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Mr. Jeff DeRouen, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

**Louisville Gas and  
Electric Company**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
www.eon-us.com

**RECEIVED**

**APR 15 2010**

**PUBLIC SERVICE  
COMMISSION**

Lonnie E. Bellar  
Vice President  
T 502-627-4830  
F 502-217-2109  
lonnie.bellar@eon-us.com

April 15, 2010

**RE: *Application of Louisville Gas and Electric Company for an Adjustment  
of Its Electric and Gas Base Rates – Case No. 2009-00549***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Response of Louisville Gas and Electric Company to the Supplemental Data Request of The Kentucky Cable Telecommunications Association dated April 2, 2010, in the above-referenced matter.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Lonnie E. Bellar', written in a cursive style.

Lonnie E. Bellar

cc: Parties of Record

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>APPLICATION OF LOUISVILLE GAS AND</b>	)	<b>CASE NO.</b>
<b>ELECTRIC COMPANY FOR AN ADJUSTMENT</b>	)	<b>2009-00549</b>
<b>OF ITS ELECTRIC AND GAS BASE RATES</b>	)	

**RESPONSE OF**  
**LOUISVILLE GAS AND ELECTRIC COMPANY**  
**TO THE**  
**SUPPLEMENTAL DATA REQUEST OF**  
**THE KENTUCKY CABLE TELECOMMUNICATIONS ASSOCIATION**  
**DATED APRIL 2, 2010**

**FILED: April 15, 2010**

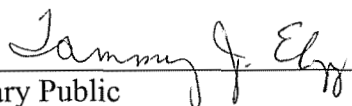
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Lonnie E. Bellar**, being duly sworn, deposes and says that he is Vice President, State Regulation and Rates for Louisville Gas and Electric Company and an employee of E.ON U.S. Services, Inc., and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

  
Lonnie E. Bellar

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14<sup>th</sup> day of April 2010.

 (SEAL)  
Notary Public

My Commission Expires:

November 9, 2010

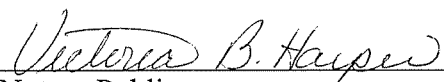
VERIFICATION

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

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14<sup>th</sup> day of April 2010.

  
Notary Public (SEAL)

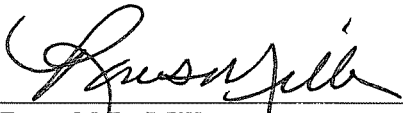
My Commission Expires:

Sept 20, 2010

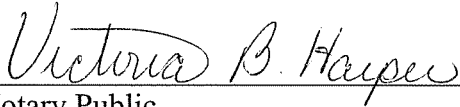
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Ronald L. Miller**, being duly sworn, deposes and says that he is Director – Corporate Tax for E.ON U.S. Services, Inc., and 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.

  
\_\_\_\_\_  
Ronald L. Miller

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14<sup>th</sup> day of April 2010.

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

My Commission Expires:

Sept 20, 2010

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **William Steven Seelye**, being duly sworn, deposes and states that he is a Principal and Senior Analyst with The Prime Group, LLC, and 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.

*W. Seelye*  
\_\_\_\_\_  
William Steven Seelye

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14<sup>th</sup> day of April 2010.

*Sammy J. Case* (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:  
November 9, 2010



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
The Kentucky Cable Telecommunications Association  
Dated April 2, 2010**

**Question No. 30**

**Responding Witness: Shannon L. Charnas/William Steven Seelye**

Q-30. You indicated in response to KCTA's initial data request No. 13 that the data in Seelye Exhibit 11 was obtained from the company's records as of November 30, 2009, not October 31, 2009.

- a. Please provide a new version of Seelye Exhibit 11, recalculated to reflect October 31, 2009 data.
- b. In response to initial data requests, you provided KCTA with data dated October 31, 2009, for LG&E Accounts 364, 365, 369, and 593. Please confirm that this data in fact reflects October 31, 2009 figures. Please provide the relevant additional data to the extent it does not reflect October 31, 2009 figures.

A-30. a. See attached CD in the folder titled Question No. 30.

- b. LG&E confirms that the data provided was as of October 31, 2009.





**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
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**Question No. 31**

**Responding Witness: William Steven Seelye**

- Q-31. Are the costs of minor appurtenances (as defined in KCTA initial data request No. 6) excluded from the LG&E pole-cost figures used in Seelye Exhibit 11? If they are excluded, please show your calculations deducting them from pole costs and/or demonstrate where the costs for such minor appurtenances are separately recorded in the continuing property records for Account 364 or other LG&E accounts.
- A-31. Yes, the costs of minor appurtenances are excluded. Minor appurtenance items are separately recorded in the Company's continuing property records and are not included in the pole-cost figures shown in Seelye Exhibit 8.



## LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2009-00549

**Response to Supplemental Data Request of  
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Dated April 2, 2010**

**Question No. 32**

**Responding Witness: William Steven Seelye**

- Q-32. Please explain (separately for each item) the basis for LG&E to have applied the “rate of return,” “depreciation-sinking fund,” and “income tax” components of its carrying charge (see Seelye Exhibit 11 page 2) to gross pole costs without netting those figures to reflect depreciation.
- A-32. Consistent with the principles of financial economics, a capital recovery factor must be applied to gross investment and not net investment. For example, see Richard Brealey and Stewart Myers, *Principles of Corporate Finance* (McGraw-Hill, 2007); Eugene F. Brigham, *Financial Management: Theory and Practice* (Harcourt Publishing, 2005); G. J. Thuesen and W. J. Fabrycky, *Engineering Economy*, 9th Edition (Prentice Hall, 2001). Calculating carrying charges by applying a capital recovery factor to net investment (gross less accumulated depreciation) rather than gross investment would result in charges that significantly under-recover carrying cost over the life of the property.

The capital recovery factor  $CRF$  is equal to the rate of return  $i$  plus the sinking fund depreciation factor  $S$ , as follows:

$$\begin{aligned} CRF &= i + S \\ &= i + \frac{i}{(1+i)^n - 1} \\ &= \frac{i(1+i)^n}{(1+i)^n - 1} \end{aligned}$$

To calculate an equal-payment series (or "annuity"), the capital recovery factor  $CRF$  must be multiplied by the original investment and not the net investment. This method is also used to calculate mortgage payments. In calculating a mortgage payment, for example,

the capital recovery factor is applied to the original investment and not recalculated periodically by applying the capital recovery to the depreciated investment.

Multiplying the rate of return  $i$  and the sinking fund depreciation factor  $S$  individually by the gross investment is therefore equivalent to multiplying the capital recovery factor by the gross investment, as follows:

$$\begin{aligned} CRF \times \text{Gross Investment} &= (i + S) \times \text{Gross Investment} \\ &= (i \times \text{Gross Investment}) + (S \times \text{Gross Investment}) \end{aligned}$$

Multiplying the income tax component is simply a gross-up of the return component for income taxes.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
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Dated April 2, 2010**

**Question No. 33**

**Responding Witness: Ronald L. Miller / William Steven Seelye**

- Q-33. Please explain why it is appropriate to use a “Composite Federal and State Income Taxes Rate” of 36.93% in calculating the carrying charge (see Seelye Exhibit 11 page 2) when LG&E elsewhere states that the company’s effective tax rate for 2009 was 33.1% (see LG&E Response to AG Question No. 48).
- A-33. As mentioned in the note to the response to AG 1-48 the effective tax rate for 2009 is a total company rate, it contains tax related items that are above the net operating income and below net operating income. The use of the effective tax rate is not appropriate in a revenue requirement calculation due to the below net operating income items.





**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
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Dated April 2, 2010**

**Question No. 34**

**Responding Witness: William Steven Seelye**

- Q-34. In response to KCTA initial data request No. 18, you described LG&E's 0.22% "Property Tax and Insurance" figure as a "conservative estimate." Please explain how that estimate is derived and provide the data necessary to derive it. Please explain why LG&E chose to use the estimate in calculating its attachment rate.
- A-34. The 0.22% figure represents a conservative estimate that the Company has historically used to reflect property taxes and insurance for distribution property. As stated in the response to KCTA 1-18, a more accurate estimate is 0.6104%, which would result in a higher charge than previously calculated in Seelye Exhibit 11.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
The Kentucky Cable Telecommunications Association  
Dated April 2, 2010**

**Question No. 35**

**Responding Witness: William Steven Seelye**

- Q-35. Please explain in detail how you derived the \$289,969 figure for “Labor Charged to 59[3]” at the top of page 3 of Seelye Exhibit 11. Is this the figure produced by calculating the sum of all entries denominated “Labor Cost” in the “GL Journal Name” column of Account 593001? If not, please explain how “Labor” costs were isolated and provide all back up materials and documentation.
- A-35. LG&E assumes the KCTA is referring to the electronic spreadsheet provided in response to KCTA 1-20. The column labeled “GL Journal Name” in that spreadsheet cannot be summed for labor and burden line items to derive the \$289,969 figure. The Company ran a more detailed query on account 593001 that sums labor and burden costs by the appropriate expenditure type to derive the \$289,969 figure. See attached CD in the folder titled Question No. 35.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
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Dated April 2, 2010**

**Question No. 36**

**Responding Witness: William Steven Seelye**

Q-36. Does the \$289,969 figure for "Labor Charged to 59[3]" (at the top of page 3 of Seelye Exhibit 11) include costs only for labor booked in Account 593001, or does it include costs for labor booked in other subaccounts of Account 593?

A-36. Yes. See response to Question 35.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
The Kentucky Cable Telecommunications Association  
Dated April 2, 2010**

**Question No. 37**

**Responding Witness: William Steven Seelye**

- Q-37. Please explain in detail how you derived the \$225,900 figure for “Tree Trimming” included under the labor costs listed at the top of page 3 of Seelye Exhibit 11. Is this the figure produced by calculating the sum of all entries denominated “LABOR” in the “Description” column of Account 593004? If not, please explain how the figure was derived and provide all back up materials and documentation.
- A-37. LG&E assumes the KCTA is referring to the electronic spreadsheet provided in response to KCTA 1-20. The column labeled “Description” in that spreadsheet cannot be summed for labor and burden line items to derive the \$225,900 figure. The Company ran a more detailed query on account 593004 that sums labor and burden costs by the appropriate expenditure type to derive the \$225,900 figure. See attached CD in the folder titled Question No. 37.





**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
The Kentucky Cable Telecommunications Association  
Dated April 2, 2010**

**Question No. 38**

**Responding Witness: William Steven Seelye**

- Q-38. Please explain in detail how you derived the \$4,775,583 figure for “Tree Trimming of Electric Distribution Routes 593004,” at the bottom of page 3 of Seelye Exhibit 11, given that Account 593004 showed a total balance of \$2,377,088.82 as of October 31, 2009. Please show all calculations.
- A-38. The \$4,775,583 figure represents total charges to account 593004 during the test year for tree trimming, without adjustment for storm restoration expenses included in LG&E’s regulatory asset.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
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Dated April 2, 2010**

**Question No. 39**

**Responding Witness: Lonnie E. Bellar / William Steven Seelye**

Q-39. Please explain whether and how the number of two-party and three-party poles have been updated since the 2002 attachment audit.

A-39. The attachment counts are updated continuously as new attachments are requested and notifications of removals are received.



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**CASE NO. 2009-00549**

**Response to Supplemental Data Request of  
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Dated April 2, 2010**

**Question No. 40**

**Responding Witness: William Steven Seelye**

- Q-40. Generally, please provide all data and backup documentation required to derive all figures discussed by you in your responses to these supplemental requests. Please provide all data in manipulable electronic form, such as Microsoft Excel spreadsheets.
- A-40. Please see response to KPSC 2-125. See also the responses to Question Nos. 30, 35 and 37.