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PUBLIC SERVICE
COMMISSION

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Louisville Gas and
Electric Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

August 11, 2008

Robert M. Conroy
Director - Rates
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**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, 2007 AND
APRIL 30, 2008 - CASE NO. 2008-00217**

Dear Ms. Stumbo:

Please find enclosed and accept for filing the original and seven (7) copies of the Response of Louisville Gas and Electric Company to the Commission Staff's Questions raised at the July 21, 2008 Informal Conference, in the above-referenced matter. With these responses, Louisville Gas and Electric requests the Commission take Case No. 2008-00217 under submission for decision and issue an order by September 30, 2008.

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

Sincerely,

Robert M. Conroy

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|-------------------|
| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE ENVIRONMENTAL |) | |
| SURCHARGE MECHANISM OF LOUISVILLE GAS |) | CASE NO. |
| AND ELECTRIC COMPANY FOR THE SIX-MONTH |) | 2008-00217 |
| BILLING PERIOD ENDING OCTOBER 31, 2007 |) | |
| AND APRIL 30, 2008 |) | |

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S QUESTIONS RAISED AT
THE JULY 21, 2008 INFORMAL CONFERENCE

FILED: August 11, 2008

VERIFICATION

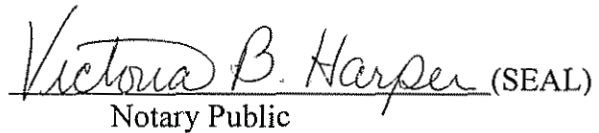
STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director, 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.



ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7th day of August, 2008.

 (SEAL)

Notary Public

My Commission Expires:
Sept 20, 2010

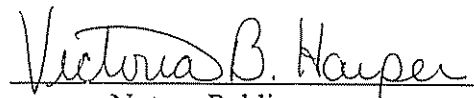
VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is the Director, Utility Accounting and Reporting for E.ON U.S. Services Inc., that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.


SHANNON L. CHARNAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7th day of August, 2008.

 (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Questions Raised at the
July 21, 2008 Informal Conference**

Case No. 2008-00217

Question No. 1

Witness: Shannon L. Charnas

- Q-1. Refer to Item 6, page 2 of 2. Explain the derivation of the production tax credit. Provide all workpapers, calculations, assumptions, and other documentation used to determine the percentage.
- A-1. One of the dependant variables in the calculation of the Production Tax Credit is the dollar value of State Income Taxes. One of the dependant variables in the calculation of State Income Taxes is the dollar value of the Production Tax Credit. The nature of this dependency creates a circular reference as any change in one of these variables will cause the other to change. Microsoft Excel can be set to increase the number of iterations per calculation above one and solve this circular reference.

The attachment further depicts the calculations.

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2008**

| | | 2008 | |
|------|--|-------------|-----------|
| | Federal & State Production Credit W/ 6% 2008 State <u>Tax Rate Included</u> | | |
| (1) | 1. Assume pre-tax income of | \$ 100.0000 | |
| (2) | | | |
| (3) | 2. State income tax (see below) | 5.6604 | (37) |
| (4) | | | |
| (5) | 3. Taxable income for Federal income tax | | |
| (6) | before production credit | 94.3396 | (1)-(3) |
| (7) | | 6% | |
| (8) | 4. Less: Production tax credit (6% of Line 3) | 5.6604 | (6)*(7) |
| (9) | | | |
| (10) | 5. Taxable income for Federal income tax | 88.6792 | (6)-(8) |
| (11) | | | |
| (12) | 6. Federal income tax (35% of Line 5) | 31.0377 | (10)*35% |
| (13) | | | |
| (14) | 7. Total State and Federal income taxes | | |
| (15) | (Line 2 + Line 6) | \$ 36.6981 | (3)+(12) |
| (16) | | | |
| (17) | 8. Gross-up Revenue Factor | 63.3019 | 100-(15) |
| (18) | | | |
| (19) | 9. Therefore, the composite rate is: | | |
| (20) | 10. Federal | 31.0377% | (12)/100 |
| (21) | 11. State | 5.6604% | (3)/100 |
| (22) | 12. Total | 36.6981% | (20)+(21) |
| (23) | | | |
| (24) | | | |
| (25) | | | |
| (26) | | | |
| (27) | | | |
| (28) | <u>State Income Tax Calculation</u> | | |
| (29) | 1. Assume pre-tax income of | \$ 100.0000 | |
| (30) | | | |
| (31) | 2. Less: Production tax credit | 5.6604 | (8) |
| (32) | | | |
| (33) | 3. Taxable income for State income tax | 94.3396 | (29)-(31) |
| (34) | | | |
| (35) | 4. State Tax Rate | 6.0000% | |
| (36) | | | |
| (37) | 5. State Income Tax | 5.6604 | (33)*(35) |

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's Questions Raised at the
July 21, 2008 Informal Conference**

Case No. 2008-00217

Question No. 2

Witness: Robert M. Conroy

- Q-2. Refer to Item 2, page 2 of 2. LG&E and KU have determined that they experienced a cumulative net under-recovery of the environmental surcharge of \$912,324 and \$22,563, respectively. Provide a breakdown of the cumulative amount showing the components which make up the net under-recoveries. Include a calculation of each component or references in the record showing the calculation of each component.
- A-2. Please see the attachment.

**Louisville Gas & Electric
Breakdown of Over/(Under) Calculation**

| | | |
|---|----------------------------|---|
| Cumulative Impact of Revised Rate of Return | \$ 382,954 | a |
| Cumulative Impact of Change in Rate Base | - | b |
| Revenue Over/(Under) Collection due to Timing | (1,295,278) | c |
| Total Over/(Under) Collection | <u><u>\$ (912,324)</u></u> | |

- a) Summation of the two six-month periods ending Oct'07 and Apr'08, KPSC First Data Response - Attachment to Response 1 page 2 of 4
- b) Summation of the two six-month periods ending Oct'07 and Apr'08, KPSC First Data Response - Attachment to Response 1 page 1 of 4
- c) The timing difference component is a function of the use of average 12 months revenues to determine the billing factors (CESF, BESF, and MESF) and the billing factors being applied to actual monthly revenues which will be different than the average.