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

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OCT 24 2008

PUBLIC SERVICE
COMMISSION

Kentucky Utilities Company
State Regulation and Rates
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October 24, 2008

RE: *Application of Kentucky Utilities Company for an Adjustment of Base Rates – Case No. 2008-00251*
and
Application of Kentucky Utilities Company to file Depreciation Study – Case No. 2007-00565

Dear Ms. Stumbo:

Please find enclosed and accept for filing the Supplemental Response of Kentucky Utilities Company to Question No. 26(a)(8) of the Commission Staff's First Set of Data Requests dated July 16, 2008, and to Question No. 129 of the Commission Staff's Second Set of Data Requests dated August 27, 2008, in the above-referenced matters.

Also, enclosed are an original and ten (10) copies of a Petition for Confidential Protection regarding the contents of the Supplemental Response of Kentucky Utilities Company to Question No. 26(a)(8) and Question No. 129.

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

Sincerely,

Robert M. Conroy

KENTUCKY UTILITIES COMPANY

CASE NO. 2008-00251

**Supplemental Response to First Data Request of Commission Staff
Dated July 16, 2008**

Supplemental Response filed October 21, 2008

Question No. 26

Responding Witness: Valerie L. Scott

Q-26. Provide the following tax data for the test year for total company:

a. Income taxes:

- (1) Federal operating income taxes deferred – accelerated tax depreciation.
- (2) Federal operating income taxes deferred – other (explain).
- (3) Federal income taxes – operating.
- (4) Income credits resulting from prior deferrals of federal income taxes.
- (5) Investment tax credit net.
 - (i) Investment credit realized.
 - (ii) Investment credit amortized – Pre-Revenue Act of 1971.
 - (iii) Investment credit amortized – Revenue Act of 1971.
- (6) The information in Item 23(a)(1-4) for state income taxes.
- (7) A reconciliation of book to taxable income as shown in Format 23(a)(7) and a calculation of the book federal and state income tax expense for the test year using book taxable income as the starting point.
- (8) A copy of federal and state income tax returns for the taxable year ended during the test year, including supporting schedules.
- (9) A schedule of franchise fees paid to cities, towns, or municipalities during the test year, including the basis of these fees.

b. An analysis of Kentucky other operating taxes as shown in Format 23b.

A-26. a. Income Taxes:

| | | |
|---|--|-----------------------|
| Federal operating income taxes deferred – accelerated tax depreciation: | | |
| (1) Account 410101 | | \$27,520,636 |
| Account 411101 | | <u>(\$31,061,850)</u> |
| Total | | (\$3,541,214) |

| | | |
|--|--|-----------------------|
| Federal operating income taxes deferred – other: | | |
| (2) Account 410101 | | \$7,132,527 |
| Account 411101 | | <u>(\$10,957,946)</u> |
| Total | | (\$3,825,419) |

The (\$3,825,419) represents taxes on all temporary differences other than depreciation-related items (e.g. employee benefits differences, regulatory adjustments, cash basis adjustments, etc.).

| | | |
|------------------------------------|--|--------------|
| (3) Federal Income Tax – operating | | \$31,655,468 |
|------------------------------------|--|--------------|

| | | |
|------------------------|----------------|-----------------------|
| (4) Income Credits | | |
| From A-26 (a)(1) above | Account 411101 | (\$31,061,850) |
| From A-26 (a)(2) above | Account 411101 | <u>(\$10,957,946)</u> |
| Total | | (\$42,019,796) |

| | | |
|-----------------|--|--------------|
| (5) i)Realized: | | \$35,891,647 |
|-----------------|--|--------------|

| | | |
|--|--|-----|
| ii) Amortized – Pre-Revenue Act of 1971: | | \$0 |
|--|--|-----|

| | | |
|--------------------------------------|--|-------------|
| iii)Amortized – Revenue Act of 1971: | | (\$498,975) |
|--------------------------------------|--|-------------|

| | | |
|---|--|----------------------|
| (6) State operating income taxes deferred – accelerated tax depreciation: | | |
| Account 410102 | | \$6,009,813 |
| Account 411102 | | <u>(\$5,588,278)</u> |
| Total | | \$421,535 |

| | | |
|--|--|----------------------|
| State operating income taxes deferred – other: | | |
| Account 410102 | | \$828,656 |
| Account 411102 | | <u>(\$1,901,264)</u> |
| Total | | (\$1,072,608) |

The (\$1,072,608) represents taxes on all temporary differences other than depreciation-related items (e.g. employee benefits differences, regulatory adjustments, cash basis adjustments, etc.).

| | | |
|---------------------------------|----------------|----------------------|
| State income taxes – operating: | | \$11,712,923 |
| Income credits: | | |
| From state “depreciation” above | Account 411102 | (\$5,588,278) |
| From state “other” above | Account 411102 | <u>(\$1,901,264)</u> |
| Total | | (\$7,489,542) |

- (7) See attached.

- (8) The 2007 federal and state income tax returns are being filed under seal pursuant to a petition for confidential treatment.

- (9) See attached. For each franchise location (except for the cities of Shelbyville, Lexington, and Madisonville) the franchise payment remitted is based on 3.00% of the total residential and commercial electric sales generated for the period on customer accounts located within the boundaries of that franchise location.

For the cities of Shelbyville and Lexington, the franchise payment remitted is based on 2.10% and 3.00%, respectively, of the total retail electric sales (i.e. residential, commercial, industrial, and public authority) generated for the period on customer accounts located within the city limits.

For the city of Madisonville, the franchise payment remitted is based on 3.75% of the residential and commercial electric sales generated on customer accounts located within the city limits. Franchise fees for Madisonville originated in January 2008. Any franchise fees paid to a franchise location are collected from the customers located in that city, town, or municipality.

- b. See attached.