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PUBLIC SERVICE
COMMISSION

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Kentucky Utilities 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
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robert.conroy@eon-us.com

February 3, 2010

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH
BILLING PERIOD ENDING OCTOBER 31, 2009
CASE NO. 2009-00501***

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 Kentucky Utilities Company to the Information Requested in Appendix B of the Commission's Order dated January 8, 2010, 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 KENTUCKY)
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2009)**

**CASE NO.
2009-00501**

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

Filed: February 03, 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 KU’s environmental
13 surcharge during the six-month billing period ending October 31, 2009 and determine
14 whether the surcharge amounts collected during the period are just and reasonable.

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

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

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

1 A. KU billed an environmental surcharge to its customers from May 1, 2009 through
2 October 31, 2009. For purposes of the Commission's examination in this case, the
3 monthly KU environmental surcharges are considered as the six-month billing period
4 ending October 31, 2009. In each month of the period, KU 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 2009 through August 2009, and in
7 accordance with the requirements of the Commission's previous orders concerning
8 KU'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 KU
13 from March 2009 through August 2009, 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 KU's
18 previous applications to assess or amend its environmental surcharge mechanism and
19 plan, as well as Orders issued in previous review cases. The monthly environmental
20 surcharge reports filed with the Commission during this time reflect the various
21 changes to the reporting forms ordered by the Commission from time to time.

22 **Q. Has the Commission recently approved changes to the environmental surcharge**
23 **mechanism and the monthly ES Forms?**

1 A. Yes. In Case No. 2009-00310, KU's most recent ECR two-year review, the
2 Commission approved changes to the environmental surcharge mechanism that
3 include the calculation of the monthly billing factor using a revenue requirement
4 method instead of a percentage method (eliminating the use of BESF), the elimination
5 of the monthly true-up adjustment, and revisions to the monthly reporting forms to
6 reflect the approved changes. However, these changes occurred after the period
7 under review. Pursuant to the Commission's December 2, 2009 Order, the changes
8 were implemented with the December 2009 expense month that is billed in February
9 2010.

10 **Q. Has the Commission recently approved changes to KU's ECR Compliance Plan?**

11 A. Yes. In Case No. 2009-00197, the Commission approved KU's 2009 ECR
12 Compliance Plan that included six new projects and associated operation and
13 maintenance costs and amended the 2006 Plan to include operation and maintenance
14 costs associated with the Air Quality Control System equipment for Trimble County
15 Unit 2 (Project 23). Pursuant to the Commission's December 23, 2009 Order, KU
16 included the approved projects in the monthly filing for the December 2009 expense
17 month that is billed in February 2010.

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

20 A. During the period under review, there were no changes to Rate Base from the
21 originally filed billing period as summarized in KU's response to the Commission
22 Staff Request for Information, Question No. 1. In addition, there were no changes

1 identified as a result of preparing responses to the requests for information in this
2 review.

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

5 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
6 Order in Case No. 2000-00439 to reflect the actual changes in the overall rate of
7 return on capitalization that is used in the determination of the return on
8 environmental rate base. The changes in the actual cost of long term debt and capital
9 structure resulted in an increase to cumulative E(m) of \$268,035. The details of and
10 support for this calculation are shown in KU's response to Question No. 1 of the
11 Commission Staff Request for Information.

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

14 A. Yes. KU experienced a cumulative under-recovery of \$3,705,904 for the billing
15 period ending October 31, 2009. KU's response to Question No. 2 of the
16 Commission Staff Request for Information shows the calculation of the \$3,705,904
17 cumulative under-recovery. Therefore, an adjustment to the revenue requirement is
18 necessary to reconcile the collection of past surcharge revenues with the actual cost
19 for the billing period under review.

20 **Q. Has KU identified the causes of the net under-recovery during the billing period**
21 **under review?**

22 A. Yes. Consistent with the issues discussed in the past several review proceedings, KU
23 has identified four components that make up the net under-recovery during the billing

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

OVER/UNDER RECONCILIATION		
Combined Over/Under Recovery		(3,705,904)
Due to BESF Calculation Differences	(1,519,468)	
Due to use of BESF %	(2,056,054)	
Due to Change in ROR	(268,035)	
Use of 12 Month Average Revenues	<u>137,654</u>	
Subtotal		<u>(3,705,904)</u>
Unreconciled Difference		-

10

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

12 A. As previously stated, the cumulative impact of the revised rate of return resulted in an
 13 increase to the jurisdictional revenue requirement and an under-recovery of \$268,035.

14 **Q. Please explain the calculation differences that occurred in determining BESF.**

1 A. In the course of preparing the responses in Case No. 2008-00550, a previous KU six-
2 month review proceeding, KU discovered that a difference existed between the
3 calculation of the BESF in the previous 2-year review case and the application of the
4 BESF in the monthly filings beginning with the March 2008 expense month.
5 Specifically, in Case No. 2007-00379, KU calculated the BESF factor using base rate
6 revenues excluding the customer charge revenues, while the monthly filings use
7 BESF times total base revenues to estimate the ECR revenues collected through base
8 rates. BESF was calculated using a lower revenue total than is used in its application
9 in the monthly filings thereby overstating the BESF percentage. Because the monthly
10 estimate of ECR revenues collected through base rates is made by multiplying BESF
11 times total base revenues, overstating BESF overstates the ECR revenues collected
12 through base rates. When ECR revenues collected through base rates are overstated,
13 the monthly E(m) is understated which contributes to KU's net under-recovery
14 position. If the BESF had been calculated using total revenues, the BESF would be
15 5.20% instead of 5.51% as filed. Applying the recalculated BESF to the base rate
16 revenues results in an under-recovery of \$1,519,468. As previously stated, the
17 Commission has approved the use of a revenue requirement method that will
18 eliminate the impacts of the BESF percentage as discussed.

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

22 A. The first component is the use of the BESF percentage to estimate the amount
23 collected through base rates. In the monthly filings, the BESF percentage is used to

1 determine the amount of ECR revenue collected through base rates by applying the
2 percentage to total base rate revenues. In the review proceedings, the billing
3 determinants are used to determine the actual ECR revenues collected through base
4 rates. This methodology results in a perpetual mismatch between actual revenues
5 collected and estimated revenues as reported in the monthly filings. In the billing
6 period under review, the mismatch resulted in an under-recovery of \$2,056,054. As
7 previously stated, the Commission has approved the use of a revenue requirement
8 method that will eliminate the impacts of the BESF percentage as discussed.

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 \$137,654.

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

18 A. KU is proposing that the cumulative under-recovery of \$3,705,904 be recovered over
19 the six months following the Commission's Order in this proceeding. Specifically,
20 KU recommends that the Commission approve an increase to the Environmental
21 Surcharge Revenue Requirement of \$617,651 per month for the first four months and
22 \$617,650 per month for the following two months, beginning in the second full
23 billing month following the Commission's Order in this proceeding. This method is

1 consistent with the method of implementing previous over- or under- recovery
2 positions in prior ECR review cases.

3 **Q. What is the bill impact on a residential customer for the proposed collection of**
4 **the under-recovery?**

5 A. KU is proposing to collect the under-recovery of \$3,705,904 over a six month period.
6 The inclusion of \$617,651 per month in the determination of the ECR billing factor
7 will increase the billing factor by approximately 0.70%. For a residential customer
8 using 1,000 kWh the ECR billing factor will increase by approximately \$0.45 per
9 month for six months (using rates and adjustment clause factors in effect for the
10 January 2010 billing month).

11 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**
12 **Commission's Order in this proceeding?**

13 A. KU is recommending an overall rate of return on capital of 11.12%, including the
14 currently approved 10.63% return on equity and adjusted capitalization, to be used to
15 calculate the environmental surcharge. This is based on capitalization as of August
16 31, 2009 and the Settlement Agreement approved by the Commission in its February
17 5, 2009 Order in Case No. 2008-00251.

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

19 A. KU makes the following recommendations to the Commission in this case:

- 20 a) The Commission should approve the proposed increase to the Environmental
21 Surcharge Revenue Requirement of \$617,651 per month for the first four
22 months and \$616,650 per month for the following two months beginning in

1 the second full billing month following the Commission's Order in this
2 proceeding;

3 b) The Commission should determine environmental surcharge amount for the
4 six-month billing period ending October 31, 2009 to be just and reasonable;

5 c) The Commission should approve the use of an overall rate of return on capital
6 of 11.12% using a return on equity of 10.63% beginning in the second full
7 billing month following the Commission's Order in this proceeding.

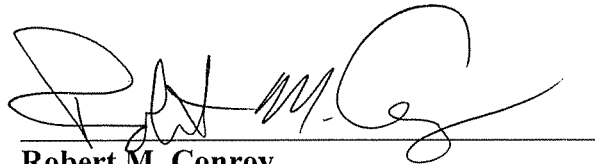
8 **Q. Does this conclude your testimony?**

9 **A. Yes.**

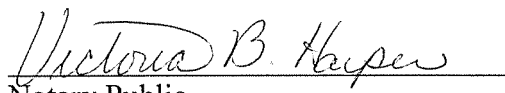
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is 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 that 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 2nd day of February 2010.

 (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

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 KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2009-00501
BILLING PERIOD ENDING OCTOBER 31, 2009)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED JANUARY 8, 2010

FILED: February 3, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is Director – Utility Accounting and Reporting for E.ON U.S. Services, Inc., and 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
Shannon L. Charnas

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 2nd day of February 2010.

Victoria B. Hayer (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 8, 2010**

Case No. 2009-00501

Question No. 1

Witness: Robert M. Conroy / Shannon L. Charnas

Q-1. Concerning the rate of return on the four amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional 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 corresponding billing period under review.

A-1. Please see the attachment.

KU 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.

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

(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 1.10	Jurisdictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
May-09	Mar-09	11.12%	1,207,038,661	\$ 1,207,038,661	\$ -	\$ -	85.16%	\$ -
Jun-09	Apr-09	11.12%	1,223,132,665	1,223,132,665	-	-	87.67%	-
Jul-09	May-09	11.12%	1,237,608,696	1,237,608,696	-	-	84.60%	-
Aug-09	Jun-09	11.12%	1,254,284,395	1,254,284,395	-	-	87.48%	-
Sep-09	Jul-09	11.12%	1,265,464,875	1,265,464,875	-	-	85.22%	-
Oct-09	Aug-09	11.12%	1,274,892,159	1,274,892,159	-	\$ -	87.06%	\$ -
Cumulative Impact of Changes in Rate Base								
						-		\$

Kentucky Utilities

Attachment to Response to Question No. 1

Overall Rate of Return True-up Adjustment - Revised Rate of Return
Impact on Calculated E(m)

Page 2 of 3

Conroy

(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 1.10	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
May-09	Mar-09	11.12%	11.17%	0.05%	\$ 1,207,038,661	50,293	85.16%	42,830
Jun-09	Apr-09	11.12%	11.17%	0.05%	1,223,132,665	50,964	87.67%	44,680
Jul-09	May-09	11.12%	11.17%	0.05%	1,237,608,696	51,567	84.60%	43,626
Aug-09	Jun-09	11.12%	11.17%	0.05%	1,254,284,395	52,262	87.48%	45,719
Sep-09	Jul-09	11.12%	11.17%	0.05%	1,265,464,875	52,728	85.22%	44,935
Oct-09	Aug-09	11.12%	11.17%	0.05%	1,274,892,159	53,121	87.06%	46,247
						310,934		268,035
Cumulative Impact of Changes in Rate of Return						\$ 310,934		\$ 268,035

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity
at October 31, 2009

	Per Books 10-31-09 (1)	Capital Structure (2)	Undistributed Subsidiary Earnings (3)	Investment in EEI (Col 2, A, Col 4, Line 4) (4)	Investments in OVEC and Other (Col 2, X, Col 5, Line 4) (5)	Adjustments to Total Co. Capitalization (Sum of Col 3 - Col 5) (6)	Adjusted Total Company Capitalization (Col 1 + Col 6) (7)	Jurisdictional Rate Base Percentage (8)	Kentucky Jurisdictional Capitalization (Col 7 x Col 8) (9)
1. Short Term Debt	\$ 19,665,954	0.55%	\$ -	\$ (7,127)	\$ (4,621)	\$ (11,748)	\$ 19,654,206	87.57%	\$ 17,211,188
2. Long Term Debt	1,631,779,405	45.52%	-	(589,848)	(382,487)	(972,335)	1,630,807,070	87.57%	1,428,097,751
3. Common Equity	1,933,128,508	53.93%	(6,207,858)	(698,825)	(453,153)	(7,359,836)	1,925,768,672	87.57%	1,686,395,626
4. Total Capitalization	<u>\$ 3,584,573,867</u>	<u>100.000%</u>	<u>\$ (6,207,858)</u>	<u>\$ (1,295,800)</u>	<u>\$ (840,261)</u>	<u>\$ (8,343,919)</u>	<u>\$ 3,576,229,948</u>		<u>\$ 3,131,704,565</u>

	Kentucky Jurisdictional Capitalization (9)	Environmental Surcharge (Net of ECR Roll-in) (Col 10 x Col 11, Line 4) (11)	Adjusted Kentucky Jurisdictional Capitalization (Col 9 + Col 11) (12)	Adjusted Capital Structure (13)	Annual Cost Rate (14)	Cost of Capital (Col 14 x Col 13) (15)
1. Short Term Debt	\$ 17,211,188	\$ (4,091,538)	\$ 13,119,650	0.55%	0.22%	0.00%
2. Long Term Debt	1,428,097,751	(339,225,732)	1,088,872,019	45.60%	4.68%	2.13%
3. Common Equity	1,686,395,626	(400,598,809)	1,285,796,817	53.85%	10.63%	5.72%
4. Total Capitalization	<u>\$ 3,131,704,565</u>	<u>\$ (743,916,079)</u>	<u>\$ 2,387,788,486</u>	<u>100.000%</u>		<u>7.85%</u>
5. Weighted Cost of Capital Crossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])						<u>11.17%</u>

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 8, 2010**

Case No. 2009-00501

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 applicable billing period. 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 KU has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-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.

(1) Expense Month	(2) Rate Base as Revised	(3) Monthly Rate Base as Revised	(4) Rate of Return as Revised	(5) Operating Expenses (net of allowance proceeds)	(6) Ghent 1 FGD Operating Expenses and Gypsum Proceeds Aug09 filing	(7) Total E(m)	(8) Retail Allocation Ratio	(9) Retail E(m)	Comments: As Revised in This Review
	ES Form 2.00	(2) / 12		ES Form 2.00	Attachment 1 & 2	(3) * (4) + (5) + (6)	ES Form 1.10	(7) * (8)	
Mar-09	1,207,038,661	100,586,555	11.17%	3,353,094	185,555	14,774,168	85.16%	12,581,681	
Apr-09	1,223,132,665	101,927,722	11.17%	3,796,462	229,195	15,410,983	87.67%	13,510,809	
May-09	1,237,608,696	103,134,058	11.17%	3,784,709	174,863	15,479,646	84.60%	13,095,781	
Jun-09	1,254,284,395	104,523,700	11.17%	3,886,965	151,082	15,713,344	87.48%	13,746,034	
Jul-09	1,265,464,875	105,455,406	11.17%	3,773,914	130,164	15,683,447	85.22%	13,365,434	
Aug-09	1,274,892,159	106,241,013	11.17%	4,192,468	-	16,059,589	87.06%	13,981,478	

(1) Expense Month	(2) Retail E(m)	(3) Adjustment For OMU Environmental Expenses per Case No. 2003-00434	(4) Adjustment to Retail E(m) for Monthly True-up	(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
Mar-09	12,581,681	-	Case No. 2008-00550	12,581,681	ES Form 1.10	(5)/(6)	(8)	(7)-(8)			
Apr-09	13,510,809	-		13,510,809	91,621,815	13.73%	5.51%	8.22%			
May-09	13,095,781	-		13,095,781	91,811,637	14.72%	5.51%	9.21%			
Jun-09	13,746,034	-		13,746,034	91,746,609	14.27%	5.51%	8.76%	6,846,073	3,409,321	(2,326,287)
Jul-09	13,365,434	-	658,217	14,023,651	91,918,044	14.95%	5.51%	9.44%	8,438,593	3,904,230	(1,167,986)
Aug-09	13,981,478	-	658,217	14,639,695	90,921,476	15.42%	5.51%	9.91%	9,581,918	4,187,216	673,354
Sep-08					89,860,147	16.29%	5.51%	10.78%	8,912,825	3,983,151	(850,058)
Oct-08									10,484,635	4,095,692	556,676
									10,195,899	3,852,192	(591,604)
	80,281,216			81,397,630				Grand Total	54,459,944	23,431,802	(3,705,904)

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2009 through August 2009

(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 (4) - (3)	Rate Base as Revised	Impact of change in Rate of Return (5) * (6) / 12	Jurisdictional Allocation, ES Form 1 10	Jursidictional Impact (7) * (8)
May-09	Mar-09	11 12%	11 17%	0 05%	1,207,038,661	(50,293)	85 16%	(42,830)
Jun-09	Apr-09	11 12%	11 17%	0 05%	1,223,132,665	(50,964)	87 67%	(44,680)
Jul-09	May-09	11 12%	11 17%	0 05%	1,237,608,696	(51,567)	84 60%	(43,626)
Aug-09	Jun-09	11 12%	11 17%	0 05%	1,254,284,395	(52,262)	87 48%	(45,719)
Sep-09	Jul-09	11 12%	11 17%	0 05%	1,265,464,875	(52,728)	85 22%	(44,935)
Oct-09	Aug-09	11 12%	11 17%	0 05%	1,274,892,159	(53,121)	87 06%	(46,247)
Cumulative Impact of Changes in Rate of Return						\$ (310,934)		\$ (268,035)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Base Rate Revenues (from ES Form 3 00)	As filed BESF * Base Rates (from ES Form 2 00)	Actual ECR Base Rates (Q2, pg 2, Col 11)	As Filed BESF (from ES Form 1 00)	Recalculated BESF	Recalc BESF * Base Rates (3) * (7)	Recalculation Difference (8) - (4)	BESF % Difference (5) - (8)
May-09	Mar-09	69,322,766	3,819,684	3,409,321	5 51%	5 20%	3,604,784	(214,901)	(195,463)
Jun-09	Apr-09	81,386,154	4,484,377	3,904,230	5 51%	5 20%	4,232,080	(252,297)	(327,850)
Jul-09	May-09	82,059,052	4,521,454	4,187,216	5 51%	5 20%	4,267,071	(254,383)	(79,855)
Aug-09	Jun-09	85,508,922	4,711,542	3,983,151	5 51%	5 20%	4,446,464	(265,078)	(463,313)
Sep-09	Jul-09	88,427,592	4,872,360	4,095,692	5 51%	5 20%	4,598,235	(274,126)	(502,543)
Oct-09	Aug-09	83,446,599	4,597,908	3,852,192	5 51%	5 20%	4,339,223	(258,684)	(487,031)
		490,151,086	27,007,325	23,431,802			25,487,856	(1,519,468)	(2,056,054)
		Actual Base Rate Collections	23,431,802				Actual Base Rate Collections	23,431,802	
			(3,575,522)					(2,056,054)	

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Billing Month	Expense Month	Combined Total Over/(Under) Recovery (Q2, pg 2, Col 12)	ROR True-up	BESF Calculation Differences	Use of BESF %	Use of 12 Month Average Revenues
May-09	Mar-09	(2,326,287)	(42,830)	(214,901)	(195,463)	(1,873,093 7)
Jun-09	Apr-09	(1,167,986)	(44,680)	(252,297)	(327,850)	(543,158 9)
Jul-09	May-09	673,354	(43,626)	(254,383)	(79,855)	1,051,217 3
Aug-09	Jun-09	(850,058)	(45,719)	(265,078)	(463,313)	(75,948 3)
Sep-09	Jul-09	556,676	(44,935)	(274,126)	(502,543)	1,378,279 3
Oct-09	Aug-09	(591,604)	(46,247)	(258,684)	(487,031)	200,358 2
		(3,705,904)	(268,035)	(1,519,468)	(2,056,054)	137,654

OVER/UNDER RECONCILIATION	
Combined Over/Under Recovery	(3,705,904)
Due to BESF Calculation Differences	(1,519,468)
Due to use of BESF %	(2,056,054)
Due to Change in ROR	(268,035)
Use of 12 Month Average Revenues	137,654
Subtotal	(3,705,904)
Unreconciled Difference	-

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 8, 2010**

Case No. 2009-00501

Question No. 3

Witness: Shannon L. Charnas

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

A-3. KU 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.

**Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2001 - Plan**Project 16 -- Emission Monitoring**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	9,775,541	20,725	36,610	15,885	38.9000%	6,179	1,112,998	18,994
Apr-09	9,775,541	20,725	36,610	15,885	38.9000%	6,179	1,119,177	18,994
May-09	9,775,541	20,725	36,610	15,885	38.9000%	6,179	1,125,356	18,994
Jun-09	9,775,541	20,725	36,610	15,885	38.9000%	6,179	1,131,535	18,994
Jul-09	9,775,541	20,725	36,610	15,885	38.9000%	6,179	1,137,714	18,994
Aug-09	9,775,541	20,725	36,610	15,885	38.9000%	6,179	1,143,893	18,994

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2001 - Plan
Project 17 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	31,031,810	205,174
Apr-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	31,094,748	205,174
May-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	31,157,686	205,174
Jun-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	31,220,624	205,174
Jul-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	31,283,562	205,174
Aug-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	31,346,498	205,174

Note: Due to Bonus Depreciation for tax purposes, taken on certain components of Project 17, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2005 received 30% bonus depreciation, which reduces the Federal tax basis to 70% of the plant balance. A sample calculation of deferred taxes for March 2009 is shown below:

Federal Basis	Book Depr.	Federal Tax Depr	Fed. Difference	Fed Tax Rate	Fed Def Tax
151,874,994	558,726	692,130	133,404	35.0000%	46,691
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
216,964,277	558,726	975,291	416,565	6.0000%	24,994

St. Offset for Fed Taxes not Owed
(8,748)

Total Deferred Tax
62,937

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2003 - Plan**Project 18 -- New Ash Storage**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,399,768	-
Apr-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,405,361	-
May-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,410,954	-
Jun-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,416,547	-
Jul-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,422,140	-
Aug-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,427,733	-

Note: Due to Bonus Depreciation for tax purposes taken on Project 18, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2005 received 30% bonus depreciation, which reduces the Federal tax basis to 70% of the plant balance. A sample calculation of deferred taxes for March 2009 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep	Fed. Difference	Fed Tax Rate	Fed Def Tax
11,303,807	37,545	49,784	12,239	35.0000%	4,284
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
16,148,295	37,545	71,120	33,575	6.0000%	2,015

St. Offset for Fed Taxes not Owed
(705)

Total Deferred Tax
5,593

**Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 19 -- Ash Handling at Ghent 1 and Ghent Station

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	835,046	1,941	5,157	3,216	38.9000%	1,251	42,467	79,280
Apr-09	835,046	1,941	5,157	3,216	38.9000%	1,251	43,718	79,280
May-09	835,046	1,941	5,157	3,216	38.9000%	1,251	44,969	79,280
Jun-09	835,046	1,941	5,157	3,216	38.9000%	1,251	46,220	79,280
Jul-09	835,046	1,941	5,157	3,216	38.9000%	1,251	47,471	79,280
Aug-09	835,046	1,941	5,157	3,216	38.9000%	1,251	48,722	79,280

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 20 -- Ash Treatment Basin (Phase I) at E.W. Brown

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	19,697,162	45,960	244,370	198,410	38.9000%	77,181	661,809	-
Apr-09	19,697,162	45,960	244,370	198,410	38.9000%	77,181	738,991	-
May-09	19,697,162	45,960	244,370	198,410	38.9000%	77,181	816,172	-
Jun-09	19,697,162	45,960	244,370	198,410	38.9000%	77,181	893,354	-
Jul-09	19,697,162	45,960	244,370	198,410	38.9000%	77,181	970,535	-
Aug-09	19,697,162	45,960	244,370	198,410	38.9000%	77,181	1,047,717	-

**Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

**2005 - Plan
Project 21 -- FGD's**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	560,694,414	1,546,877	5,877,787	4,330,910	38.9000%	1,684,724	10,582,247	761,567
Apr-09	560,694,414	1,760,659	5,048,422	3,287,763	38.9000%	1,278,940	11,861,187	761,567
May-09	592,380,842	1,811,247	5,334,170	3,522,923	38.9000%	1,370,417	13,231,604	761,567
Jun-09	592,380,842	1,861,835	5,334,170	3,472,335	38.9000%	1,350,738	14,582,342	761,567
Jul-09	592,380,842	1,861,835	5,334,170	3,472,335	38.9000%	1,350,738	15,933,080	761,567
Aug-09	592,380,842	1,861,835	5,334,170	3,472,335	38.9000%	1,350,738	17,283,817	761,567

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 23 - TC2 AQCS Equipment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	-	-	-	-	38.9000%	-	-	-
Apr-09	-	-	-	-	38.9000%	-	-	-
May-09	-	-	-	-	38.9000%	-	-	-
Jun-09	-	-	-	-	38.9000%	-	-	-
Jul-09	-	-	-	-	38.9000%	-	-	-
Aug-09	-	-	-	-	38.9000%	-	-	-

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 24 - Sorbent Injection

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	7,397,285	16,679	70,638	53,959	38.9000%	20,990	170,432	-
Apr-09	7,397,285	16,679	70,638	53,959	38.9000%	20,990	191,422	-
May-09	7,397,285	16,679	70,638	53,959	38.9000%	20,990	212,412	-
Jun-09	7,397,285	16,679	70,638	53,959	38.9000%	20,990	233,402	-
Jul-09	7,397,285	16,679	70,638	53,959	38.9000%	20,990	254,392	-
Aug-09	7,397,285	16,679	70,638	53,959	38.9000%	20,990	275,382	-

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 25 - Mercury Monitors

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	265,290	1,365	3,602	2,237	38.9000%	870	16,410	-
Apr-09	265,290	1,365	3,602	2,237	38.9000%	870	17,280	-
May-09	265,290	1,365	3,602	2,237	38.9000%	870	18,151	-
Jun-09	265,290	1,365	3,602	2,237	38.9000%	870	19,021	-
Jul-09	265,290	1,365	3,602	2,237	38.9000%	870	19,891	-
Aug-09	265,290	1,365	3,602	2,237	38.9000%	870	20,763	-

Kentucky Utilities Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 27 - E.W. Brown Electrostatic Precipitators

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-09	46,715	109	563	454	38.9000%	177	5,643	2,274
Apr-09	1,354,119	1,749	6,011	4,262	38.9000%	1,658	7,301	2,274
May-09	1,354,119	3,388	6,011	2,623	38.9000%	1,020	8,321	2,274
Jun-09	1,354,119	3,388	6,011	2,623	38.9000%	1,020	9,341	2,274
Jul-09	1,354,119	3,388	6,011	2,623	38.9000%	1,020	10,362	2,274
Aug-09	1,354,119	3,388	6,011	2,623	38.9000%	1,020	11,382	2,274

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 8, 2010**

Case No. 2009-00501

Question No. 4

Witness: Shannon L. Charnas

- Q-4. Provide the percentage of KU's long-term debt that has a variable interest rate as of the last expense month in the applicable billing period under review.
- A-4. For the last expense month of the billing period of May 1, 2009 through October 31, 2009, the percentage of KU's long-term debt with a variable rate was 20%.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 8, 2010**

Case No. 2009-00501

Question No. 5

Witness: Shannon L. Charnas

- Q-5. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the March 2009 Through August 2009 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month is that change is greater than plus or minus 10 percent.
- A-5. Attached please find a schedule showing the changes in operations and maintenance expense accounts for March 2009 through August 2009 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 expenses, account 506104, reflect normal SCR operations and will fluctuate with generation and coal quality. The increase in May was due to an increase in the purchase of ammonia to prepare for the summer months.

Fluctuations in the NO_x maintenance expenses, account 512101, are the result of regular maintenance. However, the expenses in March are higher due to tasks completed during the Ghent Unit 2 outage.

Fluctuations in the scrubber operation expenses, account 502006, are the result of regular operation of the Ghent FGDs. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate. Monthly variances in account 512005, scrubber maintenance, are the result of regular maintenance of the FGDs at Ghent. Increases in August relate to modifications to the Ghent gypsum stack.

Monthly variances in accounts 506109 and 512102, sorbent injection operation and maintenance, are the result of on-going system operation and maintenance expenses at Ghent. The primary driver for the expenses charged to account 506109 is the purchase of consumable materials. Purchases and deliveries were higher in May, June and August.

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Ghent											
	Mar-09	Apr-09	% Change from Prior Period	May-09	% Change from Prior Period	Jun-09	% Change from Prior Period	Jul-09	% Change from Prior Period	Aug-09	% Change from Prior Period	
2001 Plan												
506104 NOx Operation - Consumables	169,648.90	180,659.59	6%	259,216.08	43%	109,640.92	-58%	143,221.78	31%	117,311.65	-18%	
506105 NOx Operation - Labor and Other	-	-	0%	-	0%	-	0%	-	0%	-	0%	
512101 NOx Maintenance	40,684.00	15,410.02	-62%	10,641.20	-31%	20,761.90	95%	28,687.18	38%	24,833.95	-13%	
Total 2001 Plan O&M Expenses	210,332.90	196,069.61	-7%	269,857.28	38%	130,402.82	-52%	171,908.96	32%	142,145.60	-17%	
2005 Plan												
502006 Scrubber Operations (See Note 1)	311,088.43	306,136.30	-2%	244,141.86	-20%	259,577.62	6%	194,297.89	-25%	272,676.32	40%	
512005 Scrubber Maintenance (See Note 1)	76,253.09	151,103.60	98%	103,930.42	-31%	55,893.99	-46%	97,372.34	74%	240,175.32	147%	
Total 2005 Plan O&M Expenses	387,341.52	457,239.90	18%	348,072.28	-24%	315,471.61	-9%	291,670.23	-8%	512,851.64	76%	
2006 Plan												
506109 Sorbent Injection Operation	552,262.38	585,218.53	6%	614,306.34	5%	722,678.06	18%	577,649.26	-20%	683,201.72	18%	
512102 Sorbent Injection Maintenance	13,010.31	11,163.01	-14%	8,016.93	-28%	16,368.30	104%	3,912.82	-76%	2,252.37	-42%	
506110 Mercury Monitors Operation	-	-	0%	-	0%	-	0%	-	0%	-	0%	
512103 Mercury Monitors Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%	
Total 2006 Plan O&M Expenses	565,272.69	596,381.54	6%	622,323.27	4%	739,046.36	19%	581,562.08	-21%	685,454.09	18%	

Note 1 The monthly totals for Accounts 502006 and 512005 include the amounts as shown on the ECR monthly filings and the prior period adjustment for those accounts included in the August 2009 monthly filing as Attachment 1.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 8, 2010**

Case No. 2009-00501

Question No. 6

Witness: Shannon L. Charnas

- Q-6. In Case No. 2000-00439, the Commission ordered that KU's cost of debt and preferred stock be reviewed and re-established during the six-month review case. Provide the following information as of August 31, 2009:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional 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 Kentucky jurisdictional bases.
 - c. KU'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, 2009, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of August 31, 2009, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. KU 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. 2008-00251.

Kentucky Utilities Company
Outstanding Balances - Capitalization
As of August 31, 2009

1	2	3
	Outstanding Balance Total Company	Outstanding Balance KY Jurisdictional 87.57%
1 Long-Term Debt	\$1,631,779,405	\$1,428,949,225
2 Short-Term Debt	\$11,877,954	\$10,401,524
3 Common Equity	\$1,877,028,428	\$1,643,713,794

Kentucky Utilities Company
Blended Interest Rates
As of August 31, 2009

	1
	Blended Interest Rate Total Company / KY Jurisdictional
	<hr/>
1 Long-Term Debt	4.70%
2 Short-Term Debt	0.30%

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2009

LONG-TERM DEBT									
	Due	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
					Amortized Debt Issuance Expense	Amortized Loss-Reacquired Debt	Letter of Credit and other fees		
Pollution Control Bonds									
Mercer Co 2000 Series A	05/01/23	0.40000% *	12,900,000	51,600	-	46,553	94,413 a	192,566	1.49
Carroll Co 2002 Series A	02/01/32	1.20000% *	20,930,000	251,160	4,104	36,300	20,930 b	312,494	1.49
Carroll Co 2002 Series B	02/01/32	1.20000% *	2,400,000	28,800	2,856	4,164	2,400 b	38,220	1.59
Muhlenberg Co 2002 Series A	02/01/32	1.20000% *	2,400,000	28,800	1,140	12,744	2,400 b	45,084	1.88
Mercer Co 2002 Series A	02/01/32	1.20000% *	7,400,000	88,800	3,180	12,900	7,400 b	112,280	1.52
Carroll Co 2002 Series C	10/01/32	0.31700% *	96,000,000	304,320	73,390	186,036	240,000 c	803,746	0.84
Carroll Co 2004 Series A	10/01/34	0.36000% *	50,000,000	180,000	-	104,920	409,041 d	693,961	1.39
Carroll Co 2006 Series B	10/01/34	0.45000% *	54,000,000	243,000	47,757	-	441,990 d	732,747	1.36
Carroll Co 2007 Series A	02/01/26	5.75000% *	17,875,000	1,027,813	33,166	-	-	1,060,979	5.94
Trimble Co 2007 Series A	03/01/37	6.00000% *	8,927,000	535,620	16,022	-	-	551,642	6.18
Carroll Co 2008 Series A	02/01/32	0.43000% *	77,947,405	335,174	34,089	-	636,669 d	1,005,932	1.29
Called Bonds			-	-	-	200,687 1	-	200,687	-
Total External Debt			350,779,405	3,075,087	215,704	604,304	1,855,243	5,750,338	0.35%
Notes Payable to Fidelity Corp	11/24/10	4.240%	33,000,000	1,399,200	-	-	-	1,399,200	4.24
Notes Payable to Fidelity Corp	01/16/12	4.390%	50,000,000	2,195,000	-	-	-	2,195,000	4.39
Notes Payable to Fidelity Corp	04/30/13	4.550%	100,000,000	4,550,000	-	-	-	4,550,000	4.55
Notes Payable to Fidelity Corp	08/15/13	5.310%	75,000,000	3,982,500	-	-	-	3,982,500	5.31
Notes Payable to Fidelity Corp	12/19/14	5.450%	100,000,000	5,450,000	-	-	-	5,450,000	5.45
Notes Payable to Fidelity Corp	07/08/15	4.735%	50,000,000	2,367,500	-	-	-	2,367,500	4.74
Notes Payable to Fidelity Corp	12/21/15	5.360%	75,000,000	4,020,000	-	-	-	4,020,000	5.36
Notes Payable to Fidelity Corp	10/25/16	5.675%	50,000,000	2,837,500	-	-	-	2,837,500	5.68
Notes Payable to Fidelity Corp	06/20/17	5.980%	50,000,000	2,990,000	-	-	-	2,990,000	5.98
Notes Payable to Fidelity Corp	07/25/18	6.160%	50,000,000	3,080,000	-	-	-	3,080,000	6.16
Notes Payable to Fidelity Corp	08/27/18	5.645%	50,000,000	2,822,500	-	-	-	2,822,500	5.65
Notes Payable to Fidelity Corp	12/17/18	7.035%	75,000,000	5,276,250	-	-	-	5,276,250	7.04
Notes Payable to Fidelity Corp	10/25/19	5.710%	70,000,000	3,997,000	-	-	-	3,997,000	5.71
Notes Payable to Fidelity Corp	02/07/22	5.690%	53,000,000	3,015,700	-	-	-	3,015,700	5.69
Notes Payable to Fidelity Corp	05/22/23	5.850%	75,000,000	4,387,500	-	-	-	4,387,500	5.85
Notes Payable to Fidelity Corp	09/14/26	5.960%	100,000,000	5,960,000	-	-	-	5,960,000	5.96
Notes Payable to Fidelity Corp	06/23/36	6.330%	50,000,000	3,165,000	-	-	-	3,165,000	6.33
Notes Payable to Fidelity Corp	03/30/37	5.860%	75,000,000	4,395,000	-	-	-	4,395,000	5.86
Notes Payable to Fidelity Corp	04/24/17	5.280%	50,000,000	2,640,000	-	-	-	2,640,000	5.28
Notes Payable to Fidelity Corp	07/29/19	4.810%	50,000,000	2,405,000	-	-	-	2,405,000	4.81
Total Internal Debt			1,281,000,000	70,935,650	-	-	-	70,935,650	4.35%
Total			1,631,779,405	74,010,737	215,704	604,304	1,855,243	76,685,988	4.70%

SHORT TERM DEBT								
	Rate	Principal	Annualized Cost				Embedded Cost	
			Interest	Expense	Loss	Premium		
Notes Payable to Associated Company	0.300% *	11,877,954	35,634	-	-	-	35,634	0.30%
Total		11,877,954	35,634	-	-	-	35,634	0.30%

Embedded Cost of Total Debt 1,643,657,359 74,046,371 215,704 604,304 1,855,243 76,721,622 **4.67%**

* Composite rate at end of current month

1 Series P and R bonds were redeemed in 2003, and 2005, respectively. They were not replaced with other bond series. The remaining unamortized expense is being amortized over the remainder of the original lives (due 5/15/07, 6/1/25, 6/1/35, and 6/1/36 respectively) of the bonds as loss on required debt

- a - Letter of credit fee = (principal bal + 45 days interest) * 70% Rate based on company credit rating Additional fee of \$250/month for drawdown
- b - Remarketing fee = 10 basis points
- c - Remarketing fee = 25 basis points
- d - Is a and b combined

Kentucky Utilities Company
 Outstanding Balances - Adjusted Jurisdictional Capitalization
 August 31, 2009

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	1,100,074,522	46.44%	4.70%	2.18%		2.18%
2 Short-Term Debt	7,993,729	0.34%	0.30%	0.00%		0.00%
3 Common Equity	1,260,906,746	53.22%	10.63%	5.66%	0.58	8.94%
4 Total	2,368,974,997			7.84%		11.12%

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
2009**

	2009 Federal & State Production Credit W/ 6% 2009 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	<u>5.6604</u>	(37)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.3396	(1) - (3)
(7)	6%	
(8) Less: Production tax credit	<u>5.6604</u>	(6) * (7)
(9)		
(10) Taxable income for Federal income tax	88.6792	(6) - (8)
(11)		
(12) Federal income tax	<u>31.0377</u>	(10) * 35%
(13)		
(14) Total State and Federal income taxes		
(15)	<u>\$ 36.6981</u>	(3) + (12)
(16)		
(17) Gross-up Revenue Factor	<u><u>63.3019</u></u>	100 - (15)
(18)		
(19) Therefore, the composite rate is:		
(20) Federal	31.0377%	(12) / 100
(21) State	<u>5.6604%</u>	(3) / 100
(22) Total	<u><u>36.6981%</u></u>	(20) + (21)
(23)		
(24)		
(25)		
(26)		
(27)		
(28) <u>State Income Tax Calculation</u>		
(29) Assume pre-tax income of	\$ 100.0000	
(30)		
(31) Less: Production tax credit	<u>5.6604</u>	(8)
(32)		
(33) Taxable income for State income tax	94.3396	(29) - (31)
(34)		
(35) State Tax Rate	<u>6.0000%</u>	
(36)		
(37) State Income Tax	<u><u>5.6604</u></u>	(33) * (35)