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PUBLIC SERVICE
COMMISSION

Ms. Jeff Derouen
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

Robert M. Conroy
Director - Rates
T 502-627-3324
F 502-627-3213
robert.conroy@eon-us.com

February 27, 2009

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-
MONTH BILLING PERIOD ENDING OCTOBER 31, 2008
CASE NO. 2008-00549***

Dear Mr. Derouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Direct Testimony of Robert M. Conroy and the Response of Louisville Gas and Electric Company to the Information Requested in Appendix B of the Commission's Order dated January 28, 2009, in the above-referenced matter.

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

Sincerely,

Robert M. Conroy

Enclosures

cc: Parties of Record

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)	2008-00549
BILLING PERIOD ENDING OCTOBER 31, 2008)	

DIRECT TESTIMONY OF

ROBERT M. CONROY
DIRECTOR - RATES
E.ON U.S. SERVICES INC.

Filed: February 27, 2009

VERIFICATION

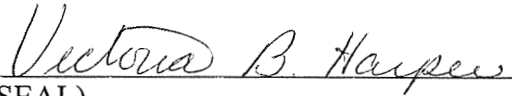
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says he is the Director – Rates for E.ON U.S. Services Inc., and that he has personal knowledge of the matters set forth in the foregoing testimony, 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 26th day of February 2009.



(SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

1 **Q. Please state your name, title, and business address.**

2 A. My name is Robert M. Conroy. I am the Director – Rates for E.ON U.S. Services
3 Inc., which provides services to Louisville Gas and Electric Company (“LG&E”) and
4 Kentucky Utilities Company (“KU”) (collectively “the Companies”). My business
5 address is 220 West Main Street, Louisville, Kentucky, 40202. A complete statement
6 of my education and work experience is attached to this testimony as Appendix A.

7 **Q. Have you previously testified before this Commission?**

8 A. Yes. I have previously testified before this Commission in proceedings concerning
9 the Companies’ most recent rate case, fuel adjustment clauses, and environmental
10 surcharge mechanisms.

11 **Q. What is the purpose of this proceeding?**

12 A. The purpose of this proceeding is to review the past operation of LG&E’s
13 environmental surcharge during the six-month billing period ending October 31, 2008
14 and determine whether the surcharge amounts collected during the period are just and
15 reasonable.

16 **Q. What is the purpose of your testimony?**

17 A. The purpose of my testimony is to review the operation of LG&E’s environmental
18 surcharge during the billing period under review, demonstrate the amounts collected
19 during the period were just and reasonable, present and discuss LG&E’s proposed
20 adjustment to the Environmental Surcharge Revenue Requirement based on the
21 operation of the surcharge during the period and explain how the environmental
22 surcharge factors were calculated during the period under review.

23 **Q. Please review the operation of the environmental surcharge for the billing period**
24 **included in this review.**

1 A. LG&E billed an environmental surcharge to its customers from May 1, 2008 through
2 October 31, 2008. For purposes of the Commission's examination in this case, the
3 monthly LG&E environmental surcharges are considered as the six-month billing
4 period ending October 31, 2008. In each month of the period, LG&E calculated the
5 environmental surcharge factors by using the costs incurred as recorded on its books
6 and records for the expense months of March 2008 through August 2008 and in
7 accordance with the requirements of the Commission's previous orders concerning
8 LG&E's environmental surcharge.

9 **Q. What costs were included in the calculation of the environmental surcharge**
10 **factors for the billing period under review?**

11 A. The capital and operating costs included in the calculation of the environmental
12 surcharge factors for the billing period were the costs incurred each month by LG&E
13 from March 2008 through August 2008, as detailed in the attachment in response to
14 Question No. 2 of the Commission Staff Request for Information, incorporating all
15 required revisions.

16 The monthly environmental surcharge factors applied during the billing period
17 under review were calculated consistent with the Commission's orders in LG&E's
18 previous applications to assess or amend its environmental surcharge mechanism and
19 plan, as well as orders issued in previous review cases, most recently Case No. 2008-
20 00217. The monthly environmental surcharge reports filed with the Commission
21 during this time reflect the various changes to the reporting forms ordered by the
22 Commission from time to time.

23 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
24 **expense months?**

1 A. During the period under review, there were no changes to Rate Base from the
2 originally filed billing period as summarized in LG&E's response to the Commission
3 Staff Request for Information, Question No. 1. In addition, there were no changes
4 identified as a result of preparing responses to the requests for information in this
5 review.

6 **Q. Are there any changes necessary to the jurisdictional revenue requirement**
7 **(E(m))?**

8 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
9 Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of
10 return on capitalization that is used in the determination of the return on
11 environmental rate base associated with the Post 1995 Plans. The changes in the
12 actual cost of long term debt and capital structure result in a decrease to cumulative
13 E(m) of \$222,254. The details of and support for this calculation are shown in
14 LG&E's response to Question No. 1 of the Commission Staff Request for
15 Information.

16 **Q. As a result of the operation of the environmental surcharge during the billing**
17 **period under review, is an adjustment to the revenue requirement necessary?**

18 A. Yes. LG&E experienced a cumulative under-recovery of \$608,538 for the billing
19 period ending October 31, 2008. LG&E's response to Question No. 2 of the
20 Commission Staff Request for Information shows the calculation of the \$608,538
21 cumulative under-recovery. Therefore, an adjustment to the revenue requirement is
22 necessary to reconcile the collection of past surcharge revenues with actual costs for
23 the billing period under review.

1 **Q. Has LG&E identified the causes of the net under-recovery during the billing**
2 **period under review?**

3 A. Yes. LG&E has identified four components that make up the net under-recovery
4 during the billing period under review. The components are (1) changes in overall
5 rate of return, (2) inconsistency in the calculation of BESF in the review case and
6 application of BESF in the monthly filings beginning with the March 2008 expense
7 month, (3) the use of the BESF percentage in determining the amount collected in
8 base rates, and (4) the use of 12 month average revenues to determine the billing
9 factor. The details and support of the components that make up the net under-
10 recovery during the billing period under review are shown in LG&E's response to
11 Question No. 2 of the Commission Staff Request for Information. The table below
12 summarizes the components of the under-recovery position.

OVER/UNDER RECONCILIATION		
Combined Over/Under Recovery		(608,538)
Due to BESF Inconsistency	(597,821)	
Due to use of BESF %	(939,572)	
Due to Change in ROR	222,254	
Use of 12 Month Average Revenues	<u>706,601</u>	
Subtotal		<u>(608,538)</u>
Unreconciled Difference		..

13

14

15

1 **Q. Please explain the change in rate of return.**

2 A. As previous stated, the cumulative impact of the revised rate of return resulted in a
3 decrease to the jurisdictional revenue requirement and an over-recovery of \$222,254.

4 **Q. Please explain the inconsistency that occurred in determining BESF.**

5 A. In the course of preparing the responses in this proceeding, LG&E discovered an
6 inconsistency between the calculation of the BESF in the previous 2-year review case
7 and the application of the BESF in the monthly filings beginning with the March
8 2008 expense month. Specifically, in Case No. 2007-00380, LG&E calculated the
9 BESF factor using base rate revenues excluding the customer charge revenues, while
10 the monthly filings use BESF times total base revenues to estimate the ECR revenues
11 collected through base rates. BESF was calculated using a lower revenue total than is
12 used in its application in the monthly filings thereby overstating the BESF
13 percentage. Because the monthly estimate of ECR revenues collected through base
14 rates is made by multiplying BESF times total base revenues, overstating BESF
15 overstates the ECR revenues collected through base rates. When ECR revenues
16 collected through base rates are overstated, the monthly E(m) is understated which
17 contributes to LG&E's net under-recovery position. If the BESF had been calculated
18 using total revenues, the BESF would be 3.47% instead of 3.62% as filed. Applying
19 the recalculated BESF to the base rate revenues results in an under-recovery of
20 \$597,821.

21 **Q. For the other two components, please explain how the function of the ECR**
22 **mechanism contributes to the net under-recovery in the billing period under**
23 **review?**

1 A. The first component is the use of the BESF percentage to estimate the amount
2 collected through base rates. In the monthly filings, the BESF percentage is used to
3 determine the amount of ECR revenue collected through base rates by applying the
4 percentage to total base rate revenues. In the review proceedings, the billing
5 determinants are used to determine the actual ECR revenues collected through base
6 rates. This methodology results in a perpetual mismatch between actual revenues
7 collected and estimated revenues as reported in the monthly filings. In the billing
8 period under review, the mismatch resulted in an under-recovery of \$939,572.

9 The second component is the use of 12-month average revenues to calculate
10 the MESF and then applying that same MESF to the actual monthly revenues. The
11 result is an over-collection during the summer months when actual revenues will
12 generally be greater than the 12-month average and an under-collection during the
13 shoulder months when actual revenues will generally be less than the 12-month
14 average. In the billing period under review, the use of 12-month average revenues
15 resulted in an over-recovery of \$706,601.

16 **Q. What kind of adjustment is LG&E proposing in this case as a result of the**
17 **operation of the environmental surcharge during the billing period?**

18 A. LG&E is proposing that the cumulative under-recovery of \$608,538 be recovered
19 over the three months following the Commission's Order in this proceeding.
20 Specifically, LG&E recommends that the Commission approve an increase to the
21 Environmental Surcharge Revenue Requirement by \$202,846 per month for three
22 months, beginning in the first full billing month following the Commission's Order in
23 this proceeding. This method is consistent with the method of implementing previous
24 over- or under-recovery positions in prior ECR review cases.

1 **Q. What rate of return is LG&E proposing to use for all ECR Plans upon the**
2 **Commission's Order in this proceeding?**

3 A. LG&E is recommending an overall rate of return on capital of 10.82%, including the
4 currently approved 10.63% return on equity and adjusted capitalization, to be used to
5 calculate the environmental surcharge. This is based on capitalization as of August
6 31, 2008 and the Settlement Agreement approved by the Commission in its February
7 5, 2009 Order in Case No. 2008-00252.

8 **Q. What is your recommendation to the Commission in this case?**

- 9 A. LG&E makes the following recommendations to the Commission in this case:
- 10 a) The Commission should approve the proposed increase to the Environmental
11 Surcharge Revenue Requirement of \$202,846 per month for three months
12 beginning in the first full billing month following the Commission's decision
13 in this proceeding;
 - 14 b) The Commission should determine environmental surcharge amount for the
15 six-month billing period ending October 31, 2008 to be just and reasonable;
 - 16 c) The Commission should approve the use of an overall rate of return on capital
17 of 10.82% using a return on equity of 10.63% beginning in the first billing
18 month following the Commission's Order in this proceeding.

19 **Q. Does this conclude your testimony?**

20 A. Yes.

APPENDIX A

Robert M. Conroy

Director - Rates
E.ON U.S. Services Inc.
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3324

Education

Masters of Business Administration

Indiana University (Southeast campus), December 1998. GPA: 3.9.

Bachelor of Science in Electrical Engineering;

Rose Hulman Institute of Technology, May 1987. GPA: 3.3

Essentials of Leadership, London Business School, 2004.

Center for Creative Leadership, Foundations in Leadership program, 1998.

Registered Professional Engineer in Kentucky, 1995.

Previous Positions

Manager, Rates	April 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.

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)	2008-00549
BILLING PERIOD ENDING OCTOBER 31, 2008)	

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED JANUARY 28, 2009

FILED: February 27, 2009

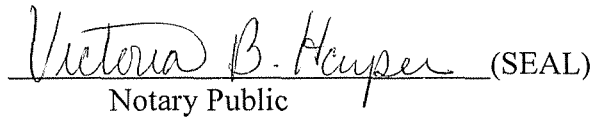
VERIFICATION

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 26th day of February 2009.

 (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

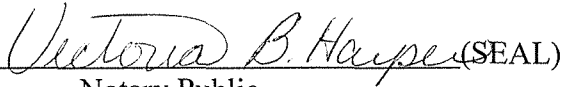
VERIFICATION

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 26th day of February 2009.


Notary Public

My Commission Expires:

Sept 20, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00549

Question No. 1

Witness: Shannon L. Charnas / Robert M. Conroy

Q-1. Concerning the rate of return on the four amendments to the environmental compliance plan, calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's electric capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the billing period under review.

A-1. Please see the attachment.

LG&E calculated the true-up adjustment to recognize changes in the cost of debt and capital structure in two steps, shown on Pages 1 and 2 of the attachment to this response. Page 1 reflects the true-up required due to the changes between the Rate Base as filed and the Rate Base as Revised through the Monthly Filings. However, during the period under review there were no revisions to reflect. Page 2 represents the true-up in the Rate of Return as filed compared to the actual Rate of Return calculations. No further revisions to Rate Base were identified during this review period.

Page 3 provides the adjusted weighted average cost of capital for the period under review.

LG&E did not engage in accounts receivable financing or have any preferred stock during the period under review.

Louisville Gas & Electric Company
Overall Rate of Return True-up Adjustment - Revised Rate Base
Impact on Calculated E(m) - Post 1995 Plan

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base	True-up Adjustment	Jurisdictional Allocation, ES Form 1.00	Jursidictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
May-08	Mar-08	11.14%	\$ 230,945,310	\$ 230,945,310	\$ -	\$ -	76.23%	\$ -
Jun-08	Apr-08	11.14%	232,485,247	232,485,247	-	-	81.60%	-
Jul-08	May-08	11.14%	235,277,192	235,277,192	-	-	72.11%	-
Aug-08	Jun-08	11.14%	237,834,327	237,834,327	-	-	79.71%	-
Sep-08	Jul-08	11.14%	239,210,977	239,210,977	-	-	83.09%	-
Oct-08	Aug-08	11.49%	241,274,724	241,274,724	-	-	87.41%	-
						\$ -		\$ -
Cumulative Impact of Changes in Rate Base					\$ -			\$ -

Louisville Gas & Electric Company
Overall Rate of Return True-up Adjustment - Revised Rate of Return
Impact on Calculated E(m) - Post 1995 Plan

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return	Rate Base as Revised	True-up Adjustment	Jurisdictional Allocation, ES Form 1 00	Jursidictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
May-08	Mar-08	11.14%	10.97%	-0.17%	\$ 230,945,310	(32,717)	76.23%	(24,940)
Jun-08	Apr-08	11.14%	10.97%	-0.17%	232,485,247	(32,935)	81.60%	(26,875)
Jul-08	May-08	11.14%	10.97%	-0.17%	235,277,192	(33,331)	72.11%	(24,035)
Aug-08	Jun-08	11.14%	10.97%	-0.17%	237,834,327	(33,693)	79.71%	(26,857)
Sep-08	Jul-08	11.14%	10.97%	-0.17%	239,210,977	(33,888)	83.09%	(28,158)
Oct-08	Aug-08	11.49%	10.97%	-0.52%	241,274,724	(104,552)	87.41%	(91,389)
						(271,117)		(222,254)
Cumulative Impact of Changes in Rate of Return						\$ (271,117)		\$ (222,254)

Louisville Gas & Electric Company
Adjusted Electric Rate of Return on Common Equity
10/31/2008

(1)	(2) Total Company Capitalization	(3) Adjustments to Total Co Capitalization (20)	(4) Adjusted Total Company Capitalization (2) - (3)	(5) Capital Structure (4) / (4), row 4	(6) Jurisdictional Capitalization Allocation	(7) Kentucky Jurisdictional Capitalization (4) * (6)
1 Long-Term Debt	750,104,000	15,924,055	734,179,945	32.52%	80.39%	590,207,258
2 Short-Term Debt	359,919,200	7,640,771	352,278,429	15.60%	80.39%	283,196,629
3 Common Equity	1,196,580,406	25,402,360	1,171,178,046	51.88%	80.39%	941,510,031
4	2,306,603,606	48,967,186	2,257,636,420	100.00%		1,814,913,918

(1)	(8) Kentucky Jurisdictional Capitalization (7)	(9) Adjustments to Ky Juris Capitalization (24)	(10) Adjusted Ky Jurisdictional Capitalization (8) - (9)	(11) Capital Structure (10) / (10), row 4	(12) Annual Cost Rate	(13) Weighted Cost of Capital (11) * (12)
1 Long-Term Debt	590,207,258	66,395,217	523,812,041	32.52%	4.89%	1.59%
2 Short-Term Debt	283,196,629	31,858,133	251,338,496	15.60%	4.95%	0.77%
3 Common Equity	941,510,031	105,914,934	835,595,097	51.88%	10.50%	5.45%
4	1,814,913,918	204,168,284	1,610,745,634	100.00%		7.81%
5 Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])						10.97%

Adjustments to Total Company Capitalization

(1)	(14) Total Company Capitalization (2)	(15) Capital Structure (14) / (14), row 4	(16) Trimble County Inventory Adjustment (16) row 4 x (15)	(17) Job Credits (17) row 4 x (15)	(18) Other Investments (18) row 4 x (15)	(19) Minimum Pension Liability	(20) Total Adjustments to Total Company Capitalization (16) + (17) + (18) - (19)
1 Long-Term Debt	750,104,000	32.52%	1,162,138	9,716,296	5,045,621	-	15,924,055
2 Short-Term Debt	359,919,200	15.60%	557,623	4,662,129	2,421,019	-	7,640,771
3 Common Equity	1,196,580,406	51.88%	1,853,865	15,499,623	8,048,872	-	25,402,360
4	2,306,603,606	100.00%	3,573,626	29,878,048	15,515,512	-	48,967,186

Adjustments to Kentucky Jurisdictional Capitalization

(1)	(21) Kentucky Jurisdictional Capitalization (8)	(22) Capital Structure (21) / (21), row 4	(23) Environmental Surcharge Post-1994 Plan (23) row 4 x (22)	(24) Adjustments to Ky Juris. Capitalization (23)
1 Long-Term Debt	590,207,258	32.52%	66,395,217	66,395,217
2 Short-Term Debt	283,196,629	15.60%	31,858,133	31,858,133
3 Common Equity	941,510,031	51.88%	105,914,934	105,914,934
4	1,814,913,918	100.00%	204,168,284	204,168,284

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00549

Question No. 2

Witness: Robert M. Conroy

- Q-2. Prepare a summary schedule showing the calculation of Total E(m), Net Retail E(m), and the surcharge factor for the expense months covered by the billing period under review. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for the billing period under review. The summary schedule is to incorporate all corrections and revisions to the monthly surcharge filings LG&E has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount LG&E believes needs to be recognized for the 6-month review. Include all supporting calculations and documentation for any such additional over- or under-recovery.
- A-2. Please see the attachment to this response for the summary schedule and cumulative components which make up the net under-recovery.

Louisville Gas & Electric Company
Calculation of E(m) and Jurisdictional Surcharge Billing Factor
Summary Schedule for Expense Months March 2008 through August 2008

(1) Expense Month	(2) Rate Base as Revised ES Form 2.00	(3) Monthly Rate Base as Revised (2) / 12	(4) Rate of Return as Revised	(5) Operating Expenses (net of allowance) ES Form 2.00	(6) Total E(m) (3) * (4) + (5)	(7) Retail Allocation Ratio ES Form 1.10	(8) Retail E(m) (6) * (7)	Comments: As Revised in This Review
Mar-08	\$ 230,945,310	19,245,443	10.97%	648,928	2,760,153	76.23%	2,104,065	
Apr-08	232,485,247	19,373,771	10.97%	1,055,430	3,180,733	81.60%	2,595,478	
May-08	235,277,192	19,606,433	10.97%	1,320,334	3,471,160	72.11%	2,503,053	
Jun-08	237,834,327	19,819,527	10.97%	1,456,418	3,630,620	79.71%	2,893,967	
Jul-08	239,210,977	19,934,248	10.97%	1,404,689	3,591,476	83.09%	2,984,157	
Aug-08	241,274,724	20,106,227	10.97%	1,224,183	3,429,836	87.41%	2,998,020	

Louisville Gas & Electric Company
Calculation of E(m) and Jurisdictional Surcharges Billing Factor
Summary Schedule for Expense Months March 2008 through August 2008

(1) Expense Month	(2) Retail E(m)	(3) Adjustment to Retail E(m) for Monthly True up	(4) Adjustment to Retail E(m) for Under- Collection Case No. 2007-00380 and 2008-00217	(5) Retail E(m) Including all Adjustments	(6) Average Monthly Retail Revenues	(7) Current Environmental Surcharge Factor (CESF)	(8) Base Environmental Surcharge Factor (BESF)	(9) Monthly Environmental Surcharge Factor (MESF)	(10) ECR Billing Factor Revenues	(11) ECR Revenue Recovered Through Base Rates	(12) Combined Total Over/(Under) Recovery
					ES Form 1.00	(5) / (6)	(8) / (6)	(7) - (8)			
Mar-08	2,104,065		209,987	2,314,052	66,273,489	3.49%	3.62%	-0.13%			
Apr-08	2,595,478		209,987	2,805,465	66,350,875	4.23%	3.62%	0.61%	189,132	1,710,336	(414,583)
May-08	2,503,053		209,987	2,713,040	66,032,741	4.11%	3.62%	0.49%	1,030,406	2,125,384	350,325
Jun-08	2,893,967		209,987	3,103,954	65,851,834	4.71%	3.62%	1.09%	1,160,679	2,403,522	851,160
Jul-08	2,984,157		228,081	2,984,157	65,967,443	4.52%	3.62%	0.90%	842,640	2,466,595	205,281
Aug-08	2,998,020			3,226,101	66,012,146	4.89%	3.62%	1.27%	116,583	2,310,965	(556,609)
Sep-08									308,766	1,873,222	(1,044,112)
Oct-08											
	16,078,740			17,146,769				Grand Total	3,648,205	12,890,025	(608,538)

Louisville Gas & Electric Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2008 through August 2008

(1) Billing Month	(2) Expense Month	(3) Rate of Return as Filed	(4) Rate of Return as Revised	(5) Change in Rate of Return (4) - (3)	(6) Rate Base as Revised	(7) True-up Adjustment (5) * (6) / 12	(8) Jurisdictional Allocation, ES Form 1 00	(9) Jurisdictional True up Adjustment (7) * (8)
May-08	Mar-08	11 14%	10 97%	-0 17%	\$ 230,945,310	(32,717)	76 23%	(24,940)
Jun-08	Apr-08	11 14%	10 97%	-0 17%	232,485,247	(32,935)	81 60%	(26,875)
Jul-08	May-08	11 14%	10 97%	-0 17%	235,277,192	(33,331)	72 11%	(24,035)
Aug-08	Jun-08	11 14%	10 97%	-0 17%	237,834,327	(33,693)	79 71%	(26,857)
Sep-08	Jul-08	11 14%	10 97%	-0 17%	239,210,977	(33,888)	83 09%	(28,158)
Oct-08	Aug-08	11 49%	10 97%	-0 52%	241,274,724	(104,552)	87 41%	(91,389)
Cumulative Impact of Changes in Rate of Return						\$ (271,117)		\$ (222,254)

(1)	(2)	(3) Base Rate Revenues (from ES Form 3 00)	(4) As filed BESF * Base Rates (from ES Form 2 00)	(5) Actual ECR Base Rates (Q2, pg 2, Col 1 1)	(6) As Filed BESF (from ES Form 1 00)	(7) Recalculated BESF	(8) Recalc BESF * Base Rates (3) * (7)	(9) Recalculated Difference (8) - (4)	(10) BESF % Difference (5) - (8)
May-08	Mar-08	50,387,614	1,824,032	1,710,336	3 62%	3 47%	1,748,450	(75,581)	(38.114)
Jun-08	Apr-08	67,289,649	2,435,885	2,125,384	3 62%	3 47%	2,334,951	(100,934)	(209,567)
Jul-08	May-08	75,567,412	2,735,540	2,403,522	3 62%	3 47%	2,622,189	(113,351)	(218,667)
Aug-08	Jun-08	77,370,827	2,800,824	2,466,595	3 62%	3 47%	2,684,768	(116,056)	(218,173)
Sep-08	Jul-08	72,709,783	2,632,094	2,310,965	3 62%	3 47%	2,523,029	(109,065)	(212,064)
Oct-08	Aug-08	55,222,204	1,999,044	1,873,222	3 62%	3 47%	1,916,210	(82,833)	(42,988)
		398,547,489	14,427,419	12,890,025			13,829,598	(597,821)	(939,572)
		Actual Base Rate Collections	12,890,025		Actual Base Rate Collections		12,890,025		
			(1,537,394)				(939,573)		

(1) Billing Month	(2) Expense Month	(3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 12)	(4) ROR Trueup	(5) BESF Inconsistency	(6) Use of BESF %	(7) Use of 12 Month Average Revenues
May-08	Mar-08	(414,583)	(24,940)	(75,581)	(38,114)	(325,828)
Jun-08	Apr-08	350,325	(26,875)	(100,934)	(209,567)	633,951
Jul-08	May-08	851,160	(24,035)	(113,351)	(218,667)	1,159,144
Aug-08	Jun-08	205,281	(26,857)	(116,056)	(218,173)	512,653
Sep-08	Jul-08	(556,609)	(28,158)	(109,065)	(212,064)	(263,638)
Oct-08	Aug-08	(1,044,112)	(91,389)	(82,833)	(42,988)	(1,009,680)
		(608,538)	(222,254)	(597,821)	(939,572)	706,601

OVER/UNDER RECONCILIATION	
Combined Over/Under Recovery	(608,538)
Due to BESF Inconsistency	(597,821)
Due to use of BESF %	(939,572)
Due to Change in ROR	222,254
Use of 12 Month Average Revenues	706,601
Subtotal	(608,538)
Unreconciled Difference	-

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00549

Question No. 3

Witness: Shannon L. Charnas

Q-3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported during the billing period under review for Pollution Control Deferred Income Taxes.

A-3. LG&E calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2001 Plan
Project 6 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	192,860,844	450,398	910,428	460,030	38.9000%	178,952	10,924,572	1,053,265
Apr-08	192,860,844	450,398	910,428	460,030	38.9000%	178,952	11,103,524	1,053,265
May-08	192,860,844	450,398	910,428	460,030	38.9000%	178,952	11,282,476	1,053,265
Jun-08	192,860,844	450,398	910,428	460,030	38.9000%	178,952	11,461,428	1,053,265
Jul-08	192,860,844	450,398	910,428	460,030	38.9000%	178,952	11,640,380	1,053,265
Aug-08	192,860,844	450,398	910,428	460,030	38.9000%	178,952	11,819,330	1,053,265

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2003 - Plan

Project 7 -- Mill Creek FGD Scrubber Conversion

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	30,861,686	115,079	144,166	29,087	38.9000%	11,315	831,812	516,073
Apr-08	30,861,686	115,079	144,166	29,087	38.9000%	11,315	843,127	516,073
May-08	30,861,686	115,079	144,166	29,087	38.9000%	11,315	854,442	516,073
Jun-08	30,861,686	115,079	144,166	29,087	38.9000%	11,315	865,757	516,073
Jul-08	30,861,686	115,079	144,166	29,087	38.9000%	11,315	877,072	516,073
Aug-08	30,861,686	115,079	144,166	29,087	38.9000%	11,315	888,388	516,073

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2003 - Plan
Project 8 -- Precipitators

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	11,929,133	28,278	51,275	22,997	38.9000%	8,946	830,196	275,252
Apr-08	11,929,133	28,278	51,275	22,997	38.9000%	8,946	839,142	275,252
May-08	11,929,133	28,278	51,275	22,997	38.9000%	8,946	848,088	275,252
Jun-08	11,929,133	28,278	51,275	22,997	38.9000%	8,946	857,034	275,252
Jul-08	11,929,133	28,278	51,275	22,997	38.9000%	8,946	865,980	275,252
Aug-08	11,929,133	28,278	51,275	22,997	38.9000%	8,946	874,923	275,252

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2003 - Plan

Project 9 -- Clearwell Water System

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	1,197,310	5,368	5,273	(95)	38.9000%	(37)	24,287	4,716
Apr-08	1,197,310	5,368	5,273	(95)	38.9000%	(37)	24,250	4,716
May-08	1,197,310	5,368	5,273	(95)	38.9000%	(37)	24,213	4,716
Jun-08	1,197,310	5,368	5,273	(95)	38.9000%	(37)	24,176	4,716
Jul-08	1,197,310	5,368	5,273	(95)	38.9000%	(37)	24,139	4,716
Aug-08	1,197,310	5,368	5,273	(95)	38.9000%	(37)	24,103	4,716

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2003 - Plan

Project 10 -- Absorber Trays

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	2,734,621	11,303	10,305	(998)	38.9000%	(388)	74,233	-
Apr-08	2,734,621	11,303	10,305	(998)	38.9000%	(388)	73,845	-
May-08	2,734,621	11,303	10,305	(998)	38.9000%	(388)	73,457	-
Jun-08	2,734,621	11,303	10,305	(998)	38.9000%	(388)	73,069	-
Jul-08	2,734,621	11,303	10,305	(998)	38.9000%	(388)	72,681	-
Aug-08	2,734,621	11,303	10,305	(998)	38.9000%	(388)	72,291	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 11 -- Special Waste Landfill Expansion - MC

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	2,282,981	5,568	11,753	6,185	38.9000%	2,406	103,748	22,369
Apr-08	2,282,981	5,568	11,753	6,185	38.9000%	2,406	106,154	22,369
May-08	2,282,981	5,568	11,753	6,185	38.9000%	2,406	108,560	22,369
Jun-08	2,282,981	5,568	11,753	6,185	38.9000%	2,406	110,966	22,369
Jul-08	2,282,981	5,568	11,753	6,185	38.9000%	2,406	113,372	22,369
Aug-08	2,282,981	5,568	11,753	6,185	38.9000%	2,406	115,776	22,369

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 12 -- Special Waste Landfill Expansion - CR

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	2,988,137	7,022	16,929	9,907	38.9000%	3,854	94,090	-
Apr-08	2,988,137	7,022	16,929	9,907	38.9000%	3,854	97,944	-
May-08	2,988,137	7,022	16,929	9,907	38.9000%	3,854	101,798	-
Jun-08	2,988,137	7,022	16,929	9,907	38.9000%	3,854	105,652	-
Jul-08	2,988,137	7,022	16,929	9,907	38.9000%	3,854	109,506	-
Aug-08	2,988,137	7,022	16,929	9,907	38.9000%	3,854	113,358	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 13 -- Scrubber Refurbishment - TC1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	855,968	2,475	8,174	5,699	38.9000%	2,217	13,542	-
Apr-08	855,968	2,475	8,174	5,699	38.9000%	2,217	15,759	-
May-08	855,968	2,475	8,174	5,699	38.9000%	2,217	17,976	-
Jun-08	855,968	2,475	8,174	5,699	38.9000%	2,217	20,193	-
Jul-08	855,968	2,475	8,174	5,699	38.9000%	2,217	22,410	-
Aug-08	855,968	2,475	8,174	5,699	38.9000%	2,217	24,625	-

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 14 -- Scrubber Refurbishment - CR6

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	308,507	560	2,894	2,334	38.9000%	908	20,958	9,075
Apr-08	308,507	560	2,894	2,334	38.9000%	908	21,866	9,075
May-08	308,507	560	2,894	2,334	38.9000%	908	22,774	9,075
Jun-08	308,507	560	2,894	2,334	38.9000%	908	23,682	9,075
Jul-08	308,507	560	2,894	2,334	38.9000%	908	24,590	9,075
Aug-08	308,507	560	2,894	2,334	38.9000%	908	25,497	9,075

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 15 -- Scrubber Refurbishment - CR5

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	-	-	-	-	38.9000%	-	-	-
Aug-08	-	-	-	-	38.9000%	-	-	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 16 -- Scrubber Improvements - TC1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	7,361,078	21,286	68,250	46,964	38.9000%	18,269	505,419	26,166
Apr-08	7,361,078	21,286	68,250	46,964	38.9000%	18,269	523,688	26,166
May-08	7,361,078	21,286	68,250	46,964	38.9000%	18,269	541,957	26,166
Jun-08	7,361,078	21,286	68,250	46,964	38.9000%	18,269	560,226	26,166
Jul-08	7,361,078	21,286	68,250	46,964	38.9000%	18,269	578,495	26,166
Aug-08	7,361,078	21,286	68,250	46,964	38.9000%	18,269	596,764	26,166

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2006 - Plan

Project 18 -- Trimble County 2 AQCS

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	-	-	-	-	38.9000%	-	-	-
Aug-08	-	-	-	-	38.9000%	-	-	-

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2006 - Plan

Project 19 - Sorbent Injection, Mill Creek & Trimble 1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	-	-	-	-	38.9000%	-	-	-
Aug-08	-	-	-	-	38.9000%	-	-	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 20 - Mercury Monitors, all plants

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	163,842	1,495	2,181	686	38.9000%	267	5,065	-
Apr-08	163,842	1,495	2,181	686	38.9000%	267	5,332	-
May-08	163,842	1,495	2,181	686	38.9000%	267	5,599	-
Jun-08	163,842	1,495	2,181	686	38.9000%	267	5,866	-
Jul-08	163,842	1,495	2,181	686	38.9000%	267	6,133	-
Aug-08	163,842	1,495	2,181	686	38.9000%	267	6,397	-

Louisville Gas and Electric Company
Deferred Tax Calculations
Post-1995 Environmental Compliance Plans, by Approved Project

2006 - Plan

Project 21 -- Particulate Monitors, Mill Creek

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	397,148	884	4,152	3,268	38.9000%	1,271	36,623	-
Apr-08	397,148	884	4,152	3,268	38.9000%	1,271	37,894	-
May-08	397,148	884	4,152	3,268	38.9000%	1,271	39,165	-
Jun-08	397,148	884	4,152	3,268	38.9000%	1,271	40,436	-
Jul-08	397,148	884	4,152	3,268	38.9000%	1,271	41,707	-
Aug-08	397,148	884	4,152	3,268	38.9000%	1,271	42,979	-

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00549

Question No. 4

Witness: Shannon L. Charnas

- Q-4. Provide the percentage of LG&E's long-term debt that has a variable interest rate as of the last expense month in the billing period under review.
- A-4. For the last expense month of the billing period May 1, 2008, through October 31, 2008, the percentage of LG&E's long-term debt with a variable rate was 23%.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00549

Question No. 5

Witness: Shannon L. Charnas

- Q-5. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the March through August 2008 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the total expense levels from month to month if that change is greater than plus or minus 10 percent.
- A-5. Attached please find a schedule showing the changes in the operation and maintenance expense accounts for March through August 2008 expense months. The changes in the expense levels are reasonable and occurred as a part of routine plant operations and maintenance. Monthly variances in the NO_x operation accounts 506104 and 506105 result from the timing of ammonia purchases and operation of the NO_x removal system during the ozone season (May through September). Charges to the sorbent injection operation account 506109 were for the purchase of hydrated lime to be used in the operation of the SO₃ removal system. Fluctuations in the NO_x maintenance expenses, account 512101, are the result of routine monthly maintenance of the SCRs. Scrubber operation account 502006 expenses are the result of regular operations of the Trimble County Unit 1 FGD. The expenses for sorbent injection maintenance, account 512102, began in August 2008, and relate to maintenance costs incurred to prepare a new sorbent injection system for service.

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Mar-08		Apr-08		May-08		Jun-08		Jul-08		Aug-08		% Change from Prior Period
		% Change from Prior Period		% Change from Prior Period		% Change from Prior Period		% Change from Prior Period		% Change from Prior Period		% Change from Prior Period	
2001 Plan													
506104 NOx Operation -- Consumables	-		134,172		304,777		393,425		324,927		315,317		-3%
506105 NOx Operation -- Labor and Other	7,648		10,143		14,138		11,998		10,727		12,792		19%
512101 NOx Maintenance	48,211		64,767		125,986		50,912		83,491		26,012		-69%
Total 2001 Plan O&M Expenses	55,859		209,082		444,901		456,335		419,145		354,121		
2005 Plan													
502006 Scrubber Operations	30,648		41,721		40,279		26,980		36,881		21,480		-42%
512005 Scrubber Maintenance	-		-		-		-		-		-		0%
501201 Ashpond Dredging Expense	158,171		168,045		171,471		171,471		171,471		171,471		0%
Total 2005 Plan O&M Expenses	188,819		209,766		211,750		198,451		208,352		192,951		
2006 Plan													
506109 Sorbent Injection Operation	-		-		27,100		165,050		140,608		40,488		-71%
512102 Sorbent Injection Maintenance	-		-		-		-		-		41		100%
506110 Mercury Monitors Operation	-		-		-		-		-		-		0%
512103 Mercury Monitors Maintenance	-		-		-		-		-		-		0%
Total 2006 Plan O&M Expenses	-		-		27,100		165,050		140,608		40,529		

¹ Off by \$1 from filing due to rounding.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00549

Question No. 6

Witness: Shannon L. Charnas

- Q-6. The Commission previously ordered that LG&E's cost of debt and preferred stock would be reviewed and re-established during the 6-month review case. Provide the following information as of August 31, 2008:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and electric operations bases.
 - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and electric operations bases.
 - c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-6.
- a. Please see the attachment. There was no preferred stock as of August 31, 2008, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of August 31, 2008, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. LG&E is utilizing a return on equity of 10.63% as agreed to and approved by the Commission in its February 5, 2009 Order in Case No. 2008-00252.

Louisville Gas and Electric Company
Outstanding Balances - Capitalization
As of August 31, 2008

1	2	3
	Outstanding Balance Total Company	Outstanding Balance Electric Only 80.39%
1 Long-Term Debt	750,104,000	603,008,606
2 Short-Term Debt	350,797,200	282,005,869
3 Common Equity	1,185,819,585	953,280,364

Louisville Gas and Electric Company
Blended Interest Rates
As of August 31, 2008

	1 Blended Interest Rate <u>Total Company</u>
1 Long-Term Debt	5.31%
2 Short-Term Debt	2.44%

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2008

	Due	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
					Amortized Debt	Amortized Loss-			
					Issuance Expense	Reacquired Debt	Premium		
LONG-TERM DEBT									
Pollution Control Bonds -									
Series Y - 2000 A JC	05/01/27	1 80000% *	25,000,000	450,000	-	-	105,079	555,079	2 22
Series Y - 2000 A JC	05/01/27	1 80000% *	(25,000,000)	(450,000)	-	-	-	(450,000)	1 80
Series Z - 2000 A TC	08/01/30	3 22600% *	83,335,000	2,688,387	38,351	-	143,700	2,870,438	3 44
Series AA - 2001 A JC	09/01/27	2 98600% *	10,104,000	301,705	19,924	-	-	321,629	3 18
Series BB - 2001 A JC	09/01/26	1 70000% *	22,500,000	382,500	9,876	-	77,424	469,800	2 09
Series CC - 2001 A TC	09/01/26	1 70000% *	27,500,000	467,500	10,740	-	65,400	543,640	1 98
Series DD - 2001 B JC	11/01/27	1 75000% *	35,000,000	612,500	10,944	-	49,056	672,500	1 92
Series EE - 2001 B TC	11/01/27	1 75000% *	35,000,000	612,500	10,944	-	48,864	672,308	1 92
Series FF - 2002 A TC	10/01/32	3 62300% *	41,865,000	1,509,523	36,903	-	55,812	1,602,238	3 85
Series GG - 2003 A JC	10/01/33	1 80000% *	128,000,000	2,304,000	-	-	310,554	2,614,554	2 04
Series GG - 2003 A JC	10/01/33	1 80000% *	(128,000,000)	(2,304,000)	-	-	-	(2,304,000)	1 80
Series HH - 2005 A JC	02/01/35	1 85000% *	40,000,000	740,000	-	-	84,014	824,014	2 06
Series HH - 2005 A JC	02/01/35	1 85000% *	(40,000,000)	(740,000)	-	-	-	(740,000)	1 85
JC2007A \$31M	06/01/33	2 00000%	31,000,000	620,000	-	-	29,979	649,979	2 10
JC2007A \$31M	06/01/33	2 00000%	(31,000,000)	(620,000)	-	-	-	(620,000)	2 00
JC2007B \$35 2M	06/01/33	2 00000%	35,200,000	704,000	-	-	26,358	730,358	2 07
JC2007B \$35 2M	06/01/33	2 00000%	(35,200,000)	(704,000)	-	-	-	(704,000)	2 00
JC2007A \$60M	06/01/33	4 60000%	60,000,000	2,760,000	47,192	-	6,567	2,813,759	4 69
Called Bonds			-	-	-	-	263,196	263,196	-
Total External Debt			315,104,000	9,334,615	184,874	-	1,266,003	10,785,492	1.44%
Interest Rate Swaps:									
JP Morgan Chase Bank	11/01/20	1		3,134,054	-	-	-	3,134,054	
Morgan Stanley Capital Services	10/01/33	1		637,395	-	-	-	637,395	
Morgan Stanley Capital Services	10/01/33	1		633,427	-	-	-	633,427	
Bank of America	10/01/33	1		649,961	-	-	-	649,961	
Wachovia	10/01/33	1		595,507	-	-	-	595,507	
Interest Rate Swaps External Debt				5,650,344	-	-	-	5,650,344	0.75%
Notes Payable to Fidelity Corp.	04/30/13	4 55%	100,000,000	4,550,000	-	-	-	4,550,000	4 55
Notes Payable to Fidelity Corp.	08/15/13	5 31%	100,000,000	5,310,000	-	-	-	5,310,000	5 31
Notes Payable to Fidelity Corp.	01/18/12	4 33%	25,000,000	1,082,500	-	-	-	1,082,500	4 33
Notes Payable to Fidelity Corp.	04/13/37	5 98%	70,000,000	4,186,000	-	-	-	4,186,000	5 98
Notes Payable to Fidelity Corp.	04/13/31	5 93%	68,000,000	4,032,400	-	-	-	4,032,400	5 93
Notes Payable to Fidelity Corp.	11/26/22	5 72%	47,000,000	2,688,400	-	-	-	2,688,400	5 72
Notes Payable to Fidelity Corp.	07/25/18	6 21%	25,000,000	1,552,500	-	-	-	1,552,500	6 21
Mandatorily Redeemable Preferred Stock:									
\$5 875 Series	07/15/08	5 8750%	-	-	-	-	4,437	4,437	0
Total Internal Debt			435,000,000	23,401,800	-	-	4,437	23,406,237	3.12%
Total			750,104,000	38,386,759	184,874	0	1,270,440	39,842,073	5.31%

	Maturity	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
					Expense	Premium	Loss		
SHORT TERM DEBT									
Notes Payable to Associated Company	NA	2 440% *	350,797,200	8,559,452	-	-	-	8,559,452	2 44
Total			350,797,200	8,559,452	-	-	-	8,559,452	2.44%

Embedded Cost of Total Debt 48,401,525 **4.40%**

* Composite rate at end of current month

1 Additional interest due to Swap Agreements:

Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Fixed LG&E Swap Position	Variable Counterparty Swap Position
Series Z - PCB	83,335,000	11/01/20	To Pay: 5 495%	BMA Index
Series GG - PCB	32,000,000	10/01/32	To Pay: 3 657%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/32	To Pay: 3 645%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/32	To Pay: 3 695%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/32	To Pay: 3 648%	68% of 1 mo LIBOR
	211,335,000			

2 Call premium and debt expense is being amortized over the remaining life of bonds due 10/1/09, 6/1/15, 7/1/13 and 8/1/17

3 Reacquired bonds, which net to zero as they are also included in Short Term Debt Notes Payable to Associated Company

Louisville Gas and Electric Company
Outstanding Balances - Capitalization
August 31, 2008

1	2	3	4	5	6	7
	Electric Only	Capital Structure	Cost Rate	Weighted Average Cost of Capital	Tax Gross-up Factor	Weighted Average Cost of Capital with Equity Gross-up
1 Long-Term Debt	603,008,606	32.80%	5.31%	1.74%		1.74%
2 Short-Term Debt	282,005,869	15.34%	2.44%	0.37%		0.37%
3 Common Equity	953,280,364	51.86%	10.63%	5.51%	0.58	8.71%
4 Total	1,838,294,839			7.62%		10.82%

Rate of Return (ROR) Grossed Up:

Weighted Cost of Capital Grossed up for Income Tax Effect $\{ROR + (ROR - Debt\ rate) \times [TR/(1-TR)]\}$

See tax rate (TR) calculation on 6(c) page (2)

**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)	<u>5.6604</u>	(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)	<u>5.6604</u>	(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)	<u>31.0377</u>	(10) * 35%
(13)		
(14) 7. Total State and Federal income taxes		
(15) (Line 2 + Line 6)	<u>\$ 36.6981</u>	(3) + (12)
(16)		
(17) 8. Gross-up Revenue Factor	<u><u>63.3019</u></u>	100 - (15)
(18)		
(19) 9. Therefore, the composite rate is:		
(20) 10. Federal	31.0377%	(12) / 100
(21) 11. State	<u>5.6604%</u>	(3) / 100
(22) 12. Total	<u><u>36.6981%</u></u>	(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	<u>5.6604</u>	(8)
(32)		
(33) 3. Taxable income for State income tax	94.3396	(29) - (31)
(34)		
(35) 4. State Tax Rate	<u>6.0000%</u>	
(36)		
(37) 5. State Income Tax	<u><u>5.6604</u></u>	(33) * (35)