COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY TO FILE DEPRECIATION STUDY	))	CASE NO. 2007-00565
APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ELECTRIC BASE RATES	)))	CASE NO. 2008-00251

THIRD DATA REQUEST OF COMMISSION STAFF TO KENTUCKY UTILITIES COMPANY

Kentucky Utilities Company ("KU"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than October 7, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

KU shall make timely amendment to any prior responses if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which KU fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to KU's response to Item 1, page 6, of the Commission Staff's Second Data Request dated August 27, 2008 ("Staff's Second Request"). In paragraph e(2), KU states that "[n]o customers currently receiving service under this rate would be affected by this change." Paragraph e(3) states that KU does not propose to continue to serve customers currently receiving the primary discount on rate GS and that "they will be migrated to the proposed rate PS." Provide the cost impact for those customers who will be migrated to the proposed rate PS.

2. Refer to KU's response to Item 1, page 7, of Staff's Second Request. In paragraph m, KU states that special equipment is installed to provide the customer with real time data which allows the customer to control its electric power demand. Explain in detail how this special equipment allows the customer to control its electric power demand.

3. Refer to KU's responses to Items 4 and 58 of Staff's Second Request. In the first response, KU states that accrued expenses were not removed because there were no accrued expenses associated with the accrued revenues listed. In the second

response, KU states that it did not accrue any "unbilled expenses" concurrently with the recording of unbilled revenue.

a. Explain how accrued fuel adjustment clause ("FAC") and environmental cost recovery revenues can have no associated accrued expenses.

b. Explain how recording unbilled revenue without associated expenses satisfies the "matching principle" as dictated by generally accepted accounting principles.

c. KU is proposing an adjustment for accrued revenues (Rives Testimony at Schedule 1.09) and unbilled revenues (Rives Testimony at Schedule 1.0). Explain the distinction between accrued revenues and unbilled revenues and state whether accrued revenues are also unbilled.

4. Refer to KU's response to Item 7 of Staff's Second Request. Reconcile the $26,028,000 and ($1,013,000) adjustment numbers to KU's FAC monthly filings with the Commission. If they cannot be reconciled, explain why.

5. Refer to KU's response to Item 25(c), (d), and (e) of Staff's Second Request. Staff requested the payments received by the 10th day of the date of the bill, the payments received between the 10th and 15th days, and payments received after the 15th day, for each rate class, as a percentage of actual billings for each month. It appears that KU has provided the information for each rate class as a percentage of total actual billings for *all* classes. Provide the information for each class as a percentage of *total actual billings for each class* (i.e., each row of percentages should equal 100 percent).

6. Refer to KU's response to Staff's Second Request, Item 29. This response shows only labor costs in the calculation of the $12.22 service order cost. Does this mean that no transportation, supplies, and equipment costs are included?

7. Refer to KU's response to Item 34 of Staff's Second Request. Provide the resulting proposed rates for the lighting customer classes if KU had limited the proposed increases to the rate classes within the lighting group that were not earning a sufficient rate of return.

8. Refer to KU's response to Item 35 of Staff's Second Request, page 1 of 2. Reconcile the Revenue Adjusted to As-Billed Basis of $1,112,462,089 in column 1 with the Jurisdictional Ultimate Consumer Revenue of $1,111,405,132 shown on William S. Seelye Exhibit 6, page 8.

9. Refer to KU's response to Staff's Second Request, Item 66.

a. Explain why the number of RS customers (Rate Code 010, 050) spiked in January 2008.

b. The number of Street Lighting - SL customers ranged between 70,071 and 70,585 during the 13-month period, except for April 2007, when it was 72,206. Explain why the number of customers in April 2007 is so much larger than the number of customers during the 13-month period.

c. The number of Decorative Street Lighting - SLDEC customers ranged between 7,673 and 8,206 during the 13-month period, except for April and May 2007, when it was 5,627 and 20,853, respectively. Explain the fluctuations for April and May 2007.

10. Refer to KU's response to Item 3 of the AG's Initial Request for Information. Provide the origin of the $1,169,688,236 shown as "Billed revenues from ultimate customers for the twelve months ended 04/30/08."

11. Refer to KU's response to Item 18(c) of the AG's Initial Request for Information and KU's response to Item 7(a) of KIUC's First Data Request. Both of these responses show that no FAC revenues were recorded as a part of unbilled revenues at April 30, 2007.

a. Provide the amount of unbilled FAC revenues at April 30, 2007.

b. Explain why excluding the April 30, 2007 unbilled FAC revenues from the total April 30, 2007 unbilled revenue results in an accurate adjustment to test year revenue for unbilled revenues.

12. Refer to KU's response to Item 16 of the Lexington-Fayette Urban County Government's Initial Request for Information. Page 2 of 2, line 84, shows a "Meter Pulse Charge." Provide the location of this charge in KU's tariff and explain how it relates to the meter pulse charge being proposed in this case.

13. Refer to page 24 of William Avera's original Testimony, to Schedule 1 of KU's attachment to the supplemental response to Item 14 of Staff's Second Request, and to Item 15 of Staff's Second Request. There appear to be significant differences between KU and many of the firms that are included as proxies for KU in the analysis.

a. Eight of the firms in the proxy group own and operate nuclear power generation facilities, while KU does not. Explain why this should not be a factor in rejecting these firms as appropriate for inclusion in the proxy group.

b. Allete, Alliant Energy, Integrys Energy, Scana Corporation, and Vectren Corporation are all mid-cap companies, as reported by Value Line. All others in the proxy group are large-cap companies. Explain how these large companies are appropriately included in the proxy group.

c. Refer to KU's response to Item 136 of Staff's Second Request wherein KU provides a discussion of its target capital structure. Allete, Alliant Energy, Constellation Energy, Duke Energy, Integrys Energy, MDU Resources, and Sempra Energy have debt-to-capital ratios of less than 35 percent. Only Dominion Resources, Exelon Corporation, Vectren Corporation, and Wisconsin Energy have debt-to-capital ratios greater than 50 percent.

(1) Explain why firms with capital structures so far out of line with KU's should be included in the proxy group.

(2) For each company in the proxy group, including KU, provide the percentage of 2007 revenues derived from: (i) non-utility sources; (ii) utility operations subject to price regulation by a state commission; and (iii) utility operations not subject to price regulation by a state commission.

14. Refer to KU's response to Item 62 of Staff's Second Request, pages 26 to 30 of the Direct Testimony of William Steven Seelye, and Seelye Exhibits 9, 12, and 13.

a. Describe in detail the reasons for developing the proposed electric temperature normalization adjustment based on degree day variations for individual months as opposed to degree day variations for a complete season, i.e., the cooling season or the heating season.

b. Provide a revised run of Seelye Exhibits 12 and 13 based on total degree day variations for the heating season and cooling season based on the same bandwidth of two standard deviations centered on the mean used in the proposed electric temperature normalization adjustment.

15. Refer to KU's response to Staff's Second Request, Item 62(f). Explain why the revised run for HDD-60 and CDD-65 resulted in a larger kWh adjustment than the original run (Volume 5 of 5 of KU's application at Selyee's Testimony, Exhibits 12 and 13), which had more variables.

16 Refer to KU's response to Staff's Second Request, Item 13(f). In this response KU discusses the accounting treatment for contributions to different research and development ("R&D") projects. It states that some contributions are expensed "below-the-line" when incurred while others are deferred so that rate recovery can be sought. Explain how it is determined which R&D contributions are absorbed by stockholders through "below-the-line" charges and which R&D contributions are deferred for future rate recovery.

17. Refer to KU's response to Staff's Second Request, Item 69. In this response KU states that $541,061.40 is included in test year operating expenses for the Customer Care System ("CCS").

a. Explain why these costs were expensed rather than capitalized.

b. Provide all test year operating expenses that will not be incurred once the CCS is fully operational.

c. Provide a detailed estimate of the total operating expenses for the first 12 months of operation for the CCS.

18. Refer to Volume 3 of 5 of KU's Application at Tab 42 where test year jurisdictional "Sales to Ultimate Consumers" is stated at $1,100,598,589. Reconcile this amount to the "Revenue As Billed" in the amount of $1,112,462,089 as shown at Volume 5 of 5 of KU's Application at Seelye's Exhibit 3, page 1 of 24.

19. Refer to KU's response to Staff's Second Request, Item 68(d) and (e) and Volume 5 of 5 of KU's application at Seelye's Testimony, Exhibit 6, pages 8 and 9, schedules (a), (b), and (c)

a. State the amount of late payment penalties included on schedule (b) for each year shown in columns 1 and 2.

b. State the amount of late payment penalties included on schedule (c) for each year shown in columns 1 and 2.

c. When LG&E issues a customer bill, the amount of the late payment penalty is shown on the bill.

(1) Is the late payment penalty shown on the bill included in customer accounts receivable recorded on LG&E's books upon the initial issuance of the bill?

(2) If no to (1), explain how and when a late payment penalty is included in customer accounts receivables.

(3) Provide the amounts of "Forfeited Discounts" for each year shown on schedule (a) of Exhibit 6, page 8, that were paid by the customer before the "Forfeited Discount" was included in customer accounts receivables. Separate this response by customer class code.

d. At Item 68(d), KU states that the other measurements (referring to the percent of "charge-offs" to revenue and percent of Accounts Receivable to revenue as calculated on schedules (b) and (c) of Exhibit 6, page 9) indicate the customers in KU's service territory will likely be charged fewer late payment charges than customers in LG&E's service territory.

(1) Explain how this conclusion can be drawn from Exhibit 6, page 9, schedules (b) and (c).

(2) Explain whether at least a portion, if not all, of the difference in the percentage of "charge-offs" and Accounts Receivable to revenues for LG&E and KU as shown on schedules (b) and (c) is attributable to the fact that LG&E "charge-offs" and Accounts Receivable shown in column 2 include late payment penalties while KU's "charge-offs" and Accounts Receivables as shown in column 5 do not include late payment penalties.

e. At Item 68(e), KU was requested to discuss the consideration given to the differences in LG&E's and KU's billing practices when weighing the late payment penalty revenue on Accounts Receivable balances. KU's response stated that consideration was given to "this factor," but did not give a full explanation. State the amount of the difference in LG&E's and KU's percentages of Accounts Receivable to billed revenues for the years shown in schedule (c) that is attributable to the differences in LG&E's and KU's billing and collection practices.

20. In Case No. 2007-00565, KU requests approval of a depreciation study based on the equal life group ("ELG") method for all plant placed into service as of December 31, 2006. The results of the study were summarized in KU's application at

Exhibit JJS-KU, III-4 through III-10. As shown on page III-10, the equal life group method resulted in an annual depreciation expense for KU of $111,765,099.

a. Refer to KU's response to Staff's Second Request, Item 84(c). It is stated that, during the formulation of the depreciation study, the average life group method was applied to calculate depreciable lives at the same time that the equal life group was used. Provide the results of the depreciation study using the average life group method when applied to plant in service as of December 31, 2006. Provide this response in the same format as Exhibit JJS-KU, III-4 through III-10.

b. Provide the workpapers that clearly demonstrate the core/root differences in the equal life group method used to calculate the depreciation shown in KU's application at Exhibit JJS-KU, III-4 through III-10 and the depreciation calculated in (a) using the average life group.

c. Using the composite depreciation rates provided in (a), recalculate depreciation for plant in service as of April 30, 2008. The response to this request should be presented in the same format used in KU's response to Staff's Second Request, Item 90, pages 2 – 10.

21. Refer to KU's response to Staff's Second Request, Item 97. Is John Spanos saying that KU's proposed depreciation rates only recover "non-legal" asset removal costs and do not include recovery of ARO's (legal asset removal costs)? Explain.

22. Refer to KU's response to Staff's Second Request, Item 98.

a. In response to Item 98(b), KU provides information for years 2003-2007. Can the amounts requested for years prior to 2003 be calculated even though they were not recorded? If yes, provide the amounts. If no, explain why.

b. For each year shown in Item 98(b) (2003-2007), the amount of net removal costs included in accumulated depreciation has increased. If not already provided in response to (a) above, provide documentation that net removal costs included in accumulated depreciation have never decreased from one year to the next from the time that KU began recovering asset removal costs through depreciation stated as a percentage of original plant costs.

c. Item 98(c) requested a description of the impact on KU if it was required to reclassify asset removal costs from accumulated depreciation to a regulatory liability account for regulatory reporting purposes as it does for GAAP reporting purposes. KU's response discusses the appropriateness of rate recovery of asset removal costs, but does not directly respond to the question asked. Identify and discuss all favorable and unfavorable consequences to KU if the Commission were to require reclassification of KU's asset removal costs from accumulated depreciation to a regulatory liability account for regulatory reporting purposes.

23. Refer to KU's response to Staff's Second Request, Item 85(b).

a. The order of the Pennsylvania Public Utility Commission does not identify that the ELG method was proposed. Provide the relevant section of the testimony of Mr. Spanos in the Pennsyvania case which reflects that the depreciation proposal of the utility was based on the ELG method.

b. In the order of the Indiana Commission, identify whether there is any support for the decision to adopt ELG other than the first full paragraph on page 55 of the order which states that the Commission had "on numerous occasions accepted the use of the ELG methodology."

24. Refer to KU's response to Staff's Second Request, Item 99. At Item 99, KU identifies test year compensated absences of $10,657,618 included in the test year operating labor charges. Are the $10,657,618 compensated absence expenses included in the operating labor charge of $73,184,131 used to calculate the pro forma payroll adjustment shown at Volume 4 of 5 of KU's application at the Rives Testimony, Exhibit 1, Schedule 1.15, page 2 of 4? If no, explain why they are excluded from the determination of the pro forma payroll adjustment.

25. Refer to Volume 4 of 5 of KU's application at the Rives Testimony, Exhibit 1, Reference Schedule 1.15, page 2 and KU's response to Staff's Second Request, Item 100.

a. Do the amounts included in the calculation of pro forma payroll include a provision for compensated absences? If no, explain the relevance of the schedule labeled as "Estimated Vacation Liability Report" provided by KU at Item 100(b-1), page 2. If yes, provide a schedule separating compensated absences included in the "Grand Total" pro forma payroll for each account shown at Item 100(a), page 1.

b. State the amount of leave time an employee is allowed to carry forward.

c. Describe how KU estimates the increase or decrease in employee leave time carry-forward balances when calculating pro forma payroll costs.

d. Identify all employee positions included on these schedules that were vacant as of April 30, 2008.

e. For each employee position identified in (d) above, state whether or not the position is currently vacant.

f. For all employee positions identified in (d) above, state when KU expects to fill the position.

g. Identify all employee positions included on these schedules that were vacant as of the date of KU's response to this data request.

h. For each employee position identified in (g) above, state when KU expects to fill the position.

26. Refer to KU's response to Staff's Second Request, Items 100(a) and 106(a).

a. State the amount of the payroll costs included in each account listed in Item 106(a).

b. Identify where each amount identified in (a) above is included in pro forma labor as listed in Item 100(a).

c. Explain why it is appropriate to recover labor-related storm damage expenses identified in (a) above through the 9-year amortization as shown in Volume 4 of 5 of KU's application of the Rives Testimony at Exhibit 1, Reference Schedule 1.18 and also through the pro forma labor costs shown at Item 100(a).

d. Identify by account number and account title, and provide a description of all amounts included in test year storm repair expenses as shown at Item 106(a) for which there is a separate provision for recovery in the pro forma operating expenses totaling $862,196,011 as stated at Volume 3 of 5 of KU's application at Tab 42, e.g., payroll taxes, pensions, transportation costs, depreciation, etc.

27. Refer to KU's response to Staff's Second Request, Item 106.

a. Describe the accounting process used to record restoration services provided by KU to other electric providers. This description should discuss how these restoration costs are determined and how reimbursements to KU for these services are recorded.

b. Identify all restoration costs and reimbursements included in KU's test year operations.

28. Refer to KU's response to Staff's Second Request, Item 102. Provide a calculation of each test year "other compensation" amount listed for each executive employee and provide an explanation for how the level of compensation was determined.

29. Refer to KU's response to Staff's Second Request, Item 108(a). The level of conservation advertising expensed by KU over the previous 5 years fluctuates from a high of $536,623 in 2007 to a low of $95,783 in 2004.

a. Explain how KU determines the amount of conservation advertising it will incur in any given year.

b. State the amount of conservation advertising that was originally included in KU's monthly 2008 operating budgets for Kentucky jurisdictional operations and the actual amount of monthly Kentucky jurisdictional conservation advertising expensed by KU.

30. Refer to KU's response to Staff's Second Request, Item 112 and Volume 4 of 4 of KU's response to Staff's First Data Request, Item 57(b). At Item 112, KU states that actual publication costs from its previous rate application were $537,784. At Item 57(b), KU estimates that publication costs for the current case will be $828,000. Explain why the publication costs for this case are estimated to be 54 percent higher than the publication costs of the previous case.

31. Refer to KU's response to Staff's Second Request, Item 109. Provide the amount of revenues related to KU Schedule 10 expenses realized by KU since the end of the test year through the most recent month available.

32. Refer to KU's response to Staff's Second Request, Items 113(a) and (c) and Volume 4 of 5 of KU's application at Rives Testimony, Exhibit 1, Schedule Reference 1.29. At Item 113(a), KU states that the test year IT contract expense was $2,051,795. At Item 113(c), KU states that the annual expense would have been $3,149,518, an increase of $1,097,532 or 54 percent, had prepayments been properly accounted for during the test year. To correct the accounting error, an adjustment was made at Schedule Reference 1.29 increasing test year expenses for Kentucky's jurisdictional portion in the amount of $978,329.

a. Explain how the change in accounting for the IT contracts resulted in a 54 percent increase to the annual expense.

b. Does KU's proposed adjustment result in more than 12 months of IT contract expense being accounted for in the pro forma? Explain.

33. Refer to KU's response to Staff's Second Request, Item 114. Provide the monthly average per-gallon cost of fuel for September 2008. Also provide the monthly average per-gallon cost for October and November 2008 as those costs become available.

34. Refer to KU's response to Staff's Second Request, Item 115.

a. Provide the date on which KU began to solicit proposals for the new credit facilities.

b. What is the specific date by which KU must make a decision as to the bank with whom it will enter into a credit agreement for the new credit facility?

35. Refer to KU's response to Staff's Second Request, Items 116, 118, and 119, all of which pertain to the coal tax credit which is the subject of the adjustment at Volume 4 of 5 of KU's application at the Rives Testimony, Reference Schedules 1.33 and 1.41. The coal tax credit expires at the end of 2009, meaning the application for 2009 must be submitted by March 15, 2010, for use on either KU's 2009 state income tax return or its 2010 property tax return.

a. The years in which KU did not qualify for the credit were 2000, 2001, and 2002, the first three years the credit was available. Given that KU has qualified for the credit for five consecutive calendar years, explain why KU is concerned about the "contingent nature" of the credit.

b. In KU's response to Staff's Second Request, Item 31, Mr. Seelye refers to the "likelihood that the Companies will need to file rate cases in the near future (i.e., due to the need to recover the costs associated with Trimble County Unit 2)." With the anticipation of filing another rate case in conjunction with Trimble County Unit 2 going into service, which is scheduled for the summer of 2010, explain why KU is concerned about the expiration of the credit, the financial impact of which would not be realized until sometime in 2010.

36. Refer to KU's response to Staff's Second Request, Items 128 and 129.

a. Is KU aware that the Commission has previously approved "effective tax rate adjustments" where operating losses reported on consolidated tax returns by non-regulated entities are included in the calculation of recoverable income taxes for the regulated utilities that are a part of the consolidated returns? (See Commission's final Order of Case No. 2004-00103[1] dated February 28, 2005, pages 63-66).

b. State KU's position on a consolidated tax adjustment in this case that follows the method established by previous Commission Order where a five-year average of non-regulated operating results (as provided in KU's response to Staff's Second Request at Items 128 and 129) would be included as a reduction to taxable income when calculating income taxes subject to rate recovery by KU.

37. Refer to KU's response to Staff's Second Request, Item 122. Explain why maintenance contracts by vendor increased from $9 million to $16.2 million during the years 2006 to 2007.

38. Refer to KU's response to Staff's Second Request, Item 132(c).

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[1] Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company.

a. For the 12-month periods ended April 30, 2004, 2005, and 2006, provide the amount of expense recorded to Account 512, Maintenance of Boiler Plant.

b. For each of the 12-month periods ended April 30, 2004, 2005, and 2006, identify the generating units which had a scheduled maintenance outage similar to the one that occurred during the test year at Brown Steam Unit 1.

c. For each of the calendar years 2009, 2010, and 2011, identify which KU generating units are planned to have a scheduled maintenance outage similar to the one that occurred during the test year at the Brown Steam Unit 1.

39. Refer to KU's response to Staff's Second Request, Item 132(d).

a. For the 12-month periods ended April 30, 2004, 2005, and 2006, provide the amount of expense recorded to Account 513, Maintenance of Electric Plant.

b. For each of the 12-month periods ended April 30, 2004, 2005, and 2006, identify the generating units which had a scheduled major boiler/turbine outage similar to the one that occurred during the test year at Ghent Unit 1.

c. For each of the calendar years 2009, 2010, and 2011, identify which KU generating units are planned to have a scheduled major boiler/turbine outage similar to the one that occurred during the test year at Ghent Unit 1.

40. Refer to KU's response to Staff's Second Request, Item 132(e). Clarify the meaning of Trimble County Combustion Turbine outage work.

41. In various data responses, KU has noted errors and amendments necessary to correct or update its original application. Provide a summary which identifies all such errors and amendments and which shows their overall impact on the amount of KU's proposed rate increase.

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DATED: SEPTEMBER 24, 2008

cc: Parties of Record

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