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PUBLIC SERVICE  
COMMISSION

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

**Louisville Gas and  
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June 14, 2006

**RE: AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION  
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF  
LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-  
MONTH BILLING PERIODS ENDING OCTOBER 31, 2003, APRIL  
30, 2004, OCTOBER 31, 2004, OCTOBER 31, 2005, AND APRIL 30,  
2006, AND FOR THE TWO-YEAR BILLING PERIOD ENDING  
APRIL 30, 2005 – CASE NO. 2006-00130**

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 Louisville Gas and Electric Company to Appendix B of the Commission's Order dated April 25, 2006, in the above-referenced matter.

Under separate cover, Louisville Gas and Electric 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 2 of Appendix B to the Commission's April 25, 2006 Order as soon as possible, but no later 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 "Robert M. Conroy". The signature is stylized with a large, sweeping initial "R" and a long, horizontal flourish extending to the right.

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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JUN 14 2006

PUBLIC SERVICE  
COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE )  
COMMISSION OF THE ENVIRONMENTAL )  
SURCHARGE MECHANISM OF LOUISVILLE GAS )  
AND ELECTRIC COMPANY FOR THE SIX-MONTH )  
BILLING PERIODS ENDING OCTOBER 31, 2003, )  
APRIL 30, 2004, OCTOBER 31, 2004, )  
OCTOBER 31, 2005, AND APRIL 30, 2006 AND )  
FOR THE TWO-YEAR BILLING PERIOD ENDING )  
APRIL 30, 2005 )

CASE NO:  
2006-00130

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 Louisville Gas and Electric Company (“LG&E”).

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, LG&E is proposing to transfer, or “roll in”, \$8,669,729 in annual  
7 revenue requirements collected under its Environmental Surcharge Mechanism to base  
8 rates. Question No. 11 of the information request set forth in Appendix A of the  
9 Commission’s Order dated April 25, 2006, of this proceeding asked LG&E to explain  
10 how 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 \$8,669,729 roll-in amount to the classes of  
14 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, LG&E is also presenting  
20 an allocation methodology for the Commission’s consideration that would allocate the  
21 roll-in amount in a way that gives some recognition to the inter-class rate subsidies that  
22 currently exists in LG&E’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. 2003-00433), LG&E 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 LG&E's cost of service study, adjusted to reflect the rates approved by the  
8 Commission in Case No. 2003-00433:

9

<b>TABLE 1</b>	
<b>Louisville Gas and Electric Company</b>	
<b>Summary of Class Rates of Return</b>	
<b>Based on Service Rates Approved by the Commission</b>	
<b>in Case No. 2003-00433</b>	
<b>Rate Class</b>	<b>Rate of Return</b>
Residential	3.45%
General Service	11.98%
Rate LC	10.00%
Rate LC-TOD	8.04%
Rate LP	11.52%
Rate LP-TOD	6.08%
Special Contract	3.72%
Special Contract	4.33%
Special Contract	6.19%
Lighting	3.45%
<b>Total</b>	<b>6.36%</b>

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22

**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 (6.36% for LG&E) 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. 2003-00433. Therefore, these rates of return correspond to LG&E's current base rates, which were established in Case No. 2003-00433. 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. 2003-00433 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 
$$\text{Rev Req} = \text{O\&M} + \text{Depreciation} + \text{Return} + \text{IT} + \text{OT}$$

18  
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 LG&E's cost  
9 of 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 LG&E. For LG&E, customer classes with a rate of return falling between 5.36% and  
13 7.36% would receive the revenue methodology allocation of the roll-in amount (i.e., the  
14 amount determined based on a base-rate allocation using the methodology applied in  
15 prior roll-in proceedings.) In other words, customer classes with a rate of return between  
16 5.36% and 7.36% will not receive a credit or charge to correct for the rate subsidies that  
17 exist in base rates. If a class rate of return is within plus or minus 100 basis points of the  
18 overall rate of return then the service rates can be considered to reasonably reflect the cost  
19 of providing service.

20 For all customer classes with rates of return above the range – i.e., above 7.36% --  
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 5.36% -- 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, \$2,165,681 of the total roll-in amount of  
5 \$8,669,729 would be used to correct the subsidies that currently exist in base rates. The  
6 \$2,165,681 correction for LG&E would be allocated as a credit to those rate classes with  
7 rates of return above 7.36% based on the total amount of subsidy above this threshold rate  
8 of return paid by each customer class. Similarly, the \$2,165,681 correction would be  
9 allocated as a charge to those rate classes with rates of return below 5.36% on the basis of  
10 the total subsidy below 5.36% 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 \$2,165,681 subsidy-correction amount determined?**

14 A. The amount used to correct subsidies (which was \$2,165,681 for LG&E) was determined  
15 so 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 \$2,165,681 subsidy-correction amount is allocated on the basis  
18 of annual subsidies paid by those rate classes above 7.36%, 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 allocation methodology. This requirement would ensure that  
21 each class will bear a significant responsibility for the rolled-in costs, even though the

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

3 **Q. Have you prepared an exhibit applying this allocation methodology to the LG&E**  
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 (7.36% for  
13 LG&E), and Column (7) shows the subsidies received by each customer class with a rate  
14 of return below the bottom end of the range (5.36% for LG&E). The subsidies paid or  
15 received shown in Columns (6) and (7) were determined based on the amount of  
16 subsidies above or below the top or bottom end of the range. In other words, the  
17 subsidies were not determined against the mid-point of the range, but rather at the end-  
18 points of the range. This approach is premised on the idea than a rate of return that falls  
19 within plus or minus 100 basis points of the overall rate of return is within the zone of  
20 reasonableness for class rates of return. Column (8) shows the amount *credited* to the  
21 allocated roll-in amount in Column (2) to certain customer classes to correct subsidies  
22 currently being *paid* by those rate classes, and Column (9) shows the amount *added* to the

1 allocated roll-in amount in Column (2) to certain customer classes to correct subsidies  
2 currently being *received* by those rate classes. The total amount credited to customer  
3 classes having rates of return above the top end of the range is equal to the amount added  
4 to customer classes having rates of return below the bottom end of the range. Column  
5 (10) shows the net roll-in amount allocated to each customer class, and Column (11)  
6 shows the percentage of base rate revenues represented by the allocated amount. For  
7 LG&E, Large Power Rate LP would receive the smallest relative allocation  
8 (corresponding to 0.48% of base rate revenue), and Residential Rate RS would receive  
9 the largest relative allocation, corresponding to 2.20% of base rate revenue, which  
10 compares to an average amount for all rate classes of 1.36%.

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

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

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

17 A. Yes. The allocation calculations shown in WSS-2 are based on base-rate revenues for the  
18 12 months ended February 28, 2005. Consistent with the Commission's Order in Case  
19 No. 2003-00236, in determining the roll-in allocations and the impact on unit charges, the  
20 allocations would be revised to reflect base rates for the most recent 12-month period  
21 subsequent to the Commission issuing an order in these proceedings. Although we would  
22 not anticipate that the total roll-in amount of \$8,669,729 for LG&E would change,

1 Column (1) of WSS-2 would be updated to reflect base-rate revenues for a more current  
2 12-month period.

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

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

16 Residential Rate RS, for example, is a two-part rate consisting of an customer  
17 charge and energy charge. Under our proposal, the roll-in amount allocated to the rate  
18 class would be recovered exclusively through the energy charge of the rate. We are  
19 proposing that none of the roll-in amount be recovered through the customer charge.  
20 Because the customer charge has no relationship to the environmental costs being rolled-  
21 in, which are principally related to fixed power production costs, we do not believe that it  
22 is appropriate to recover any of these costs through the customer charge of the rate.

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

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

7 A. Yes, it does

8

9

10

11

**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.

**Louisville Gas and Electric Company**  
**Environmental Surcharge Roll-In Allocation**  
**Based on 12 Months Ended February 2005**

LG&E Roll-In Amount: \$ 8,669,729  
Amount of Roll-In Applied to Correct Subsidies \$ 2,165,681  
Percentage of Total Roll-In Applied to Correct Subsidies 24.98%

	(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	\$ 242,850,133	\$ 3,305,941	3.45%		\$ -	\$ -	\$ 22,072,855	\$ -	\$ 2,042,859	\$ 5,348,800	2.20%
General Service	92,060,561	1,253,229	11.98%		-	(13,337,493)	-	(939,922)	-	313,307	0.34%
Rate LC	118,318,926	1,610,686	10.00%		-	(10,286,081)	-	(724,882)	-	885,804	0.75%
Rate LC-TOD	27,480,243	374,091	8.04%		-	(637,445)	-	(44,922)	-	329,169	1.20%
Rate LP	33,500,196	456,041	11.52%		-	(4,203,280)	-	(296,214)	-	159,827	0.48%
Rate LP-TOD	95,154,175	1,295,342	6.08%	Yes	1,295,342	-	-	-	-	1,295,342	1.36%
Special Contract - Dupont	5,224,156	71,117	3.72%		-	-	324,630	-	30,045	101,162	1.94%
Special Contract - Fort Knox	7,283,696	99,154	4.33%		-	-	282,685	-	26,163	125,316	1.72%
Special Contract - Lou. Water Co.	1,956,467	26,634	6.19%	Yes	26,634	-	-	-	-	26,634	1.36%
Lighting	13,038,534	177,495	4.45%		-	(2,266,731)	719,760	(159,741)	66,614	84,368	0.65%
<b>Total</b>	<b>\$ 636,867,088</b>	<b>\$ 8,669,729</b>			<b>\$ 1,321,976</b>	<b>\$ (30,731,030)</b>	<b>\$ 23,399,930</b>	<b>\$ (2,165,681)</b>	<b>\$ 2,165,681</b>	<b>\$ 8,669,729</b>	<b>1.36%</b>

Louisville Gas and Electric Company

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

<u>Rate Class</u>	<u>Allocation Based on Revenue Methodology</u>	<u>Allocation Based on Alternative Methodology</u>
Residential	\$ 3,305,941	\$ 5,348,800
General Service	1,253,229	313,307
Rate LC	1,610,686	885,804
Rate LC-TOD	374,091	329,169
Rate LP	456,041	159,827
Rate LP-TOD	1,295,342	1,295,342
Special Contract - Dupont	71,117	101,162
Special Contract - Fort Knox	99,154	125,316
Special Contract - Lou. Water Co.	26,634	26,634
Lighting	177,495	84,368
<b>Total</b>	<b>\$ 8,669,729</b>	<b>\$ 8,669,729</b>



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 LOUISVILLE GAS ) CASE NO. 2006-00130  
AND ELECTRIC COMPANY FOR THE SIX-MONTH )  
BILLING PERIODS ENDING OCTOBER 31, 2003, )  
APRIL 30, 2004, OCTOBER 31, 2004, )  
OCTOBER 31, 2005, AND APRIL 30, 2006, AND )  
FOR THE TWO-YEAR BILLING PERIOD ENDING )  
APRIL 30, 2005 )

RESPONSE OF  
LOUISVILLE GAS AND ELECTRIC COMPANY  
TO  
INFORMATION REQUESTED IN  
APPENDIX B OF COMMISSION'S ORDER  
DATED APRIL 25, 2006

FILED: JUNE 14, 2006

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 1**

**Witness: Shannon Charnas / Robert M. Conroy**

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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 ("1995 Plan") and the three amendments to the environmental compliance plan ("Post-1995 Plans"), provide the following information for each of the billing periods under review:

- a. For the 1995 Plan, calculate any true-up adjustment needed to recognize changes in the weighted average cost of LG&E'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-1995 Plans, calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's electric 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. LG&E will file the requested response no later than June 19, 2006.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 3**

**Witness: Shannon Charnas**

Q-3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported during each billing period under review for Pollution Control Deferred Income Taxes.

A-3. LG&E 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 20 year MACRS accelerated 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.

**Louisville Gas and Electric Company  
Deferred Tax Calculations 1995 Plan  
1995 Environmental Compliance Plans, by Approved Project**

**1995 Plan**

Project 1 - Mill Creek Air Quality Systems Improvement

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							1,871,675	
Mar-03	27,775,297	124,526	145,791	(21,265)	40.3625%	(8,583)	1,863,092	-
Apr-03	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,854,506	-
May-03	27,775,297	124,526	145,796	(21,270)	40.3625%	(8,585)	1,845,921	-
Jun-03	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,837,335	-
Jul-03	27,775,297	124,526	145,796	(21,270)	40.3625%	(8,585)	1,828,750	-
Aug-03	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,820,164	-
Sep-03	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,811,578	-
Oct-03	27,775,297	124,526	145,796	(21,270)	40.3625%	(8,585)	1,802,993	-
Nov-03	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,794,407	-
Dec-03	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,785,821	-
Jan-04	27,775,297	124,526	145,796	(21,270)	40.3625%	(8,585)	1,777,236	-
Feb-04	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,768,650	-
Mar-04	27,775,297	124,526	145,796	(21,270)	40.3625%	(8,585)	1,760,065	-
Apr-04	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,751,479	-
May-04	27,775,297	124,526	145,798	(21,272)	40.3625%	(8,586)	1,742,893	-
Jun-04	27,775,297	124,526	145,796	(21,270)	40.3625%	(8,585)	1,734,308	-

**Louisville Gas and Electric Company  
Deferred Tax Calculations 1995 Plan  
1995 Environmental Compliance Plans, by Approved Project**

**1995 Plan**

Project 2 - Mill Creek Reactive Particle Emission Project

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							477,190	
Mar-03	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	474,987	-
Apr-03	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	472,783	-
May-03	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	470,579	-
Jun-03	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	468,376	-
Jul-03	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	466,173	-
Aug-03	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	463,969	-
Sep-03	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	461,766	-
Oct-03	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	459,562	-
Nov-03	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	457,359	-
Dec-03	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	455,156	-
Jan-04	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	452,952	-
Feb-04	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	450,749	-
Mar-04	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	448,546	-
Apr-04	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	446,342	-
May-04	7,128,164	31,958	37,416	(5,458)	40.3625%	(2,203)	444,139	-
Jun-04	7,128,164	31,958	37,419	(5,461)	40.3625%	(2,204)	441,935	-

**Louisville Gas and Electric Company**  
**Deferred Tax Calculations 1995 Plan**  
**1995 Environmental Compliance Plans, by Approved Project**

**1995 Plan**

Project 3 - Cane Run 4 Precipitator

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							301,704	
Mar-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	306,047	-
Apr-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	310,390	-
May-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	314,733	-
Jun-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	319,076	-
Jul-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	323,419	-
Aug-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	327,762	-
Sep-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	332,105	-
Oct-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	336,448	-
Nov-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	340,791	-
Dec-03	8,489,126	20,798	10,038	10,760	40.3625%	4,343	345,134	-
Jan-04	8,489,126	20,798	10,038	10,760	40.3625%	4,343	349,477	-
Feb-04	8,489,126	20,798	10,038	10,760	40.3625%	4,343	353,820	-
Mar-04	8,489,126	20,798	10,040	10,758	40.3625%	4,342	358,162	-
Apr-04	8,489,126	20,798	10,038	10,760	40.3625%	4,343	362,505	-
May-04	8,489,126	20,798	10,038	10,760	40.3625%	4,343	366,848	-
Jun-04	8,489,126	20,798	10,038	10,760	40.3625%	4,343	371,191	-

**Louisville Gas and Electric Company  
Deferred Tax Calculations 1995 Plan  
1995 Environmental Compliance Plans, by Approved Project**

**1995 Plan**

Project 4 - Continuous Emission Monitoring Systems

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							324,757	
Mar-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	327,790	-
Apr-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	330,823	-
May-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	333,856	-
Jun-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	336,889	-
Jul-03	4,645,045	9,754	2,242	7,512	40.3625%	3,032	339,921	-
Aug-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	342,954	-
Sep-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	345,987	-
Oct-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	349,020	-
Nov-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	352,053	-
Dec-03	4,645,045	9,754	2,240	7,514	40.3625%	3,033	355,086	-
Jan-04	4,645,045	9,754	2,240	7,514	40.3625%	3,033	358,119	-
Feb-04	4,645,045	9,754	2,242	7,512	40.3625%	3,032	361,151	-
Mar-04	4,645,045	9,754	2,240	7,514	40.3625%	3,033	364,184	-
Apr-04	4,645,045	9,754	2,240	7,514	40.3625%	3,033	367,217	-
May-04	4,645,045	9,754	2,240	7,514	40.3625%	3,033	370,250	-
Jun-04	4,645,045	9,754	2,240	7,514	40.3625%	3,033	373,283	-

**Louisville Gas and Electric Company  
Deferred Tax Calculations 1995 Plan  
1995 Environmental Compliance Plans, by Approved Project**

**1995 Plan**

Project 5 - Nitrogen Oxide Emission Controls

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							1,935,144	
Mar-03	3,798,930	72,118	29,740	42,378	40.3625%	17,105	1,952,249	-
Apr-03	3,798,930	72,118	29,742	42,376	40.3625%	17,104	1,969,353	-
May-03	3,798,930	72,118	29,742	42,376	40.3625%	17,104	1,986,457	-
Jun-03	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,003,562	-
Jul-03	3,798,930	72,118	29,742	42,376	40.3625%	17,104	2,020,666	-
Aug-03	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,037,771	-
Sep-03	3,798,930	72,118	29,742	42,376	40.3625%	17,104	2,054,875	-
Oct-03	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,071,980	-
Nov-03	3,798,930	72,118	29,742	42,376	40.3625%	17,104	2,089,084	-
Dec-03	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,106,189	-
Jan-04	3,798,930	72,118	29,742	42,376	40.3625%	17,104	2,123,293	-
Feb-04	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,140,398	-
Mar-04	3,798,930	72,118	29,742	42,376	40.3625%	17,104	2,157,502	-
Apr-04	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,174,607	-
May-04	3,798,930	72,118	29,740	42,378	40.3625%	17,105	2,191,712	-
Jun-04	3,798,930	72,118	29,742	42,376	40.3625%	17,104	2,208,816	-

**Louisville Gas and Electric Company  
Deferred Tax Calculations 2001 Plan  
Post-1995 Environmental Compliance Plans, by Approved Project**

**2001 Plan**

Project 6 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							457,403	
Mar-03	41,035,251	70,112	210,018	139,906	40.3625%	56,469	513,873	(114,512)
Apr-03	44,186,131	70,112	210,018	139,906	40.3625%	56,469	570,342	(114,717)
May-03	44,186,131	70,112	210,018	139,906	40.3625%	56,469	626,811	(114,717)
Jun-03	44,186,131	70,112	210,018	139,906	40.3625%	56,469	683,281	(114,717)
Jul-03	44,186,131	70,112	210,018	139,906	40.3625%	56,469	739,750	(114,717)
Aug-03	44,186,131	70,112	210,018	139,906	40.3625%	56,469	796,220	(114,717)
Sep-03	44,186,131	70,112	210,018	139,906	40.3625%	56,469	852,689	(114,717)
Oct-03	46,149,307	70,112	210,018	139,906	40.3625%	56,469	909,158	(114,717)
Nov-03	46,149,307	70,112	210,018	139,906	40.3625%	56,469	965,628	(114,717)
Dec-03	131,496,738	70,112	210,018	139,906	40.3625%	56,469	1,022,097	(343,684)
Jan-04	131,496,738	70,112	194,279	124,167	40.3625%	50,117	1,072,214	(343,684)
Feb-04	131,496,738	70,112	194,279	124,167	40.3625%	50,117	1,122,331	(343,684)
Mar-04	132,047,399	422,710	349,528	(73,182)	40.3625%	(29,538)	1,092,793	(343,684)
Apr-04	132,645,845	170,855	349,528	178,673	40.3625%	72,117	1,164,910	(362,386)
May-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,237,027	(513,906)
Jun-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,309,144	(513,906)
Jul-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,381,261	(513,906)
Aug-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,453,378	(513,906)
Sep-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,525,495	(513,906)
Oct-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,597,612	(513,906)
Nov-04	182,011,014	170,855	349,528	178,673	40.3625%	72,117	1,669,729	(513,906)
Dec-04	182,011,014	2,825,419	4,218,595	1,393,176	40.3625%	562,321	2,232,049	(554,062)
Jan-05	182,011,014	599,792	1,057,333	457,541	39.5500%	180,958	2,413,007	(554,062)
Feb-05	182,011,014	425,230	1,057,333	632,103	39.5500%	249,997	2,663,003	(554,062)
Mar-05	182,011,014	425,230	1,057,333	632,103	39.5500%	249,997	2,913,000	(554,062)
Apr-05	182,011,014	425,230	1,057,333	632,103	39.5500%	249,997	3,162,997	(554,062)
May-05	183,455,372	426,681	1,064,104	637,423	39.5500%	252,101	3,415,098	(554,062)
Jun-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	3,666,625	(554,062)
Jul-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	3,918,152	(554,062)
Aug-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	4,169,679	(554,062)
Sep-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	4,421,206	(554,062)
Oct-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	4,672,733	(554,062)
Nov-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	4,924,260	(554,062)
Dec-05	183,455,372	428,132	1,064,104	635,972	39.5500%	251,527	5,175,787	(554,062)
Jan-06	183,455,372	428,132	994,645	566,513	39.5500%	224,056	5,399,843	(554,062)
Feb-06	183,455,372	428,132	994,645	566,513	39.5500%	224,056	5,623,899	(554,062)

**Louisville Gas and Electric Company  
Deferred Tax Calculations 2003 Plan  
Post-1995 Environmental Compliance Plans, by Approved Project**

**2003 - Plan**

Project 7 -- Mill Creek FGD Scrubber Conversion

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							(41,880)	
Mar-03	12,472,911	18,953	19,432	479	40.3625%	193	(41,687)	(72,341)
Apr-03	12,472,911	18,953	19,432	479	40.3625%	193	(41,493)	(72,341)
May-03	12,472,911	18,953	19,432	479	40.3625%	193	(41,300)	(72,341)
Jun-03	18,963,847	33,503	54,205	20,702	40.3625%	8,356	(32,944)	(139,580)
Jul-03	18,963,847	48,054	54,205	6,151	40.3625%	2,483	(30,461)	(139,580)
Aug-03	18,963,847	48,054	54,205	6,151	40.3625%	2,483	(27,979)	(139,580)
Sep-03	18,963,847	48,054	54,205	6,151	40.3625%	2,483	(25,496)	(139,580)
Oct-03	18,963,847	48,054	54,205	6,151	40.3625%	2,483	(23,013)	(139,580)
Nov-03	18,963,847	48,054	54,205	6,151	40.3625%	2,483	(20,530)	(139,580)
Dec-03	18,963,847	48,054	54,205	6,151	40.3625%	2,483	(18,048)	(139,580)
Jan-04	18,963,847	48,054	73,339	25,285	40.3625%	10,206	(7,842)	(139,580)
Feb-04	18,963,847	48,054	73,339	25,285	40.3625%	10,206	2,364	(139,580)
Mar-04	18,963,847	48,054	73,339	25,285	40.3625%	10,206	12,570	(139,580)
Apr-04	18,963,847	48,054	73,339	25,285	40.3625%	10,206	22,775	(139,580)
May-04	30,861,686	58,845	100,081	41,236	40.3625%	16,644	39,419	(516,073)
Jun-04	30,861,686	69,637	100,081	30,444	40.3625%	12,288	51,707	(516,073)
Jul-04	30,861,686	69,637	100,081	30,444	40.3625%	12,288	63,995	(516,073)
Aug-04	30,861,686	69,637	100,081	30,444	40.3625%	12,288	76,283	(516,073)
Sep-04	30,861,686	69,637	100,081	30,444	40.3625%	12,288	88,570	(516,073)
Oct-04	30,861,686	69,637	100,081	30,444	40.3625%	12,288	100,858	(516,073)
Nov-04	30,861,686	69,637	100,081	30,444	40.3625%	12,288	113,146	(516,073)
Dec-04	30,861,686	762,635	586,293	(176,342)	40.3625%	(71,176)	41,970	(516,073)
Jan-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	67,711	(516,073)
Feb-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	93,451	(516,073)
Mar-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	119,192	(516,073)
Apr-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	144,932	(516,073)
May-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	170,673	(516,073)
Jun-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	196,413	(516,073)
Jul-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	222,154	(516,073)
Aug-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	247,895	(516,073)
Sep-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	273,635	(516,073)
Oct-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	299,376	(516,073)
Nov-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	325,116	(516,073)
Dec-05	30,861,686	115,079	180,163	65,084	39.5500%	25,741	350,857	(516,073)
Jan-06	30,861,686	115,079	166,656	51,577	39.5500%	20,399	371,256	(516,073)
Feb-06	30,861,686	115,079	166,656	51,577	39.5500%	20,399	391,654	(516,073)

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**2003 - Plan**

Project 8 -- Precipitators

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							149,383	
Mar-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	156,723	(108,443)
Apr-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	164,063	(108,443)
May-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	171,403	(108,443)
Jun-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	178,743	(108,443)
Jul-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	186,083	(108,443)
Aug-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	193,423	(108,443)
Sep-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	200,763	(108,443)
Oct-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	208,103	(108,443)
Nov-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	215,442	(108,443)
Dec-03	5,560,734	12,760	30,945	18,185	40.3625%	7,340	222,782	(108,443)
Jan-04	5,560,734	12,761	28,624	15,863	40.3625%	6,403	229,185	(108,443)
Feb-04	5,560,734	12,761	28,624	15,863	40.3625%	6,403	235,588	(108,443)
Mar-04	5,560,734	12,761	28,624	15,863	40.3625%	6,403	241,991	(108,443)
Apr-04	5,560,734	12,761	28,624	15,863	40.3625%	6,403	248,394	(108,443)
May-04	7,705,120	15,468	38,676	23,208	40.3625%	9,367	257,761	(279,697)
Jun-04	11,929,133	23,226	61,304	38,078	40.3625%	15,369	273,130	(275,252)
Jul-04	11,929,133	28,277	61,304	33,027	40.3625%	13,330	286,461	(275,252)
Aug-04	11,929,133	28,277	61,304	33,027	40.3625%	13,330	299,791	(275,252)
Sep-04	11,929,133	28,277	61,304	33,027	40.3625%	13,330	313,122	(275,252)
Oct-04	11,929,133	28,277	61,304	33,027	40.3625%	13,330	326,452	(275,252)
Nov-04	11,929,133	28,277	61,304	33,027	40.3625%	13,330	339,782	(275,252)
Dec-04	11,929,133	28,277	61,304	33,027	40.3625%	13,330	353,113	(275,252)
Jan-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	367,552	(275,252)
Feb-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	381,990	(275,252)
Mar-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	396,429	(275,252)
Apr-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	410,868	(275,252)
May-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	425,306	(275,252)
Jun-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	439,745	(275,252)
Jul-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	454,184	(275,252)
Aug-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	468,622	(275,252)
Sep-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	483,061	(275,252)
Oct-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	497,500	(275,252)
Nov-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	511,938	(275,252)
Dec-05	11,929,133	28,278	64,785	36,507	39.5500%	14,439	526,377	(275,252)
Jan-06	11,929,133	28,278	59,931	31,653	39.5500%	12,519	538,896	(275,252)
Feb-06	11,929,133	28,278	59,931	31,653	39.5500%	12,519	551,415	(275,252)

**Louisville Gas and Electric Company**  
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**2003 - Plan**

Project 9 -- Clearwell Water System

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	-	-	-	40.3625%	-	-	-
Apr-03	-	-	-	-	40.3625%	-	-	-
May-03	-	-	-	-	40.3625%	-	-	-
Jun-03	1,197,310	2,684	6,414	3,730	40.3625%	1,506	1,506	(56,001)
Jul-03	1,197,310	5,368	6,414	1,046	40.3625%	422	1,928	(56,001)
Aug-03	1,197,310	5,368	6,414	1,046	40.3625%	422	2,350	(56,001)
Sep-03	1,197,310	5,368	6,414	1,046	40.3625%	422	2,772	(56,001)
Oct-03	1,197,310	5,368	6,414	1,046	40.3625%	422	3,195	(56,001)
Nov-03	1,197,310	5,368	6,414	1,046	40.3625%	422	3,617	(56,001)
Dec-03	1,197,310	5,368	6,414	1,046	40.3625%	422	4,039	(56,001)
Jan-04	1,197,310	5,368	7,203	1,835	40.3625%	741	4,780	(56,001)
Feb-04	1,197,310	5,368	7,203	1,835	40.3625%	741	5,520	(56,001)
Mar-04	1,197,310	5,368	7,203	1,835	40.3625%	741	6,261	(56,001)
Apr-04	1,197,310	5,368	7,203	1,835	40.3625%	741	7,002	(56,001)
May-04	1,197,310	5,368	7,203	1,835	40.3625%	741	7,742	(56,001)
Jun-04	1,197,310	5,368	7,203	1,835	40.3625%	741	8,483	(56,001)
Jul-04	1,197,310	5,368	7,203	1,835	40.3625%	741	9,224	(56,001)
Aug-04	1,197,310	5,368	7,203	1,835	40.3625%	741	9,964	(56,001)
Sep-04	1,197,310	5,368	7,203	1,835	40.3625%	741	10,705	(56,001)
Oct-04	1,197,310	5,368	7,203	1,835	40.3625%	741	11,445	(56,001)
Nov-04	1,197,310	5,368	7,203	1,835	40.3625%	741	12,186	(56,001)
Dec-04	1,197,310	5,368	7,203	1,835	40.3625%	741	12,927	(56,001)
Jan-05	1,197,310	5,368	6,663	1,295	39.5500%	512	13,439	(56,001)
Feb-05	1,197,310	5,368	6,663	1,295	39.5500%	512	13,951	(56,001)
Mar-05	1,197,310	5,368	6,663	1,295	39.5500%	512	14,463	(56,001)
Apr-05	1,197,310	5,368	6,663	1,295	39.5500%	512	14,975	(56,001)
May-05	1,197,310	5,368	6,663	1,295	39.5500%	512	15,488	(56,001)
Jun-05	1,197,310	5,368	6,663	1,295	39.5500%	512	16,000	(56,001)
Jul-05	1,197,310	5,368	6,663	1,295	39.5500%	512	16,512	(56,001)
Aug-05	1,197,310	5,368	6,663	1,295	39.5500%	512	17,024	(56,001)
Sep-05	1,197,310	5,368	6,663	1,295	39.5500%	512	17,536	(56,001)
Oct-05	1,197,310	5,368	6,663	1,295	39.5500%	512	18,049	(56,001)
Nov-05	1,197,310	5,368	6,663	1,295	39.5500%	512	18,561	(56,001)
Dec-05	1,197,310	5,368	6,663	1,295	39.5500%	512	19,073	(56,001)
Jan-06	1,197,310	5,368	6,163	795	39.5500%	315	19,388	(56,001)
Feb-06	1,197,310	5,368	6,163	795	39.5500%	315	19,702	(56,001)

**Louisville Gas and Electric Company**  
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**2003 - Plan**

Project 10 -- Absorber Trays

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							35,269	
Mar-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	36,850	-
Apr-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	38,430	-
May-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	40,010	-
Jun-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	41,590	-
Jul-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	43,171	-
Aug-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	44,751	-
Sep-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	46,331	-
Oct-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	47,911	-
Nov-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	49,491	-
Dec-03	2,734,621	11,303	15,218	3,915	40.3625%	1,580	51,072	-
Jan-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	52,191	-
Feb-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	53,310	-
Mar-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	54,430	-
Apr-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	55,549	-
May-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	56,669	-
Jun-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	57,788	-
Jul-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	58,907	-
Aug-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	60,027	-
Sep-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	61,146	-
Oct-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	62,266	-
Nov-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	63,385	-
Dec-04	2,734,621	11,303	14,076	2,773	40.3625%	1,119	64,504	-
Jan-05	2,734,621	11,303	13,019	1,716	39.5500%	679	65,183	-
Feb-05	2,734,621	11,303	13,019	1,716	39.5500%	679	65,862	-
Mar-05	2,734,621	11,303	13,019	1,716	39.5500%	679	66,540	-
Apr-05	2,734,621	11,303	13,019	1,716	39.5500%	679	67,219	-
May-05	2,734,621	11,303	13,019	1,716	39.5500%	679	67,898	-
Jun-05	2,734,621	11,303	13,019	1,716	39.5500%	679	68,576	-
Jul-05	2,734,621	11,303	13,019	1,716	39.5500%	679	69,255	-
Aug-05	2,734,621	11,303	13,019	1,716	39.5500%	679	69,934	-
Sep-05	2,734,621	11,303	13,019	1,716	39.5500%	679	70,612	-
Oct-05	2,734,621	11,303	13,019	1,716	39.5500%	679	71,291	-
Nov-05	2,734,621	11,303	13,019	1,716	39.5500%	679	71,970	-
Dec-05	2,734,621	11,303	13,019	1,716	39.5500%	679	72,648	-
Jan-06	2,734,621	11,303	12,044	741	39.5500%	293	72,941	-
Feb-06	2,734,621	11,303	12,044	741	39.5500%	293	73,234	-

**Louisville Gas and Electric Company**  
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**2005 - Plan**

Project 11 -- Special Waste Landfill Expansion

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	0	0	-	40.3625%	-	-	-
Apr-03	-	0	-	-	40.3625%	-	-	-
May-03	-	0	-	-	40.3625%	-	-	-
Jun-03	-	0	-	-	40.3625%	-	-	-
Jul-03	-	0	-	-	40.3625%	-	-	-
Aug-03	-	0	-	-	40.3625%	-	-	-
Sep-03	-	0	-	-	40.3625%	-	-	-
Oct-03	-	0	-	-	40.3625%	-	-	-
Nov-03	-	0	-	-	40.3625%	-	-	-
Dec-03	-	0	-	-	40.3625%	-	-	-
Jan-04	-	0	-	-	40.3625%	-	-	-
Feb-04	-	0	-	-	40.3625%	-	-	-
Mar-04	-	0	-	-	40.3625%	-	-	-
Apr-04	-	0	-	-	40.3625%	-	-	-
May-04	-	0	-	-	40.3625%	-	-	-
Jun-04	-	0	-	-	40.3625%	-	-	-
Jul-04	-	0	-	-	40.3625%	-	-	-
Aug-04	-	0	-	-	40.3625%	-	-	-
Sep-04	-	0	-	-	40.3625%	-	-	-
Oct-04	-	0	-	-	40.3625%	-	-	-
Nov-04	-	0	-	-	40.3625%	-	-	-
Dec-04	-	0	-	-	40.3625%	-	-	-
Jan-05	-	0	-	-	39.5500%	-	-	-
Feb-05	-	0	-	-	39.5500%	-	-	-
Mar-05	-	0	-	-	39.5500%	-	-	-
Apr-05	-	0	-	-	39.5500%	-	-	-
May-05	-	0	-	-	39.5500%	-	-	-
Jun-05	-	0	-	-	39.5500%	-	-	-
Jul-05	-	0	-	-	39.5500%	-	-	-
Aug-05	2,188,050	0	-	-	39.5500%	-	-	-
Sep-05	2,188,050	0	-	-	39.5500%	-	-	-
Oct-05	2,188,050	0	-	-	39.5500%	-	-	-
Nov-05	2,282,981	18,210	42,806	24,596	39.5500%	9,728	9,728	-
Dec-05	2,282,981	5,568	42,806	37,238	39.5500%	14,728	24,456	-
Jan-06	2,282,981	5,567	13,734	8,167	39.5500%	3,230	27,686	-
Feb-06	2,282,981	5,567	13,734	8,167	39.5500%	3,230	30,915	-

**Louisville Gas and Electric Company**  
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**2005 - Plan**

Project 12 -- Special Waste Landfill Expansion

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	-	-	-	40.3625%	-	-	-
Apr-03	-	-	-	-	40.3625%	-	-	-
May-03	-	-	-	-	40.3625%	-	-	-
Jun-03	-	-	-	-	40.3625%	-	-	-
Jul-03	-	-	-	-	40.3625%	-	-	-
Aug-03	-	-	-	-	40.3625%	-	-	-
Sep-03	-	-	-	-	40.3625%	-	-	-
Oct-03	-	-	-	-	40.3625%	-	-	-
Nov-03	-	-	-	-	40.3625%	-	-	-
Dec-03	-	-	-	-	40.3625%	-	-	-
Jan-04	-	-	-	-	40.3625%	-	-	-
Feb-04	-	-	-	-	40.3625%	-	-	-
Mar-04	-	-	-	-	40.3625%	-	-	-
Apr-04	-	-	-	-	40.3625%	-	-	-
May-04	-	-	-	-	40.3625%	-	-	-
Jun-04	-	-	-	-	40.3625%	-	-	-
Jul-04	-	-	-	-	40.3625%	-	-	-
Aug-04	-	-	-	-	40.3625%	-	-	-
Sep-04	-	-	-	-	40.3625%	-	-	-
Oct-04	-	-	-	-	40.3625%	-	-	-
Nov-04	-	-	-	-	40.3625%	-	-	-
Dec-04	-	-	-	-	40.3625%	-	-	-
Jan-05	-	-	-	-	39.5500%	-	-	-
Feb-05	-	-	-	-	39.5500%	-	-	-
Mar-05	-	-	-	-	39.5500%	-	-	-
Apr-05	-	-	-	-	39.5500%	-	-	-
May-05	-	-	-	-	39.5500%	-	-	-
Jun-05	-	-	-	-	39.5500%	-	-	-
Jul-05	-	-	-	-	39.5500%	-	-	-
Aug-05	-	-	-	-	39.5500%	-	-	-
Sep-05	-	-	-	-	39.5500%	-	-	-
Oct-05	-	-	-	-	39.5500%	-	-	-
Nov-05	-	-	-	-	39.5500%	-	-	-
Dec-05	-	-	-	-	39.5500%	-	-	-
Jan-06	-	-	-	-	39.5500%	-	-	-
Feb-06	-	-	-	-	39.5500%	-	-	-

**Louisville Gas and Electric Company**  
**Deferred Tax Calculations 2005 Plan**  
**Post-1995 Environmental Compliance Plans, by Approved Project**

**2005 - Plan**

Project 13 -- Scrubber Refurbishment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	-	-	-	40.3625%	-	-	-
Apr-03	-	-	-	-	40.3625%	-	-	-
May-03	-	-	-	-	40.3625%	-	-	-
Jun-03	-	-	-	-	40.3625%	-	-	-
Jul-03	-	-	-	-	40.3625%	-	-	-
Aug-03	-	-	-	-	40.3625%	-	-	-
Sep-03	-	-	-	-	40.3625%	-	-	-
Oct-03	-	-	-	-	40.3625%	-	-	-
Nov-03	-	-	-	-	40.3625%	-	-	-
Dec-03	-	-	-	-	40.3625%	-	-	-
Jan-04	-	-	-	-	40.3625%	-	-	-
Feb-04	-	-	-	-	40.3625%	-	-	-
Mar-04	-	-	-	-	40.3625%	-	-	-
Apr-04	-	-	-	-	40.3625%	-	-	-
May-04	-	-	-	-	40.3625%	-	-	-
Jun-04	-	-	-	-	40.3625%	-	-	-
Jul-04	-	-	-	-	40.3625%	-	-	-
Aug-04	-	-	-	-	40.3625%	-	-	-
Sep-04	-	-	-	-	40.3625%	-	-	-
Oct-04	-	-	-	-	40.3625%	-	-	-
Nov-04	-	-	-	-	40.3625%	-	-	-
Dec-04	-	-	-	-	40.3625%	-	-	-
Jan-05	-	-	-	-	39.5500%	-	-	-
Feb-05	-	-	-	-	39.5500%	-	-	-
Mar-05	-	-	-	-	39.5500%	-	-	-
Apr-05	-	-	-	-	39.5500%	-	-	-
May-05	-	-	-	-	39.5500%	-	-	-
Jun-05	-	-	-	-	39.5500%	-	-	-
Jul-05	-	-	-	-	39.5500%	-	-	-
Aug-05	-	-	-	-	39.5500%	-	-	-
Sep-05	-	-	-	-	39.5500%	-	-	-
Oct-05	-	-	-	-	39.5500%	-	-	-
Nov-05	-	-	-	-	39.5500%	-	-	-
Dec-05	-	-	-	-	39.5500%	-	-	-
Jan-06	-	-	-	-	39.5500%	-	-	-
Feb-06	-	-	-	-	39.5500%	-	-	-

**Louisville Gas and Electric Company**  
**Deferred Tax Calculations 2005 Plan**  
**Post-1995 Environmental Compliance Plans, by Approved Project**

**2005 - Plan**

Project 14 -- Scrubber Refurbishment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	-	-	-	40.3625%	-	-	-
Apr-03	-	-	-	-	40.3625%	-	-	-
May-03	-	-	-	-	40.3625%	-	-	-
Jun-03	-	-	-	-	40.3625%	-	-	-
Jul-03	-	-	-	-	40.3625%	-	-	-
Aug-03	-	-	-	-	40.3625%	-	-	-
Sep-03	-	-	-	-	40.3625%	-	-	-
Oct-03	-	-	-	-	40.3625%	-	-	-
Nov-03	-	-	-	-	40.3625%	-	-	-
Dec-03	-	-	-	-	40.3625%	-	-	-
Jan-04	-	-	-	-	40.3625%	-	-	-
Feb-04	-	-	-	-	40.3625%	-	-	-
Mar-04	-	-	-	-	40.3625%	-	-	-
Apr-04	-	-	-	-	40.3625%	-	-	-
May-04	-	-	-	-	40.3625%	-	-	-
Jun-04	-	-	-	-	40.3625%	-	-	-
Jul-04	-	-	-	-	40.3625%	-	-	-
Aug-04	-	-	-	-	40.3625%	-	-	-
Sep-04	-	-	-	-	40.3625%	-	-	-
Oct-04	-	-	-	-	40.3625%	-	-	-
Nov-04	-	-	-	-	40.3625%	-	-	-
Dec-04	-	-	-	-	40.3625%	-	-	-
Jan-05	-	-	-	-	39.5500%	-	-	-
Feb-05	-	-	-	-	39.5500%	-	-	-
Mar-05	-	-	-	-	39.5500%	-	-	-
Apr-05	-	-	-	-	39.5500%	-	-	-
May-05	-	-	-	-	39.5500%	-	-	-
Jun-05	-	-	-	-	39.5500%	-	-	-
Jul-05	-	-	-	-	39.5500%	-	-	-
Aug-05	-	-	-	-	39.5500%	-	-	-
Sep-05	-	-	-	-	39.5500%	-	-	-
Oct-05	-	-	-	-	39.5500%	-	-	-
Nov-05	-	-	-	-	39.5500%	-	-	-
Dec-05	-	-	-	-	39.5500%	-	-	-
Jan-06	-	-	-	-	39.5500%	-	-	-
Feb-06	-	-	-	-	39.5500%	-	-	-

**Louisville Gas and Electric Company**  
**Deferred Tax Calculations 2005 Plan**  
**Post-1995 Environmental Compliance Plans, by Approved Project**

**2005 - Plan**

Project 15 -- Scrubber Refurbishment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	-	-	-	40.3625%	-	-	-
Apr-03	-	-	-	-	40.3625%	-	-	-
May-03	-	-	-	-	40.3625%	-	-	-
Jun-03	-	-	-	-	40.3625%	-	-	-
Jul-03	-	-	-	-	40.3625%	-	-	-
Aug-03	-	-	-	-	40.3625%	-	-	-
Sep-03	-	-	-	-	40.3625%	-	-	-
Oct-03	-	-	-	-	40.3625%	-	-	-
Nov-03	-	-	-	-	40.3625%	-	-	-
Dec-03	-	-	-	-	40.3625%	-	-	-
Jan-04	-	-	-	-	40.3625%	-	-	-
Feb-04	-	-	-	-	40.3625%	-	-	-
Mar-04	-	-	-	-	40.3625%	-	-	-
Apr-04	-	-	-	-	40.3625%	-	-	-
May-04	-	-	-	-	40.3625%	-	-	-
Jun-04	-	-	-	-	40.3625%	-	-	-
Jul-04	-	-	-	-	40.3625%	-	-	-
Aug-04	-	-	-	-	40.3625%	-	-	-
Sep-04	-	-	-	-	40.3625%	-	-	-
Oct-04	-	-	-	-	40.3625%	-	-	-
Nov-04	-	-	-	-	40.3625%	-	-	-
Dec-04	-	-	-	-	40.3625%	-	-	-
Jan-05	-	-	-	-	39.5500%	-	-	-
Feb-05	-	-	-	-	39.5500%	-	-	-
Mar-05	-	-	-	-	39.5500%	-	-	-
Apr-05	-	-	-	-	39.5500%	-	-	-
May-05	-	-	-	-	39.5500%	-	-	-
Jun-05	-	-	-	-	39.5500%	-	-	-
Jul-05	-	-	-	-	39.5500%	-	-	-
Aug-05	-	-	-	-	39.5500%	-	-	-
Sep-05	-	-	-	-	39.5500%	-	-	-
Oct-05	-	-	-	-	39.5500%	-	-	-
Nov-05	-	-	-	-	39.5500%	-	-	-
Dec-05	-	-	-	-	39.5500%	-	-	-
Jan-06	-	-	-	-	39.5500%	-	-	-
Feb-06	-	-	-	-	39.5500%	-	-	-

**Louisville Gas and Electric Company  
Deferred Tax Calculations 2005 Plan  
Post-1995 Environmental Compliance Plans, by Approved Project**

**2005 - Plan**

Project 16 -- Scrubber Improvements

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-03	-	-	-	-	40.3625%	-	-	-
Apr-03	-	-	-	-	40.3625%	-	-	-
May-03	-	-	-	-	40.3625%	-	-	-
Jun-03	-	-	-	-	40.3625%	-	-	-
Jul-03	-	-	-	-	40.3625%	-	-	-
Aug-03	-	-	-	-	40.3625%	-	-	-
Sep-03	-	-	-	-	40.3625%	-	-	-
Oct-03	-	-	-	-	40.3625%	-	-	-
Nov-03	-	-	-	-	40.3625%	-	-	-
Dec-03	-	-	-	-	40.3625%	-	-	-
Jan-04	-	-	-	-	40.3625%	-	-	-
Feb-04	-	-	-	-	40.3625%	-	-	-
Mar-04	-	-	-	-	40.3625%	-	-	-
Apr-04	-	-	-	-	40.3625%	-	-	-
May-04	-	-	-	-	40.3625%	-	-	-
Jun-04	-	-	-	-	40.3625%	-	-	-
Jul-04	-	-	-	-	40.3625%	-	-	-
Aug-04	-	-	-	-	40.3625%	-	-	-
Sep-04	-	-	-	-	40.3625%	-	-	-
Oct-04	-	-	-	-	40.3625%	-	-	-
Nov-04	-	-	-	-	40.3625%	-	-	-
Dec-04	-	-	-	-	40.3625%	-	-	-
Jan-05	-	-	-	-	39.5500%	-	-	-
Feb-05	-	-	-	-	39.5500%	-	-	-
Mar-05	-	-	-	-	39.5500%	-	-	-
Apr-05	-	-	-	-	39.5500%	-	-	-
May-05	-	-	-	-	39.5500%	-	-	-
Jun-05	-	-	-	-	39.5500%	-	-	-
Jul-05	-	-	-	-	39.5500%	-	-	-
Aug-05	-	-	-	-	39.5500%	-	-	-
Sep-05	-	-	-	-	39.5500%	-	-	-
Oct-05	4,281,077	-	-	-	39.5500%	-	-	-
Nov-05	4,281,077	-	-	-	39.5500%	-	-	-
Dec-05	4,281,077	30,948	160,540	129,592	39.5500%	51,254	51,254	-
Jan-06	4,281,077	12,379	25,754	13,375	39.5500%	5,290	56,543	-
Feb-06	4,281,077	12,379	25,754	13,375	39.5500%	5,290	61,833	-

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 4**

**Witness: Shannon Charnas**

Q-4. Provide the percentage of LG&E's long-term debt that has a variable interest rate as of the last expense month in the applicable billing period under review.

A-4. For the last expense month of the billing period November 1, 2005, through April 30, 2006, the percentage of LGE's long-term debt with a variable rate was 44%.

For the last expense month of the billing period May 1, 2005, through October 31, 2005, the percentage of LGE's long-term debt with a variable rate was 44%.

For the last expense month of the billing period May 1, 2004, through October 31, 2004, the percentage of LGE's long-term debt with a variable rate was 37%.

For the last expense month of the billing period November 1, 2003, through April 30, 2004, the percentage of LGE's long-term debt with a variable rate was 37%.

For the last expense month of the billing period May 1, 2003, through October 31, 2003, the percentage of LGE's long-term debt with a variable rate was 38%.

For the last expense month of the billing period May 1, 2003, through April 30, 2005, the percentage of LGE's long-term debt with a variable rate was 44%.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 5**

**Witness: Shannon Charnas**

Billing Period from May 1, 2003 through October 31, 2003

Q-5. Refer to ES Form 2.30, Inventory of Emission Allowances, for the May 2003 expense month. Explain why the dollar value of the current vintage year significantly increased over the dollar value reported in the April 2003 expense month. Include workpapers and calculations showing the determination of the dollar value of the current vintage year reported for the May 2003 expense month.

A-5. The May 2003 dollar value significantly increased over April 2003 because LG&E recorded its reimbursement from IMPA for allowances used on behalf of IMPA during 2002. Associated with the 111 GW of energy that LG&E provided on behalf of IMPA during January through December 2002, LG&E used 290 tons of emission allowances. The \$43,971 represents the sum of the monthly dollar value of these allowances used (the number of tons used during the month multiplied by the monthly price per ton). The \$43,971 was added to the April ending balance as shown below.

Calculation for May 2003:

Beginning Balance at April 30, 2003	\$ 34,488.63
Utilized (2,968 allowances x \$.84)	(2,493.12)
IMPA reimbursement	43,971.00
Ending Balance at May 31, 2003	<u>\$ 75,966.51</u>

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 6**

**Witness: Shannon Charnas**

- Q-6. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, for the June through August 2003 expense months. Explain why the "Current Month" operation and maintenance ("O&M") expenses reported in these months were higher than the levels reported in the remaining 3 months in this billing period. The level of detail for this response should go to the expense account number.
- A-6. Expenses recorded in NOx Operation account 506105 were higher during June through August 2003 than during March through May 2003 due to increased ammonia purchases which were necessary to test SCR equipment at Mill Creek and to operate SCR equipment at Trimble County. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September). The Trimble County Unit 1 SCR was operated during 2003 to receive an allocation of the early reduction NOx allowance credits.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 7**

**Witness: Shannon Charnas**

Billing Period from November 1, 2003 through April 30, 2004

- Q-7. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, for the September and October 2003 and February 2004 expense months.
- a. Explain why the "Current Month" O&M expenses reported in September and October 2003 were higher than the levels reported in the remaining 4 months in this billing period. The level of detail for this response should go to the expense account number.
  - b. Explain why the "Current Month" O&M expenses reported in February 2004 were negative. The level of detail for this response should go to the expense account number.
- A-7. a. Expenses recorded in the NOx Operation account 506105 were higher during September and October 2003 than they were during November 2003 through February 2004 due to increased ammonia purchases which were necessary to test SCR equipment at Mill Creek and to operate SCR equipment at Trimble County. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September) beginning in 2004. The Trimble County Unit 1 SCR was operated during 2003 to receive an allocation of the early reduction NOx allowance credits. Several of the invoices for ammonia used in September were received and paid for during October.
- b. The negative expenses recorded in the NOx Operation account 506105 during February 2004 include a \$7,071 reversal of ammonia purchases recorded during January 2004.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 8**

**Witness: Shannon Charnas**

Billing Period from May 1, 2004 through October 31, 2004

- Q-8. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, for the May through August 2004 expense months. Explain why the "Current Month" O&M expenses reported for May through August 2004 were higher than the levels reported in the remaining 2 months in this billing period. The level of detail for this response should go to the expense account number.
- A-8. Expenses recorded in NOx Operation account 506105 were higher during May through August 2004 than during March and April 2004 due to increased ammonia purchases which were necessary to operate the SCR equipment at Mill Creek and Trimble County. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September) beginning in 2004.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 9**

**Witness: Shannon Charnas**

Billing Period from November 1, 2003 through April 30, 2005

- Q-9. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, for the September and December 2004 expense months. Explain why the "Current Month" O&M expenses reported for September and December 2004 were higher than the levels reported in the remaining 4 months in this billing period. The level of detail for this response should go to the expense account number.
- A-9. Expenses recorded in NOx Operation account 506105 were higher during September 2004 than during October and November 2004 and January and February 2005 due to increased ammonia purchases which were necessary to operate the SCR equipment at Trimble County. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September). Additionally, the Mill Creek Unit 3 SCR was tested during December 2004, resulting in higher expenses recorded in the NOx Maintenance account 512101.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 10**

**Witness: Kent Blake**

- Q-10. In Case No. 2000-00386, the Commission ordered that LG&E's rate of return on common equity for the Post-1995 Plan projects included in its environmental surcharge would be the same rate of return on common equity incorporated in LG&E'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. 2003-00433, LG&E'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. 2004-00421, the Commission established the rate of return on common equity for the environmental surcharge at 10.5 percent.
- a. Does LG&E 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 LG&E propose for its environmental surcharge? Provide a detailed analysis and testimony supporting LG&E's position.
- A-10. 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. 2004-00421 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. 2003-00433. 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 Plans 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 <u>          </u> (1)	20- Year Treasury Bond Yields <u>          </u> (2)	A Utility Bond Yields <u>          </u> (3)	Aaa Corporate Bond Yields <u>          </u> (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**  
**LG&E Question No. 10**

# 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](http://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. Lundberg, Editor*

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

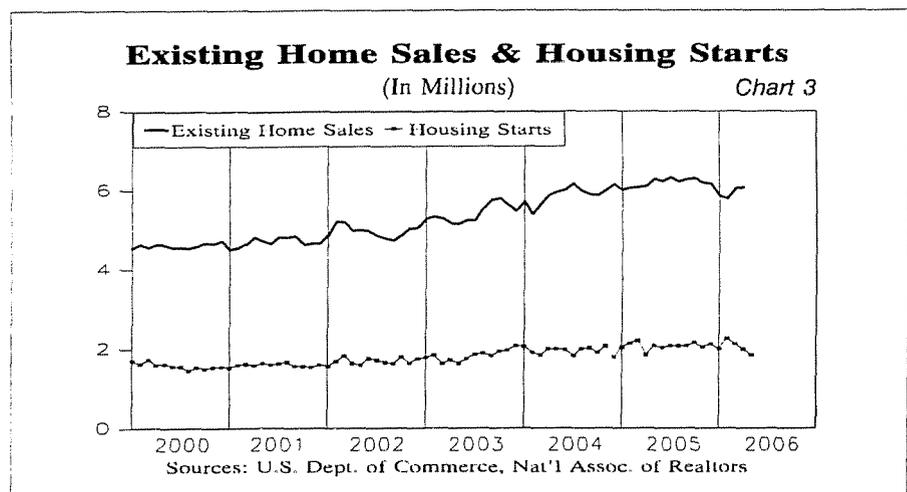
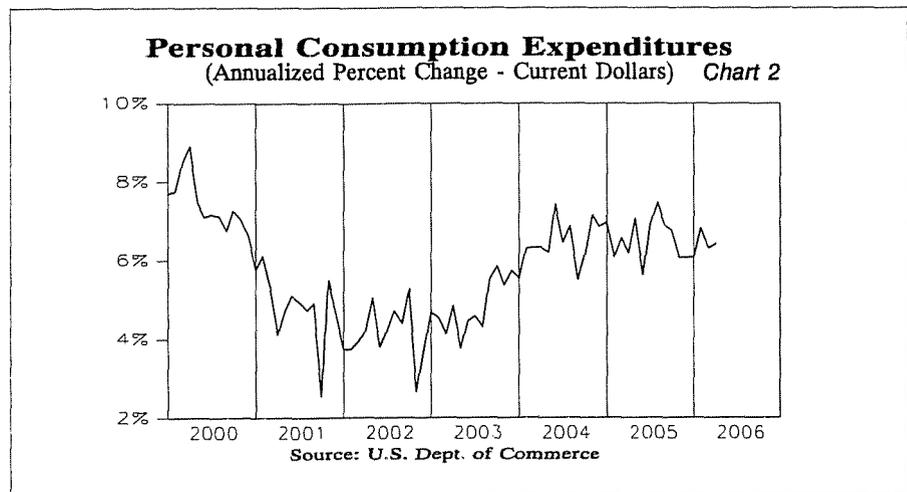
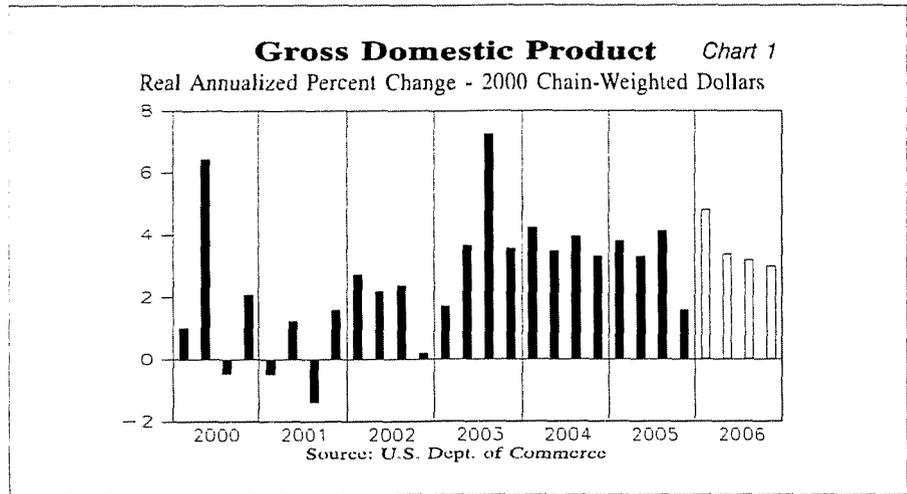
# The Quarterly Economic Review

*Continued from cover page*

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

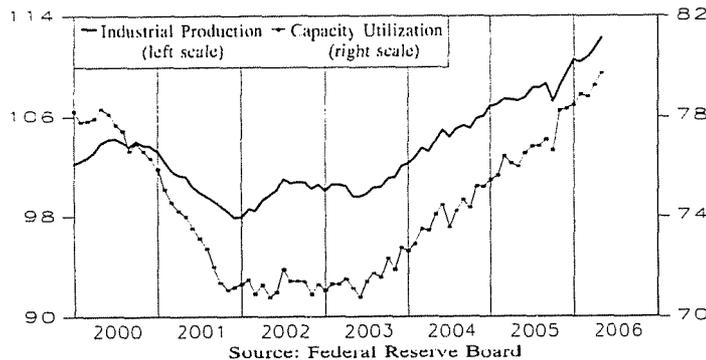


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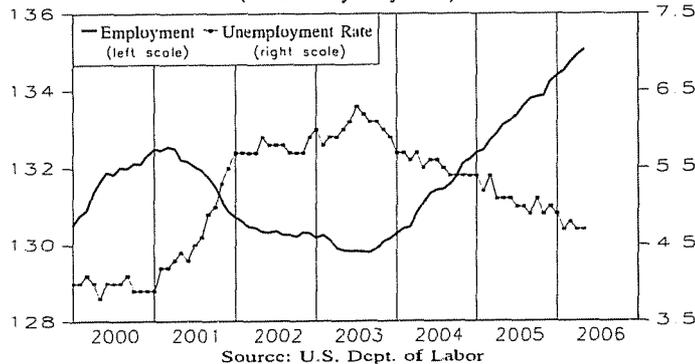
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# The Quarterly Economic Review

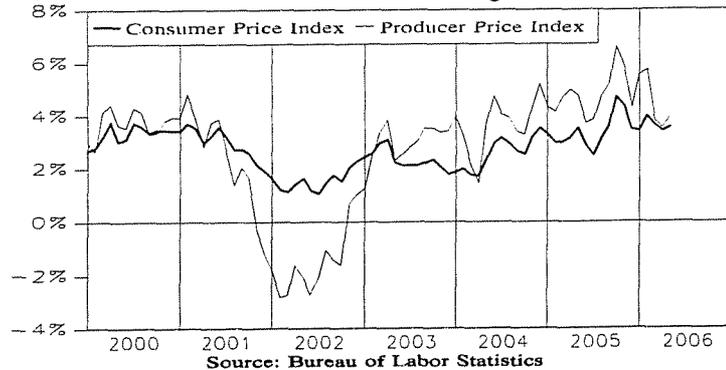
**Industrial Production and Capacity Utilization**  
(Index: 1997 = 100) Chart 4



**Employment & Unemployment Rate** Chart 5  
(Seasonally Adjusted)



**Consumer and Producer Price Indexes**  
Year-to-Year Percent Change Chart 6



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

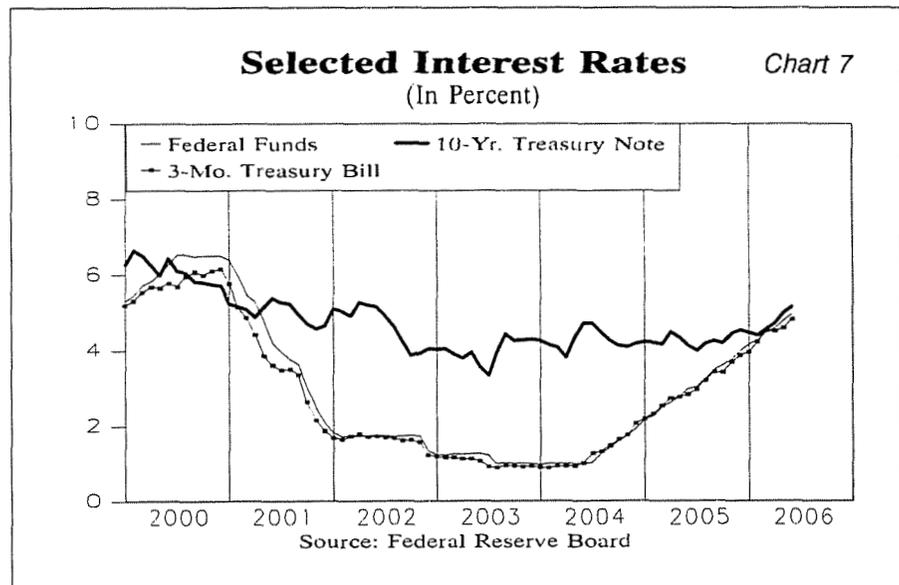
## The Quarterly Economic Review

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 McDer-

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

### A Richer Cash Position

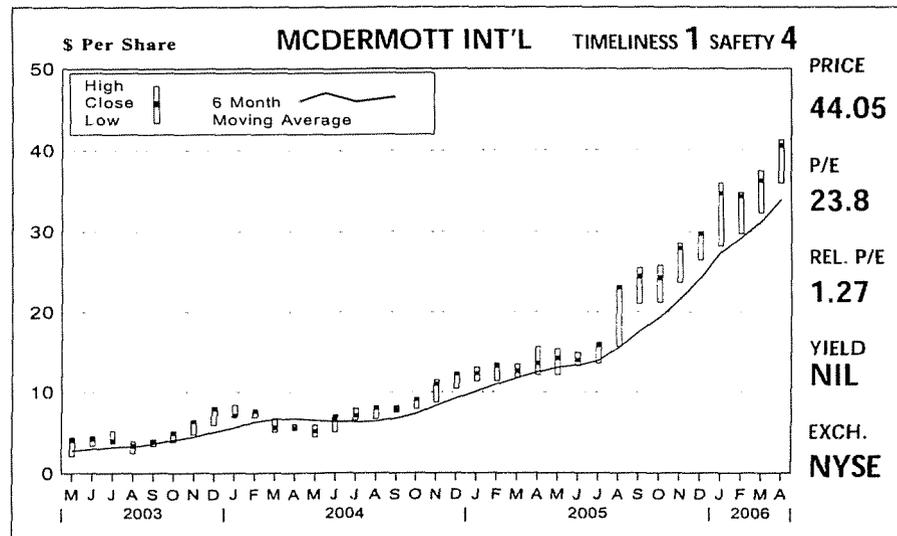
After several years of uneven operating performance, McDermott firmed up results in 2004 and 2005 and cash flow strengthened. This has created greater financial flexibility. This month, the company announced a cash tender offer for \$200 million in J. Ray 11% Senior Secured Notes due 2013. Interest savings 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	0.85	—	—

### 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.)

## 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.

<i>Ratings &amp; Reports</i> Page	Ticker	Company Name	Recent Price	3-5 Year Appreciation Potential	E.P.S. Growth Past 5 Years	Time- liness	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	Timeliness	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	Timeliness	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)
<b>Performance Objective</b>					
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
<b>International</b>					
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
<b>Sector</b>					
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
<b>Other</b>					
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
<b>S&amp;P 500</b>	<b>1.34</b>	<b>2.88</b>	<b>5.60</b>	<b>15.40</b>	<b>2.69</b>

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

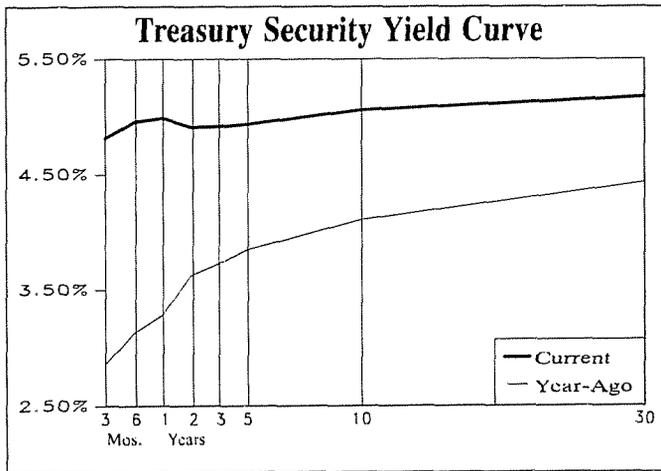
	TOTAL REINVESTMENT*				
	Percent Change through April, 2006				
	One Month	Three Month	Year-to-Date	One Year	Five Year (Annualized)
<b>U.S. Government and Agency Bond</b>					
Short term—U S. Gov't	0.17	0.15	0.30	0.80	2.37
Immediate term—U S. Gov't	-0.16	-0.70	-0.80	-0.10	3.67
Long term—U S. Gov't	-0.39	-1.24	-1.40	-0.50	3.87
GNMA	-0.04	-0.19	Nil	1.40	3.72
<b>Corporate Bond</b>					
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
<b>Municipal Bond</b>					
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)
<b>TAXABLE</b>							
<b>Market Rates</b>							
Discount Rate	6.00	5.50	4.00	<b>Mortgage-Backed Securities</b>			
Federal Funds	5.00	4.50	3.00	GNMA 6.5%	6.01	5.33	4.96
Prime Rate	8.00	7.50	6.00	FHLMC 6.5% (Gold)	6.19	5.88	5.09
30-day CP (A1/P1)	5.00	4.49	3.02	FNMA 6.5%	6.15	5.74	4.86
3-month LIBOR	5.19	4.77	3.28	FNMA ARM	4.81	4.47	3.48
<b>Bank CDs</b>							
6-month	3.06	2.89	2.26	<b>Corporate Bonds</b>			
1-year	3.87	3.46	2.77	Financial (10-year) A	6.01	5.50	4.89
5-year	4.03	3.97	3.80	Industrial (25/30-year) A	6.28	5.68	5.36
<b>U.S. Treasury Securities</b>							
3-month	4.82	4.53	2.86	Utility (25/30-year) A	6.28	5.63	5.25
6-month	4.96	4.68	3.13	Utility (25/30-year) Baa/BBB	6.59	5.98	5.61
1-year	4.99	4.70	3.29	<b>Foreign Bonds (10-Year)</b>			
5-year	4.94	4.58	3.85	Canada	4.32	4.19	4.09
10-year	5.06	4.58	4.11	Germany	4.03	3.51	3.35
10-year (inflation-protected)	2.37	2.08	1.64	Japan	1.95	1.57	1.27
30-year	5.17	4.57	4.43	United Kingdom	4.58	4.17	4.37
30-year Zero	5.06	4.62	4.45	<b>Preferred Stocks</b>			
				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



<b>TAX-EXEMPT</b>							
<b>Bond Buyer Indexes</b>							
20-Bond Index (GOs)	4.58	4.42	4.25				
25-Bond Index (Revs)	5.24	5.14	4.81				
<b>General Obligation Bonds (GOs)</b>							
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				
<b>Revenue Bonds (Revs) (25/30-Year)</b>							
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

(Two-Week Period, in Millions, Not Seasonally Adjusted)

	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

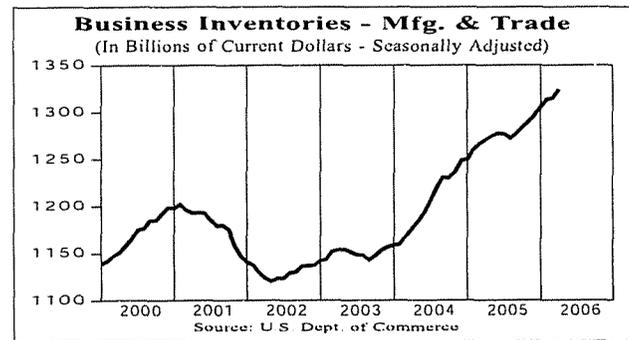
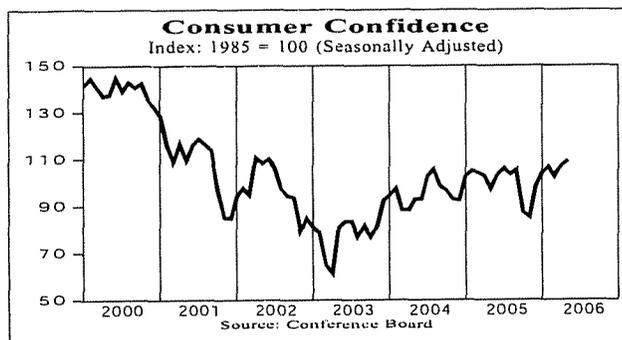
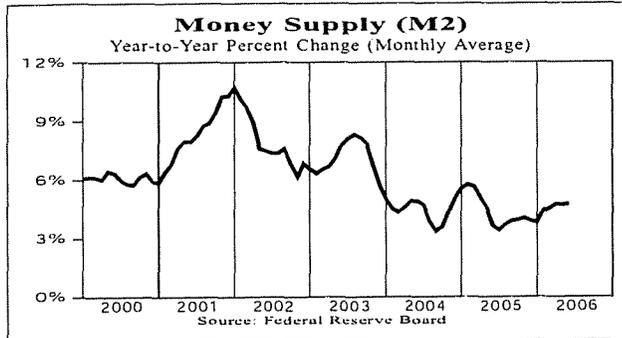
(One-Week Period; in Billions, Seasonally Adjusted)

	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%

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## 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

(Based only on economic and financial factors)

	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

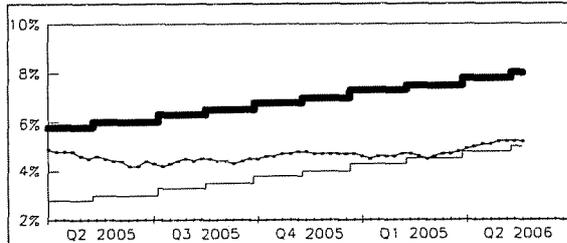
**7 Best Performing Industries**

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**

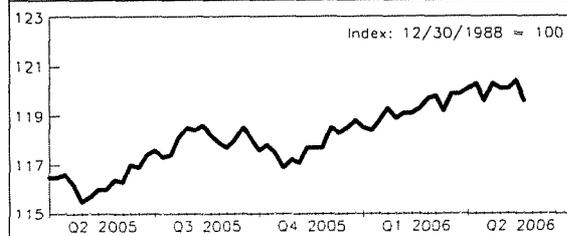
Homebuilding	-22.1%
Cement & Aggregates	-16.0%
Biotechnology	-15.2%
Water Utility	-13.9%
Wireless Networking	-13.4%
Telecom. Equipment	-13.2%
Retail Building Supply	-11.3%

The corresponding change in the Value Line Arithmetic Average is -4.1%



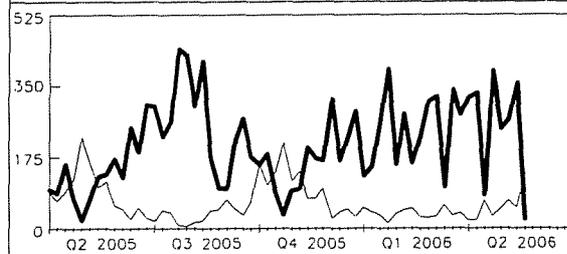
#### INTEREST RATES

Prime Rate	_____	
Federal Funds	_____	
30-Year Treasury Bond	_____	
	Recent	Previous
Prime Rate	8.0%	8.0%
Fed Funds (Target)	5.0%	5.0%
30-Yr. Treasury	5.2%	5.2%



#### VALUE LINE UNIVERSE

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



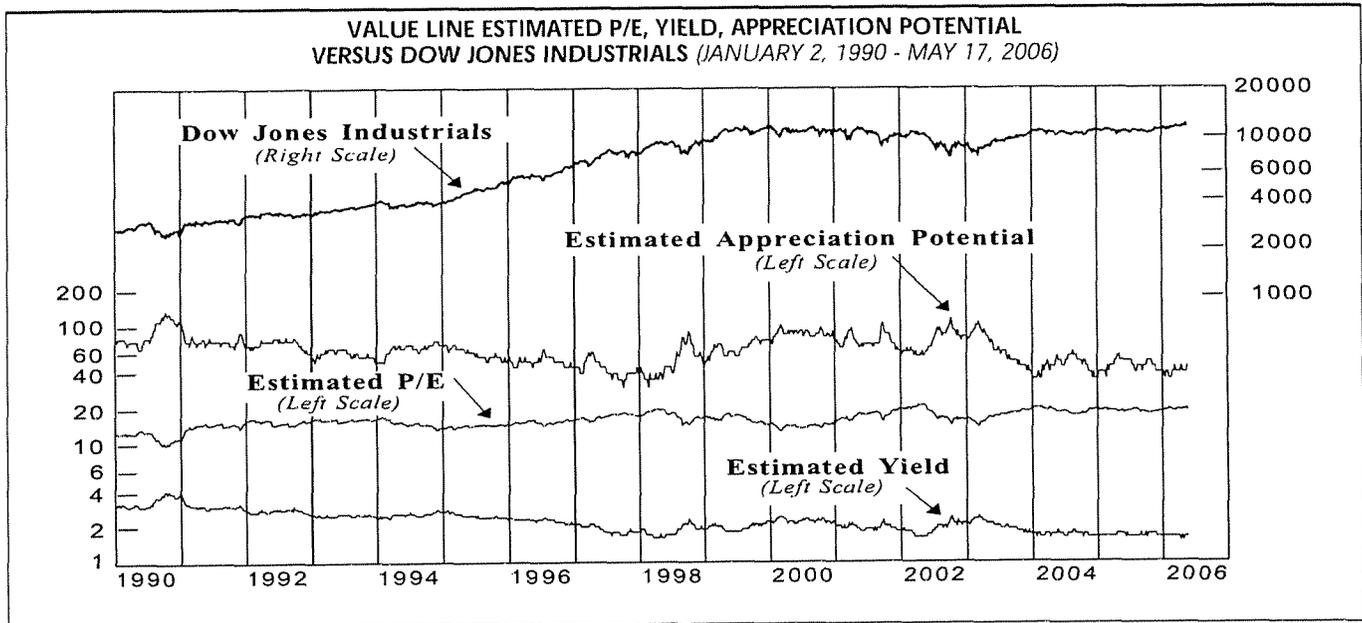
#### VALUE LINE COMPOSITE

New Highs	_____	
New Low	_____	
	Recent	Previous
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**

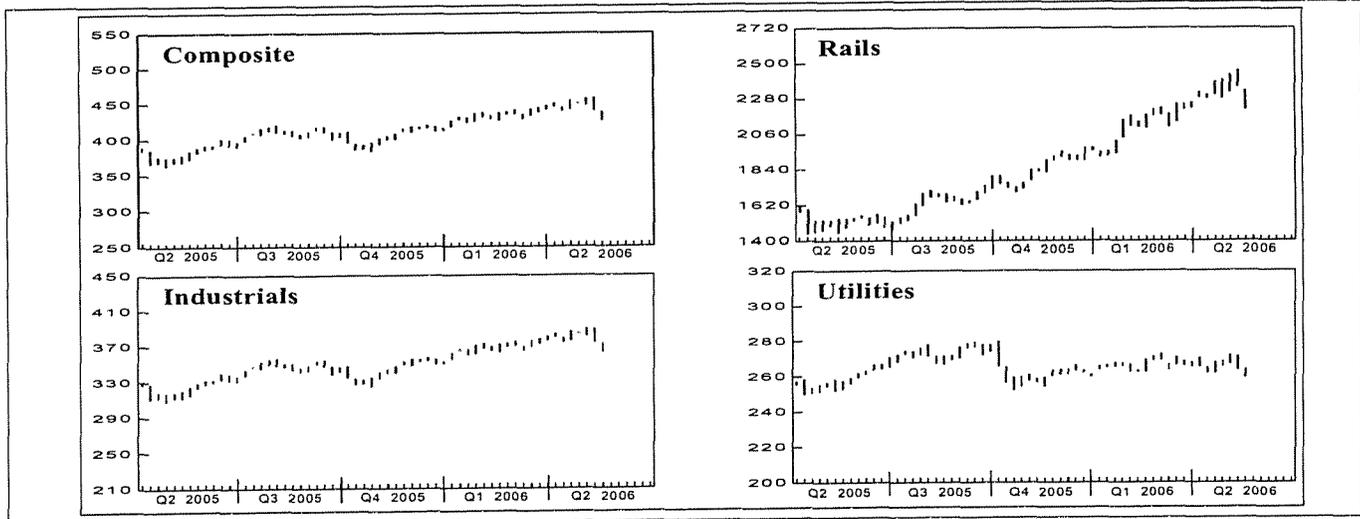
	Composite 1610 stocks	Industrials 1495 stocks	Rails 7 stocks	Utilities 108 stocks
5/12/2006	439.93	373.74	2352.86	263.21
5/15/2006	437.96	371.92	2326.94	263.72
5/16/2006	436.81	370.91	2327.47	263.32
5/17/2006	429.70	364.90	2263.89	259.27
5/18/2006	426.81	362.30	2210.94	259.07
<b>%Change last 4 weeks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

Arithmetic Composite 1610 stocks
2073.05
2062.94
2058.26
2025.10
2011.78
<b>-5.6%</b>

**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
<b>-1.6%</b>	<b>-1.9%</b>	<b>-1.7%</b>	<b>-0.7%</b>

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



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**Attachment 3**  
**LG&E Question No. 10**

## 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\***

		ROR	ROE	Eq. as %	Amt.
	Period	%	%	Cap. Struc.	\$ 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)	--- (0)	--- (0)	-130.0 (8)
2002	Full Year	--- (0)	--- (0)	--- (0)	7.7 (4)
2003	Full Year	--- (0)	--- (0)	--- (0)	-62.6 (2)
2004	1st Quarter	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
	2nd Quarter	--- (0)	--- (0)	--- (0)	--- (0)
	3rd Quarter	--- (0)	--- (0)	--- (0)	--- (0)
	4th Quarter	--- (0)	--- (0)	--- (0)	--- (0)
2004	Full Year	8.02 (1)	10.00 (1)	44.18 (1)	3.1 (1)
2005	1st Quarter	--- (0)	--- (0)	--- (0)	--- (0)
	2nd Quarter	--- (0)	--- (0)	--- (0)	71.9 (2)
	3rd Quarter	8.72 (1)	10.50 (1)	54.00 (1)	-8.2 (1)
	4th Quarter	--- (0)	--- (0)	--- (0)	--- (0)
2005	Full Year	8.72 (1)	10.50 (1)	54.00 (1)	63.7 (3)
2006	1st Quarter	--- (0)	--- (0)	--- (0)	--- (0)

\* 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>&amp;</u> <u>Rate Base</u>	<u>Amt.</u> <u>\$ Mil.</u>
<b>ELECTRIC UTILITY DECISIONS</b>						
<b>2005</b>	<b>FULL-YEAR: AVERAGES/TOTAL</b>	<b>8.31</b>	<b>10.54</b>	<b>46.73</b>		<b>1373.7</b>
	<b>MEDIAN</b>	<b>8.08</b>	<b>10.25</b>	<b>44.59</b>		<b>---</b>
	<b>OBSERVATIONS</b>	<b>26</b>	<b>29</b>	<b>27</b>		<b>36</b>
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)
<b>2006</b>	<b>1ST QUARTER: AVERAGES/TOTAL</b>	<b>8.13</b>	<b>10.38</b>	<b>50.25</b>		<b>439.0</b>
	<b>MEDIAN</b>	<b>8.58</b>	<b>10.39</b>	<b>49.10</b>		<b>---</b>
	<b>OBSERVATIONS</b>	<b>3</b>	<b>3</b>	<b>3</b>		<b>9</b>
<b>GAS UTILITY DECISIONS</b>						
<b>2005</b>	<b>FULL-YEAR: AVERAGES/TOTAL</b>	<b>8.25</b>	<b>10.46</b>	<b>48.66</b>		<b>458.4</b>
	<b>MEDIAN</b>	<b>8.42</b>	<b>10.23</b>	<b>47.14</b>		<b>---</b>
	<b>OBSERVATIONS</b>	<b>29</b>	<b>26</b>	<b>24</b>		<b>34</b>
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)
<b>2006</b>	<b>1ST QUARTER: AVERAGES/TOTAL</b>	<b>8.62</b>	<b>10.63</b>	<b>51.18</b>		<b>138.7</b>
	<b>MEDIAN</b>	<b>8.61</b>	<b>10.75</b>	<b>52.53</b>		<b>---</b>
	<b>OBSERVATIONS</b>	<b>6</b>	<b>6</b>	<b>6</b>		<b>6</b>
<b>TELEPHONE UTILITY DECISIONS</b>						
<b>2005</b>	<b>FULL-YEAR: AVERAGES/TOTAL</b>	<b>8.72</b>	<b>10.50</b>	<b>54.00</b>		<b>63.7</b>
	<b>MEDIAN</b>	<b>8.72</b>	<b>10.50</b>	<b>54.00</b>		<b>---</b>
	<b>OBSERVATIONS</b>	<b>1</b>	<b>1</b>	<b>1</b>		<b>3</b>
<b>2006</b>	<b>1ST QUARTER: AVERAGES/TOTAL</b>	<b>---</b>	<b>---</b>	<b>---</b>		<b>---</b>
	<b>MEDIAN</b>	<b>---</b>	<b>---</b>	<b>---</b>		<b>---</b>
	<b>OBSERVATIONS</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>

**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

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 11**

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

- Q-11. 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 LG&E 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 LG&E's base rates. Include any analysis that LG&E 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 LG&E 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 LG&E's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.
- A-11. a. LG&E is proposing to roll-in \$8,669,729 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 LG&E's proposed roll-in methodology in Case Nos. 2002-00193 and 2003-002361 which spread the amount of the roll-in equally to every tariff subject to the environmental surcharge by dividing the roll-in amount by the base rate revenue for a selected 12-month period. In this proceeding, in response to the Commission's inquiry, LG&E 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 LG&E's electric 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 that 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. LG&E 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, LG&E 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. 11(b) above, LG&E 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 LG&E's existing base rates.

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<sup>1</sup> *In the Matter of: An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Two-Year Billing Period Ending April 30, 2003*, Case No. 2003-00236, Order (October 17, 2003); *In the Matter of: An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Two-Year Billing Period Ending April 30, 2003*, Case No. 2003-00236, Order (October 17, 2003); *In the Matter of: An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001*, Case No. 2002-00193, Order (October 22, 2002).

**Calculation of Revenue Requirement for Roll-In:**

Environmental Compliance Rate Base		Post-1995 Plan at Feb. 28, 2005
Pollution Control Plant in Service	ES Form 2.0, February 2005	218,285,207
Pollution Control CWIP Excluding AFUDC	ES Form 2.0, February 2005	739,862
	Subtotal	<u>219,025,069</u>
<b>Additions:</b>		
Cash Working Capital Allowance	ES Form 2.0, February 2005	74,512
	Subtotal	<u>74,512</u>
<b>Deductions:</b>		
Accumulated Depreciation on Pollution Control Plant	ES Form 2.0, February 2005	2,377,613
Pollution Control Deferred Income Taxes	ES Form 2.0, February 2005	1,933,536
Pollution Control Deferred Investment Tax Credit	ES Form 2.0, February 2005	-
	Subtotal	<u>4,311,149</u>
Environmental Compliance Rate Base		<u>214,788,432</u>
Rate of Return -- Environmental Compliance Rate Base	ES Form 1.1, February 2005	10.72%
<b>Return on Environmental Compliance Rate Base</b>		<u>23,025,320</u>
Pollution Control Operating Expenses		
12 Month Depreciation and Amortization Expense	See Support Schedule A	6,169,464
12 Month Taxes Other than Income Taxes	See Support Schedule A	308,725
12 Month Operating and Maintenance Expense	See Support Schedule A	596,094
12 Month Operating and Maintenance Expense disallowance	See Support Schedule A	-
<b>Total Pollution Control Operating Expenses</b>		<u>7,074,283</u>
<b>Gross Proceeds from By-Product &amp; Allowance Sales</b>	See Support Schedule B	
<b>Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount</b>		
Return on Environmental Compliance Rate Base		23,025,320
Pollution Control Operating Expenses		7,074,283
Less Gross Proceeds from By-Product & Allowance Sales		-
Roll In Amount		<u>30,099,603</u>
Jurisdictional Allocation Ratio -- Roll In	See Support Schedule C	<u>76.4575%</u>
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Gross Roll In Amount		23,013,392
Less Jurisdictional Environmental Revenue Previously Rolled In (Case No. 2003-433)		14,343,662
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Net Roll In Amount		8,669,729
Base Revenues for the 12 Months Ending February 2006		684,525,225
BESF, Gross Roll-in Amount		3.3619%

**Support Schedule A**

12 Month Balances for Selected Operating Expense Accounts

	Depreciation & Amortization ES Form 2.0	Taxes Other than Income Taxes ES Form 2.0	Operating and Maintenance Expense FERC 506	Operating and Maintenance Expense FERC 512	Total Operating Expenses
Mar-04	388,837	26,100	8,973	9,064	432,974
Apr-04	389,516	26,094	1,769	20,236	437,615
May-04	449,969	26,025	57,218	15,638	548,849
Jun-04	541,413	25,602	131,466	7,967	706,449
Jul-04	548,390	25,602	45,050	15,374	634,415
Aug-04	548,975	25,602	67,995	12,443	655,014
Sep-04	549,456	25,602	72,639	19,489	667,186
Oct-04	549,606	25,602	6,090	21,253	602,551
Nov-04	549,952	25,602	3,543	7,715	586,812
Dec-04	550,561	25,602	5,336	32,879	614,378
Jan-05	551,395	25,646	3,415	18,207	598,663
Feb-05	551,395	25,646	4,173	8,162	589,377
Totals	6,169,464	308,725	407,667	188,427	7,074,283

**Support Schedule B**

12 Month Balances for Allowance Sales and By-Product Sales

	Total Proceeds from Allowance Sales ES Form 2.0	Proceeds from By-Product Sales ES Form 2.0	Total All Sale Proceeds
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 Revenues, Excl. Envir. Surch. Revenues ES Form 3.0	Total Company Revenues, Excluding Envir. Surch. Revenues ES Form 3.0	KY Retail Allocation Ratio KY Retail/ Total Company	Base Customer, Energy and Demand Revenue
Mar-04	\$ 40,751,521	\$ 58,633,499	69.5021%	Mar-05 46,155,056
Apr-04	38,949,384	47,595,047	81.8350%	Apr-05 60,032,124
May-04	43,686,406	54,238,180	80.5455%	May-05 73,154,527
Jun-04	63,588,765	72,943,365	87.1755%	Jun-05 75,952,775
Jul-04	66,960,523	78,963,057	84.7998%	Jul-05 71,745,346
Aug-04	63,481,728	74,082,290	85.6908%	Aug-05 55,696,648
Sep-04	63,737,743	77,512,442	82.2290%	Sep-05 46,607,701
Oct-04	48,670,368	66,338,412	73.3668%	Oct-05 53,543,600
Nov-04	45,244,248	61,863,092	73.1361%	Nov-05 55,661,226
Dec-04	48,303,205	69,015,875	69.9885%	Dec-05 49,511,370
Jan-05	54,441,007	82,712,316	65.8197%	Jan-06 48,611,417
Feb-05	49,605,908	76,716,678	64.6612%	Feb-06 47,853,435
Totals	\$ 627,420,806	\$ 820,614,253	76.4575%	\$ 684,525,225

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 12**

**Witness: Robert M. Conroy (a) / Shannon Charnas (b)**

Billing Period from May 1, 2005 through October 31, 2005

- Q-12. Refer to ES Form 2.00, Revenue Requirements of Environmental Compliance Costs and ES Form 2.31, Inventory of Emission Allowances – Current Vintage Year, for the June through August 2005 expense months. In Case No. 2004-00421, the Commission determined that LG&E should include its sulfur dioxide (“SO<sub>2</sub>”) emission allowance inventory balance in its environmental surcharge rate base and that SO<sub>2</sub> emission allowance expense should be included in the O&M expenses. While LG&E has reported a SO<sub>2</sub> emission allowance inventory balance and the use of SO<sub>2</sub> emission allowances on ES Form 2.31, it has not included either item in the environmental surcharge rate base or pollution control operating expenses reported on ES Form 2.00. Beginning with ES Form 2.31 for the July 2005 expense month filing, LG&E states that based upon its understanding of the Commission's August 22, 1995 Order in Case No. 1995-00060,<sup>1</sup> it concluded that allowance inventory and expense resulting from the return of allowances in kind was not recoverable through the surcharge.
- a. Considering the fact that the portion of the August 22, 1995 Order in Case No. 1995-00060 cited by LG&E deals with the revenues to be included in the surcharge factor calculations, explain how LG&E concluded that its SO<sub>2</sub> emission allowance inventory and emission allowance expense was not recoverable through the surcharge.
  - b. If returning emission allowances in kind does not constitute a purchase of the allowances by LG&E, explain why LG&E continues to value its emission allowance inventory reflecting the market value of the emission allowances returned in kind.
- A-12. a. In its August 22, 1995 Order, the Commission discussed at length the proper treatment of compensation for allowances used in connection with off-system sales. The portion of the Order relied on by LG&E is included below:

In seeking approval for the surcharge, KU stated that the sale of emission allowances would be treated as an offset to costs....In approving KU's surcharge, the Commission determined that the gross revenues from emission allowance sales would be credits in the surcharge formula and that total revenues would be used to allocate the surcharge to customers. KU now proposes to credit the environmental surcharge for revenues from the sale of emission allowances associated with off-system power....

KU's proposal will not result in a proper allocation of the surcharge to KU's retail customers. The costs recovered through the environmental surcharge are not exclusively related to emission allowances. Furthermore, the same emission allowances cannot be simultaneously used and sold. .... KU states that under the ... FERC ... policy, the purchasing utility may either pay the costs of the emission allowance or return the emission allowance in kind. However, paying the costs of the allowance used does not constitute a sale nor does returning the allowance in kind constitute a purchase. The FERC policy deals with the compensation options available when an emission allowance is used. The compensation KU receives for allowances used is simply part of the revenue generated by wholesale electric sales and does not constitute a sale of an emission allowance. [Order at 3-4]

LG&E has not to date purchased emission allowances. Absent the accounting treatment for allowances returned in-kind, the dollar value of LG&E's emission allowance inventory would be zero. Because the existing value of the inventory, and corresponding expense incurred, is the direct result of the return of allowances in kind, and the Commission stated in the above Order that returning an allowance in-kind does not constitute a purchase, LG&E concluded that the dollar value of its allowance inventory and the corresponding expense incurred was not recoverable through the surcharge.

- b. Per LG&E's contract with IMPA, LG&E reserved the right to collect additional charges per MWH for emission allowances by reflecting them in the demand component of the monthly billing statement. If IMPA provided the emission allowances for the energy purchased, there would be no adder to the energy or demand prices quoted. This methodology indicates a value was placed on the allowances. If IMPA had not provided the allowances, the sale

price of the power would have increased and the value associated with the allowances would have been received in cash. Since IMPA provided the allowances directly, the market value was attributed to those allowances in inventory.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 13**

**Witness: Shannon Charnas**

- Q-13. Refer to ES Form 2.40, O&M Expenses and Determination of Cash Working Capital Allowance, for the April through August 2005 expense months. Explain why the "Current Month" O&M expenses reported for April through August 2005 were higher than the level reported in the remaining month in this billing period. The level of detail for this response should go to the expense account number and by generating station.
- A-13. Expenses recorded in NOx Operation accounts 506104 and 506105 were higher during April through August 2005 than during March 2005 due primarily to increased ammonia purchases which were necessary to operate the SCR equipment at Mill Creek and Trimble County. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September).

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 14**

**Witness: Shannon Charnas**

Billing Period November 1, 2005 through April 30, 2006

- Q-14. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the September, October, and December 2005 and February 2006 expense months. Explain why the O&M expenses reported for these expense months were higher than the levels reported in the remaining 2 months in this billing period. The level of detail for this response should go to the expense account number and by generating station.
- A-14. Expenses recorded in NOx Operation accounts 506104 and 506105 were higher during September and October expense months than during November 2005 and January 2006 due primarily to increased ammonia purchases which were necessary to operate the SCR equipment at Mill Creek and Trimble County. The SCR equipment controls NOx emissions and must be operated during the ozone season (May through September). Expenses were higher in the expense month of December due to testing of the SCR at Trimble County. Additionally, expenses recorded in Scrubber Operations account 502006 were higher during February 2006 due to limestone purchases for Trimble County Unit 1.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 15**

**Witness: John P. Malloy**

Q-15. Refer to ES Form 2.11, Plant, CWIP & Depreciation Expense – Post-1195 Plan, and ES Form 2.12, Plant, CWIP & Depreciation Expense – 2005 Plan, for the February 2006 expense month. For each project shown on these schedules that is not considered completed, provide a description of the status of the project as of the end of the February 2006 expense month.

A-15.

**Project 6: LG&E NOx**

CWIP balance at February 28, 2006: \$4,381,763

LG&E is installing an additional catalyst layer at Mill Creek 4 and will be installing a 3<sup>rd</sup> layer at Mill Creek 3 by mid 2007. Upgrades at Mill Creek for I.D. fans and the economizer hopper are continuing with completion expected during the year.

**Project 7: Mill Creek FGD Scrubber Conversion**

The project is considered completed

**Project 8: Precipitator Upgrades – All Plants**

The project is considered completed

**Project 9: Clearwell Water System – Mill Creek**

The project is considered completed

**Project 10: SO<sub>2</sub> Absorber Trays – Mill Creek 3 & 4**

The project is considered completed

**Project 11: Special Waste Landfill Expansion at Mill Creek**

CWIP balance at February 28, 2006: \$673,303

Design and permitting is continuing on this project. The final permit approval is expected during 2006. This project is on schedule for completion in 2008.

**Project 12: Special Waste Landfill Expansion at Cane Run Station**

CWIP balance at February 28, 2006: \$1,648,519

The project is on schedule with capital improvements being phased in over the life of the landfill consistent with the project as discussed in Case No. 2004-00421.

**Project 13: Scrubber Refurbishment at Trimble County Unit 1**

CWIP balance at February 28, 2006: \$0

Construction on this project has not started. This project is a multi-year project and LG&E expects to follow the schedule for the project as discussed in Case No. 2004-00421 with completion by 2009.

**Project 14: Scrubber Refurbishment at Cane Run Unit 6**

CWIP balance at February 28, 2006: \$152,881

Construction on this project began in August 2005. This project is a multi-year project and LG&E expects to follow the schedule for the project as discussed in Case No. 2004-00421 with completion by 2009.

**Project 15: Scrubber Refurbishment at Cane Run Unit 5**

CWIP balance at February 28, 2006: \$0

Construction on this project has not started. This project is a multi-year project and LG&E expects to follow the schedule for the project as discussed in Case No. 2004-00421 with completion by 2008.

**Project 16: Scrubber Refurbishment at Trimble County Unit 1**

CWIP balance at February 28, 2006: \$3,808,409

This project was completed in April 2006 and the CWIP will be moved to plant-in-service with the June 2006 expense month ECR filing.

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 16**

**Witness: Shannon Charnas**

Q-16. In Case No. 2000-00386, the Commission ordered that LG&E'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 February 28, 2006:

- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and electric operations 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 electric operations bases.
- c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.

A-16. a. Please see the attachment.

b. Please see the attachment.

c. Please see the attachment.

Louisville Gas and Electric Company  
Outstanding Balances - Capitalization  
As of February 28, 2006

1	2	3
	Outstanding Balance Total Company	Outstanding Balance Electric Only 80.71%
1 Long-Term Debt	820,554,000	662,269,133
2 Short-Term Debt	64,275,000	51,876,353
3 Preferred Stock	70,424,594	56,839,690
4 Common Equity	1,095,142,253	883,889,312

Louisville Gas and Electric Company  
Blended Interest Rates  
As of February 28, 2006

	1
	Blended Interest Rate Total Company
	<hr/>
1 Long-Term Debt	4.24%
2 Short-Term Debt	4.51%
3 Preferred Stock	4.94%

LOUISVILLE GAS AND ELECTRIC COMPANY  
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT  
February 28, 2006

LONG-TERM DEBT									
	Due	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
					Amortized Debt Issuance Expense	Premium	Amortized Loss-Required Debt		
Pollution Control Bonds - SECURED:									
Series S	09/01/17	3 18280% *	31,000,000	966,668	12,552	-	11,472	1,010,692	3 260
Series T	09/01/17	3 24490% *	60,000,000	1,946,940	16,608	-	102,984	2,066,532	3 440
Series U	08/15/13	3 27000% *	35,200,000	1,151,040	11,700	-	21,912	1,184,652	3 370
Series Y - 2000 A JC	05/01/27	3 12300% *	25,000,000	780,750	23,904	-	81,024	865,678	3 540
Series Z - 2000 A TC	08/01/30	3 10000% *	83,335,000	2,583,385	38,280	-	143,700	2,765,365	3 320
Series AA - 2001 A JC	09/01/27	3 11250% *	10,104,000	314,487	19,836	-	-	334,323	3 310
Series BB - 2001 A JC	09/01/26	3 20000% *	22,500,000	720,000	9,876	-	77,424	807,300	3 590
Series CC - 2001 A TC	09/01/26	3 20000% *	27,500,000	880,000	10,740	-	65,400	956,140	3 480
Series DD - 2001 B JC	11/01/27	3 25000% *	35,000,000	1,137,500	10,944	-	49,056	1,197,500	3 420
Series EE - 2001 B TC	11/01/27	3 25000% *	35,000,000	1,137,500	10,944	-	48,864	1,197,308	3 420
Series FF - 2002 A TC	10/01/32	3 15000% *	41,665,000	1,312,448	36,840	-	55,812	1,405,100	3 370
Series GG - 2003 A TC	10/01/33	3 02500% *	128,000,000	3,872,000	112,956	-	190,308	4,175,264	3 260
Series HH - 2005 A JC	02/01/35	2 93210% *	40,000,000	1,172,840	36,624	-	46,848	1,256,312	3 140
Called Bonds			-	-	-	-	126,828 2	126,828	-
Interest Rate Swaps:									
JP Morgan Chase Bank	11/01/20	1		2,188,248	-	-	-	2,188,248	
Morgan Stanley Capital Services	10/01/33	1		242,103	-	-	-	242,103	
Morgan Stanley Capital Services	10/01/33	1		238,263	-	-	-	238,263	
Bank of America	10/01/33	1		254,263	-	-	-	254,263	
Wachovia	10/01/33	1		239,223	-	-	-	239,223	
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%	100,000,000	5,310,000	-	-	-	5,310,000	5 310
Notes Payable to Fidelia Corp	01/16/12	4 33%	25,000,000	1,082,500	-	-	-	1,082,500	4 330
Mandatorily Redeemable Preferred Stock:									
\$5 875 Series	07/15/08	5 8750%	21,250,000	1,248,438	56,844	-	-	1,305,282	6 143
<b>Total</b>			<b>820,554,000</b>	<b>33,348,598</b>	<b>408,648</b>	<b>-</b>	<b>1,021,632</b>	<b>34,778,878</b>	<b>4.238%</b>

PREFERRED STOCK								
	Rate	Principal	Expense	Annualized Cost			Dividends	Embedded Cost
				Premium/Discount	Gain	Adjusted Principal		
5% Series	5 0000%	21,507,175	-	-	5,699	21,512,874	1,075,359	4 999
Auction Rate	4 8000%	50,000,000	(1,088,280)	-	-	48,911,720	2,400,000	4 907
<b>Total</b>		<b>71,507,175</b>	<b>(1,088,280)</b>	<b>-</b>	<b>5,699</b>	<b>70,424,594</b>	<b>3,475,359</b>	<b>4.935%</b>

SHORT TERM DEBT									
	Maturity	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
					Expense	Premium	Loss		
Notes Payable to Associated Company	NA	4 510% *	64,275,000	2,898,803	-	-	-	2,898,803	4 510
<b>Total</b>			<b>64,275,000</b>	<b>2,898,803</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,898,803</b>	<b>4.510%</b>

\* Composite rate at end of current month

1 Additional interest due to Swap Agreements:

Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Fixed LG&E Swap Position	Variable Counterparty Swap Position
Series Z - PCB	83,335,000	11/01/20	To Pay: 5 495%	BMA Index
Series GG - PCB	32,000,000	10/01/33	To Pay: 3 657%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	To Pay: 3 645%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	To Pay: 3 695%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	To Pay: 3 648%	68% of 1 mo LIBOR
	211,335,000			

2 Call premium and debt expense is being amortized over the remaining life of bonds due 10/1/09 and 6/1/15

Louisville Gas and Electric Company  
Outstanding Balances - 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	662,269,133	40.019%	4.24%	1.70%
2 Short-Term Debt	51,876,353	3.135%	4.51%	0.14%
3 Preferred Stock	56,839,690	3.435%	4.94%	0.17%
4 Common Equity	883,889,312	53.411%	10.50%	5.61%
5 Total	1,654,874,488			7.62%
		Rate of Return Grossed Up:		11.23%

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 17**

**Witness: Shannon Charnas (a) / Keith Yocum (b)**

- Q-17. Provide the following information concerning LG&E's SO<sub>2</sub> 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 returned in kind by the Indiana Municipal Power Agency ("IMPA").
  - 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 LG&E's generating units.
    - (2) Indicate the number of emission allowances estimated to be returned in kind by IMPA.
    - (3) Indicate the number of emission allowances LG&E 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 LG&E's emission allowance inventory. Include a description of the type of addition or withdrawal.
- A-17. a. The number of emission allowances in the LG&E ending inventory balance as of December 31, 2005 was 93,455. However, once allowances are moved to inventory, they are not separately tracked. Thus, LG&E cannot specifically identify the portion of the inventory balance that relates to the allowances received from IMPA over the period of the contract. Over the term of the contract with IMPA the number of allowances returned by IMPA totals 1,240.

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 LG&E	62,456	62,456	62,456	62,456	28,420	28,420	28,420	28,420	28,420	19,922	19,922
(2) Estimated Allowances Returned by IMPA	0	0	0	0	0	0	0	0	0	0	0
(3) Estimated LG&E Allowance Usage	46,376	47,440	46,884	45,214	43,831	42,595	44,374	42,819	43,553	43,874	44,202
(4) Estimated Addition (from KU & Market)	0	0	0	0	0	0	0	0	11,145	23,952	24,280
(4) Estimated Withdrawal (to KU)	34,826	26,674	4,686	0	0	0	0	0	0	0	0

- (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. Additionally, LG&E is projected to need to purchase additional SO<sub>2</sub> allowances in 2016 from the market to meet their emission compliance standards.

Notes: The contract with IMPA expired in 2002. therefore, no further allowances will be received.

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

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 18**

**Witness: Keith Yocum**

Q-18. Through the end of 2016, does LG&E 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 LG&E's current plans for SO2 emission limit compliance at its generating units through the end of 2016.

A-18. Yes. LG&E is projected to fall below its minimum bank in the years of 2014-2016. Allowances may be transferred from KU to LG&E during 2014-2016, which will allow LG&E to meet compliance levels through 2015. In the year of 2016, additional outside purchases need to be made for LG&E to comply with their emission compliance standard.

*Projections for Louisville Gas and Electric Company*

	Beginning <u>Bank</u>	EPA <u>Allocation</u>	Projected <u>Emissions</u>	Projected <u>Ending Bank</u>	Desired <u>Bank Level</u>	Transfer To <u>KU</u>	Purchases		
							Transfer <u>from KU</u>	<u>Market</u>	Total Required <u>Purchases</u>
2004	59,480	62,456	45,039	76,897	0	0	0	0	0
2005	76,897	62,456	48,148	91,204	5,000	0	0	0	0
2006	91,204	62,456	46,376	107,284	5,000	34,826	0	0	0
2007	72,458	62,456	47,440	87,474	5,000	26,674	0	0	0
2008	60,799	62,456	46,884	76,371	5,000	4,686	0	0	0
2009	71,685	62,456	45,214	88,926	15,000	0	0	0	0
2010	88,926	28,420	43,831	73,515	15,000	0	0	0	0
2011	73,515	28,420	42,595	59,341	15,000	0	0	0	0
2012	59,341	28,420	44,374	43,386	15,000	0	0	0	0
2013	43,386	28,420	42,819	28,987	15,000	0	0	0	0
2014	28,987	28,420	43,553	13,855	25,000	0	11,145	0	11,145
2015	25,000	19,922	43,874	1,048	25,000	0	23,952	0	23,952
2016	25,000	19,922	44,202	720	25,000	0	20,039	4,240	24,280

**LOUISVILLE GAS AND ELECTRIC COMPANY**

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

**Case No. 2006-00130**

**Question No. 19**

**Witness: Shannon Charnas / Robert M. Conroy**

Q-19. 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 LG&E has had to file several revisions or corrections to previously filed monthly surcharge reports. These revisions or corrections dealt with errors or inadvertent omissions LG&E discovered after the filing of the applicable monthly surcharge report.

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

A-19. 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 will be 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 was 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 LG&E  
Question No. 19 (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**

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## **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 (SO<sub>2</sub>) removal systems, low nitrogen oxide (NO<sub>x</sub>) 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<sub>x</sub> 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**

$CESF = [(E(m) * RAR) + ADJ] / \text{Retail } E(m)$ , 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 SO<sub>2</sub> 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<sub>x</sub> Reduction (FERC Accounts 506104, 506105 and 512101), SO<sub>2</sub> 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 1/8<sup>th</sup> 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<sub>x</sub> Reduction for the 2001 Plan and the SO<sub>2</sub> 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 10<sup>th</sup> Previous Month through the Current Month.
2. Copy & Paste the data into the cell for the 11<sup>th</sup> 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 6<sup>th</sup> 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**

<b>Project</b>	<b>Air Pollutant or Waste/By-Product To Be Controlled</b>	<b>Control Facility</b>	<b>Generating Station</b>	<b>Environmental Regulation</b>	<b>Environmental Permit</b>	<b>Actual or Scheduled Completion</b>
<b>1995 Plan (eliminated from ECR and included in Base Rate during the 2004 Rate Case)</b>						
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	
<b>2001 Plan</b>						
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
<b>2003 Plan</b>						
7	Fly Ash & SO <sub>2</sub>	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 <sub>2</sub>	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 <sub>2</sub>	FGD system enhancement	MC3, MC4	CAAA Sec. 405 40 CFR Part 72	Phase II Acid Rain Permit	2001
<b>2005 Plan</b>						
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 KAR Chapter 45	KPDES - KY0002062 KDWM - 056-00030	2015
13	SO <sub>2</sub>	Flue Gas Desulfurization	Trimble Co. Unit 1	Clean Air Act (1990)	Title V Operating Permit V-02-043	2009
14	SO <sub>2</sub>	Flue Gas Desulfurization	Cane Run Unit 6	Clean Air Act (1990)	Title V Operating Permit 175-00-TV (R1)	2009
15	SO <sub>2</sub>	Flue Gas Desulfurization	Cane Run Unit 5	Clean Air Act (1990)	Title V Operating Permit 175-00-TV (R1)	2008
16	SO <sub>2</sub>	Flue Gas Desulfurization	Trimble Co. Unit 1	Clean Air Act (1990)	Title V Operating Permit V-02-043	2005
17	SO <sub>2</sub>	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
<b>1994 Plan (eliminated from ECR and included in Base Rate during the 2004 Rate Case)</b>						
1	SO <sub>2</sub>	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 <sub>2</sub>	Flue Gas Dispersion	EWB-2 EWB-3	401 KAR 53:010	KYDAQ Permit No. 0-86-068	
4	SO <sub>2</sub> /NO <sub>x</sub> /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 <sub>x</sub>	Burner Modifications	EWB-1 EWB-3	CAAA Sec. 407 40 CFR Part 76	Phase I Acid Rain Permits	
6	NO <sub>x</sub>	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	
<b>2001 Plan</b>						
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
<b>2003 Plan</b>						
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
<b>2005 Plan</b>						
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

<b>Project</b>	<b>Air Pollutant or Waste/By-Product To Be Controlled</b>	<b>Control Facility</b>	<b>Generating Station</b>	<b>Environmental Regulation*</b>	<b>Environmental Permit</b>	<b>Actual or Scheduled Completion</b>
		Basin (Phase I)	Station			
21	SO <sub>2</sub>	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 <sub>2</sub>	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

	ECR Project Number	Control Facility	Plant/Unit	T-Sheet Number	AIP Project Number	Project Description
<b><u>2001 Plan</u></b>	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
<b><u>2003 Plan</u></b>	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	Mill Creek		114687	Cane Run 5 Refurbish Precipitator
	LGE-10	FGD System Enhancement	MC3, MC4		112703	Cleanwell Water System - Mill Creek
<b><u>2005 Plan</u></b>	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
LGE-14	FGD Refurbishment	CR-6	TC-09-005	121590	TC Scrubber Modul Refurbishment
			TC-09-006	121591	TC Recycle Pump Piping Replacement
			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
LGE-15	FGD Refurbishment	CR-5	CR-09-180	121625	CR SDRS Tank Replacement
			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
LGE-16	FGD Enhancement	TC-1	CR-08-080	121629	CR5 SDRS Module and Duct Lining Repl
				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	
<b><u>2001 Plan</u></b>	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
<b><u>2003 Plan</u></b>	No O&M Recovery					
<b><u>2005 Plan</u></b>	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>
<b><u>2001 Plan</u></b>					
KU-16	Advanced Low Nox Burners	GH-2		23037	Ghent 2 low Nox burners
		GH-4		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
<b><u>2003 Plan</u></b>					
KU-18	Ash Pond Dike Elevation	Ghent		110450	Ghent Ash Pond Phase 2
<b><u>2005 Plan</u></b>					
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
			GH-05-078	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		119962	GH 2 FGD
		GH-3		118251	GH 3 FGD
		GH-4		120208	GH 4 FGD
		Ghent		120209	Ghent Station Common FGD equipment
		Brown		120210	BR FGD
		all		119659	FGD Common

## Kentucky Utilities 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
<b><u>2001 Plan</u></b>	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
<b><u>2003 Plan</u></b>	No O&M Recovery					
<b><u>2005 Plan</u></b>	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 MESF:

CESF, from ES Form 1.1	=	5.66%
BESF, from Case No. 2003-00433	=	2.38%
MESF	=	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
<b>Retail Environmental Surcharge Billing Factor:</b>		
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
<b>Environmental Compliance Rate Base</b>	<b>\$219,617,795</b>

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	
<b>Total Pollution Control Operations Expense</b>	<b>\$671,349</b>

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
<b>Total Proceeds from Sales</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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)			
<b>2001 Plan</b>							
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
<b>2003 Plan</b>							
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 <sub>2</sub> 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
<b>Net Totals</b>	<b>\$ 219,348,575</b>	<b>\$ 11,950,870</b>	<b>\$ 5,321,912</b>	<b>\$ 212,719,616</b>	<b>\$ 5,408,072</b>	<b>\$ 557,570</b>	<b>\$ 26,585</b>

**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)			
<b>2005 Plan</b>							
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
<b>Net Totals</b>	\$ <b>6,480,918</b>	\$ <b>90,379</b>	\$ <b>5,785,283</b>	\$ <b>12,175,822</b>	\$ <b>76,426</b>	\$ <b>17,632</b>	\$ <b>1,385</b>

**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
<b>TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS</b>							
Quantity	150,682	0	3,153	0	0	147,529	
Dollars	\$ 20,369	\$ -	\$ 441	\$ -	\$ -	\$ 19,928	
\$/Allowance	\$ 0.14	\$ -	\$ 0.14	\$ -	\$ -	\$ 0.14	
<b>ALLOCATED ALLOWANCES FROM EPA: STEAM</b>							
Quantity	150,647	0	3,153	0	0	147,494	
Dollars	\$ 20,364	\$ -	\$ 441	\$ -	\$ -	\$ 19,923	
\$/Allowance	\$ 0.14	\$ -	\$ 0.14	\$ -	\$ -	\$ 0.14	
<b>ALLOCATED ALLOWANCES FROM EPA: OTHER POWER GENERATION</b>							
Quantity	35	0	0	0	0	35	
Dollars	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 5	
\$/Allowance	\$ 0.14	\$ -	\$ -	\$ -	\$ -	\$ 0.14	
<b>ALLOWANCES FROM PURCHASES:</b>							
<b>From Market:</b>							
Quantity	0	0	0	0	0	0	
Dollars	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>From KU:</b>							
Quantity		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
<b>Total 12 Month O&amp;M</b>	<b>\$1,654,841</b>
One Eighth (1/8) of 12 Month O&M Expense	1/8
<b>Pollution Control Cash Working Capital Allowance</b>	<b>\$206,855</b>

**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
<b>2001 Plan</b>			
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
<b>Total 2001 Plan O&amp;M Expenses</b>	<b>15,519</b>	<b>6,845</b>	<b>22,363</b>
<b>2005 Plan</b>			
502006-Scrubber Operations	0	68,407	68,407
512005-Scrubber Maintenance	0	0	0
Ashpond Dredging Expense	0	0	0
<b>Total 2005 Plan O&amp;M Expenses</b>	<b>0</b>	<b>68,407</b>	<b>68,407</b>

**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) =								<b>83.21%</b>
						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 Income Statement	Revenues per ES Form 3.0
	<b>Kentucky Retail Revenues</b>
	Base Rates \$ 47,702,385.44
	Fuel Adjustment Clause 1,108,307.90
	Environmental Surcharge 268,593.50
	DSM DBA Billed -
	Total Kentucky Retail Revenues for Environmental Surcharge Purposes = \$ 48,810,693.34
	<b>Non -Jurisdictional Revenues</b>
	InterSystem ( Total Less Transmission Portion Booked in Account 447) 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
	<b>Reconciling Revenues</b>
	Brokered 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
\$ 65,342,051.78	Total Company Revenues per Income Statement =

**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	= <b>3.38%</b>

**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)				
<b>2001 Plan:</b>								
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
<b>2003 Plan:</b>								
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
<b>2005 Plan:</b>								
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
<b>TOTAL</b>	<b>\$ 238,054,711</b>	<b>\$ 10,703,829</b>	<b>\$ 43,565,445</b>	<b>\$ 270,916,328</b>	<b>\$ -</b>	<b>\$ 28,520,553</b>	<b>\$ 489,304</b>	<b>\$ 31,911</b>

**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
<b>TOTAL EMISSION ALLOWANCES IN INVENTORY, ALL CLASSIFICATIONS</b>							
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	
<b>ALLOCATED ALLOWANCES FROM EPA: STEAM</b>							
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	
<b>ALLOCATED ALLOWANCES FROM EPA: OTHER POWER GENERATION</b>							
Quantity	129	0	0	0	0	129	
Dollars	\$ 1,207.00	\$ -	\$ -	\$ -	\$ -	1,207	
\$/Allowance	\$ 9.36	\$ -	\$ -	\$ -	\$ -	\$ 9.36	
<b>ALLOWANCES FROM PURCHASES:</b>							
<b>From Market:</b>							
Quantity	0	0	0	0	0	0	
Dollars	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>ALLOWANCES FROM PURCHASES:</b>							
<b>From LG&amp;E</b>							
Quantity		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
<b>Total 12 Month O&amp;M</b>	<b>\$1,197,881</b>

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
<b>Pollution Control Cash Working Capital Allowance</b>	<b>\$149,735</b>

**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
<b>2001 Plan</b>			
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
<b>2005 Plan</b>			
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**

	Kentucky Jurisdictional Revenues					Non-Jurisdictional 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	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.					<b>\$73,686,424.24</b>			
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) =								<b>82.99%</b>
						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
<b>Kentucky Retail Revenues</b>		
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	
<b>Non -Jurisdictional Revenues</b>		
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	
<b>Total Company Revenues for Environmental Surcharge Purposes =</b>		
<b>\$ 85,432,688.47</b>		
<b>Reconciling Revenues</b>		
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**

<b>Workday Data Submission</b>	<b>Report</b>	<b>Company</b>	<b>Form</b>	<b>Data Utilization</b>	<b>Data Source</b>	<b>Data Review</b>	<b>Responsible Person</b>	<b>Distribution</b>
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**

<b>Workday Data Submission</b>	<b>Report</b>	<b>Company</b>	<b>Form</b>	<b>Data Utilization</b>	<b>Data Source</b>	<b>Data Review</b>	<b>Responsible Person</b>	<b>Distribution</b>
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 (15<sup>th</sup> Business Day)** (Effective for Billing on February 2, 2006)
- February 21 (15<sup>th</sup> Business Day)** (Effective for Billing on March 3, 2006)
- March 24 (18<sup>th</sup> Business Day)** (Effective for Billing on April 3, 2006)
- April 21 (14<sup>th</sup> Business Day)** (Effective for Billing on May 3, 2006)
- May 26 (20<sup>th</sup> Business Day)** (Effective for Billing on June 5, 2006)
- June 23 (17<sup>th</sup> Business Day)** (Effective for Billing on July 5, 2006)
- July 24 (15<sup>th</sup> Business Day)** (Effective for Billing on August 3, 2006)
- August 22 (16<sup>th</sup> Business Day)** (Effective for Billing on September 1, 2006)
- September 22 (15<sup>th</sup> Business Day)** (Effective for Billing on October 3, 2006)
- October 20 (15<sup>th</sup> Business Day)** (Effective for Billing on November 1, 2006)
- November 21 (15<sup>th</sup> Business Day)** (Effective for Billing on December 1, 2006)
- December ?? (??<sup>th</sup> Business Day)** (Effective for Billing on January ?, 2007)

# **Attachment 1**

