an e·on company

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APR 01 2008

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
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Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

April 1, 2008

RE: ***The Plan of Kentucky Utilities Company for the Future Disposition of the Merger Surcredit Mechanism***
Case No. 2007-00563

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and six (6) copies of the Response of Kentucky Utilities Company to the Commission Staff's First Data Request dated March 25, 2008, in the above referenced matter.

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

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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APR 01 2008
PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF KENTUCKY UTILITIES COMPANY FOR THE FUTURE DISPOSITION OF THE MERGER SURCREDIT MECHANISM	))))	**CASE NO. 2007-00563**

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST DATA REQUEST
DATED MARCH 25, 2008

FILED: APRIL 1, 2008

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President of State Regulation and Rates for E.ON U.S. Services, Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Lonnie E. Bellar
LONNIE E. BELLAR

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of April, 2008.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:
November 9, 2010

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00563

Question No. 1

Witness: Lonnie E. Bellar

Q-1. Refer to page 5 of Lonnie Bellar's testimony, starting at line 11. Mr. Bellar states that, when KU's earnings deficit relative to authorized levels exceeds its share of the merger savings, customers are receiving 100 percent of the merger benefits.

a. Is KU currently experiencing an earnings deficit relative to authorized levels? Provide all workpapers supporting this calculation.

b. If KU is operating at an earnings deficit relative to authorized levels, provide the time period over which this has occurred and explain why KU has not filed for a rate increase.

A-1. a. Yes. As shown on the Attachment to this Response, Exhibit 5, KU's adjusted earnings for 2007 result in a Return on Equity ("ROE") of 8.54%, which is an earnings deficit relative to authorized levels. Please see the Attachment to this response for a calculation of KU's earnings for the calendar year 2007, including the effect of standard regulatory adjustments for rate-making purposes. These are the results notwithstanding the record temperatures experienced during August, September and October 2007; and, in calendar year 2007, Cooling Degree Days were 46.2% above normal levels.

b. KU continually monitors its financial performance. However, the detailed analysis presented in the Attachment to the Response to Question No. 1(a) above was not prepared in association with this case for periods prior to 2007.

KU's decision not to file a rate case was influenced in part by KU's decision to allow the shareholder portion of the merger savings to partially offset increased capitalization and operating expenses, in part by the position taken in the proceeding (i.e. that the merger surcredit expire and not be extended during a period of significant capital investment in facilities to serve customers) and in part by the influence of record temperatures on its revenues.

Exhibit 1

KENTUCKY UTILITIES

Adjustments to Operating Revenues, Operating Expenses and Net Operating Income
For the Twelve Months Ended December 31, 2007
Calculated Using Existing Regulatory Treatment of Merger Surcredit and VDT

	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)
1. Jurisdictional amount per books		1,119,637,361	943,201,766	$ 176,435,595
2. Adjustments for known changes and to eliminate unrepresentative conditions:				
3. To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	1.00	4,411,098	0	4,411,098
4. To adjust base rates and FAC to reflect a full year of the FAC roll in	1.01	130,919	0	130,919
5. Adjustment to eliminate environmental surcharge revenues and expenses	1.02	(44,014,492)	(5,564,572)	(38,449,920)
6. Eliminate DSM revenue and expenses	1.03	(4,212,213)	(4,212,213)	0
7. To eliminate ECR, MSR, VDT, and FAC accruals	1.04	(5,253,221)	-	(5,253,221)
8. Adjustment for Merger Surcredit net savings	1.05	(2,271,887)	18,968,825	(21,240,712)
9. To adjust mismatch in fuel cost recovery	1.06	(121,955,423)	(126,251,168)	4,295,745
10. Off-system sales revenue adjustment for the ECR calculation	1.07	(232,098)	-	(232,098)
11. Adjustment to eliminate unbilled revenues	1.08	(16,825,000)	-	(16,825,000)
12. To eliminate electric brokered sales revenues and expenses	1.09	(108,234)	(90,728)	(17,506)
13. Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	1.10	-	(470,622)	470,622
14. Adjustment to reflect normalized storm damage expense	1.11	-	(194,016)	194,016
15. Adjustment for injuries and damages FERC account 925	1.12	-	792,029	(792,029)
16. Adjustment to annualize year-end customers	1.13	-	-	-
17. Adjustment to reflect annualized depreciation expenses	1.14	-	(1,070,647)	1,070,647
18. Adjustment to reflect increases in labor and labor related costs	1.15	-	1,376,325	(1,376,325)
19. Adjustment for MISO Exit and Schedule 10	1.16	-	2,423,650	(2,423,650)
20. Adjustment for Value Delivery Surcredit net savings	1.17	(145,385)	5,040,000	(5,185,385)
21. To adjust for pension and post retirement	1.18	-	(372,199)	372,199

Exhibit 1

KENTUCKY UTILITIES

Adjustments to Operating Revenues, Operating Expenses and Net Operating Income
For the Twelve Months Ended December 31, 2007
Calculated Using Existing Regulatory Treatment of Merger Surcredit and VDT

		Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)
22. Adjustment to reflect amortization of rate case expenses		1.19	-	194,715	(194,715)
23. Adjustment to remove amortization of ESM and Management audit expenses		1.20	-	(113,954)	113,954
24. To remove property insurance broker fee settlement expenses		1.21	-	(87,083)	87,083
25. To remove EKPC settlement charges		1.22	-	(1,670,410)	1,670,410
26. To remove 2006 correction of FERC assessment fee		1.23	-	210,831	(210,831)
27. To remove 2006 catch-up IT prepaid amortization		1.24	-	828,985	(828,985)
28. To adjust property tax expense		1.25	-	445,440	(445,440)
29. Adjustment to O&M expenses for Retirement of Tyrone Units 1 and 2		1.26	-	(157,967)	157,967
30. Adjustment for postage rate increase		1.27	-	49,928	(49,928)
31. Adjustment for overhead line inspections		1.28	-	181,557	(181,557)
32. Adjustment for reserve margin purchases		1.31	-	1,197,199	(1,197,199)
31. Total of above adjustments			(190,475,936)	(108,546,095)	$ (81,929,841)
32. Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments -	37.6175	1.29		(30,819,955)	30,819,955
33. Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense		1.30		(1,242,496)	1,242,496
34. Prior income tax true-ups and adjustments		1.31		1,272,390	(1,272,390)
35. Total adjustments			(190,475,936)	(139,336,156)	$ (51,139,780)
36. Adjusted Net Operating Income			929,161,425	803,865,610	$ 125,295,815

Exhibit 2

KENTUCKY UTILITIES

Capitalization at December 31, 2007

		Per Books 12-31-07 (1)	Capital Structure (2)	Undistributed Subsidiary Earnings (3)	Investment in EEI (Col 2 x Col 4 Line 5) (4)	Investments in OVEC and Other (Col 2 x Col 5 Line 5) (5)	Adjustments to Total Co. Capitalization (7)	Adjusted Total Company Capitalization (8)	Jurisdictional Rate Base Percentage (Exhibit 3 Line 23) (9)	Kentucky Jurisdictional Capitalization (Col 7 x Col 8) (10)
1.	Short Term Debt	$ 23,219,454	0.85%	$ -	$ (191,274)	$ (5,620)	$ (196,894)	$ 23,022,560	69.54%	$ 16,009,888
2.	Long Term Debt	1,263,753,140	46.42%	-	(10,445,831)	(306,901)	(10,752,732)	1,253,000,408	69.54%	871,336,484
3.	Common Equity	1,435,515,739	52.73%	(21,207,068)	(11,865,763)	(348,619)	(33,421,450)	1,402,094,289	69.54%	975,016,369
4.	Total Capitalization	$ 2,722,488,333	100.00%	$ (21,207,068)	$ (22,502,868)	$ (661,140)	$ (44,371,076)	$ 2,678,117,257		$1,862,362,741

		Kentucky Jurisdictional Capitalization (10)	Adjusted Capital Structure (11)	Annual Cost Rate (12)	Cost of Capital (Col 11 x Col 12) (13)
1.	Short Term Debt	$ 16,009,888	0.86%	5.035%	0.04%
2.	Long Term Debt	871,336,484	46.79%	4.750%	2.22%
3.	Common Equity	975,016,369	52.35%	10.00% - 10.50% - 11.00%	5.24% - 5.50% - 5.76%
4.	Total Capitalization	$ 1,862,362,741	100.00%		7.50% - 7.76% - 8.02%

Exhibit 3

KENTUCKY UTILITIES

Net Original Cost Kentucky Jurisdictional Rate Base
At December 31, 2007

	Title of Account (1)	Kentucky Jurisdictional Rate Base at December 31, 2007 (2)	Kentucky Jurisdictional ECR Rate Base at December 31, 2007 (3)	Kentucky Jurisdictional ECR Roll-In Rate Base (4)	Kentucky Jurisdictional Base Rate Base at December 31, 2007 (5) (2 - 3 + 4)	Other Jurisdictional Rate Base at December 31, 2007 (6)	Total Company Rate Base at December 31, 2007 (7) (2 + 6)
1	*Utility Plant at Original Cost*	$ 4,307,919,389	$ 757,470,842	$ 206,978,413	$ 3,757,426,959	$ 633,206,442	$ 4,941,125,831
2	Deduct:						
3	Reserve for Depreciation	1,669,631,033	20,689,031	4,048,479	1,652,990,481	261,823,491	1,931,454,524
4	Net Utility Plant	2,638,288,356	736,781,811	202,929,934	2,104,436,479	371,382,951	3,009,671,307
5	Deduct:						
6	Customer Advances for Construction	2,788,821	-	-	2,788,821	14,515	2,803,336
7	Accumulated Deferred Income Taxes	259,311,164	28,927,964	21,310,967	251,694,167	38,250,901	297,562,065
8	Asset Retirement Obligation-Net Assets	4,346,769	-	-	4,346,769	682,584	5,029,353
9	Asset Retirement Obligation-Liabilities	(26,200,699)	-	-	(26,200,699)	(4,114,360)	(30,315,059)
10	Asset Retirement Obligation-Regulatory Assets	20,843,208	-	-	20,843,208	3,273,060	24,116,268
11	Asset Retirement Obligation-Regulatory Liabilities	(1,876,232)	-	-	(1,876,232)	(294,629)	(2,170,861)
12	Reclassification of Accumulated Depreciation associated		-	-			
	with Cost of Removal for underlying ARO Assets	2,064,246	-	-	2,064,246	324,154	2,388,400
13	Investment Tax Credit (a)	46,978,183	7,519,586	-	39,458,597	8,020,929	54,999,112
14	Total Deductions	308,255,460	36,447,550	21,310,967	293,118,877	46,157,153	354,412,613
15	Net Plant Deductions	2,330,032,896	700,334,261	181.618,967	1,811,317,601	325,225,798	2,655,258,694
16	Add:						
17	Materials and Supplies (b)	77,707,146	123,394	-	77,583,752	12,316,873	90,024,019
18	Prepayments (b)(c)	1,595,588	-	-	1,595,588	226,588	1,822,176
19	Emission Allowances	330,735	267,994	2,822,741	2,885,483	52,159	382,894
20	Cash Working Capital (page 2)	76,221,869	306,560	61.386	75,976,695	8,387.559	84,609,428
21	Total Additions	155,855,338	697,948	2,884,128	158,041,518	20,983,179	176,838,517
22	Total Net Original Cost Rate Base	$ 2,485,888,234	$ 701,032,209	$ 184,503,094	$ 1,969,359,119	$ 346,208,977	$ 2,832,097,211
23	Percentage of KY Jurisdictional Base Rate Base to Total Company Rate Base				69.54%		

(a) Reflects investment tax credit treatment per Case No. 2007-00178.

(b) Average for 13 months.

(c) Includes prepayments for property insurance only.

Calculation of Cash Working Capital

		(2)	(3)	(4)	(5)	(6)	(7)
1	Operating and maintenance expense for the						
	12 months ended December 31, 2007	$ 755,871,552	$ 2,452,482	$ 491,089	$ 753,910,159	$ 110,855,769	$ 866,727,321
2	Deduct:						
3	Electric Power Purchased	146,096,597	-	-	146,096,597	22,347,009	168,443,606
4	Total Deductions	$ 146,096,597	$ -	$ -	$ 146,096,597	$ 22,347,009	$ 168,443,606
5	Remainder (Line 1 - Line 5)	$ 609,774,955	$ 2,452,482	$ 491,089	$ 607,813,562	$ 88,508,760	$ 698,283,715
6	Cash Working Capital	$ 76,221,869	$ 306,560	$ 61,386	$ 75,976,695	$ 8,387,559	$ 84,609,428

Kentucky Jurisdictional (12 1/2% of Line 5)

Other Jurisdictional comprised of FERC, Tennessee, and Virginia Jurisdictional methodologies.

Exhibit 3-1

KENTUCKY UTILITIES

Net Original Cost Kentucky Jurisdictional Rate Base
At December 31, 2007

Title of Account (1)	Kentucky Jurisdictional ECR Rate Base at December 31, 2007 (2)	Other Jurisdictional ECR Rate Base at December 31, 2007 (3)	Total Company ECR Rate Base at December 31, 2007 (4)	Kentucky Jurisdictional ECR Roll-In Rate Base (5)
1. Utility Plant at Original Cost	$ 757,470,842	$ 119,454,813	$ 876,925,655	$ 206,978,413
2. Deduct:				
3. Reserve for Depreciation	20,689,031	3,262,706	23,951,737	4,048,479
4. Net Utility Plant	736,781,811	116,192,107	852,973,918	202,929,934
5. Deduct:				
6. Customer Advances for Construction	-	-	-	-
7. Accumulated Deferred Income Taxes	28,927,964	4,562,003	33,489,967	21,310,967
8. Asset Retirement Obligation-Net Assets	-	-	-	-
9. Asset Retirement Obligation-Liabilities	-	-	-	-
10. Asset Retirement Obligation-Regulatory Assets	-	-	-	-
11. Asset Retirement Obligation-Regulatory Liabilities	-	-	-	-
12. Reclassification of Accumulated Depreciation associated with Cost of Removal for underlying ARO Assets	-	-	-	-
13. Investment Tax Credit (a)	7,519,586	1,283,076	8,802,662	-
14. Total Deductions	36,447,550	5,845,079	42,292,629	21,310,967
15. Net Plant Deductions	700,334,261	110,347,028	810,681,289	181,618,967
16. Add:				
17. Materials and Supplies	123,394	20,901	144,295	-
18. Prepayments	-	-	-	-
19. Emission Allowances	267,994	42,263	310,257	2,822,741
20. Cash Working Capital	306,560	47,113	353,673	61,386
21. Total Additions	697,948	110,277	808,225	2,884,128
22. Total Net Original Cost Rate Base	$ 701,032,209	$ 110,457,305	$ 811,489,514	$ 184,503,094

(a) Reflects investment tax credit treatment per Case No. 2007-00178.

Exhibit 4

KENTUCKY UTILITIES

Calculation of Overall Revenue Deficiency/(Sufficiency) at December 31, 2007

	(1) ROE RANGE 10.00%	-	10.50%	-	11.00%
1. Adjusted Kentucky Jurisdictional Capitalization (Exhibit 2, Col 14)	$ 1,862,362,741		$ 1,862,362,741		$ 1,862,362,741
2. Total Cost of Capital (Exhibit 2, Col 17)	7.50%	-	7.76%	-	8.02%
3. Net Operating Income Found Reasonable (Line 1 x Line 2)	$ 139,677,206	-	$ 144,519,349	-	$ 149,361,492
4. Pro-forma Net Operating Income	125,295,815		125,295,815		125,295,815
5. Net Operating Income Deficiency/(Sufficiency)	$ 14,381,390	-	$ 19,223,533	-	$ 24,065,677
6. Gross Up Revenue Factor - Exhibit 1, Reference Schedule 1.31	0.62157350		0.62157350		0.62157350
7. Overall Revenue Deficiency/(Sufficiency)	$ 23,137,071	-	$ 30,927,209	-	$ 38,717,347

Exhibit 5

KENTUCKY UTILITIES

Kentucky Jurisdictional Rate of Return on Common Equity
For the Twelve Months Ended December 31, 2007

Calculated Using Existing Regulatory Treatment of Merger Surcredit and VDT

	Adjusted Kentucky Jurisdictional Capitalization (Exhibit 2 Col 14) (1)	Percent of Total (2)	Annual Cost Rate (Exhibit 2 Col 16) (3)		Weighted Cost of Capital (Col 2 x Col 3) (4)	
1. Short Term Debt	$16,009,888	0.86%	5.04%		0.04%	
2. Long Term Debt	$871,336,484	46.79%	4.75%		2.22%	
3. Common Equity	$975,016,369	52.35%	8.54%	(a)	4.47%	(b)
4.	$1,862,362,741	100.00%			6.73%	
5. Pro-forma Net Operating Income					$125,295,815	(c)
6. Net Operating Income / Total Capitalization					6.73%	(e)

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00563

Question No. 2

Witness: Lonnie E. Bellar

Q-2. In KU's most recent rate case, Case No. 2003-00434,[1] revenue requirements were based on the post-merger, test-year level of expenses plus $18,968,825 of additional expenses to reflect the shareholder merger savings. In addition, due to a settlement agreement reached in Case No. 2002-00429,[2] merger surcredits to customers of $17,898,933 annually were to continue. To properly reflect the merger surcredits in the rate-making process, KU's total revenues were reduced by the amount of the surcredits and rates had to be increased by the amount of the surcredits.

a. Will eliminating KU's merger surcredits result in a revenue increase of $17,898,933 annually for KU? If no, explain in detail.

b. Given that the shareholders' 50 percent of the merger savings is included as an expense in KU's existing base rates, will eliminating the merger surcredits result in 100 percent of the merger savings being recovered through base rates? If no, explain in detail.

A-2. a. Yes.

b. Yes. Base rates have included 100% of merger savings with the surcredits providing an equitable share of the savings (e.g. 50%) to the customer. KU's operating results post merger have reflected 100% of realized merger savings. Eliminating the surcredit will offset other increased costs and capital investment, as shown in the Attachment to the Response to Question No. 1(a), and in doing so allow for an equitable termination of the merger surcredit mechanism.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00563

Question No. 3

Witness: Lonnie E. Bellar

Q-3. In Case Nos. 1998-00474[3] and 2003-00434, KU argued that in order for shareholders to retain their portion of the merger savings, an upward adjustment to operating expenses equal to 50 percent of the total savings originally estimated in Case No. 1997-00300[4] was necessary to eliminate the shareholders' merger savings from the return calculations. This operating expense adjustment was coupled with the recognition that ratepayers would receive their share of the merger savings through the surcredit mechanism, thus achieving a balance between the interests of shareholders and ratepayers. Explain in detail why it appears that KU now believes it is no longer necessary to maintain the balance between the interests of shareholders and ratepayers concerning the merger savings.

A-3. KU believes that the current balance between the interests of shareholders and ratepayers should be maintained through June 20, 2008. However, as shown in the Attachment to the Response to Question No. 1(a), the 50-50 balance did not occur in 2007 and given KU's ongoing capital investments in facilities to serve customers, there is little reason to believe that the current balance will be equitable in the future. For these reasons, KU believes that the merger surcredit mechanism should cease in a fair and equitable manner balancing between the interests of shareholders and ratepayers, and ultimately shifting the balance so that customers receive 100% of the merger savings.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00563

Question No. 4

Witness: Lonnie E. Bellar

Q-4. Assume for purposes of this question the Commission does not issue an Order in this proceeding by June 30, 2008. Explain KU's understanding of what would happen under the Merger Surcredit tariff and how each customer class would be affected.

A-4. As stated in KU's Merger Surcredit Rider tariff, Original Sheet No. 73.1, Terms of Distribution item (4): "[t]he Company shall file a plan with the PSC midway through Year 10 of this schedule to address the future disposition of the Merger Surcredit and pending a final order from the Commission in that proceeding, the Merger Surcredit will remain in effect." (A copy of Original Sheet No. 73.1 is attached hereto.)

The Tariff further states:

> **AVAILABILITY OF SERVICE**
> To all electric rate schedules, excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00429.

KU's understanding based on the tariff language cited above, as agreed to in the Settlement Agreement filed in Case No. 2002-00429 and approved by the Commission in its October 16, 2003 Order, is that after June 30, 2008 and before a final order is issued by the Commission, the merger surcredit tariff will continue at year 10 levels as set forth in the tariff to those customers receiving service under all electric rate schedules, excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00429

Kentucky Utilities Company

Original Sheet No. 73
P.S.C. No. 13

MSR
Merger Surcredit Rider

APPLICABLE
In all territory served.

AVAILABILITY OF SERVICE
To all electric rate schedules, excluding those customers receiving their one-time payment of the surcredit amount under the settlement agreement in PSC Case No. 2002-00429.

RATE
The monthly billing amount computed under each of the rate schedules to which this surcredit is applicable shall be adjusted by the Merger Surcredit Factor, which shall be calculated in accordance with the following formula:

Merger Surcredit Factor = MS + BA

Where:

(MS) is the Merger Surcredit which is based on the total Company savings that are to be distributed to the Company's Kentucky jurisdictional retail customers in each 12-month period beginning July 1, 1998.

	Savings to be Distributed	Merger Surcredit (MS)
Year 1	$ 6,008,699	0.972%
Year 2	$ 8,764,133	1.387%
Year 3	$11,824,431	1.836%
Year 4	$12,978,580	1.979%
Year 5	$14,287,560	2.139%
Year 6	$17,898,933	2.646%*
Year 7	$17,898,933	2.568%
Year 8	$17,898,933	2.503%
Year 9	$17,898,933	2.442%
Year 10	$17,898,933	2.389%

*Reflects the average factor for the year. Actual application determined by the Final Order in PSC Case No. 2002-00429.

(BA) is the Balancing Adjustment for the second through the twelfth months of the current distribution year which reconciles any over- or under-distribution of the net savings from prior periods. The Balancing Adjustment will be determined by dividing the differences between amounts which were expected to be distributed and the amounts actually distributed from the application of the Merger Surcredit Factor from the previous year by the expected Kentucky jurisdictional retail electric revenues. The final Balancing Adjustment will be applied to customer billings in the second month following the tenth distribution year.

Kentucky Utilities Company

Original Sheet No. 73.1
P.S.C. No. 13

MSR

Merger Surcredit Rider

TERMS OF DISTRIBUTION

(1) The total distribution to Company's customers will, in no case, be less than the sum of the amounts shown above.

(2) On or before the 21st of the first month of each distribution year following Year 1, the Company will file with the Commission a status report of the Surcredit. Such report shall include a statement showing the amounts which were expected to be distributed and the amounts actually distributed in previous periods, along with a calculation of the Balancing Adjustment (BA) which will be implemented with customer billings in the second month of that distribution year to reconcile any previous over-or under-distributions.

(3) The Merger Surcredit shall be applied to the customer's bill following the rates and charges for electric service, but before application of the school tax, the franchise fee, sales tax or similar items.

(4). The Company shall file a plan with the PSC midway through Year 10 of this schedule to address the future disposition of the Merger Surcredit and pending a final order from the Commission in that proceeding, the Merger Surcredit shall remain in effect.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated March 25, 2008

Case No. 2007-00563

Question No. 5

Witness: Lonnie E. Bellar

Q-5. Assume for purposes of this question the Commission finds that the merger surcredit should be continued until the issuance of a final Order in KU's next general rate case. Would KU agree that the dollar level of the surcredit to be spread among all customer classes should be $18,968,825? Explain the response.

A-5. KU respectfully disagrees with the assumption in the question. The proposed finding that the merger surcredit should be continued until the issuance of a final Order in KU's next general rate case is not a reasonable outcome given the significant capital investments being made by KU in facilities to provide service to customers and the associated reduction in KU's current earnings below the authorized level as shown in the Attachment to the Response to Question No. 1(a). The substantive reality is that because KU is not actually receiving its benefits under the merger surcredit arrangement, allowing the merger surcredit to expire on July 1, 2008 is a reasonable outcome for the Commission to order in this proceeding. Without waiver of or prejudice to its position in this case, KU acknowledges that the dollar level included in the question represents 50% of the annualized total merger savings applicable to all KU customers as determined in Case No. 2002-00429.