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RECEIVED

January 15, 2009

Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

JAN 15 2009

PUBLIC SERVICE
COMMISSION

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

Application of Louisville Gas and Electric Company for an Adjustment of Its
Electric and Gas Base Rates
Case No. 2008-00252

Application of Louisville Gas and Electric Company to File Depreciation Study
Case No. 2007-00564

Dear Mr. Derouen:

Enclosed please find and accept for filing the original and ten copies of Kentucky Utilities Company's and Louisville Gas and Electric Company's Response to Data Request of Vice-Chairman Gardner Made During Hearing on January 13, 2009 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 and return them to me.

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

Yours very truly,

W. Duncan Crosby III

WDC:ec

Enclosures

cc: Parties of Record (by hand delivery at 1/15/09 hearing)

400001 129265/559114 1

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY TO FILE)	CASE NO. 2007-00565
DEPRECIATION STUDY)	

APPLICATION OF KENTUCKY)	
UTILITIES COMPANY FOR AN)	CASE NO. 2008-00251
ADJUSTMENT OF BASE RATES)	

In the Matter of:

APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY TO FILE)	CASE NO. 2007-00564
DEPRECIATION STUDY)	

APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY FOR AN)	CASE NO. 2008-00252
ADJUSTMENT OF ITS ELECTRIC)	
AND GAS BASE RATES)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY
TO DATA REQUEST OF VICE-CHAIRMAN GARDNER
MADE DURING HEARING ON JANUARY 13, 2009

Filed: January 15, 2009

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 of State Regulation and Rates for Kentucky Utilities Company and Louisville Gas and Electric 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 14th day of January, 2009.

 (SEAL)

Notary Public

My Commission Expires:

November 9, 2010

**KENTUCKY UTILITIES COMPANY AND
LOUISVILLE GAS AND ELECTRIC COMPANY**

**Response to Data Request of Vice-Chairman Gardner
Made During Hearing on January 13, 2009**

**Case Nos. 2007-00565 and 2008-00251
Case Nos. 2007-00564 and 2008-00252**

Question No. 1

Witness: Lonnie Bellar

Q. What is the approximate amount of the MISO [Midwest Independent Transmission System Operator, Inc.] exit fee?

A. As of the end of the test year applicable to these base rate proceedings, the total amount of the MISO exit fee was \$18,907,345 for KU (of which \$16,361,849 was attributable to KU's Kentucky operations) and \$12,372,059 for LG&E.¹

LG&E and KU ("Companies"), along with a number of other electric utilities in the Midwest, were charter members of MISO. MISO's original purpose was to help make the interstate electric transmission grid more safe and reliable, as well as to facilitate wholesale energy transfers. Certain MISO costs ("Schedule 10 charges") associated with MISO's original set of functions were and currently are embedded in KU's and LG&E electric's base rates.

Over time, however, MISO's operation and control dramatically changed from its original intention. In the interest of protecting their customers from increased cost associated with membership in MISO, the Companies ended their membership in MISO and incurred the MISO exit fee pursuant to the Commission's May 31, 2006 Order in Case No. 2003-00266.² The May 31, 2006 Order further authorized the Companies to give regulatory asset treatment to the MISO exit fee, and to give regulatory liability treatment to the Schedule 10 charges embedded in base rates:

Having considered the positions of the parties, the Commission concludes that it is reasonable to establish a regulatory asset for the actual amount of the exit fee, subject to adjustment for future MISO credits, if any, and a regulatory liability for the MISO Schedule 10 charges, which are the only MISO costs now included

¹ *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Base Rates*, Case No. 2008-00251, Direct Testimony of S. Bradford Rives Exh. 1, Ref. Sched. 1.23 (July 29, 2008); *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, Case No. 2008-00252, Direct Testimony of S. Bradford Rives Exh. 1, Ref. Sched. 1.23 (July 29, 2008).

² *In the Matter of: Investigation into the Membership of Louisville Gas and Electric Company and Kentucky Utilities Company in the Midwest Independent Transmission System Operator, Inc.*, Case No. 2003-00266, Order at 26 (May 31, 2006).

in existing rates. This accounting treatment will have no immediate impact on LG&E's and KU's rates as it defers the rate-making disposition of these amounts until subsequent base rate cases.³

On the basis of this Commission authority, the Companies proposed in their applications in these base rate proceedings to net their MISO exit fee regulatory assets against their Schedule 10 regulatory liabilities as of the end of the test year, then to amortize the net amounts over five years, beginning in the month after new rates go into effect. For KU, the net amount to amortize is \$9,809,894 (\$1,961,979 per year), and for LG&E it is \$6,802,145 (\$1,360,429 per year).⁴ The Settlement Agreement endorses this amortization in the second sentence of Section 3.5. This amortization does not affect the revenue requirement the Settlement Agreement proposes for KU or LG&E electric.

Because the Companies continue to receive adjustments to the MISO exit fee⁵ and have continued to collect Schedule 10 charges through their current base rates since the end of the test year, the first sentence of Settlement Agreement Section 3.5 proposes that the Companies give regulatory liability treatment to the Schedule 10 amounts the Companies have collected and will collect between the end of the test year (April 30, 2008) and February 6, 2009 and any future adjustments to the MISO exit fee. The first sentence of Settlement Agreement Section 3.5 addresses this regulatory liability treatment. The amounts in these regulatory liabilities (one for each utility) could be amortized in future base rate cases. As with the proposal discussed in the preceding paragraph, this proposal does not affect the revenue requirement the Settlement Agreement proposes for KU or LG&E electric.

In sum, these two regulatory accounting proposals will ensure (1) that the Companies recover the full amount the MISO exit fee and (2) that customers receive full credit for any future adjustments to the MISO exit fee and for the amounts of Schedule 10 charges they have paid from the end of the test year through the date new base rates go into effect.

³ *Id.* at 25.

⁴ *Id.*

⁵ *In the Matter of: Application of Kentucky Utilities Company for an Adjustment of Base Rates*, Case No. 2008-00251, Direct Testimony of Valerie L. Scott at 4-5 (July 29, 2008); *In the Matter of: Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates*, Case No. 2008-00252, Direct Testimony of Valerie L. Scott at 4-5 (July 29, 2008).