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PUBLIC SERVICE
COMMISSION

Mr. 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
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Robert M. Conroy
Director – Rates
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August 4, 2010

**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 APRIL 30, 2010
CASE NO. 2010-00242***

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 July 13, 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 LOUISVILLE GAS) CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH) 2010-00242
BILLING PERIOD ENDING APRIL 30, 2010)

DIRECT TESTIMONY OF

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

Filed: August 4, 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 cases, fuel adjustment clauses, and environmental
10 cost recovery (“ECR”) 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 April 30, 2010
14 (expense months of September 2009 through February 2010) and determine whether
15 the surcharge amounts collected during the period are just and 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.

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

3 A. LG&E billed an environmental surcharge to its customers from November 1, 2009
4 through April 30, 2010. For purposes of the Commission's examination in this case,
5 the monthly LG&E environmental surcharges are considered as of the six-month
6 billing period ending April 30, 2010. In each month of the period, LG&E calculated
7 the environmental surcharge factors by using the costs incurred as recorded on its
8 books and records for the expense months of September 2009 through February 2010
9 and in accordance with the requirements of the Commission's previous orders
10 concerning LG&E's environmental surcharge.

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

13 A. The capital and operating costs included in the calculation of the environmental
14 surcharge factors for the billing period were the costs incurred each month by LG&E
15 from September 2009 through February 2010, as detailed in the attachment in
16 response to Question No. 2 of the Commission Staff's Request for Information,
17 incorporating all required revisions.

18 The monthly environmental surcharge factors applied during the billing period
19 under review were calculated consistent with the Commission's orders in LG&E's
20 previous applications to assess or amend its environmental surcharge mechanism and
21 plan, as well as orders issued in previous review cases. The monthly environmental
22 surcharge reports filed with the Commission during this time reflect the various
23 changes to the reporting forms ordered by the Commission from time to time.

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

3 A. Yes. In Case No. 2009-00311, LG&E's most recent ECR two-year review, the
4 Commission approved changes to the environmental surcharge mechanism that
5 include the calculation of the monthly billing factor using a revenue requirement
6 method instead of a percentage method (eliminating the use of the Base
7 Environmental Surcharge Factor ("BESF")), the elimination of the monthly true-up
8 adjustment, and revisions to the monthly reporting forms to reflect the approved
9 changes. Pursuant to the Commission's December 2, 2009 Order in that case, the
10 changes were implemented with the December 2009 expense month that was billed in
11 February 2010. The approved changes only impact the timing and accuracy of the
12 revenue collection, not the total revenues LG&E is allowed to collect through the
13 ECR. This six-month review covers three expense months (September 2009, October
14 2009 and November 2009) which were calculated under the previous percentage
15 method and three expense months (December 2009, January 2010 and February
16 2010) under the new revenue requirement method.

17 **Q. What is the primary difference between the previous percentage method using a**
18 **BESF and the new revenue requirement method?**

19 A. As explained in detail during past review proceedings and informal conferences, the
20 primary difference is the utilization of actual ECR revenues collected through base
21 rates in the expense month instead of estimated ECR revenues collected through base
22 rates in the billing month (two months later). Under the previous percentage method,
23 the monthly ECR revenue requirement was recovered in the billing month two

1 months after the expense month through a component in base rates (using BESF as an
2 estimate) and through a billing factor. Under the current revenue requirement
3 method, the monthly ECR revenue requirement is recovered in the expense month
4 through a component in base rates (using actual revenues) and in the billing month
5 two months after the expense month through a billing factor. The change in
6 methodology allows for more timely and accurate recovery of expenses associated
7 with approved ECR projects.

8 **Q. Does the change in method discussed above result in a transition period during**
9 **this review proceeding?**

10 A. Yes. The transition period includes the expense months of December 2009 and
11 January 2010. Under the new revenue requirement method, the monthly ECR filings
12 for the December 2009 and January 2010 expense months consider the ECR revenues
13 collected through base rates in those two months when determining the billing factor
14 for the billing months of February 2010 and March 2010, respectively. However,
15 under the previous percentage method, those same ECR revenues collected through
16 base rates in the months of December 2009 and January 2010 were also considered in
17 the monthly ECR filings for the expense months of October 2009 and November
18 2009, respectively, to determine the ECR billing factor. Therefore, the ECR revenue
19 collected through base rates for the months of December 2009 and January 2010 were
20 considered twice in determining the ECR billing factors but only received once by
21 LG&E. The impact of this transition period on the recovery position in this review
22 proceeding is further discussed below.

1 **Q. Has the Commission recently approved changes to LG&E's ECR Compliance**
2 **Plan?**

3 A. Yes. In Case No. 2009-00198, the Commission approved LG&E's 2009 ECR
4 Compliance Plan that included four new projects and associated operation and
5 maintenance costs and amended the 2006 Plan to include operation and maintenance
6 costs associated with the Air Quality Control System equipment for Trimble County
7 Unit 2 (Project 18). Pursuant to the Commission's December 23, 2009 Order, LG&E
8 began including the approved projects in the monthly filing for the December 2009
9 expense month that was billed in February 2010.

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

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

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

19 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
20 Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of
21 return on capitalization that is used in the determination of the return on
22 environmental rate base. The changes in the actual cost of long term debt and capital
23 structure result in an increase to cumulative E(m) of \$146,360. The details of and

1 support for this calculation are shown in LG&E's response to Question No. 1 of the
2 Commission Staff's Request for Information.

3 **Q. With the change in method discussed above, how did LG&E determine the**
4 **cumulative total over/(under) recovery position for the period under review?**

5 A. In determining the cumulative total over/(under) recovery position shown in LG&E's
6 response to Question No. 2 of the Commission Staff's Request for Information, the
7 calculations for the three expense months of September 2009, October 2009 and
8 November 2009 (corresponding to the billing months of November 2009, December
9 2009 and January 2010) are consistent with those contained in prior review
10 proceedings. For each of the expense months, Retail E(m) (allowed ECR revenue
11 requirement) contained in Column 4 of page 2 of 3 was compared to the ECR revenue
12 collected in the corresponding billing month contained in Column 12 (base rate
13 revenues) and Column 13 (ECR billing factor revenue) to determine the over/(under)
14 recovery position in Column 14.

15 Under the new revenue requirement method, the comparison of the Retail
16 E(m) (allowed ECR revenue requirement) to the revenues received changes.
17 Beginning with the expense month of December 2009 through February 2010, Retail
18 E(m) contained in Column 4 is compared to the ECR revenue collected in the expense
19 month contained in Column 10 (base rate revenues) and the ECR revenue collected in
20 the corresponding billing month contained in Column 13 (ECR billing factor revenue)
21 to determine the over/(under) recovery position in Column 14. As previously
22 discussed, for the transition period (the December 2009 and January 2010 expense
23 months), the amount in Column 10 for the base rate revenues is zero since it was

1 already included as revenue in Column 12 of the October 2009 and November 2009
2 expense months.

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

5 A. Yes. LG&E experienced a cumulative under-recovery of \$5,714,763 for the billing
6 period ending April 30, 2010. LG&E's response to Question No. 2 of the
7 Commission Staff's Request for Information shows the calculation of the \$5,714,763
8 cumulative under-recovery. However, LG&E is adjusting this under-recovery
9 position for a correction made outside of the review period in this proceeding that
10 affected the February 2010 expense month. A \$941,134 prior period adjustment was
11 included in the April 2010 expense month filing submitted to the Commission on
12 May 17, 2010. The net under-recovery position which LG&E is requesting in this
13 proceeding is \$4,773,629. Therefore, an adjustment to the revenue requirement is
14 necessary to reconcile the collection of past surcharge revenues with actual costs for
15 the billing period under review.

16 **Q. Why is LG&E making the adjustment discussed above to the recovery position**
17 **contained in this review period?**

18 A. In the April 2010 expense month filing submitted to the Commission on May 17,
19 2010, LG&E identified an error in the amount of ECR revenue collected through base
20 rates for the February 2010 expense month filing that resulted in an under-collection
21 for February 2010 expenses. The February 2010 expense month filing included
22 \$3,581,611 as the amount collected through base rates; however, the correct amount
23 is \$2,640,477 as shown in Column 10, page 2 of 3 of LG&E's response to Question

1 No. 2 of the Commission Staff's Request for Information. This overstatement
2 resulted in an under-collection of \$ 941,134 through the April 2010 ECR billing
3 factor. This under-collection was included in the April 2010 expense month filing
4 and recovered through the June 2010 billing factor. Therefore, LG&E is adjusting
5 this out of the cumulative over/(under) recovery position for this review proceeding.

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

8 A. Yes. Consistent with the issues discussed in the past several review proceedings,
9 LG&E has identified four components that make up the net under-recovery during the
10 billing period under review. The components are (1) changes in overall rate of return,
11 (2) the difference between the calculation of BESF in the review case and application
12 of BESF in the monthly filings beginning with the March 2008 expense month, (3)
13 the use of the BESF percentage in determining the amount collected in base rates, and
14 (4) the use of 12 month average revenues to determine the billing factor. In addition,
15 as discussed above, LG&E has identified two additional components contributing to
16 the under-recovery position in this period. The first is the "transition period"
17 resulting from the change in methodology and the second is the error contained in the
18 February 2010 expense month filing that was identified in April 2010. The details
19 and support of the components that make up the net under-recovery during the billing
20 period under review are shown in LG&E's response to Question No. 2 of the
21 Commission Staff's Request for Information. The table below summarizes the
22 components of the under-recovery position.

23

1

OVER/UNDER RECONCILIATION		
Combined Over/Under Recovery		(5,714,763)
Due to BESF Calculation Differences	(262,553)	
Due to use of BESF %	(344,185)	
Due to Change in ROR	(146,360)	
Use of 12-Month Average Revenues	62,884	
Due to Feb10 Expense Mo. Correction	(941,134)	
Transition Months	<u>(4,083,414)</u>	
Subtotal		<u>(5,714,763)</u>
Unreconciled Difference		-

2

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

4 A. As previously stated, the cumulative impact of the revised rate of return resulted in an
5 increase to the jurisdictional revenue requirement and an under-recovery of \$146,360.

6 **Q. Please explain the components related to the BESF.**

7 A. The use of the BESF only affects the first three months of the review period. As
8 discussed in prior review proceedings, one component is the result of a difference
9 between the calculation of the BESF in the previous 2-year review case and the
10 application of the BESF in the monthly filings. This component contributed to the
11 under-recovery in the amount of \$262,553. In addition, use of the BESF percentage
12 to estimate the amount collected through base rates resulted in an under-recovery of
13 \$344,185.

1 **Q. Please explain how the function of the ECR mechanism contributes to the net**
2 **under-recovery in the billing period under review?**

3 A. The use of 12-month average revenues to calculate the monthly billing factor and
4 then applying that same billing factor to the actual monthly revenues will result in an
5 over or under-collection of ECR revenues. Typically it will result in an over-
6 collection during the summer or winter months when actual revenues will generally
7 be greater than the 12-month average and an under-collection during the shoulder
8 months when actual revenues will generally be less than the 12-month average. In
9 the billing period under review, the use of 12-month average revenues resulted in an
10 over-recovery of \$62,884.

11 During the period under review, LG&E's actual revenues did not significantly
12 vary from the 12-month historical average. The table below shows a comparison of
13 the 12-month average revenues used in the monthly filings to determine the ECR
14 billing factor and the actual revenues which the ECR billing factor was applied in the
15 billing month.

Expense Month	12-month Average Revenue	Billing Month	Actual Revenue ECR applied to
September 2009	\$63,427,590	November 2009	\$50,146,971
October 2009	\$63,384,159	December 2009	\$57,140,552
November 2009	\$62,919,904	January 2010	\$67,468,632
December 2009	\$62,728,525	February 2010	\$63,628,594
January 2010	\$62,962,163	March 2010	\$62,521,754
February 2010	\$63,063,357	April 2010	\$56,355,072

16

17 **Q. What is the amount of the recovery position related to the two additional**
18 **components discussed above?**

1 A. As shown in the summary table above and on page 3 of LG&E's response to
2 Question No. 2 of the Commission Staff's Request for Information, the under-
3 recovery from the transition period was \$4,083,414 and as previously discussed, the
4 error in the February 2010 expense month resulted in an under-recovery of \$941,134.

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

7 A. LG&E is proposing that the net under-recovery position of \$4,773,629 be recovered
8 over the six months following the Commission's Order in this proceeding.
9 Specifically, LG&E recommends that the Commission approve an increase to the
10 Environmental Surcharge Revenue Requirement of \$795,605 per month for the first
11 five months and \$795,604 per month for the following one month, beginning in the
12 second full billing month following the Commission's Order in this proceeding. This
13 method is consistent with the method of implementing previous over- or under-
14 recovery positions in prior ECR review cases.

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

17 A. LG&E is proposing to collect the under-recovery of \$4,773,629 in a six month period.
18 The inclusion of \$795,605 per month in the determination of the ECR billing factor
19 will increase the billing factor by approximately 1.23%. For a residential customer
20 using 1,000 kWh the ECR billing factor will increase by approximately \$0.95 per
21 month for six months (using rates and adjustment clause factors in effect for the
22 August 2010 billing month).

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 11.18%, 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 February
6 28, 2010 and the Commission's Order of July 30, 2010 in Case No. 2009-00549.

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

8 A. LG&E makes the following recommendations to the Commission in this case:

9 a) The Commission should approve the proposed increase to the Environmental
10 Surcharge Revenue Requirement of \$795,605 per month for the first five
11 months and \$795,604 per month for the following one month beginning in the
12 second full billing month following the Commission's Order in this
13 proceeding;

14 b) The Commission should determine environmental surcharge amount for the
15 six-month billing period ending April 30, 2010 to be just and reasonable;

16 c) The Commission should approve the use of an overall rate of return on capital
17 of 11.18% using a return on equity of 10.63% beginning in the second full
18 billing month following the Commission's Order in this proceeding.

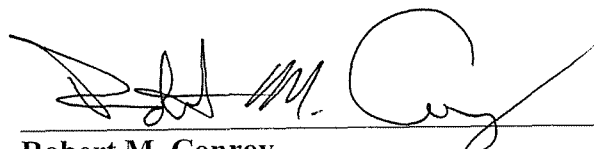
19 **Q. Does this conclude your testimony?**

20 A. Yes.

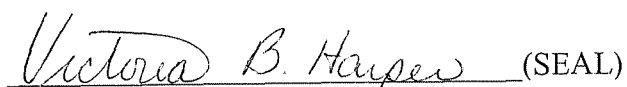
VERIFICATION

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 29th day of July 2010.


Notary Public (SEAL)

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 LOUISVILLE GAS)	CASE NO.
AND ELECTRIC COMPANY FOR THE SIX-MONTH)	2010-00242
BILLING PERIOD ENDING APRIL 30, 2010)	

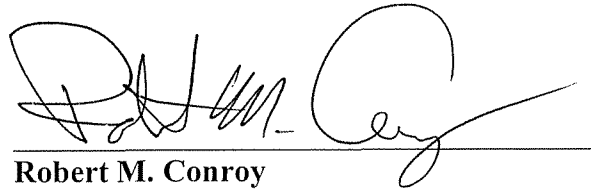
RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED JULY 13, 2010

FILED: August 4, 2010

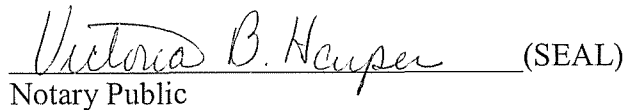
VERIFICATION

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 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 29th day of July 2010.

 (SEAL)
Notary Public

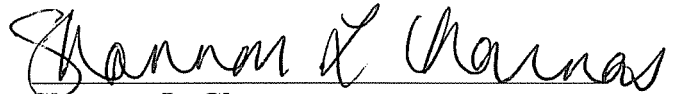
My Commission Expires:

Sept 20, 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 3rd day of August 2010.


Victoria B. Harper (SEAL)
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 July 13, 2010**

Case No. 2010-00242

Question No. 1

Witness: Robert M. Conroy / Shannon L. Charnas

Q-1. Concerning the rate of return on the five amendments to the environmental compliance plan, for the period under review, 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 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.

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)

(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)
Nov-09	Sep-09	10.82%	\$240,832,072	\$240,832,072	\$ -	\$ -	89.48%	\$ -
Dec-09	Oct-09	10.82%	240,117,179	240,117,179	-	-	86.71%	-
Jan-10	Nov-09	10.82%	239,518,331	239,518,331	-	-	83.79%	-
Feb-10	Dec-09	11.18%	241,367,963	241,367,963	-	-	84.48%	-
Mar-10	Jan-10	11.18%	240,780,684	240,780,684	-	-	86.20%	-
Apr-10	Feb-10	11.18%	240,159,906	240,159,906	-	-	80.32%	-
						\$ -		\$ -
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)

(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	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
Nov-09	Sep-09	10.82%	11.14%	0.32%	\$ 240,832,072	64,222	89.48%	57,466
Dec-09	Oct-09	10.82%	11.14%	0.32%	240,117,179	64,031	86.71%	55,521
Jan-10	Nov-09	10.82%	11.14%	0.32%	239,518,331	63,872	83.79%	53,518
Feb-10	Dec-09	11.18%	11.14%	-0.04%	241,367,963	(8,046)	84.48%	(6,797)
Mar-10	Jan-10	11.18%	11.14%	-0.04%	240,780,684	(8,026)	86.20%	(6,918)
Apr-10	Feb-10	11.18%	11.14%	-0.04%	240,159,906	(8,005)	80.32%	(6,430)
						168,048		146,360
Cumulative Impact of Changes in Rate of Return						\$ 168,048		\$ 146,360

LOUISVILLE GAS AND ELECTRIC COMPANY

**Adjusted Electric Rate of Return on Common Equity
As of April 30, 2010**

	Per Books 04-30-10 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 17) (5)	Adjusted Electric Capitalization (Col 4 - Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
ELECTRIC									
1. Short Term Debt	\$ 133,491,400	5.85%	79.540%	\$ 106,179,060	\$ 2,621,017	\$ 108,800,077	5.85%	0.21%	0.01%
2. Long Term Debt	896,104,000	39.24%	79.540%	712,761,122	17,580,976	730,342,098	39.24%	5.24%	2.06%
3. Common Equity	1,253,948,853	54.91%	79.540%	997,390,918	24,601,717	1,021,992,635	54.91%	10.63%	5.84%
4. Total Capitalization	<u>\$ 2,283,544,253</u>	<u>100.000%</u>		<u>\$ 1,816,331,100</u>	<u>\$ 44,803,710</u>	<u>\$ 1,861,134,810</u>	<u>100.000%</u>		<u>7.91%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])									<u>11.14%</u>

	Capitalization (Col 4) (10)	Capital Structure (11)	Trimble County Inventories (a) (Col 11 x Col 12 Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13 Line 4) (13)	JDIC (Col 11 x Col 14 Line 4) (14)	Environmental Surcharge (Net of ECR Roll-in) (Col 11 x Col 15 Line 4) (15)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 16 Line 4) (16)	Total Adjustments To Capital (17)
ELECTRIC								
1. Short Term Debt	\$ 106,179,060	5.85%	\$ (250,134)	\$ (35,461)	\$ 1,325,283	\$ 191,954	\$ 1,389,375	\$ 2,621,017
2. Long Term Debt	712,761,122	39.24%	(1,677,825)	(237,859)	8,889,594	1,287,566	9,319,500	17,580,976
3. Common Equity	997,390,918	54.91%	(2,347,844)	(332,845)	12,439,541	1,801,740	13,041,125	24,601,717
4. Total Capitalization	<u>\$ 1,816,331,100</u>	<u>100.000%</u>	<u>\$ (4,275,803)</u>	<u>\$ (606,165)</u>	<u>\$ 22,654,418</u>	<u>\$ 3,281,260</u>	<u>\$ 23,750,000</u>	<u>\$ 44,803,710</u>

	As of April 30, 2010
(a) Trimble County Inventories	
Materials and Supplies	\$ 4,626,283
Stores Expense	742,638
Coal	11,006,104
Limestone	319,494
Fuel Oil	407,540
Emission Allowances	1,154
Total Trimble County Inventories	<u>\$ 17,103,213</u>
Multipled by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	<u>\$ 4,275,803</u>

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

Case No. 2010-00242

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 two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included in 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 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.

In Case No. 2009-00311, LG&E's most recent ECR two-year review, the Commission approved changes to the environmental surcharge mechanism that include the calculation of the monthly billing factor using a revenue requirement method instead of a percentage method (eliminating the use of BESF), the elimination of the monthly true-up adjustment, and revisions to the monthly reporting forms to reflect the approved changes. Pursuant to the Commission's December 2, 2009 Order, the changes were implemented with the December 2009 expense month that was billed in February 2010.

In determining the cumulative total over/(under) recovery position, the calculations for the three expense months of September 2009, October 2009 and November 2009 (corresponding to the billing months of November 2009, December 2009 and January 2010) are consistent with those contained in prior review proceedings. For each of the expense months, Retail E(m) contained in Column 4 of page 2 of 3 was compared to the ECR revenue collected in the corresponding billing month contained in Column 12 (base rate revenues) and Column 13 (ECR billing factor revenue) to determine the over/(under) recovery position in Column 14.

Under the new revenue requirement method, the comparison of the Retail E(m) (allowed ECR revenue requirement) to the revenues received changes. Beginning with the expense month of December 2009 through February 2010, Retail E(m) contained in Column 4 is compared to the ECR revenue collected in the expense month contained in Column 10 (base rate revenues) and the ECR revenue collected in the corresponding billing month contained in Column 13 (ECR billing factor revenue) to determine the over/(under) recovery position in Column 14. For the transition period (the December 2009 and January 2010 expense months), the amount in Column 10 for the base rate revenues is zero since it was already included as revenue in Column 12 of the October 2009 and November 2009 expense months.

The approved changes only impact the timing and accuracy of the revenue collection, not the total revenues LG&E is allowed to collect through the ECR as a result of the changes.

For the period under review, LG&E experiences a cumulative under-recovery of \$5,714,763. However LG&E is adjusting this under-recovery position for a correction made outside of the review period that affected the February 2010 expense month as shown on page 2 of 3 on the attached schedule. The original February 2010 expense month filing included an overstatement of the ECR revenue collected through base rates, resulting in an under-recovery of \$941,134. The adjustment to correct the overstatement was shown as a prior period adjustment in the April 2010 expense month filing and was recovered through the June 2010 billing factor. Since the two months at issue are in different six-month periods, LG&E included the adjustment in this review period to avoid compounding the over/under recovery for its customers. The result is a net under-recovery of \$4,773,629 for the 6-month billing period under review.

(1) Expense Month	(2) Rate Base as Revised ES Form 2.00	(3) Monthly Rate Base as Revised	(4) Rate of Return as Revised	(5) Operating Expenses (net of allowance proceeds) 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
Sep-09	240,832,072	20,069,339	11.14%	1,423,993	3,659,717	89.48%	3,274,715	
Oct-09	240,117,179	20,009,765	11.14%	1,197,085	3,426,173	86.71%	2,970,834	
Nov-09	239,518,331	19,959,861	11.14%	1,195,923	3,419,452	83.79%	2,865,158	
Dec-09	241,367,963	20,113,997	11.14%	1,440,857	3,681,556	84.48%	3,110,179	
Jan-10	240,780,684	20,065,057	11.14%	1,268,328	3,503,575	86.20%	3,020,082	
Feb-10	240,159,906	20,013,326	11.14%	1,301,288	3,530,772	80.32%	2,835,916	
	1,442,776,135							

Louisville Gas & Electric Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months September 2009 through February 2010

(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) Impact of change in Rate of Return (5) * (6) / 12	(8) Jurisdictional Allocation ES Form 1 00	(9) Jurisdictional Impact (7) * (8)
Nov-09	Sep-09	10 82%	11 14%	0 32%	\$240,832,072	(64,222)	89 48%	(57,466)
Dec-09	Oct-09	10 82%	11 14%	0 32%	240,117,179	(64,031)	86 71%	(55,521)
Jan-10	Nov-09	10 82%	11 14%	0 32%	239,518,331	(63,872)	83 79%	(53,518)
Feb-10	Dec-09	11 18%	11 14%	-0 04%	241,367,963	8,046	84 48%	6,797
Mar-10	Jan-10	11 18%	11 14%	-0 04%	240,787,381	8,026	86 20%	6,919
Apr-10	Feb-10	11 18%	11 14%	-0 04%	240,159,906	8,005	80 32%	6,430
Cumulative Impact of Changes in Rate of Return						\$ (168,048)		\$ (146,360)

(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 12)	(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)
Nov-09	Sep-09	50,029,237	1,811,058	1,646,138	3 62%	3 47%	1,736,015	(75,043)	(89,877)
Dec-09	Oct-09	58,143,434	2,104,792	1,869,544	3 62%	3 47%	2,017,577	(87,215)	(148,033)
Jan-10	Nov-09	66,862,994	2,420,440	2,213,870	3 62%	3 47%	2,320,146	(100,294)	(106,276)
Feb-10	Dec-09	-	-	-	-	-	-	-	-
Mar-10	Jan-10	-	-	-	-	-	-	-	-
Apr-10	Feb-10	-	-	-	-	-	-	-	-
		175,035,666	6,336,291	5,729,553			6,073,738	(262,553)	(344,185)
		Actual Base Rate Collections	5,729,553				Actual Base Rate Collections	5,729,553	(344,185)
			(606,738)						

(1) Billing Month	(2) Expense Month	(3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 14)	(4) ROR Trueup	(5) BESF Calculation Differences	(6) Use of BESF %	(7) Use of 12 Month Average Revenues	(8) Correction to Feb10 Expense Month Filing	(9) Transition Months - ECR Rev collected through Base Rates
Nov-09	Sep-09	(1,070,098)	(57,466)	(75,043)	(89,877)	(847,712)		
Dec-09	Oct-09	(351,863)	(55,521)	(87,215)	(148,033)	(61,094)		
Jan-10	Nov-09	655,101	(53,518)	(100,294)	(106,276)	915,189		
Feb-10	Dec-09	(1,848,124)	6,797	-	-	14,624		(1,869,544)
Mar-10	Jan-10	(2,161,660)	6,919	-	-	45,291		(2,213,870)
Apr-10	Feb-10	(938,118)	6,430	-	-	(3,414)	(941,134)	
		(5,714,763)	(146,360)	(262,553)	(344,185)	62,884	(941,134)	(4,083,414)
Feb10 Expense Mo Correction		941,134						
Net Over/(Under) Recovery		(4,773,629)						

OVER/UNDER RECONCILIATION	
Combined Over/(Under) Recovery	(5,714,763)
Due to BESF Calculation Differences	(262,553)
Due to use of BESF %	(344,185)
Due to Change in ROR	(146,360)
Use of 12 Month Average Revenues	62,884
Due to Feb10 Expense Mo Correction	(941,134)
Transition Months - ECR Revenue in Base Rates	(4,083,414)
Subtotal	(5,714,763)
Unreconciled Difference	-

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

Case No. 2010-00242

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 each 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
Environmental Compliance Plans, by Approved Project**

2001 Plan

Project 6 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
							13,303,264	
Sep-09	192,860,844	617,234	843,207	225,973	38.9000%	87,903	13,391,167	1,053,265
Oct-09	192,860,844	617,234	843,207	225,973	38.9000%	87,903	13,479,070	1,053,265
Nov-09	192,860,844	617,234	843,207	225,973	38.9000%	87,903	13,566,973	1,053,265
Dec-09	192,860,844	617,234	843,207	225,973	38.9000%	87,903	13,654,876	1,053,265
Jan-10	192,860,844	617,234	788,995	171,761	38.9000%	66,815	13,721,691	1,053,265
Feb-10	192,860,844	617,234	788,995	171,761	38.9000%	66,815	13,788,507	1,053,265

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							990,600	
Sep-09	30,861,686	103,474	131,889	28,415	38.9000%	11,053	1,001,653	516,073
Oct-09	30,861,686	103,474	131,889	28,415	38.9000%	11,053	1,012,706	516,073
Nov-09	30,861,686	103,474	131,889	28,415	38.9000%	11,053	1,023,759	516,073
Dec-09	30,861,686	103,474	131,889	28,415	38.9000%	11,053	1,034,812	516,073
Jan-10	30,861,686	103,474	121,988	18,514	38.9000%	7,202	1,042,014	516,073
Feb-10	30,861,686	103,474	121,988	18,514	38.9000%	7,202	1,049,218	516,073

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							940,181	
Sep-09	11,929,133	47,792	48,724	932	38.9000%	363	940,544	275,252
Oct-09	11,929,133	47,792	48,724	932	38.9000%	363	940,907	275,252
Nov-09	11,929,133	47,792	48,724	932	38.9000%	363	941,270	275,252
Dec-09	11,929,133	47,792	48,724	932	38.9000%	363	941,633	275,252
Jan-10	11,929,133	47,792	46,609	(1,183)	38.9000%	(460)	941,173	275,252
Feb-10	11,929,133	47,792	46,609	(1,183)	38.9000%	(460)	940,713	275,252

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							26,964	
Sep-09	1,197,310	3,702	4,877	1,175	38.9000%	457	27,421	4,716
Oct-09	1,197,310	3,702	4,877	1,175	38.9000%	457	27,878	4,716
Nov-09	1,197,310	3,702	4,877	1,175	38.9000%	457	28,335	4,716
Dec-09	1,197,310	3,702	4,877	1,175	38.9000%	457	28,792	4,716
Jan-10	1,197,310	3,702	4,517	815	38.9000%	317	29,109	4,716
Feb-10	1,197,310	3,702	4,517	815	38.9000%	317	29,424	4,716

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							74,528	
Sep-09	2,734,620	8,614	10,168	1,554	38.9000%	605	75,133	-
Oct-09	2,734,620	8,614	10,168	1,554	38.9000%	605	75,738	-
Nov-09	2,734,620	8,614	10,168	1,554	38.9000%	605	76,343	-
Dec-09	2,734,620	8,614	10,168	1,554	38.9000%	605	76,948	-
Jan-10	2,734,620	8,614	10,162	1,548	38.9000%	602	77,550	-
Feb-10	2,734,620	8,614	10,162	1,548	38.9000%	602	78,153	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							140,289	
Sep-09	2,282,981	6,158	10,868	4,710	38.9000%	1,832	142,121	22,369
Oct-09	2,282,981	6,158	10,868	4,710	38.9000%	1,832	143,953	22,369
Nov-09	2,282,981	6,158	10,868	4,710	38.9000%	1,832	145,785	22,369
Dec-09	4,607,107	7,949	98,029	90,080	38.9000%	35,041	180,826	22,369
Jan-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	186,387	22,369
Feb-10	4,607,107	9,741	24,037	14,296	38.9000%	5,561	191,948	22,369

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							160,329	
Sep-09	2,988,137	5,304	15,658	10,354	38.9000%	4,028	164,357	-
Oct-09	2,988,137	5,304	15,658	10,354	38.9000%	4,028	168,385	-
Nov-09	2,988,137	5,304	15,658	10,354	38.9000%	4,028	172,413	-
Dec-09	4,730,568	6,850	81,002	74,152	38.9000%	28,845	201,258	536
Jan-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	207,703	536
Feb-10	4,730,568	8,397	24,966	16,569	38.9000%	6,445	214,148	536

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							50,498	
Sep-09	850,100	2,564	8,029	5,465	38.9000%	2,126	52,624	73,550
Oct-09	850,100	2,564	8,029	5,465	38.9000%	2,126	54,750	73,550
Nov-09	850,100	2,564	8,029	5,465	38.9000%	2,126	56,876	73,550
Dec-09	850,100	2,564	8,029	5,465	38.9000%	2,126	59,002	73,550
Jan-10	850,100	2,564	7,834	5,270	38.9000%	2,050	61,052	73,550
Feb-10	850,100	2,564	7,834	5,270	38.9000%	2,050	63,104	73,550

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							15,804	
Sep-09	308,507	1,147	1,700	553	38.9000%	215	16,019	9,075
Oct-09	308,507	1,147	1,700	553	38.9000%	215	16,234	9,075
Nov-09	308,507	1,147	1,700	553	38.9000%	215	16,449	9,075
Dec-09	308,507	1,147	1,700	553	38.9000%	215	16,664	9,075
Jan-10	308,507	1,147	1,587	440	38.9000%	171	16,835	9,075
Feb-10	308,507	1,147	1,587	440	38.9000%	171	17,006	9,075

Louisville Gas and Electric Company
Deferred Tax Calculations
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
Sep-09	-	-	-	-	38.9000%	-	-	-
Oct-09	-	-	-	-	38.9000%	-	-	-
Nov-09	-	-	-	-	38.9000%	-	-	-
Dec-09	-	-	-	-	38.9000%	-	-	-
Jan-10	-	-	-	-	38.9000%	-	-	-
Feb-10	-	-	-	-	38.9000%	-	-	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							809,830	
Sep-09	7,361,078	22,206	67,072	44,866	38.9000%	17,453	827,283	26,166
Oct-09	7,361,078	22,206	67,072	44,866	38.9000%	17,453	844,736	26,166
Nov-09	7,361,078	22,206	67,072	44,866	38.9000%	17,453	862,189	26,166
Dec-09	7,361,078	22,206	67,072	44,866	38.9000%	17,453	879,642	26,166
Jan-10	7,361,078	22,206	65,992	43,786	38.9000%	17,033	896,675	26,166
Feb-10	7,361,078	22,206	65,992	43,786	38.9000%	17,033	913,706	26,166

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

2006 - Plan

Project 18 -- TC 2 AQCS Equipment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Sep-09	-	-	-	-	38.9000%	-	-	-
Oct-09	-	-	-	-	38.9000%	-	-	-
Nov-09	-	-	-	-	38.9000%	-	-	-
Dec-09	-	-	-	-	38.9000%	-	-	-
Jan-10	-	-	-	-	38.9000%	-	-	-
Feb-10	-	-	-	-	38.9000%	-	-	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							107,964	
Sep-09	3,277,721	9,888	31,300	21,412	38.9000%	8,329	116,293	-
Oct-09	3,277,721	9,888	31,300	21,412	38.9000%	8,329	124,622	-
Nov-09	3,277,721	9,888	31,300	21,412	38.9000%	8,329	132,951	-
Dec-09	3,277,721	9,888	31,300	21,412	38.9000%	8,329	141,280	-
Jan-10	3,277,721	9,888	30,713	20,825	38.9000%	8,101	149,381	-
Feb-10	3,440,076	9,832	32,092	22,260	38.9000%	8,659	158,040	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							8,931	
Sep-09	2,050,346	5,296	19,854	14,558	38.9000%	5,663	14,594	-
Oct-09	2,050,346	8,867	19,854	10,987	38.9000%	4,274	18,868	-
Nov-09	2,050,346	8,867	19,854	10,987	38.9000%	4,274	23,142	-
Dec-09	2,050,346	8,867	19,854	10,987	38.9000%	4,274	27,416	-
Jan-10	2,050,346	8,867	13,494	4,627	38.9000%	1,800	29,216	-
Feb-10	2,050,346	8,867	13,494	4,627	38.9000%	1,800	31,018	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
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
							56,738	
Sep-09	397,151	1,361	4,088	2,727	38.9000%	1,061	57,799	-
Oct-09	397,151	1,361	4,088	2,727	38.9000%	1,061	58,860	-
Nov-09	397,151	1,361	4,088	2,727	38.9000%	1,061	59,921	-
Dec-09	397,151	1,361	4,088	2,727	38.9000%	1,061	60,982	-
Jan-10	397,151	1,361	4,027	2,666	38.9000%	1,037	62,019	-
Feb-10	397,151	1,361	4,027	2,666	38.9000%	1,037	63,057	-

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

Case No. 2010-00242

Question No. 4

Witness: Shannon L. Charnas

Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the September 2009 through February 2010 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 if that change is greater than plus or minus 10 percent.

A-4. Attached please find a schedule showing the changes in the operations and maintenance expense accounts for September 2009 through February 2010 expense months. The changes in the expense levels are reasonable and occurred as a part of routine plant operations and maintenance or normal annual testing expenses.

Monthly variances in the NOx operation expenses, accounts 506104 and 506105, reflect normal SCR operations that will fluctuate with generation and coal quality. The variances for account 506104 are driven by the purchase and delivery timing of the raw consumable material. The amount of consumable materials needed was reduced because Trimble County was offline for a scheduled turbine outage from 9/26/2009 through 11/24/2009, and was placed in unavailable status from 1/18/2010 through 2/3/2010 for repairs due to hydrogen seal leakage and vibration. The large increase in account 506105 in September 2009 is the result of the normal annual SCR catalyst testing.

Fluctuations in the NOx maintenance expenses, account 512101, are the result of routine monthly maintenance on the SCRs. December 2009 is higher than a typical month based solely on the schedule of work planned and completed by the plants.

Fluctuations in the scrubber operation expenses, account 502006, are the result of regular operation of the Trimble County Unit 1 FGD. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate. Since Trimble County Unit 1 was offline during much of October,

November and January, actual expenses were less than the amount in base rates, thus producing credits in those periods.

Fluctuations in sorbent injection operation expenses, account 506109, are the result of on-going system operation. These costs were reduced in October due to a scheduled outage at Trimble County. Fluctuations in sorbent injection maintenance expenses, account 512102, are the result of normal system maintenance.

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

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	% Change from Prior Period	% Change from Prior Period	% Change from Prior Period
2001 Plan									
506104 NOx Operation -- Consumables	291,838.15	191,065.38	163,138.92	233,837.58	187,633.30	191,094.70	-35%	43%	-20%
506105 NOx Operation -- Labor and Other	27,128.15	5,722.96	7,240.29	8,792.93	7,275.36	8,093.06	-79%	21%	-17%
512101 NOx Maintenance	47,574.83	42,777.01	19,977.00	146,025.77	31,828.62	22,199.53	-10%	631%	-78%
Total 2001 Plan O&M Expenses	366,541.13	239,565.35	190,356.21	388,656.28	226,737.28	221,387.29	-35%	104%	-42%
2005 Plan									
502006 Scrubber Operations	14,985.05	(54,507.28)	(30,851.03)	17,723.27	(6,057.00)	21,866.47	-464%	-157%	-134%
512005 Scrubber Maintenance	-	-	-	-	-	-	0%	0%	0%
501201 Ashpond Dredging Expense	171,471.17	171,471.16	171,471.17	171,471.16	171,471.17	171,471.16	0%	0%	0%
Total 2005 Plan O&M Expenses	186,456.22	116,963.88	140,620.14	189,194.43	165,414.17	193,337.63	-37%	35%	-13%
2006 Plan									
506109 Sorbent Injection Operation	47,692.16	14,638.08	39,014.23	33,812.92	42,827.48	52,776.73	-69%	-13%	27%
512102 Sorbent Injection Maintenance	1,015.94	58.08	72.61	-	427.98	921.17	-94%	-100%	0%
506110 Mercury Monitors Operation	-	-	-	-	-	-	0%	0%	0%
512103 Mercury Monitors Maintenance	-	-	-	-	-	-	0%	0%	0%
502006 Scrubber Operations	-	-	-	-	-	-	0%	0%	0%
512005 Scrubber Maintenance	-	-	-	-	-	-	0%	0%	0%
506104 Nox Operation -- Consumables	-	-	-	-	-	-	0%	0%	0%
506105 Nox Operation -- Labor and Other	-	-	-	-	-	-	0%	0%	0%
512101 Nox Maintenance	-	-	-	-	-	-	0%	0%	0%
506001 Precipitator Operation	-	-	-	-	-	-	0%	0%	0%
506111 Activated Carbon	-	-	-	-	-	-	0%	0%	0%
512011 Precipitator Maintenance	-	-	-	-	-	-	0%	0%	0%
Total 2006 Plan O&M Expenses	48,708.10	14,696.16	39,086.84	33,812.92	43,255.46	53,697.90	-70%	-13%	28%
2009 Plan									
502012 Precipitator Operation	-	-	-	-	-	-	0%	0%	0%
512105 Activated Carbon	-	-	-	-	-	-	0%	0%	0%
Adjustment for CCP Disposal in Base Rates (ES Form 2.51)	-	-	-	-	-	-	0%	0%	0%
Total 2009 Plan O&M Expenses	-	-	-	-	-	-	0%	0%	0%

¹ Amount rounds to less than 1%

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

Case No. 2010-00242

Question No. 5

Witness: Shannon L. Charnas

- Q-5. In Case No. 2000-00439, the Commission ordered that LG&E's cost of debt and preferred stock would be reviewed and re-established during the six-month review case. Provide the following information as of February 28, 2010:
- 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. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
 - c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-5.
- a. Please see the attachment. There was no preferred stock as of February 28, 2010, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of February 28, 2010, 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 July 30, 2010 Order in Case No. 2009-00549.

Louisville Gas and Electric Company
Outstanding Balances - Capitalization
As of February 28, 2010

1	2	3
	Outstanding Balance Total Company	Outstanding Balance Electric Only 79.54%
1 Long-Term Debt	896,104,000	712,761,122
2 Short-Term Debt	129,748,400	103,201,877
3 Common Equity	1,286,160,186	1,023,011,812

Louisville Gas and Electric Company
Blended Interest Rates
As of February 28, 2010

	1
	<u>Blended Interest Rate Total Company</u>
1 Long-Term Debt	5.13%
2 Short-Term Debt	0.20%

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
February 28, 2010

LONG-TERM DEBT									
Due	Rate	Principal	Annualized Cost				Letter of Credit and other fees	Total	Embedded Cost
			Interest/(Income)	Amortized Debt Issuance Expense	Amortized Loss-Reacquired Debt				
Pollution Control Bonds -									
Jefferson Co 2000 Series A	05/01/27	5 375% *	25,000,000	1,343,750	-	117,881	-	1,461,631	5 847%
Trimble Co 2000 Series A	08/01/30	0 240% *	83,335,000	200,004	38,707	143,700	305,611	688,022	0 826%
Jefferson Co 2001 Series A	09/01/27	0 275% *	10,104,000	27,786	20,393	-	35,516	83,695	0 828%
Jefferson Co 2001 Series A	09/01/26	0 630% *	22,500,000	141,750	9,924	77,424	22,500	251,598	1 118%
Trimble Co 2001 Series A	09/01/26	0 630% *	27,500,000	173,250	10,790	65,400	27,500	276,940	1 007%
Jefferson Co 2001 Series B	11/01/27	0 750% *	35,000,000	262,500	10,995	49,056	35,000	357,551	1 022%
Trimble Co 2001 Series B	11/01/27	0 750% *	35,000,000	262,500	10,997	48,864	35,000	357,361	1 021%
Trimble Co 2002 Series A	10/01/32	0 227% *	41,665,000	94,580	37,221	55,812	176,056	363,669	0 873%
Louisville Metro 2003 Series A	10/01/33	0 300% *	128,000,000	384,000	-	312,614	127,649	824,263	0 644%
Louisville Metro 2003 Series A	10/01/33	0 300% *	(128,000,000)	(384,000)	-	-	-	(384,000)	0 300%
Louisville Metro 2005 Series A	02/01/35	5 750% *	40,000,000	2,300,000	-	96,444	-	2,396,444	5 991%
Trimble Co 2007 Series A	06/01/33	4 600% *	60,000,000	2,760,000	47,192	6,567	18,270	2,832,029	4 720%
Louisville Metro 2007 Series A	06/01/33	5 625% *	31,000,000	1,743,750	-	41,417	-	1,785,167	5 759%
Louisville Metro 2007 Series B	06/01/33	0 300% *	35,200,000	105,600	-	27,328	10,718	143,646	0 408%
Louisville Metro 2007 Series B	06/01/33	0 300% *	(35,200,000)	(105,600)	-	-	-	(105,600)	0 300%
Called Bonds			0	0	-	167,868	-	167,868	0 000%
Total External Debt			411,104,000	9,309,870	186,219	1,210,375	793,820	11,500,284	1.283%
Interest Rate Swaps:									
JP Morgan Chase Bank	11/01/20	1		4,425,831	-	-	-	4,425,831	
Morgan Stanley Capital Services	10/01/33	1		1,123,782	-	-	-	1,123,782	
Morgan Stanley Capital Services	10/01/33	1		1,119,942	-	-	-	1,119,942	
Bank of America	10/01/33	1		1,135,942	-	-	-	1,135,942	
Interest Rate Swaps External Debt				7,805,497	-	-	-	7,805,497	0.871%
Notes Payable to Fidella Corp									
Notes Payable to Fidella Corp	01/16/12	4 330%	25,000,000	1,082,500	-	-	-	1,082,500	4 330%
Notes Payable to Fidella Corp	04/30/13	4 550%	100,000,000	4,550,000	-	-	-	4,550,000	4 550%
Notes Payable to Fidella Corp	08/15/13	5 310%	100,000,000	5,310,000	-	-	-	5,310,000	5 310%
Notes Payable to Fidella Corp	11/23/15	6 480%	50,000,000	3,240,000	-	-	-	3,240,000	6 480%
Notes Payable to Fidella Corp	07/25/18	6 210%	25,000,000	1,552,500	-	-	-	1,552,500	6 210%
Notes Payable to Fidella Corp	11/26/22	5 720%	47,000,000	2,688,400	-	-	-	2,688,400	5 720%
Notes Payable to Fidella Corp	04/13/31	5 930%	68,000,000	4,032,400	-	-	-	4,032,400	5 930%
Notes Payable to Fidella Corp	04/13/37	5 980%	70,000,000	4,186,000	-	-	-	4,186,000	5 980%
Total Internal Debt			485,000,000	26,641,800	-	-	-	26,641,800	2.973%
Total			896,104,000	43,757,167	186,219	1,210,375	793,820	45,947,581	5.127%

SHORT TERM DEBT									
Maturity	Rate	Principal	Annualized Cost				Premium	Total	Embedded Cost
			Interest	Expense	Loss				
Notes Payable to Associated Company	NA	0 200% *	129,748,400	259,497	-	-	-	259,497	0 200%
Total			129,748,400	259,497	-	-	-	259,497	0.200%

Embedded Cost of Total Debt **1,025,852,400** **44,016,664** **186,219** **1,210,375** **793,820** **46,207,078** **4.504%**

* 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	Fixed LG&E Swap Position	Variable Counterparty Swap Position
Series Z - PCB	83,335,000	11/01/20	5 495%	5 495%	BMA Index
Series GG - PCB	32,000,000	10/01/33	3 657%	3 657%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	3 645%	3 645%	68% of 1 mo LIBOR
Series GG - PCB	32,000,000	10/01/33	3 695%	3 695%	68% of 1 mo LIBOR
	179,335,000				

2 Call premium and debt expense is being amortized over the remaining life of bonds due 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

4 Remarketed bonds, issued at long term fixed rate

a - Insurance premiums annualized - based on actual invoices

b - Remarketing fee = 10 basis points

c - Remarketing fee = 25 basis points

d - Combination of a and c

Louisville Gas and Electric Company
 Outstanding Balances - Adjusted Electric Capitalization
 February 28, 2010

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	729,920,443	38.76%	5.13%	1.99%		1.99%
2 Short-Term Debt	105,685,463	5.61%	0.20%	0.01%		0.01%
3 Common Equity	1,047,639,599	55.63%	10.63%	5.91%	0.55	9.18%
4 Total	1,883,245,504			7.91%		11.18%

Rate of Return (ROR) Grossed Up:

11.18%

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

See tax rate (TR) calculation on 5(c) page (2)

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2010**

	2010 Federal & State Production Credit W/ 6% 2010 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	5.4896	(37)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.5104	(1) - (3)
(7)	9%	
(8) Less: Production tax credit	8.5059	(6) * (7)
(9)		
(10) Taxable income for Federal income tax	86.0044	(6) - (8)
(11)		
(12) Federal income tax	30.1015	(10) * 35%
(13)		
(14) Total State and Federal income taxes		
(15)	\$ 35.5912	(3) + (12)
(16)		
(17) Gross-up Revenue Factor	64.4088	100 - (15)
(18)		
(19) Therefore, the composite rate is:		
(20) Federal	30.1015%	(12) / 100
(21) State	5.4896%	(3) / 100
(22) Total	35.5912%	(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	8.5059	(8)
(32)		
(33) Taxable income for State income tax	91.4941	(29) - (31)
(34)		
(35) State Tax Rate	6.0000%	
(36)		
(37) State Income Tax	5.4896	(33) * (35)

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated July 13, 2010**

Case No. 2010-00242

Question No. 6

Witness: Robert M. Conroy

- Q-6. Provide the dollar impact the over-/under-recovery will have on the average residential customer's bill for the requested recovery period.
- A-6. Based upon recovering the net under-recovered position of \$4,773,629 over six months, the ECR billing factor for a residential customer using 1,000 kWh will increase by approximately \$0.95 per month, using rates and adjustment clause factors in effect for the August 2010 billing month.