



Stephanie L. Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

**Kentucky Utilities Company**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
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**RECEIVED**

OCT 10 2008

**PUBLIC SERVICE  
COMMISSION**

Lonnie E. Bellar  
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October 10, 2008

**RE: Application of Kentucky Utilities Company for an Adjustment of Base Rates - Case No. 2008-00251**

**Application of Kentucky Utilities Company to File Depreciation Study - Case No. 2007-00565**

Dear Ms. Stumbo:

Enclosed please find and accept for filing one original and ten copies of Kentucky Utilities Company's Amended Response to the Commission's Staff's Third Data Request Item No. 41 in the above-referenced matters. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies.

Due to S. Bradford Rives unavailability to sign his verification page, the Company will file his verification page the week of October 13, 2008.

Should you have any questions please contact me at your convenience.

Sincerely,

Lonnie E. Bellar

cc: Parties of Record

Ms. Stephanie L. Stumbo  
October 10, 2008

Counsel of Record

Allyson K. Sturgeon, Senior Corporate Attorney – E.ON U.S. LLC  
Robert M. Watt – Stoll Keenon Ogden PLLC (Kentucky Utilities)  
Kendrick R. Riggs – Stoll Keenon Ogden PLLC (Kentucky Utilities)  
W. Duncan Crosby – Stoll Keenon Ogden PLLC (Kentucky Utilities)  
Dennis Howard II – Office of the Attorney General (AG)  
Lawrence W. Cook – Office of the Attorney General (AG)  
Paul D. Adams – Office of the Attorney General (AG)  
Michael L. Kurtz – Boehm, Kurtz & Lowry (KIUC)  
David C. Brown – Stites and Harbison (Kroger)  
Willis L. Wilson – LFUCG Department of Law (LFUCG)  
Joe F. Childers (CAK and CAC)

Consultants to the Parties

Steve Seelye – The Prime Group (E.ON U.S. LLC)  
William A. Avera – FINCAP, Inc (E.ON U.S. LLC)  
John Spanos – Gannett Fleming, Inc. (E.ON U.S. LLC)  
Robert Henkes (AG)  
Michael Majoros – Snavelly King Majoros O'Connor & Lee (AG)  
Glenn Watkins – Technical Associates (AG)  
Dr. J. Randall Woolridge – Smeal College of Business (AG)  
Lane Kollen – Kennedy and Associates (KIUC)  
Kevin C. Higgins – Energy Strategies, LLC (Kroger)

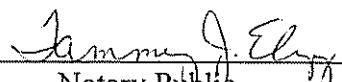
VERIFICATION

STATE OF KENTUCKY     )  
  ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is the Vice President, State Regulation and Rates for Kentucky Utilities Company, 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

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10<sup>th</sup> day of October, 2008.

  
\_\_\_\_\_  
Notary Public (SEAL)

My Commission Expires:

November 9, 2010

VERIFICATION

STATE OF KENTUCKY    )  
  ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says that she is the Controller, for Kentucky Utilities Company, 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.

  
\_\_\_\_\_  
VALERIE L. SCOTT

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 10<sup>th</sup> day of October, 2008.

  
\_\_\_\_\_  
Notary Public (SEAL)

My Commission Expires:

November 9, 2010

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2008-00251**

**CASE NO. 2007-00565**

**Amended Response to Third Data Request of Commission Staff**

**Dated September 24, 2008**

**Question No. 41**

**Responding Witness: S. Bradford Rives / Lonnie E. Bellar / Valerie L. Scott**

Q-41. In various data responses, KU has noted errors and amendments necessary to correct or update its original application. Provide a summary which identifies all such errors and amendments and which shows their overall impact on the amount of KU's proposed rate increase.

A-41. The summary provided below identifies the revisions necessary to correct the original application. The overall rate increase impact of these revisions is an increase of \$2,592,333 to KU's Overall Revenue Deficiency as shown on the attached Revised Exhibit 8. The Company notes that these revisions do not include the impact of the monthly updates for cost of capital, rate case expenses, vehicle fuel costs, and bank credit facilities. These monthly update items should be finalized with the most recent data available prior to the hearing in this proceeding.

Correction Summary

The following revised exhibits are attached:

- Revised Exhibit 1, Adjustments to Operating Revenues, Operating Expenses and Net Operating Income: Corrected for revisions to Reference Schedules 1.15, 1.16, 1.17 and new Reference Schedule 1.43.
- Revised Exhibit 1, Reference Schedule 1.15, Adjustment to Reflect Increases in Labor and Labor-Related Costs: Corrected an error in the calculation of the O&M percentage ratio. See response to PSC-2 Question No. 100(a). A correction was also made to the union wage increase applied to union overtime on line 17, Revised Exhibit 1, Reference Schedule 1.15, page 2 of 4. The original calculation was made using *general ledger* accounting periods. The correction accurately reflects the overtime increase applied to the overtime paid by pay period.

**Amended Response to PSC-3 Question No. 41**

**Page 2 of 2**

**Rives / Bellar / Scott**

- Revised Exhibit 1, Reference Schedule 1.16, To Adjust for Pension and Post-Retirement: Corrected an error in the calculation of the O&M percentage ratio. See response to PSC-2 Question No. 105.
- Revised Exhibit 1, Reference Schedule 1.17, Adjustment for Post-Employment Benefits: Corrected an error in the calculation of the O&M percentage ratio. See response to PSC-2 Question No. 105. In addition, errors in data collection and spreadsheet formula have been corrected.
- Revised Exhibit 1, Reference Schedule 1.43, Adjustment to Remove Other Compensation Expenses: New proposed adjustment to remove other compensation booked above-the-line that should have been below-the-line. See response to PSC-2 Question No. 102(f)(2).
- Revised Exhibit 2, Capitalization at April 30, 2008: Corrected capitalization adjustments for Undistributed Subsidiary Earnings, Investments in EEI, and Investments in OVEC and Other. See response to AG-1 Question No. 34.
- Revised Exhibit 8, Calculation of Overall Revenue Deficiency/ (Sufficiency) at April 30, 2008: Corrected to reflect revisions to Exhibit 1 and Exhibit 2.

KENTUCKY UTILITIES

Adjustments to Operating Revenues, Operating Expenses and Net Operating Income  
For the Twelve Months Ended April 30, 2008  
Revised Reference Schedules 1.15, 1.16, 1.17 and New Reference Schedule 1.43

	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating income (4)
1. Jurisdictional amount per books		1,154,156,041	980,014,414	\$ 174,141,627
2. Adjustments for known changes and to eliminate unrepresentative conditions:				
3. Adjustment to eliminate unbilled revenues	1.00	(6,878,000)	-	(6,878,000)
4. Adjustment to eliminate Merger Surcredit	1.01	18,568,431	-	18,568,431
5. Adjustment to eliminate Value Delivery Surcredit	1.02	3,405,550	-	3,405,550
6. To adjust mismatch in fuel cost recovery	1.03	(116,253,633)	(96,155,056)	(20,098,577)
7. To adjust base rates and FAC to reflect a full year of the FAC roll-in	1.04	98,267	-	98,267
8. Adjustment to eliminate Environmental Surcharge revenues and expenses	1.05	(54,342,557)	(16,467,656)	(37,874,901)
9. To adjust base rate revenues and expenses to reflect a full year of the ECR roll-in	1.06	21,935,653	8,506,554	13,429,099
10. Off-system sales revenue adjustment for the ECR calculation	1.07	(371,295)	-	(371,295)
11. To eliminate electric brokered/swap sales revenues and expenses	1.08	90,748	(8,127)	98,875
12. To eliminate ECR, MSR, VDT, and FAC accruals	1.09	17,682,129	-	17,682,129
13. To eliminate DSM revenue and expenses	1.10	(4,429,150)	(4,437,148)	7,998
14. To reflect weather normalized electric sales margins	1.11	(8,721,229)	(4,355,146)	(4,366,083)
15. Adjustment to annualize year-end customers	1.12	(4,243,045)	(2,747,550)	(1,495,495)
16. This adjustment left intentionally blank	1.13			
17. Adjustment to reflect annualized depreciation expenses under proposed rates	1.14	-	236,248	(236,248)
18. REVISED-Adjustment to reflect increases in labor and labor related costs	1.15	-	1,325,664	(1,325,664)
19. REVISED-Adjustment for pension and post retirement costs	1.16	-	(453,724)	453,724
20. REVISED-Adjustment for post-employment benefits	1.17	-	1,112,354	(1,112,354)
21. Adjustment to reflect normalized storm damage expense	1.18	-	(2,731,370)	2,731,370
22. Adjustment for injuries and damages FERC account 925	1.19	-	664,233	(664,233)

KENTUCKY UTILITIES

Adjustments to Operating Revenues, Operating Expenses and Net Operating Income  
For the Twelve Months Ended April 30, 2008  
Revised Reference Schedules 1.15, 1.16, 1.17 and New Reference Schedule 1.43

	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)
23. Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	1.20	-	(436,901)	436,901
24. Adjustment to remove amortization of ESM and Management audit expenses	1.21	-	(37,986)	37,986
25. Adjustment to remove out-of-period FERC assessment fee	1.22	-	(497,965)	497,965
26. Adjustment for MISO Exit and Schedule 10	1.23	-	1,961,979	(1,961,979)
27. Adjustment for EKPC settlement charges	1.24	-	(1,338,790)	1,338,790
28. Adjustment to reflect reallocation of OVEC demand charges	1.25	-	2,721,857	(2,721,857)
29. Adjustment for reserve margin demand purchases	1.26	-	1,199,403	(1,199,403)
30. Adjustment to reflect amortization of rate case expenses	1.27	-	324,904	(324,904)
31. Adjustment to expenses for Retirement of Tyrone Units 1 and 2	1.28	-	(9,585)	9,585
32. Adjustment to O&M expenses for IT prepaid contracts	1.29	-	978,329	(978,329)
33. Adjustment for postage rate increase	1.30	-	65,522	(65,522)
34. Adjustment to reflect annualized vehicle fuel costs	1.31	-	198,608	(198,608)
35. Adjustment for cost of new bank credit facilities	1.32	-	2,005,628	(2,005,628)
36. To adjust property tax expense	1.33	-	447,054	(447,054)
37. To adjust use tax expense	1.34	-	(208,516)	208,516
38. These adjustments left intentionally blank	1.35 - 1.38			
39. NEW-Adjustment to remove other compensation expenses	1.43	-	(192,956)	192,956
40. Total of above adjustments			<u>(133,458,131)</u>	<u>(108,330,139)</u>
41. Federal and state income taxes corresponding to above adjustments	37.602802 % 1.39		(9,448,829)	9,448,829
42. Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense	1.40		(1,412,975)	1,412,975
43. Prior income tax true-ups and adjustments	1.41		709,277	(709,277)
44. Total adjustments			<u>(133,458,131)</u>	<u>(118,482,666)</u>
45. Adjusted Net Operating Income			<u>1,020,697,910</u>	<u>\$ 159,166,162</u>



**KENTUCKY UTILITIES**

**Capitalization at April 30, 2008**

**Revised Undistributed Subsidiary Earnings (Col 4), Investment in EEI (Col 5), and Investments in OVEC and Other (Col 6)**

	Per Books 04-30-08 (1)	Capital Structure (2)	Reacquired Bonds (not retired) (3)	Undistributed Subsidiary Earnings (4)	Investment in EEI (Col 2 x Col 5 Line 4) (5)	Investments in OVEC and Other (Col 2 x Col 6 Line 4) (6)	Adjustments to Total Company Capitalization (Sum of Col 3 - Col 6) (7)	Adjusted Total Company Capitalization (Col 1 + Col 7) (8)
1. Short Term Debt	\$ 93,302,454	3.27%	\$ (16,693,620)	\$ -	\$ (42,373)	\$ (27,477)	\$ (16,763,470)	\$ 76,538,984
2. Long Term Debt	1,247,059,520	43.70%	16,693,620	-	(566,265)	(367,194)	15,760,161	1,262,819,681
3. Common Equity	1,513,015,410	53.03%	-	(14,668,869)	(687,162)	(445,590)	(15,801,621)	1,497,213,789
4. Total Capitalization	<u>\$2,853,377,384</u>	<u>100.00%</u>	<u>\$ -</u>	<u>\$ (14,668,869)</u>	<u>\$ (1,295,800)</u>	<u>\$ (840,261)</u>	<u>\$ (16,804,930)</u>	<u>\$2,836,572,454</u>

	Adjusted Total Company Capitalization (8)	Jurisdictional Rate Base Percentage (Exhibit 3 Line 23) (9)	Adjusted Kentucky Jurisdictional Capitalization (Col 8 x Col 9) (10)	Adjusted Jurisdictional Capital Structure (11)	Annual Cost Rate (12)	Cost of Capital (Col 11 x Col 12) (13)
1. Short Term Debt	\$ 76,538,984	73.94%	\$ 56,592,925	2.70%	2.63%	0.07%
2. Long Term Debt	1,262,819,681	73.94%	933,728,872	44.52%	5.21%	2.32%
3. Common Equity	1,497,213,789	73.94%	1,107,039,876	52.78%	11.25%	5.94%
4. Total Capitalization	<u>\$2,836,572,454</u>		<u>\$2,097,361,673</u>	<u>100.00%</u>		<u>8.33%</u>

Revised Exhibit 8  
Sponsoring Witness: Rives  
Page 1 of 1

KENTUCKY UTILITIES

Calculation of Overall Revenue Deficiency/(Sufficiency) at April 30, 2008

	<u>ORIGINAL</u> <u>(1)</u>	<u>REVISED</u> <u>(2)</u>	<u>DIFFERENCE</u> <u>(3)</u> <u>(2) - (1)</u>
1 Adjusted Kentucky Jurisdictional Capitalization (Exhibit 2, Col 10)	\$2,073,463,254	\$2,097,361,673	\$ 23,898,419
2 Total Cost of Capital (Exhibit 2, Col 13)	<u>8.32%</u>	<u>8.33%</u>	<u>0.01%</u>
3 Net Operating Income Found Reasonable (Line 1 x Line 2)	\$ 172,512,143	\$ 174,710,227	\$ 2,198,084
4 Pro-forma Net Operating Income	<u>158,579,867</u>	<u>159,166,162</u>	<u>586,295</u>
5 Net Operating Income Deficiency/(Sufficiency)	\$ 13,932,276	\$ 15,544,065	\$ 1,611,789
6 Gross Up Revenue Factor - Exhibit 1, Reference Schedule 1 42	0.62175222	0.62175222	-
7 Overall Revenue Deficiency/(Sufficiency)	<u>\$ 22,408,084</u>	<u>\$ 25,000,417</u>	<u>\$ 2,592,333</u>

Revised Exhibit 1  
Reference Schedule 1.15  
Sponsoring Witness: Scott  
Page 1 of 4

KENTUCKY UTILITIES

Revised

Adjustment to Reflect Increases in Labor and Labor-Related Costs  
As Applied to the Twelve Months Ended April 30, 2008

1. Wages (Page 2)	\$ 1,162,025
2 Payroll Taxes (Page 3)	88,030
3 401(k) (Page 4)	237,132
4 Total	<u>1,487,187</u>
5 Kentucky Jurisdiction	89.139%
6 Kentucky Jurisdictional adjustment	<u>\$ 1,325,664</u>

Revised Exhibit 1  
Reference Schedule 1.15  
Sponsoring Witness: Scott  
Page 2 of 4

**KENTUCKY UTILITIES**

**Revised**

**Adjustment to Reflect Increases in Labor and Labor-Related Costs  
As Applied to the Twelve Months Ended April 30, 2008**

	Operating	Construction/ Other	Total
1. Labor for 12 months ended April 30, 2008:			
2. Base	\$ 63,462,542	\$ 28,724,583	\$ 92,187,125
3. Overtime and Premium	8,588,366	2,206,534	10,794,900
4. TIA	7,127,374	2,768,858	9,896,232
5. Total Labor	<u>\$ 79,178,282</u>	<u>\$ 33,699,975</u>	<u>\$ 112,878,257</u>
6. Total Operating and Construction/Other %	70.1%	29.9%	100.0%
7. Total labor Excluding TIA	\$ 72,050,908	\$ 30,931,117	\$ 102,982,025
8. Total Operating and Construction/Other %	70.0%	30.0%	100.0%
9. Annualized base labor at April 30, 2008:		<u>Employees</u>	
10. Union		144	\$ 9,036,805
11. Exempt KU		133	10,636,390
12. Non-Exempt/Hourly		684	38,194,236
13. Exempt SERVCO (allocated to KU)	(45.4% of total)	357	31,190,524
14. Non-Exempt SERVCO (allocated to KU)	(45.4% of total)	110	4,473,183
15. Total Annualized Labor		<u>1,428</u>	<u>93,531,138</u>
16. Union Overtime/Premiums (a)			2,513,431
17. Union wage increase applied to union overtime (5/1/07-7/21/07 OT labor x 3.5%)			17,376
18. Non-Exempt/Hourly/Service Overtime/Premium (a)			8,281,469
19. Wage Increase applied to Non-Exempt/Hourly/Service Overtime/Premium (5/07 - 2/08 OT labor) x 3.5%			246,490
20. Total Annualized Labor			<u>\$ 104,589,904</u>
21. Operating Labor for 12 months ended April 30, 2008			\$ 72,050,908
22. Operating Labor based on annualized labor			<u>73,212,933</u>
	\$ 104,589,904	x	70.0%
23. Labor Adjustment Total			<u>\$ 1,162,025</u>

(a) Represents actual numbers taken from the Company's financial records for the 12 months ended April 30, 2008

Revised Exhibit 1  
Reference Schedule 1.15  
Sponsoring Witness: Scott  
Page 3 of 4

KENTUCKY UTILITIES

*Revised*  
**Adjustments to Reflect Increases in Payroll Taxes**  
**As Applied to the Twelve Months Ended April 30, 2008**

1 Operating Labor increase (Page 2 Line 23)	\$ 1,162,025
2 Percentage of wages that do not exceed Social Security (OASDI) limit	<u>98.80%</u>
3 Operating Labor increase subject to Social Security tax	<u>\$ 1,148,081</u>
4 Medicare Tax (Line 1 x 1.45%)	\$ 16,849
5 Social Security Tax (Line 3 x 6.2%)	<u>71,181</u>
6 Payroll Tax adjustment	<u>\$ 88,030</u>

Revised Exhibit 1  
Reference Schedule 1.15  
Sponsoring Witness: Scott  
Page 4 of 4

KENTUCKY UTILITIES

Revised  
Adjustment to Reflect Increases in Company Match of 401(k)  
As Applied to the Twelve Months Ended April 30, 2008

1	Direct total payroll for 12 months ended 04/30/08 (Page 2 Line 5)	\$ 112,878,257
2	Total 401(k) Company Match for 12 months ended 04/30/08	<u>3,622,085</u>
3	401(k) Company Match as a percent of payroll	3.21%
4	Operating Labor increase (Page 2 Line 23)	<u>1,162,025</u>
5	401(k) Company Match operating increase (Line 3 x Line 4)	\$ 37,301
6	401(k) Company Match increase from 60% to 70% (May 2007 - October 2007)	<u>199,831</u>
7	Total 401(k) Company Match operating increase	<u><u>\$ 237,132</u></u>

**KENTUCKY UTILITIES**

**Revised  
To Adjust for Pension and Post Retirement  
For the Twelve Months Ended April 30, 2008**

	Pension	Post Retirement	Total
1. Pension and Post Retirement expenses in test year	\$ 7,167,400	\$ 4,627,481	\$ 11,794,881
2. Pension and Post Retirement expenses annualized for 2008 Mercer study	6,460,392	4,825,482	11,285,874
3. Total adjustment (Line 2 - Line 1)	\$ (707,008)	\$ 198,001	\$ (509,007)
4. Kentucky Jurisdiction (Reference Schedule Allocators)			89.139%
5. Kentucky Jurisdictional adjustment			\$ (453,724)

**KENTUCKY UTILITIES**

**Revised  
Adjustment for Post-Employment Benefits  
For the Twelve Months Ended April 30, 2008**

	<u>Proforma per Filing</u>	<u>Revised Amount</u>	<u>3rd Revision Amount</u>	<u>Difference Original less 3rd Revision</u>
1. Post-Employment Benefits expenses in test year	\$ (1,048,511)	\$ (1,048,511)	\$ (1,048,511)	\$ -
2. Post-Employment expenses per 2008 Mercer Study	201,677	200,977	199,376	2,301
3. Total adjustment (Line 2 - Line 1)	<u>\$ 1,250,188</u>	<u>\$ 1,249,488</u>	<u>\$ 1,247,887</u>	<u>\$ 2,301</u>
4. Kentucky Jurisdiction (Reference Schedule Allocators)	89.139%	89.139%	89.139%	89.139%
5. Kentucky Jurisdictional adjustment	<u>\$ 1,114,405</u>	<u>\$ 1,113,781</u>	<u>\$ 1,112,354</u>	<u>\$ 2,051</u>

The third revision occurred as a result of the detection of a data collection error and a spreadsheet formula error:

1. The data query used to populate the worksheet on the original PSC filing and the PSC-2 Question No. 105 included all companies charging KU under the worksheet column "KU". This column should reflect only KU employees charging KU.
2. Due to an error in the layout of a supporting schedule, there were a few "below the line" accounts included in O&M expenses for FAS 112 that should not have been included. The third revision reflects the removal of these accounts for both the "KU" and "Servco" columns.



Revised Exhibit 1  
Reference Schedule 1.43  
Sponsoring Witness: Bellar

**KENTUCKY UTILITIES**

**Adjustment to Remove Other Compensation Expenses  
For the Twelve Months Ended April 30, 2008**

	<u>Total</u>
1. Other Compensation expenses in test year	<u>\$ 216,466</u>
2. Total adjustment	<u>\$ (216,466)</u>
3. Kentucky Jurisdiction (Reference Schedule Allocators)	<u>89.139%</u>
4. Kentucky Jurisdictional adjustment	<u>\$ (192,956)</u>