Settlement applied as bill credits in December		-
Monthly Merger Surcredit Settlement Amortization		(115,178.79)
Miscellaneous		2,035,126.10
Total Company Revenues per Income Statement = \$ 65,342,051.78		

APPENDIX V
KU Monthly Filing Forms

KENTUCKY UTILITIES COMPANY ENVIRONMENTAL SURCHARGE REPORT

**Calculation of Monthly Billed Environmental Surcharge Factor - MESF
For the Expense Month of March 2006**

$$\text{MESF} = \text{CESF} - \text{BESF}$$

Where:

CESF = Current Period Jurisdictional Environmental Surcharge Factor
BESF = Base Period Jurisdictional Environmental Surcharge Factor

Calculation of MESF:

CESF, from ES Form 1.1	=	3.38%
BESF, from Case No. 2003-00434	=	0.30%
MESF	=	3.08%

Effective Date for Billing: May billing cycle beginning May 3, 2006

Submitted by: _____

Title: Manager, Rates

Date Submitted: April 21, 2006

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor
For the Expense Month of March 2006**

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR) + (ROR - DR)(TR / (1 - TR))] + OE$, where

RB	=	Environmental Compliance Rate Base
ROR	=	Rate of Return on the Environmental Compliance Rate Base
DR	=	Debt Rate (both short-term and long-term debt)
TR	=	Composite Federal & State Income Tax Rate
OE	=	Pollution Control Operating Expenses

	Environmental Compliance Plan
RB	= \$ 243,680,002
RB / 12	= 20,306,667
$(ROR + (ROR - DR) (TR / (1 - TR)))$	= 11.00%
OE	= 617,409
BAS	=
E(m)	= \$ 2,851,142

Calculation of Jurisdictional Environmental Surcharge Billing Factor

Jurisdictional Allocation Ratio for Expense Month	= 82.99%
Jurisdictional E(m) = Total E(m) x Jurisdictional Allocation Ratio	= \$ 2,366,163
Adjustment for Monthly True-up (from Form 2.0)	= 40,407
Recovery of OMU NOx Expenditures (Case No. 2003-00434-Settlement Agreement, Section 3.19, pg. 13)	= 83,333
Adjustment for Project 19 Expenditures (Exhibit 1)	= 32
Net Jurisdictional E(m) = Jurisdictional E(m) minus Adjustment for Over/(Under) Recovery	= \$ 2,489,935
Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month	= \$ 73,686,424
Jurisdictional Environmental Surcharge Billing Factor: Net Jurisdictional E(m) / Jurisdictional R(m) ; as a % of Revenue	= 3.38%

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of March 2006

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant	\$238,054,711	
Eligible Pollution CWIP Excluding AFUDC	\$43,565,445	
Subtotal		\$281,620,156
Additions:		
Inventory - Limestone	\$0	
Less: Limestone Inventory in base rates	\$0	
Inventory - Emission Allowances per Form 2.31	\$1,203,906	
less Allowance Inventory baseline	\$69,415	
Net Emission Allowance Inventory	\$1,134,491	
Cash Working Capital Allowance	\$149,735	
Subtotal		\$1,284,226
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	\$10,703,829	
Pollution Control Deferred Income Taxes	\$28,520,553	
Pollution Control Deferred Investment Tax Credit	\$0	
Subtotal		\$39,224,381
Environmental Compliance Rate Base		\$243,680,002

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$14,878
Monthly Depreciation & Amortization Expense	\$489,304
Monthly Taxes Other Than Income Taxes	\$31,911
Monthly Insurance Expense	\$0
Monthly Emission Allowance Expense from Form 2.31	\$ 86,178
Less Monthly Emission Allowance in base rates (1/12 of \$58,345.76)	\$ (4,862)
Net Recoverable Emission Allowance Expense	\$ 81,316
Monthly Surcharge Consultant Fee	
Total Pollution Control Operating Expense	\$617,409

Gross Proceeds From By-Product and Allowance Sales

Allocated Allowances from EPA	Allowances from Over-Control	Allowances from Purchases	Total Proceeds from Allowance Sales	Proceeds from By-Products Sales
\$0	\$0	\$0	\$0	\$0

True-up Adjustment: Over/Under Recovery of Monthly Surcharge Due to Timing Differences

MESF for January Expense Month	2.34%
Net Jurisdictional E(m) for January Expense Month	1,941,119
Environmental Surcharge Revenue, current month (from Form 3.00)	1,696,177
Environmental Surcharge Revenue recovered through base rates (Base Revenues, Form 3.0 * .30%)	204,536
Over/(Under) Recovery due to Timing Differences (D - C)	(40,407)
Over-recoveries will be deducted from the Jurisdictional E(m); under-recoveries will be added to the Jurisdictional E(m)	

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Plant, CWIP & Depreciation Expense - Post-1994 Plan

For the Month Ended March 31, 2006

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Description	Eligible Plant In Service	Eligible Accumulated Depreciation	CWIP Amount Excluding AFUDC	Eligible Net Plant In Service	Unamortized ITC as of 3/31/2006	Deferred Tax Balance as of 3/31/2006	Monthly Depreciation Expense	Monthly Property Tax Expense
				(2)-(3)+(4)				
2001 Plan:								
Project 16 - KU Nox modifications	\$ 9,775,541	\$ 810,324		\$ 8,965,217	\$ -	\$ 765,317	\$ 16,203	\$ 1,127
Project 17 - KU Nox SCR's	214,851,420	10,094,709	1,677,904	206,434,615	-	26,000,948	450,807	25,764
					-		-	-
Less Retirements and Replacement resulting from implementation of 2001 Plan	2,720,545	961,856		\$ 1,758,689		224,169	6,773	220
Subtotal	\$ 221,906,416	\$ 9,943,177	\$ 1,677,904	\$ 213,641,143	\$ -	\$ 26,542,096	\$ 460,237	\$ 26,671
2003 Plan:								
Project 18 - Ghent Ash Pond Dike Elevation	16,148,295	760,652	-	15,387,644	-	1,978,457	29,067	1,934
Less Retirements and Replacement resulting from implementation of 2003 Plan								
Subtotal	16,148,295	760,652	-	15,387,644	-	1,978,457	29,067	1,934
2005 Plan:								
Project 19 - Ash Handling at Ghent 1 and Ghent Station	\$ -	\$ -	\$ 337,178	\$ 337,178	\$ -	\$ -	\$ -	\$ -
Project 20 - Ash Treatment Basin Expansion at E.W. Brown Station	-	-	2,381,120	2,381,120	-	-	-	210
Project 21 - FGD's at all E.W. Brown Units and at Ghent 2,3, and 4	-	-	39,169,242	39,169,242	-	-	-	3,097
					-		-	-
Less Retirements and Replacement resulting from implementation of 2005 Plan								
Subtotal	\$ -	\$ -	\$ 41,887,541	\$ 41,887,541	\$ -	\$ -	\$ -	\$ 3,306
TOTAL	\$ 238,054,711	\$ 10,703,829	\$ 43,565,445	\$ 270,916,328	\$ -	\$ 28,520,553	\$ 489,304	\$ 31,911

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances**

For the Expense Month of March 2006

Vintage Year	Number of Allowances	Total Dollar Value of Vintage Year	Comments and Explanations
Current Year	128,748	1,205,114	
2007	83,343		
2008	83,343		
2009	83,343		
2010	77,535		
2011	77,535		
2012	77,535		
2013	77,535		
2014	77,535		
2015	77,535		
2016	77,535		
2017	77,535		
2018	77,535		
2019	77,535		
2020	77,535		
2021	77,535		
2022	77,535		
2023	77,535		
2024	77,535		
2025	77,535		
2026 - 2033	697,815		

In the "Comments and Explanation" Column, describe any allowance inventory adjustment other than the assignment of allowances by EPA. Inventory adjustments include, but are not limited to, purchases, allowances acquired as part of other purchases, and the sale of allowances.

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Inventory of Emission Allowances - Current Vintage Year

For the Month Ended March 31, 2006

	Beginning Inventory	Allocations/Purchases	Utilized (Steam Power)	Utilized (Other Power Generation)	Sold	Ending Inventory	Allocation, Purchase, or Sale Date & Vintage Years
TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS							
Quantity	137,955	0	9,207	0	0	128,748	
Dollars	1,291,291	0	86,178	0	0	1,205,113	
\$/Allowance	\$ 9.36	\$ -	\$ 9.36	\$ -	\$ -	\$ 9.36	
ALLOCATED ALLOWANCES FROM EPA: STEAM							
Quantity	137,826	0	9,207	0	0	128,619	
Dollars	\$ 1,290,083.71	\$ -	\$ 86,177.52	\$ -	\$ -	1,203,906	
\$/Allowance	\$ 9.36	\$ -	\$ 9.36	\$ -	\$ -	\$ 9.36	
ALLOCATED ALLOWANCES FROM EPA: OTHER POWER GENERATION							
Quantity	129	0	0	0	0	129	
Dollars	\$ 1,207.00	\$ -	\$ -	\$ -	\$ -	1,207	
\$/Allowance	\$ 9.36	\$ -	\$ -	\$ -	\$ -	\$ 9.36	
ALLOWANCES FROM PURCHASES:							
From Market:							
Quantity	0	0	0	0	0	0	
Dollars	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
ALLOWANCES FROM PURCHASES:							
From LG&E							
Quantity	0	0	0	0	0	0	
Dollars	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Emission Allowance Expense for Other Power Generation is excluded from expense reported on Form 2.00 for recovery through the monthly billing factor

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
O&M Expenses and Determination of Cash Working Capital Allowance

For the Month Ended March 31, 2006

Environmental Compliance Plan	
O&M Expenses	Amount
11th Previous Month	\$17,761
10th Previous Month	\$148,495
9th Previous Month	\$240,921
8th Previous Month	\$204,935
7th Previous Month	\$145,785
6th Previous Month	\$192,358
5th Previous Month	\$80,114
4th Previous Month	\$40,909
3rd Previous Month	\$50,617
2nd Previous Month	\$53,579
Previous Month	\$7,529
Current Month	\$14,878
Total 12 Month O&M	\$1,197,881

Determination of Working Capital Allowance	
12 Months O&M Expenses	\$1,197,881
One Eighth (1/8) of 12 Month O&M Expenses	\$149,735
Pollution Control Cash Working Capital Allowance	\$149,735

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

For the Month Ended March 31, 2006

O&M Expense Account	E. W. Brown	Ghent	Total
2001 Plan			
506104 - NOx Operation -- Consumables	-	-	\$ -
506105 - NOx Operation -- Labor and Other	-	-	\$ -
512101 - NOx Maintenance	-	14,878	14,878
Total 2001 Plan O&M Expenses	\$ -	\$ 14,878	\$ 14,878
2005 Plan			
502006 - Scrubber Operations	-	-	-
512005 - Scrubber Maintenance	-	-	-
Total 2005 Plan O&M Expenses	\$ -	\$ -	\$ -

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Monthly Average Revenue Computation of R (m)

For the Month Ended March 31, 2006

(1)	Kentucky Jurisdictional Revenues					Non-Jurisdictional Revenues	Total Company Revenues	
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Month	Base Rate Revenues	Fuel Clause Revenues	Environmental Surcharge Revenues	Total (2)+(3)+(4)	Total Excluding Environmental Surcharge (5)-(4)	Total Including Off-System Sales (See Note 1)	Total (5)+(7)	Total Excluding Environmental Surcharge (8)-(4)
Apr-05	57,893,284.60	4,799,781.61	1,226,103.37	\$ 63,919,169.58	\$ 62,693,066.21	14,100,893.99	\$ 78,020,063.57	\$ 76,793,960.20
May-05	51,590,102.21	3,325,274.70	1,665,912.22	56,581,289.13	54,915,376.91	18,544,096.59	75,125,385.72	73,459,473.50
Jun-05	60,622,382.14	7,375,089.78	2,204,030.23	70,201,502.15	67,997,471.92	17,901,762.30	88,103,264.45	85,899,234.22
Jul-05	75,008,054.39	2,039,678.20	1,597,764.26	78,645,496.85	77,047,732.59	20,895,831.78	99,541,328.63	97,943,564.37
Aug-05	73,522,297.54	14,895,921.33	3,098,331.67	91,516,550.54	88,418,218.87	22,006,165.67	113,522,716.21	110,424,384.54
Sep-05	73,790,825.52	11,154,685.58	2,493,515.84	87,439,026.94	84,945,511.10	25,977,976.72	113,417,003.66	110,923,487.82
Oct-05	63,859,204.92	10,743,309.05	875,784.58	75,478,298.55	74,602,513.97	16,590,996.15	92,069,294.70	91,193,510.12
Nov-05	59,180,424.02	8,664,839.77	1,475,512.85	69,320,776.64	67,845,263.79	24,055,674.66	93,376,451.30	91,900,938.45
Dec-05	72,177,957.44	9,216,688.78	2,346,498.33	83,741,144.55	81,394,646.22	26,085,678.71	109,826,823.26	107,480,324.93
Jan-06	76,013,168.72	4,201,311.72	2,199,122.31	82,413,602.75	80,214,480.44	23,892,499.86	106,306,102.61	104,106,980.30
Feb-06	69,306,192.05	3,954,027.20	1,739,100.84	74,999,320.09	73,260,219.25	15,643,022.56	90,642,342.65	88,903,241.81
Mar-06	68,178,508.99	2,724,080.58	1,696,176.86	72,598,766.43	70,902,589.57	14,530,098.90	87,128,865.33	85,432,688.47
Average Monthly Jurisdictional Revenues, Excluding Environmental Surcharge, for 12 Months Ending Current Expense Month.					\$73,686,424.24			
Jurisdictional Allocation Percentage for Current Month (Environmental Surcharge Excluded from Calculations): Expense Month Kentucky Jurisdictional Revenues Divided by Expense Month Total Company Revenues: Column (6) / Column (9) =								82.99%
							Note 1 - Excludes Brokered Sales, Total for Current Month =	\$ 8,599.00

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Reconciliation of Reported Revenues

For the Month Ended March 31, 2006

Description	Revenues per ES Form 3.0	Revenues per Income Statement
Kentucky Retail Revenues		
Base Rates	\$ 68,178,508.99	\$ 68,178,508.99
Fuel Adjustment Clause	2,724,080.58	2,724,080.58
Environmental Surcharge		1,696,176.86
CSR Credits		(95,671.36)
Total Kentucky Jurisdictional Revenues for Environmental Surcharge Purposes =	\$ 70,902,589.57	
Non -Jurisdictional Revenues		
Tennessee Retail	208.32	208.32
Virginia Retail	4,929,183.00	4,929,183.00
Wholesale	6,398,636.56	6,398,636.56
InterSystem (Total Less Transmission Portion Booked in Account 447)	3,202,071.02	3,202,071.02
Pitcairn, PA	-	-
Total Non-Jurisdictional Revenues for Environmental Surcharge Purposes =	\$ 14,530,098.90	
Total Company Revenues for Environmental Surcharge Purposes =	\$ 85,432,688.47	
Reconciling Revenues		
Brokered	8,599.35	8,599.35
InterSystem (Transmission Portion Booked in Account 447)		(347,554.67)
Unbilled		38,000.00
Provision for Refund		8,253,483.00
Monthly Merger Surcredit Settlement Amortization		(89,157.68)
Miscellaneous		3,092,654.95
Total Company Revenues per Income Statement =		\$ 97,989,218.92

APPENDIX VI
Timeline of Data Input Requirement

Monthly ECR Timeline

Workday Data Submission	Report	Company	Form	Data Utilization	Data Source	Data Review	Responsible Person	Distribution
Third	Bill Frequency Analysis (CA7120A), Monthly Revenue (7680C), Base Revenues	KU		Monthly Over/Under Calculations & Monthly ECR Filings to KPSC	CIS	Revenue Accounting	Kim Withers	
Third	Cost of Capital	KU & LG&E		Monthly Over/Under Calculations	Financial Statements	Utility Accounting	Buddy Ray	
Fourth	Estimate of Base Revenue by Rate Class	KU		Monthly Over/Under Calculations	CIS	Revenue Accounting	David Stead	
Fourth	Monthly Over/Under Calculation	KU & LG&E		Financial Planning, Utility & Revenue Accounting		Rates	Don Harris	Mike Brann-KU Revenue Acctg., Robert Conroy-Rates, Carol Foxworthy-Rates, Frank Mazza-Revenue Acctg., David Stead-LG&E Revenue Acctg., & Kim Withers-KU Revenue Acctg.
Fourth	Unbilled Revenue	KU	ES Form 3.10	Revenue Reconciliation	Revenue Accounting	Revenue Accounting	Albert Elkins	
Fifth	Trial Balance	KU	ES Form 3.10	Monthly Revenue Reconciliation	Oracle General Ledger	Accounting	Carol Foxworthy	
Tenth	Plant in Service, CWIP, Depreciation, and Taxes	KU & LG&E	ES Form 2.11 & 2.12	Rate Base Calculation	Property Accounting: Oracle Fixed Assets, Oracle Projects, Oracle FSG, and CIS	Property Accounting and Tax	Eric Riggs, Scott Williams	
Tenth	Revenue	LG&E	ES Form 3.10	Monthly Revenue Reconciliation	Oracle Fixed Assets, Oracle Projects, Oracle FSG, and CIS	Revenue Accounting	Richard Dowdell	
Tenth	Revenue Volume Analysis	KU	ES Form 3.10	Provision for Refund	Oracle Projects, Oracle FSG, & CIS	Revenue Accounting	Mike Brann	
Tenth	Allowance Inventory, and O&M Expense	KU & LG&E	ES Form 2.30, 2.31, 2.40 & 2.50	Rate Base & Pollution Control Operating Expense Calculation	Karen Tipton (Corp. Acctg.)	Utility Accounting and Environmental Affairs	Karen Tipton	

Monthly ECR Timeline

Workday Data Submission	Report	Company	Form	Data Utilization	Data Source	Data Review	Responsible Person	Distribution
10 days prior to billing date	Monthly ECR Filings to KPSC	KU & LG&E					Don Harris	Karen Tipton-Corp. Acctg., Mike Lowery-Customer Acct., David Stead-Ku Revenue Acctg., Sharon Dodson-Environmental Affairs, Shannon Charnas Financial Acctg. & Reporting, Valarie Scott, Scott Williams-Financial Acctg. And Reporting, Eric Raible-Financial Planning, Debbie Singery-Generation Services, Eric Riggs-Property Accounting, Buddy Ray-Corp. Acctg., Chris Garrett-Utility Tax, Kendrick Riggs-Outside Counsel, Mary Gillespie-Rates, and Mike Brann-Revenue Acctg.

**Schedule for Filing Fuel Clause Form A's and
Environmental Surcharge Billing Factors for 2006**

January 23 (15th Business Day) (Effective for Billing on February 2, 2006)

February 21 (15th Business Day) (Effective for Billing on March 3, 2006)

March 24 (18th Business Day) (Effective for Billing on April 3, 2006)

April 21 (14th Business Day) (Effective for Billing on May 3, 2006)

May 26 (20th Business Day) (Effective for Billing on June 5, 2006)

June 23 (17th Business Day) (Effective for Billing on July 5, 2006)

July 24 (15th Business Day) (Effective for Billing on August 3, 2006)

August 22 (16th Business Day) (Effective for Billing on September 1, 2006)

September 22 (15th Business Day) (Effective for Billing on October 3, 2006)

October 20 (15th Business Day) (Effective for Billing on November 1, 2006)

November 21 (15th Business Day) (Effective for Billing on December 1, 2006)

December ?? (??th Business Day) (Effective for Billing on January ?, 2007)

Attachment 1

