

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY) CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH) 2015-00411
BILLING PERIOD ENDING OCTOBER 31, 2015)**

CORRECTED

**RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
APPENDIX B OF COMMISSION'S ORDER
DATED DECEMBER 21, 2015
AND
AMENDED ORDER DATED JANUARY 7, 2016**

FILED: JANUARY 19, 2016

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

CORRECTED QUESTION AND ATTACHMENT

Question No. 1

Witness: Derek A. Rahn / Christopher M. Garrett

- Q-1. Concerning the rate of return on the 2009 and 2011 amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in KU cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU jurisdictional capital structure as of August 31, 2015. 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. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-1. See the attachment being provided in Excel format.

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

Page 3 provides the adjusted weighted average cost of capital for the expense period ending June 30, 2015 to true-up the months in the review period utilizing the return on equity of 10.25% as agreed to for all ECR Plans and approved by the Commission in its December 20, 2012 Order in Case No. 2012-00221. Page 4 provides the adjusted weighted average cost of capital for the expense period ending August 31, 2015 to true-up the months in the review period utilizing the return on equity of 10.00% as agreed to for all ECR Plans and approved by the Commission in its June 30, 2015 Order in Case No. 2014-00371. KU calculated the short- and long-term debt rates using average daily balances and daily interest rates pursuant to the Commission's Order in Case No. 2011-00161.

KU recommends using an effective tax rate of 38.6660% in the gross-up revenue factor used in the rate of return calculation for the expense periods ended June 30, 2015 and August 31, 2015. KU will incur a tax loss in 2015 as a result of bonus depreciation and will be unable to take the Internal Revenue Code §199 manufacturing tax deduction.

Page 5 provides detail for short- and long-term debt for the expense period ending June 30, 2015. Page 6 provides detail for short- and long-term debt for the expense period ending August 31, 2015.

Overall Rate of Return True-up Adjustment - Revised Rate Base

Impact on Calculated E(m)

Rahn / Garrett

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
May-15	Mar-15	10.22%	\$ 1,011,330,612	\$ 1,011,330,612	\$ 0	\$ 0	84.87%	\$ 0
Jun-15	Apr-15	10.22%	1,028,733,727	1,028,733,727	0	0	88.58%	0
Jul-15	May-15	10.22%	1,035,180,880	1,035,180,880	0	0	86.10%	0
Aug-15	Jun-15	10.15%	1,042,656,936	1,042,656,936	0	0	86.03%	0
Sep-15	Jul-15	9.95%	1,062,420,272	1,062,420,272	0	0	86.13%	0
Oct-15	Aug-15	9.95%	1,073,710,930	1,073,710,930	0	0	86.94%	0
						\$ 0		\$ 0

Overall Rate of Return True-up Adjustment - Revised Rate of Return

Impact on Calculated E(m)

Rahn / Garrett

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return	Rate Base as Revised	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
May-15	Mar-15	10.22%	10.56%	0.34%	\$ 1,011,330,612	\$ 286,544	84.87%	\$ 243,190
Jun-15	Apr-15	10.22%	10.56%	0.34%	1,028,733,727	291,475	88.58%	258,188
Jul-15	May-15	10.22%	10.56%	0.34%	1,035,180,880	293,301	86.10%	252,532
Aug-15	Jun-15	10.15%	10.56%	0.41%	1,042,656,936	356,241	86.03%	306,474
Sep-15	Jul-15	9.95%	10.34%	0.39%	1,062,420,272	345,287	86.13%	297,395
Oct-15	Aug-15	9.95%	10.34%	0.39%	1,073,710,930	348,956	86.94%	303,382
						\$ 1,921,803		\$ 1,661,162

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity - ECR Plans
As of June 30, 2015

	Balance at 06-30-15 (1)	Capital Structure (2)	EEI (3)	Investments in OVEC and Other (Col 2 x Col 4 Line 4) (4)	Adjustments to Total Co. Capitalization (Sum of Col 3 - Col 4) (5)	Adjusted Total Company Capitalization (Col 1 + Col 5) (6)	Jurisdictional Rate Base Percentage (7)	Kentucky Jurisdictional Capitalization (Col 6 x Col 7) (8)
1. Short Term Debt	\$ 185,675,671 (a)	3.78%	\$ -	\$ (46,166)	\$ (46,166)	\$ 185,629,505	88.82%	\$ 164,876,126
2. Long Term Debt	2,091,026,563 (a)	42.57%	-	(519,913)	(519,913)	2,090,506,650	88.82%	1,856,788,007
3. Common Equity	2,634,709,975	53.65%	(504,066)	(655,234)	(1,159,300)	2,633,550,675	88.82%	2,339,119,710
4. Total Capitalization	<u>\$ 4,911,412,209</u>	<u>100.000%</u>	<u>\$ (504,066)</u>	<u>\$ (1,221,313)</u>	<u>\$ (1,725,379)</u>	<u>\$ 4,909,686,830</u>		<u>\$ 4,360,783,843</u>

	Kentucky Jurisdictional Capitalization (8)	Capital Structure (9)	Environmental Surcharge (Col 9 x Col 10 Line 4) (10)	DSM Rate Base (Col 9 x Col 11 Line 4) (11)	Adjusted Kentucky Jurisdictional Capitalization (Col 8 + Col 10 + Col 11) (12)	Adjusted Capital Structure (13)	Annual Cost Rate (14)	Cost of Capital (Col 13 x Col 14) (15)
1. Short Term Debt	\$ 164,876,126	3.78%	\$ (35,006,122)	\$ (140,074)	\$ 129,729,930	3.78%	0.52%	0.02%
2. Long Term Debt	1,856,788,007	42.58%	(394,328,224)	(1,577,867)	1,460,881,916	42.58%	3.68%	1.57%
3. Common Equity	2,339,119,710	53.64%	(496,753,545)	(1,987,712)	1,840,378,453	53.64%	10.25%	5.50%
4. Total Capitalization	<u>\$ 4,360,783,843</u>	<u>100.000%</u>	<u>\$ (926,087,891)</u>	<u>\$ (3,705,653)</u>	<u>\$ 3,430,990,299</u>	<u>100.000%</u>		<u>7.09%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect {ROR + (ROR - DR) x [TR / (1 - TR)]}								<u>10.56%</u>

(a) Average daily balance per Settlement Agreement in Case No. 2011-00161.

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity - ECR Plans
As of August 31, 2015

	Balance at 08-31-15 (1)	Capital Structure (2)	EEI (3)	Investments in OVEC and Other (Col 2 x Col 4 Line 4) (4)	Adjustments to Total Co. Capitalization (Sum of Col 3 - Col 4) (5)	Adjusted Total Company Capitalization (Col 1 + Col 5) (6)	Jurisdictional Rate Base Percentage (7)	Kentucky Jurisdictional Capitalization (Col 6 x Col 7) (8)
1. Short Term Debt	\$ 197,270,524 (a)	3.99%	\$ -	\$ (48,730)	\$ (48,730)	\$ 197,221,794	88.82%	\$ 175,172,398
2. Long Term Debt	2,091,085,949 (a)	42.25%	-	(516,005)	(516,005)	2,090,569,944	88.82%	1,856,844,224
3. Common Equity	2,661,087,079	53.76%	(504,066)	(656,578)	(1,160,644)	2,659,926,435	88.82%	2,362,546,660
4. Total Capitalization	<u>\$ 4,949,443,552</u>	<u>100.000%</u>	<u>\$ (504,066)</u>	<u>\$ (1,221,313)</u>	<u>\$ (1,725,379)</u>	<u>\$ 4,947,718,173</u>		<u>\$ 4,394,563,282</u>

	Kentucky Jurisdictional Capitalization (8)	Capital Structure (9)	Environmental Surcharge (Col 9 x Col 10 Line 4) (10)	DSM Rate Base (Col 9 x Col 11 Line 4) (11)	Adjusted Kentucky Jurisdictional Capitalization (Col 8 + Col 10 + Col 11) (12)	Adjusted Capital Structure (13)	Annual Cost Rate (14)	Cost of Capital (Col 13 x Col 14) (15)
1. Short Term Debt	\$ 175,172,398	3.99%	\$ (38,051,435)	\$ (170,191)	\$ 136,950,772	3.99%	0.50%	0.02%
2. Long Term Debt	1,856,844,224	42.25%	(402,925,595)	(1,802,149)	1,452,116,480	42.25%	3.68%	1.55%
3. Common Equity	2,362,546,660	53.76%	(512,693,018)	(2,293,102)	1,847,560,540	53.76%	10.00%	5.38%
4. Total Capitalization	<u>\$ 4,394,563,282</u>	<u>100.000%</u>	<u>\$ (953,670,048)</u>	<u>\$ (4,265,442)</u>	<u>\$ 3,436,627,792</u>	<u>100.000%</u>		
5. Weighted Cost of Capital Grossed up for Income Tax Effect {ROR + (ROR - DR) x [TR / (1 - TR)]}								<u>10.34%</u>

(a) Average daily balance per Settlement Agreement in Case No. 2011-00161.

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2015

CORRECTED Attachment to Response to Question No. 1

Page 5 of 6

Rahn / Garrett

USING AVERAGE DAILY BALANCES AND INTEREST RATES FOR ECR FILINGS

LONG-TERM DEBT

	Due	Rate	Principal	Interest	Annualized Cost				Total	Embedded Cost
					Amortized Debt Issuance Exp/Discount	Amortized Loss- Reacquired Debt	Letter of Credit and other fees			
Pollution Control Bonds -										
Mercer Co. 2000 Series A	05/01/23	0.055%	\$ 12,900,000	\$ 7,095	\$ 11,125	\$ 36,171	\$ 111,780 a	\$ 166,171	1.288%	
Carroll Co. 2002 Series A	02/01/32	0.323%	20,930,000	67,681	4,035	36,585	21,107 b	129,408	0.618%	
Carroll Co. 2002 Series B	02/01/32	0.323%	2,400,000	7,761	2,794	4,188	2,420 b	17,164	0.715%	
Muhlenberg Co. 2002 Series A	02/01/32	0.324%	2,400,000	7,780	1,124	13,006	2,420 b	24,330	1.014%	
Mercer Co. 2002 Series A	02/01/32	0.324%	7,400,000	23,990	3,112	12,854	7,463 b	47,418	0.641%	
Carroll Co. 2002 Series C	10/01/32	0.213%	96,000,000	204,522	73,168	187,512	233,265 c	698,466	0.728%	
Carroll Co. 2004 Series A	10/01/34	0.050%	50,000,000	24,837	10,209	95,682	435,122 a	565,850	1.132%	
Carroll Co. 2006 Series B	10/01/34	0.053%	54,000,000	28,878	48,084	13,344	470,435 a	560,741	1.038%	
Carroll Co. 2007 Series A	02/01/26	5.750%	17,875,000	1,027,813	11,022	22,580	-	1,061,415	5.938%	
Trimble Co. 2007 Series A	03/01/37	6.000%	8,927,000	535,620	5,312	10,889	-	551,821	6.181%	
Carroll Co. 2008 Series A	02/01/32	0.053%	77,947,405	41,685	34,582	91,928	679,059 a	847,254	1.087%	
Called Bonds				-	-	1 5,871		5,871		
First Mortgage Bonds -										
2010 due 2015	11/01/15	1.625%	250,000,000	4,062,500	471,810 **	-	-	4,534,310	1.814%	
Debt discount on FMB	11/01/15	1.625%	(71,445)		177,844 **			177,844	-248.924%	
2010 due 2020	11/01/20	3.250%	500,000,000	16,250,000	423,482 **	-	-	16,673,482	3.335%	
Debt discount on FMB	11/01/20	3.250%	(1,023,034)		191,227 **			191,227	-18.692%	
2010 due 2040	11/01/40	5.125%	750,000,000	38,437,500	251,899 **	-	-	38,689,399	5.159%	
Debt discount on FMB	11/01/40	5.125%	(6,893,994)		273,719 **			273,719	-3.970%	
2013 due 2043	11/15/43	4.650%	250,000,000	11,625,000	93,025 **			11,718,025	4.687%	
Debt discount on FMB	11/15/43	4.650%	(1,704,983)		60,463 **			60,463	-3.546%	
Regulatory Liability - Swap Hedging FMB	11/15/43			(1,445,829)				(1,445,829)	-3.360%	
Revolving Credit Facility	07/28/19				536,328	2	71,725	504,229 d	1,112,282	
Letter of Credit Facility	04/29/14				222,786		104,812		327,598	
Total External Debt			\$ 2,091,085,949	\$ 70,906,833	\$ 2,907,153	\$ 707,144	\$ 2,467,300	\$ 76,988,429	3.682%	
Notes Payable to PPL			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total Internal Debt			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	
Total			\$ 2,091,085,949	\$ 70,906,833	\$ 2,907,153	\$ 707,144	\$ 2,467,300	\$ 76,988,429	3.682%	

SHORT-TERM DEBT

	Rate	Principal	Interest	Annualized Cost				Embedded Cost
				Expense	Loss	Premium	Total	
Notes Payable to Associated Company	0.505%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Revolving Credit Facility Payable		-	-	-	-	-	-	0.000%
Commercial Paper Program	Varies	197,270,524	991,087	-	-	-	991,087	0.502%
Total		\$ 197,270,524	\$ 991,087	\$ -	\$ -	\$ -	\$ 991,087	0.502%

Embedded Cost of Total Debt **\$ 2,288,356,473** **\$ 71,897,920** **\$ 2,907,153** **\$ 707,144** **\$ 2,467,300** **\$ 77,979,516** **3.408%**

** Debt discount shown on separate line.

1 Call premium and debt expense is being amortized in accordance with ASC 980, Regulated Operations.

2 Includes setup fees for Wells Fargo and Bank of America amended July 28, 2014 with a five year term. (Royal Bank of Scotland written off July 2015.)

a - Letter of credit fee = (principal bal + 45 days interest)*.75%. Rate based on company credit rating. Remarketing Fee = 10 basis points.

b - Remarketing fee = 10 basis points

c - Remarketing fee = 25 basis points (25bp on \$43.7M; 5bp on \$52.3M; avg 14bp + \$97,728 Annual Ins. Premium)

d - Revolving Credit facility fee = 12.5 basis points

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
June 30, 2015

CORRECTED Attachment to Response to Question No. 1

Page 6 of 6

Rahn / Garrett

USING AVERAGE DAILY BALANCES AND INTEREST RATES FOR ECR FILINGS

LONG-TERM DEBT

	Due	Rate	Principal	Interest	Amortized Debt Issuance Exp/Discount	Annualized Cost			Total	Embedded Cost
						Amortized Loss- Reacquired Debt	Letter of Credit and other fees			
Pollution Control Bonds -										
Mercer Co. 2000 Series A	05/01/23	0.065%	\$ 12,900,000	\$ 8,427	\$ 11,065	\$ 35,975	\$ 111,176 a	\$ 166,643	1.292%	
Carroll Co. 2002 Series A	02/01/32	0.308%	20,930,000	64,506	4,003	36,387	20,993 b	125,889	0.601%	
Carroll Co. 2002 Series B	02/01/32	0.308%	2,400,000	7,397	2,772	4,166	2,407 b	16,742	0.698%	
Muhlenberg Co. 2002 Series A	02/01/32	0.309%	2,400,000	7,426	1,115	12,935	2,407 b	23,883	0.995%	
Mercer Co. 2002 Series A	02/01/32	0.309%	7,400,000	22,898	3,082	12,784	7,422 b	46,186	0.624%	
Carroll Co. 2002 Series C	10/01/32	0.218%	96,000,000	209,075	72,761	186,499	232,532 c	700,867	0.730%	
Carroll Co. 2004 Series A	10/01/34	0.062%	50,000,000	30,943	10,153	95,166	432,771 a	569,033	1.138%	
Carroll Co. 2006 Series B	10/01/34	0.066%	54,000,000	35,675	47,822	-	467,893 a	551,390	1.021%	
Carroll Co. 2007 Series A	02/01/26	5.750%	17,875,000	1,027,813	10,963	22,458	-	1,061,233	5.937%	
Trimble Co. 2007 Series A	03/01/37	6.000%	8,927,000	535,620	5,284	10,830	-	551,733	6.181%	
Carroll Co. 2008 Series A	02/01/32	0.067%	77,947,405	52,327	34,393	-	675,390 a	762,111	0.978%	
Called Bonds				-	-	1	110,542	110,542		
First Mortgage Bonds -										
2010 due 2015	11/01/15	1.625%	250,000,000	4,062,500	469,261 **	-	-	4,531,761	1.813%	
Debt discount on FMB	11/01/15	1.625%	(86,463)	-	176,884 **	-	-	176,884	-204.577%	
2010 due 2020	11/01/20	3.250%	500,000,000	16,250,000	421,194 **	-	-	16,671,194	3.334%	
Debt discount on FMB	11/01/15	3.250%	(1,039,182)	-	190,194 **	-	-	190,194	-18.302%	
2010 due 2040	11/01/40	5.125%	750,000,000	38,437,500	250,538 **	-	-	38,688,038	5.158%	
Debt discount on FMB	11/01/40	5.125%	(6,917,108)	-	272,240 **	-	-	272,240	-3.936%	
2013 due 2043	11/15/43	4.650%	250,000,000	11,625,000	92,523 **	-	-	11,717,523	4.687%	
Debt discount on FMB	11/15/43	4.650%	(1,710,089)	-	60,137 **	-	-	60,137	-3.517%	
Regulatory Liability - Swap Hedging FMB	11/15/43			(1,438,018)				(1,438,018)	-3.342%	
S-3 SEC Shelf Registration	03/27/15				473			473		
Revolving Credit Facility	07/28/19				538,108	2	53,578	501,505 d	1,093,190	
Letter of Credit Facility	04/29/14				221,571		104,246		325,816	
Total External Debt			\$ 2,091,026,563	\$ 70,939,089	\$ 2,896,535	\$ 685,564	\$ 2,454,498	\$ 76,975,686	3.681%	
Notes Payable to PPL			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total Internal Debt			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	
Total			\$ 2,091,026,563	\$ 70,939,089	\$ 2,896,535	\$ 685,564	\$ 2,454,498	\$ 76,975,686	3.681%	

SHORT-TERM DEBT

	Rate	Principal	Interest	Expense	Annualized Cost			Total	Embedded Cost
					Loss	Premium			
Notes Payable to Associated Company	0.000%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Revolving Credit Facility Payable		-	-	-	-	-	-	-	0.000%
Commercial Paper Program	Varies	185,675,671	973,683	-	-	-	-	973,683	0.524%
Total		\$ 185,675,671	\$ 973,683	\$ -	\$ -	\$ -	\$ -	\$ 973,683	0.524%

Embedded Cost of Total Debt **\$ 2,276,702,234** **\$ 71,912,772** **\$ 2,896,535** **\$ 685,564** **\$ 2,454,498** **\$ 77,949,369** **3.424%**

** Debt discount shown on separate line.

1 Call premium and debt expense is being amortized in accordance with ASC 980, Regulated Operations.

2 Includes setup fees for Wells Fargo, Bank of America and Royal Bank of Scotland amended July 28, 2014 with a five year term.

a - Letter of credit fee = (principal bal + 45 days interest)*.75%. Rate based on company credit rating. Remarketing Fee = 10 basis points.

b - Remarketing fee = 10 basis points

c - Remarketing fee = 25 basis points (25bp on \$43.7M; 5bp on \$52.3M; avg 14bp + \$97,728 Annual Ins. Premium)

d - Revolving Credit facility fee = 12.5 basis points

Attachment in Excel

The attachment(s)
provided in separate
file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

CORRECTED ATTACHMENT

Question No. 2

Witness: Derek A. Rahn

- 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 KU has submitted during the billing period under review. Include all supporting calculations and documentation for any such additional over- or under-recovery. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-2. See the attachment provided in Excel format. For the period under review, KU experienced a net under-recovery of \$1,309,732.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Expense Month	Rate Base as Revised	Monthly Rate Base as Revised	Rate of Return as Revised	Operating Expenses (net of allowance proceeds)	Total E(m)	Jurisdictional Allocation Ratio	Retail E(m)	Comments: As Revised in This Review
	ES Form 2.00	(2) / 12		ES Form 2.00	(3) * (4) + (5)	ES Form 1.10	(6) * (7)	
Mar-15	\$ 1,011,330,612	\$ 84,277,551	10.56%	\$ 2,771,960	\$ 11,671,670	84.87%	\$ 9,905,746	
Apr-15	1,028,733,727	85,727,811	10.56%	2,899,592	11,952,448	88.58%	10,587,479	
May-15	1,035,180,880	86,265,073	10.56%	3,241,044	12,350,636	86.10%	10,633,897	
Jun-15	1,042,656,936	86,888,078	10.56%	3,441,474	12,616,855	86.03%	10,854,281	
Jul-15	1,062,420,272	88,535,023	10.34%	3,795,486	12,950,008	86.13%	11,153,842	
Aug-15	1,073,710,930	89,475,911	10.34%	3,648,831	12,900,640	86.94%	11,215,816	

Calculation of E(m) and Jurisdictional Surcharge Billing Factor

Summary Schedule for Expense Months March 2015 through August 2015

Rahn

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Retail E(m) for All ECR Plans	Adjustment to Retail E(m) for (Over)/Under-Collection	Retail E(m) Including all Adjustments to be billed as ECR	Monthly Billing Factor (Group 1)	Monthly Billing Factor (Group 2)	ECR Revenue Recovered Through Base Rates	Billing Period	ECR Billing Factor Revenues (Group 1)	ECR Billing Factor Revenues (Group 2)	Combined Total Over/(Under) Recovery
	Page 1 Col (8)	Case No. 2015-00020	(2) + (3)	As Filed	As Filed	As Filed		As Filed	As Filed	(7) + (9) + (10) - (4)
Mar-15	9,905,746	\$ 0	\$ 9,905,746	3.67%	6.37%	\$ 5,161,444	May-15	\$ 1,256,726	\$ 2,502,086	\$ (985,490)
Apr-15	10,587,479	0	10,587,479	5.40%	9.34%	3,742,568	Jun-15	2,352,983	3,809,970	(681,958)
May-15	10,633,897	0	10,633,897	5.66%	9.75%	3,522,397	Jul-15	2,805,938	4,814,893	509,330
Jun-15	10,854,281	(739,055)	10,115,226	4.78%	8.19%	4,047,553	Aug-15	2,536,756	3,862,098	331,181
Jul-15	11,153,842	(739,055)	10,414,787	4.65%	7.92%	4,511,501	Sep-15	2,303,940	3,796,072	196,726
Aug-15	11,215,816	0	11,215,816	5.46%	9.24%	4,280,639	Oct-15	2,043,123	4,212,534	(679,521)
			\$ 62,872,951			\$ 25,266,102		\$ 13,299,465	\$ 22,997,652	\$ (1,309,732)

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2015 through August 2015

Rahn

(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 1.10	(9) Jurisdictional Impact (Over)/Under (7) * (8)
May-15	Mar-15	10.22%	10.56%	0.34%	\$ 1,011,330,612	\$ 286,544	84.87%	\$ 243,190
Jun-15	Apr-15	10.22%	10.56%	0.34%	1,028,733,727	291,475	88.58%	258,188
Jul-15	May-15	10.22%	10.56%	0.34%	1,035,180,880	293,301	86.10%	252,532
Aug-15	Jun-15	10.15%	10.56%	0.41%	1,042,656,936	356,241	86.03%	306,474
Sep-15	Jul-15	9.95%	10.34%	0.39%	1,062,420,272	345,287	86.13%	297,395
Oct-15	Aug-15	9.95%	10.34%	0.39%	1,073,710,930	348,956	86.94%	303,382
						\$ 1,921,803		\$ 1,661,162

(1) Billing Month	(2) Expense Month	(3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 11)	(4) Recovery Position Explanation - Over/(Under) Rate of Return True-up as Originally Filed	(5) Use of 12 Month Average Revenues
May-15	Mar-15	\$ (985,490)	\$ (243,190)	\$ (742,301)
Jun-15	Apr-15	(681,958)	(258,188)	(423,769)
Jul-15	May-15	509,330	(252,532)	761,863
Aug-15	Jun-15	331,181	(306,474)	637,655
Sep-15	Jul-15	196,726	(297,395)	494,122
Oct-15	Aug-15	(679,521)	(303,382)	(376,138)
Total for 6 months		\$ (1,309,732)	\$ (1,661,162)	\$ 351,431

OVER/(UNDER) RECONCILIATION	
Combined Over/(Under) Recovery	\$ (1,309,732)
Due to Change in ROR in Current 6-month Period	\$ (1,661,162)
Use of 12 Month Average Revenues	\$ 351,431
Subtotal	\$ (1,309,732)
Unreconciled Difference	\$ 0

Attachment in Excel

The attachment(s)
provided in separate
file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

Question No. 3

Witness: Christopher M. Garrett

- Q-3. Provide the calculations, assumptions, work papers, and other supporting documents used to determine the amounts KU has reported during each billing period under review for Pollution Control Deferred Income Taxes. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-3. Please 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.

KU calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation, bonus 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.

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

2009 - Plan**Project 28 - Brown 3 SCR**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							21,480,081	
Mar-15	95,225,403	185,702	629,147	443,445	38.9000%	172,500	21,652,581	31,119
Apr-15	97,516,809	188,727	662,084	473,357	38.9000%	184,136	21,836,717	31,119
May-15	97,516,809	190,970	664,328	473,358	38.9000%	184,136	22,020,853	31,119
Jun-15	97,603,942	191,056	664,721	473,665	38.9000%	184,256	22,205,109	31,119
Jul-15	97,603,942	191,141	664,809	473,668	38.9000%	184,257	22,389,365	-
Aug-15	97,603,942	191,141	664,809	473,668	38.9000%	184,257	22,573,621	-

Due to Bonus Depreciation for tax purposes taken on certain components of Project 28, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for Aug 2015 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep	Fed. Difference	Fed Tax Rate	Fed Def Tax
18,534,899	190,801	95,408	(95,393)	35.0000%	(33,387)
27,538,078		458,967	458,967	35.0000%	160,639
(176,214)		(981)	(981)	35.0000%	(343)
526,898		3,170	3,170	35.0000%	1,109
790,348		13,173	13,173	35.0000%	4,610
797,485		2,991	2,991	35.0000%	1,047
255,705		28,412	28,412	35.0000%	9,944
2,122,835		8,482	8,482	35.0000%	2,969
87,134		467	467	35.0000%	163
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
37,069,798	190,801	190,817	16	6.0000%	1
55,076,054		917,934	917,934	6.0000%	55,076
(352,428)		(1,961)	(1,961)	6.0000%	(118)
1,053,797		6,340	6,340	6.0000%	380
1,580,696		26,345	26,345	6.0000%	1,581
797,485		2,991	2,991	6.0000%	179
2,291,406		9,548	9,548	6.0000%	573
87,134		467	467	6.0000%	28
					St. Offset for Fed Taxes not Owed
					(20,195)
					Total Deferred Tax
					184,256

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

2009 - Plan**Project 29 - ATB Expansion at E.W. Brown Station (Phase II)**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							3,929,352	
Mar-15	16,622,587	32,523	110,333	77,810	38.9000%	30,268	3,959,620	-
Apr-15	19,347,703	35,192	261,657	226,465	38.9000%	88,095	4,047,715	-
May-15	19,347,703	37,860	264,328	226,468	38.9000%	88,096	4,135,810	-
Jun-15	19,347,703	37,860	264,328	226,468	38.9000%	88,096	4,223,906	-
Jul-15	19,347,703	37,860	264,328	226,468	38.9000%	88,096	4,312,001	-
Aug-15	19,347,703	37,860	264,328	226,468	38.9000%	88,096	4,400,096	-

Due to Bonus Depreciation for tax purposes taken on certain components of Project 29, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for Aug 2015 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep.	Fed. Difference	Fed Tax Rate	Fed Def Tax
3,199,833	37,563	16,471	(21,092)	35.0000%	(7,382)
4,799,749		79,996	79,996	35.0000%	27,999
124,684		694	694	35.0000%	243
187,027		3,117	3,117	35.0000%	1,091
1,362,662		151,384	151,384	35.0000%	52,984
1,362,662		15,898	15,898	35.0000%	5,564
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
6,399,666	37,563	32,942	(4,621)	6.0000%	(277)
9,599,498		159,992	159,992	6.0000%	9,600
249,369		1,388	1,388	6.0000%	83
374,053		6,234	6,234	6.0000%	374
2,725,116		31,793	31,793	6.0000%	1,908
					St. Offset for Fed Taxes not Owed (4,090)
					Total Deferred Tax 88,096

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

2009 - Plan**Project 30 - Ghent CCP Storage (Landfill-Phase I)**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							54,771,394	
Mar-15	311,581,083	580,030	1,266,256	686,226	38.9000%	266,942	55,038,335	-
Apr-15	311,581,083	580,030	1,266,256	686,226	38.9000%	266,942	55,305,276	-
May-15	311,581,083	580,030	1,266,258	686,228	38.9000%	266,943	55,572,218	-
Jun-15	311,581,083	580,030	1,266,258	686,228	38.9000%	266,943	55,839,159	-
Jul-15	311,581,083	580,030	1,266,256	686,226	38.9000%	266,942	56,106,100	-
Aug-15	318,341,151	586,532	1,616,079	1,029,547	38.9000%	400,494	56,506,593	-

Due to Bonus Depreciation for tax purposes taken on certain components of Project 30, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for Aug 2015 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep	Fed. Difference	Fed Tax Rate	Fed Def Tax
17,069	591,732	273	(591,459)	35.0000%	(207,011)
863,123		4,803	4,803	35.0000%	1,681
172,625		2,877	2,877	35.0000%	1,007
115,083		640	640	35.0000%	224
19,219,939		115,624	115,624	35.0000%	40,468
3,391,754		56,529	56,529	35.0000%	19,785
108,964,236		655,511	655,511	35.0000%	229,429
18,955,939		315,932	315,932	35.0000%	110,576
1,715,642		343,128	343,128	35.0000%	120,095
4,287,763		32,158	32,158	35.0000%	11,255
756,664		12,611	12,611	35.0000%	4,414
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
34,138	591,732	546	(591,186)	6.0000%	(35,471)
1,726,247		9,605	9,605	6.0000%	576
345,249		5,754	5,754	6.0000%	345
230,166		1,281	1,281	6.0000%	77
32,248,976		194,005	194,005	6.0000%	11,640
6,449,795		107,497	107,497	6.0000%	6,450
4,299,864		25,867	25,867	6.0000%	1,552
217,696,385		1,309,625	1,309,625	6.0000%	78,578
38,143,965		635,733	635,733	6.0000%	38,144
5,746,058		43,095	43,095	6.0000%	2,586
1,014,010		16,900	16,900	6.0000%	1,014
					St. Offset for Fed Taxes not Owed
					(36,922)
					Total Deferred Tax
					400,493

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

2009 - Plan**Project 31 - Trimble County Ash Treatment Basin (BAP/GSP)**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							627,037	
Mar-15	9,031,671	15,782	42,911	27,129	38.9000%	10,553	637,589	71,277
Apr-15	9,031,671	15,782	42,911	27,129	38.9000%	10,553	648,142	71,277
May-15	9,031,671	15,782	42,910	27,128	38.9000%	10,553	658,694	71,277
Jun-15	9,031,671	15,782	42,910	27,128	38.9000%	10,553	669,247	71,277
Jul-15	9,031,671	15,782	42,910	27,128	38.9000%	10,553	679,799	-
Aug-15	9,031,671	15,782	42,913	27,131	38.9000%	10,554	690,352	-

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

2009 - Plan**Project 32 - Trimble County CCP Storage (Landfill - Phase I)**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							-	
Mar-15	3,760,136	3,274	173,971	170,697	38.9000%	66,401	66,400	-
Apr-15	3,760,136	6,548	177,242	170,694	38.9000%	66,400	132,800	-
May-15	3,760,136	6,548	177,244	170,696	38.9000%	66,401	199,200	-
Jun-15	3,760,136	6,548	177,244	170,696	38.9000%	66,401	265,601	-
Jul-15	3,760,136	6,548	177,245	170,697	38.9000%	66,401	332,001	-
Aug-15	3,760,136	6,548	177,245	170,697	38.9000%	66,401	398,401	-

Due to Bonus Depreciation for tax purposes taken on certain components of Project 32, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for Aug 2015 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep	Fed. Difference	Fed Tax Rate	Fed Def Tax
1,880,068	6,220	195,057	188,837	35.0000%	66,093
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
3,760,136	6,220	14,101	7,881	6.0000%	473
					St. Offset for Fed Taxes not Owed (166)
					Total Deferred Tax 66,400

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

2009 - Plan**Project 33 - Beneficial Reuse**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							841,216	
Mar-15	4,193,823	7,303	11,964	4,661	38.9000%	1,813	843,029	11,253
Apr-15	4,193,823	7,118	11,778	4,660	38.9000%	1,813	844,842	11,253
May-15	4,193,823	7,118	11,778	4,660	38.9000%	1,813	846,655	11,253
Jun-15	4,193,823	7,118	11,779	4,661	38.9000%	1,813	848,468	11,253
Jul-15	4,193,823	7,118	11,781	4,663	38.9000%	1,814	850,281	-
Aug-15	4,193,823	7,118	11,784	4,666	38.9000%	1,815	852,095	-

Due to Bonus Depreciation for tax purposes taken on certain components of Project 33, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for Aug 2015 is shown below:

Federal Basis	Book Depr.	Federal Tax Depr.	Fed. Difference	Fed Tax Rate	Fed Def Tax
2,054,113	7,190	10,747	3,557	35.0000%	1,245
State Basis	Book Depr.	State Tax Depr.	St. Difference	State Tax Rate	St Def Tax
4,193,823	7,190	21,761	14,571	6.0000%	874
					St. Offset for Fed Taxes not Owed (306)
					Total Deferred Tax 1,813

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

2011 - Plan**Project 35 - Ghent Station Air Compliance**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							56,730,706	
Mar-15	328,564,371	558,377	2,091,688	1,533,311	38.9000%	596,458	57,327,164	2,040,790
Apr-15	328,564,371	573,441	2,106,755	1,533,314	38.9000%	596,459	57,923,623	2,040,790
May-15	483,873,724	739,533	10,585,199	9,845,666	38.9000%	3,829,964	61,753,587	3,850,588
Jun-15	483,873,724	905,264	10,752,129	9,846,865	38.9000%	3,830,430	65,584,017	3,850,588
Jul-15	483,873,724	905,264	10,752,129	9,846,865	38.9000%	3,830,430	69,414,448	-
Aug-15	497,713,572	918,551	10,879,302	9,960,751	38.9000%	3,874,732	73,289,179	-

Due to Bonus Depreciation for tax purposes taken on certain components of Project 35, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for Aug 2015 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep	Fed. Difference	Fed Tax Rate	Fed Def Tax
1,707,678	906,047	9,502	(896,545)	35.0000%	(313,791)
2,561,517		30,494	30,494	35.0000%	10,673
30,650,265		184,387	184,387	35.0000%	64,535
45,975,398		547,326	547,326	35.0000%	191,564
27,464,567		165,222	165,222	35.0000%	57,828
41,196,851		490,439	490,439	35.0000%	171,654
8,604,880		29,335	29,335	35.0000%	10,267
4,312,916		431,292	431,292	35.0000%	150,952
5,122,043		19,208	19,208	35.0000%	6,723
7,683,064		91,465	91,465	35.0000%	32,013
33,221		125	125	35.0000%	44
49,831		593	593	35.0000%	208
66,616,701		8,327,088	8,327,088	35.0000%	2,914,481
35,477,061		166,299	166,299	35.0000%	58,205
53,215,592		886,927	886,927	35.0000%	310,424
1,219,848		9,149	9,149	35.0000%	3,202
5,048,000		37,860	37,860	35.0000%	13,251
7,572,000		90,142	90,142	35.0000%	31,550
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
3,645,863	906,047	18,767	(887,280)	6.0000%	(53,237)
3,415,356		19,004	19,004	6.0000%	1,140
5,123,034		60,989	60,989	6.0000%	3,659
61,300,531		368,774	368,774	6.0000%	22,126
91,950,796		1,094,652	1,094,652	6.0000%	65,679
54,929,134		330,445	330,445	6.0000%	19,827
82,393,701		980,877	980,877	6.0000%	58,853
8,604,880		29,335	29,335	6.0000%	1,760
6,880,430		25,802	25,802	6.0000%	1,548
10,320,645		122,865	122,865	6.0000%	7,372
62,123,741		291,205	291,205	6.0000%	17,472
93,185,612		1,553,094	1,553,094	6.0000%	93,186
1,219,848		9,149	9,149	6.0000%	549
5,048,000		37,860	37,860	6.0000%	2,272
7,572,000		90,142	90,142	6.0000%	5,409
					St. Offset for Fed Taxes not Owed
					(86,665)
					Total Deferred Tax
					3,874,732

Attachment in Excel

The attachment(s)
provided in separate
file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

Question No. 4

Witness: Christopher M. Garrett

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the March 2015 through August 2015 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 March 2015 through August 2015 expense months. The changes in the expense levels are reasonable and generally occurred as a part of routine plant operations and maintenance or normal testing expenses.

2009 Plan

Monthly variances in the NO_x operation expenses, account 506154 reflect normal SCR operations at E.W. Brown Unit 3 (BR3). The variances for account 506154 are driven by the purchase and delivery timing of the raw consumable material (ammonia), as well as variations in generation and coal quality. BR3 was offline for a maintenance outage in April 2015.

Fluctuations in the NO_x maintenance expenses, account 512151, are the result of routine monthly maintenance on the SCR at BR3. The increases in March, April and May 2015, are the result of maintenance required to correct the BR3 NO_x outlet and excessive vibration on the air compressor.

Landfill maintenance, account 512107, reflect landfill operations at Ghent. Increases in July and August 2015, are the result of corrective maintenance on pumps and a transformer.

2011 Plan

Fluctuations in sorbent injection operation expenses, account 506159, are the result of on-going operations of Ghent and E.W. Brown Units.

Fluctuations in sorbent injection reactant (hydrated lime) expenses, account 506152, are the result of on-going operations of all Ghent and E.W. Brown Units. The variances are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality.

Fluctuations in sorbent injection maintenance expenses, account 512152, are the result of normal system maintenance.

Fluctuations in activated carbon expenses, account 506151 are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality. Increases in April and July 2015, were the result of increases in compliance costs at Ghent Unit 4. Beginning in July 2015, two different types of activated carbon were purchased for system/unit testing and product evaluation.

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Mar-15	Apr-15	% Change from Prior Period	May-15	% Change from Prior Period	Jun-15	% Change from Prior Period	Jul-15	% Change from Prior Period	Aug-15	% Change from Prior Period
2009 Plan											
506154 NOx Operation -- Consumables	35,941.52	11,536.87	-68%	58,431.80	406%	34,665.69	-41%	68,459.81	97%	23,216.95	-66%
506155 NOx Operation -- Labor and Other	-	-	0%	-	0%	-	0%	-	0%	-	0%
512151 NOx Maintenance	40,152.03	39,018.66	-3%	40,598.05	4%	25,981.61	-36%	16,597.82	-36%	8,434.51	-49%
502013 ECR Landfill Operations	320,387.41	325,956.81	2%	325,284.58	0%	327,021.19	1%	325,932.80	0%	328,914.46	1%
512107 ECR Landfill Maintenance	42,251.51	44,883.61	6%	41,269.11	-8%	59,662.64	45%	78,940.98	32%	112,633.45	43%
Adjustment for CCP Disposal in Base Rates (ES Form 2.51)	-	-	0%	-	0%	-	0%	-	0%	-	0%
Total 2009 Plan O&M Expenses	438,732.47	421,395.95	-4%	465,583.54	10%	447,331.13	-4%	489,931.41	10%	473,199.37	-3%
2011 Plan											
506159 ECR Sorbent Injection Operation	86,921.86	70,689.01	-19%	117,976.57	67%	93,961.21	-20%	108,446.90	15%	85,286.69	-21%
506152 ECR Sorbent Reactant - Reagent Only	665,460.31	631,274.76	-5%	657,898.82	4%	753,039.54	14%	796,921.73	6%	769,532.82	-3%
512152 ECR Sorbent Injection Maintenance	27,021.22	29,514.80	9%	30,855.32	5%	36,451.77	18%	46,009.91	26%	19,447.30	-58%
506156 ECR Baghouse Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512156 ECR Baghouse Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
506151 ECR Activated Carbon	44,647.60	231,876.60	419%	283,484.00	22%	265,096.80	-6%	511,592.20	93%	410,173.60	-20%
Total 2011 Plan O&M Expenses	824,050.99	963,355.17	17%	1,090,214.71	13%	1,148,549.32	5%	1,462,970.74	27%	1,284,440.41	-12%

Attachment in Excel

The attachment(s)
provided in separate
file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

Question No. 5

Witness: Christopher M. Garrett

- Q-5. In Case No. 2000-00439,⁶ the Commission ordered KU cost of debt and preferred stock to be reviewed and reestablished during the 6-month review cases. Provide the following information as of August 31, 2015:
- 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. KU calculation of its weighted average cost of capital for environmental surcharge purposes.
 - d. Provide all exhibits and schedules of your response in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-5. a-d. Please see the attachments being provided in Excel format for the period ended August 31, 2015 under review. There was no preferred stock outstanding as of August 31, 2015; therefore, it is not listed in the attached schedules. KU is utilizing a return on equity of 10.00% as agreed to for all ECR Plans and approved by the Commission in its June 30, 2015 Order in Case No. 2014-00371.

KU recommends the continued use of an effective tax rate of 38.6660% in the gross-up revenue factor used in the rate of return calculation for the period ended August 31, 2015. As discussed in the response to Question No. 1, KU will incur a tax loss in 2015 as a result of bonus depreciation and will be unable to take the Internal Revenue Code §199 manufacturing tax deduction.

⁶Case No. 2000-00439, Kentucky Utilities Company (Ky. PSC Apr. 18, 2001).

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity - ECR Plans
As of August 31, 2015

	Balance at 08-31-15 (1)	Capital Structure (2)	EEI (3)	Investments in OVEC and Other (Col 2 x Col 4 Line 4) (4)	Adjustments to Total Co. Capitalization (Sum of Col 3 - Col 4) (5)	Adjusted Total Company Capitalization (Col 1 + Col 5) (6)	Jurisdictional Rate Base Percentage (7)	Kentucky Jurisdictional Capitalization (Col 6 x Col 7) (8)
1. Short Term Debt	\$ 213,987,852	4.31%	\$ -	\$ (52,639)	\$ (52,639)	\$ 213,935,213	88.82%	\$ 190,017,256
2. Long Term Debt	2,091,232,418	42.11%	-	(514,295)	(514,295)	2,090,718,123	88.82%	1,856,975,837
3. Common Equity	<u>2,661,087,079</u>	<u>53.58%</u>	<u>(504,066)</u>	<u>(654,379)</u>	<u>(1,158,445)</u>	<u>2,659,928,634</u>	88.82%	<u>2,362,548,613</u>
4. Total Capitalization	<u>\$ 4,966,307,349</u>	<u>100.000%</u>	<u>\$ (504,066)</u>	<u>\$ (1,221,313)</u>	<u>\$ (1,725,379)</u>	<u>\$ 4,964,581,970</u>		<u>\$ 4,409,541,706</u>

	Kentucky Jurisdictional Capitalization (8)	Capital Structure (9)	Environmental Surcharge (Col 9 x Col 10 Line 4) (10)	DSM Rate Base (Col 9 x Col 11 Line 4) (11)	Adjusted Kentucky Jurisdictional Capitalization (Col 8 + Col 10 + Col 11) (12)	Adjusted Capital Structure (13)	Annual Cost Rate (14)	Cost of Capital (Col 13 x Col 14) (15)
1. Short Term Debt	\$ 190,017,256	4.31%	\$ (41,103,179)	\$ (183,841)	\$ 148,730,236	4.31%	0.41%	0.02%
2. Long Term Debt	1,856,975,837	42.11%	(401,590,457)	(1,796,178)	1,453,589,202	42.11%	3.68%	1.55%
3. Common Equity	<u>2,362,548,613</u>	<u>53.58%</u>	<u>(510,976,412)</u>	<u>(2,285,423)</u>	<u>1,849,286,778</u>	<u>53.58%</u>	10.00%	<u>5.36%</u>
4. Total Capitalization	<u>\$ 4,409,541,706</u>	<u>100.000%</u>	<u>\$ (953,670,048)</u>	<u>\$ (4,265,442)</u>	<u>\$ 3,451,606,216</u>	<u>100.000%</u>		<u>6.93%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect {ROR + (ROR - DR) x [TR / (1 - TR)]}								<u>10.31%</u>

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2015
LONG-TERM DEBT

	Due	Rate	Principal	Interest	Annualized Cost				Embedded Cost	
					Amortized Debt Issuance Exp/Discount	Amortized Loss-Reacquired Debt	Letter of Credit and other fees	Total		
Pollution Control Bonds -										
Mercer Co. 2000 Series A	05/01/23	0.020%	\$ 12,900,000	\$ 2,580	\$ 11,245	\$ 36,555	\$ 110,843 a	\$ 161,223	1.250%	
Carroll Co. 2002 Series A	02/01/32	0.300%	20,930,000	62,790	4,079	36,973	20,930 b	124,772	0.596%	
Carroll Co. 2002 Series B	02/01/32	0.300%	2,400,000	7,200	2,825	4,233	2,400 b	16,658	0.694%	
Muhlenberg Co. 2002 Series A	02/01/32	0.300%	2,400,000	7,200	1,139	12,990	2,400 b	23,729	0.989%	
Mercer Co. 2002 Series A	02/01/32	0.300%	7,400,000	22,200	3,155	13,144	7,400 b	45,899	0.620%	
Carroll Co. 2002 Series C	10/01/32	0.180%	96,000,000	172,800	73,973	189,505	232,128 c	668,406	0.696%	
Carroll Co. 2004 Series A	10/01/34	0.020%	50,000,000	10,000	10,319	96,700	431,473 a	548,492	1.097%	
Carroll Co. 2006 Series B	10/01/34	0.020%	54,000,000	10,800	48,603	13,486	466,490 a	539,379	0.999%	
Carroll Co. 2007 Series A	02/01/26	5.750%	17,875,000	1,027,813	11,139	22,820	-	1,061,772	5.940%	
Trimble Co. 2007 Series A	03/01/37	6.000%	8,927,000	535,620	5,369	11,004	-	551,993	6.183%	
Carroll Co. 2008 Series A	02/01/32	0.020%	77,947,405	15,589	34,955	92,905	673,364 a	816,813	1.048%	
Called Bonds				-	-	1 5,933		5,933		
First Mortgage Bonds -										
2010 due 2015	11/01/15	1.625%	250,000,000	4,062,500	476,825 **	-	-	4,539,325	1.816%	
Debt discount on FMB	11/01/15	1.625%	(34,405)		179,735 **			179,735	-522.411%	
2010 due 2020	11/01/20	3.250%	500,000,000	16,250,000	427,984 **		-	16,677,984	3.336%	
Debt discount on FMB	11/01/20	3.250%	(983,206)		193,260 **			193,260	-19.656%	
2010 due 2040	11/01/40	5.125%	750,000,000	38,437,500	254,577 **		-	38,692,077	5.159%	
Debt discount on FMB	11/01/40	5.125%	(6,836,986)		276,629 **			276,629	-4.046%	
2013 due 2043	11/15/43	4.650%	250,000,000	11,625,000	94,014 **			11,719,014	4.688%	
Debt discount on FMB	11/15/43	4.650%	(1,692,390)		61,106 **			61,106	-3.611%	
Regulatory Liability - Swap Hedging FMB	11/15/43			(1,461,200)				(1,461,200)	-3.396%	
Revolving Credit Facility	07/28/19				519,741	2	54,442	500,000 d	1,074,183	
Letter of Credit Facility	04/29/14				225,216		105,926		331,142	
Total External Debt			\$ 2,091,232,418	\$ 70,788,392	\$ 2,915,888		\$ 696,616	\$ 2,447,428	\$ 76,848,325	3.675%
Notes Payable to PPL			\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
Total Internal Debt			\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	0.000%
Total			\$ 2,091,232,418	\$ 70,788,392	\$ 2,915,888		\$ 696,616	\$ 2,447,428	\$ 76,848,325	3.675%

	Rate	Principal	Interest	Annualized Cost				Embedded Cost
				Expense	Loss	Premium	Total	
Notes Payable to Associated Company	0.500%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%
Revolving Credit Facility Payable		-	-	-	-	-	-	0.000%
Commercial Paper Program	Varies	213,987,852	878,746	-	-	-	878,746	0.411%
Total		\$ 213,987,852	\$ 878,746	\$ -	\$ -	\$ -	\$ 878,746	0.411%

Embedded Cost of Total Debt	\$ 2,305,220,270	\$ 71,667,138	\$ 2,915,888	\$ 696,616	\$ 2,447,428	\$ 77,727,070	3.372%
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** Debt discount shown on separate line.

1 Call premium and debt expense is being amortized in accordance with ASC 980, Regulated Operations.

2 Includes setup fees for Wells Fargo and Bank of America amended July 28, 2014 with a five year term. (Royal Bank of Scotland written off July 2015.)

a - Letter of credit fee = (principal bal + 45 days interest)*.75%. Rate based on company credit rating. Remarketing Fee = 10 basis points.

b - Remarketing fee = 10 basis points

c - Remarketing fee = 25 basis points (25bp on \$43.7M; 5bp on \$52.3M; avg 14bp + \$9,728 Annual Ins. Premium)

d - Revolving Credit facility fee = 12.5 basis points

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2015**

	2015 State Production Credit W/ 6% 2015 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	<u>5.6400</u>	(40)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.3600	(1)-(3)
(7) a. Production Rate	0%	
(8) b. Allocation to Production Income	100%	
(9) c. Allocated Production Rate (a x b)	0.00%	
(10)		
(11) Less: Production tax credit	<u>-</u>	(6)*(9)
(12)		
(13) Taxable income for Federal income tax	94.3600	(6)-(11)
(14)		
(15) Federal income tax	<u>33.0260</u>	(13)*35%
(16)		
(17)		
(18) Total State and Federal income taxes	<u>\$ 38.6660</u>	(3)+(15)
(19)		
(20) Gross-up Revenue Factor	<u><u>\$ 61.3340</u></u>	100-(18)
(21)		
(22) Therefore, the composite rate is:		
(23) Federal	33.0260%	(15)/100
(24) State	<u>5.6400%</u>	(3)/100
(25) Total	<u><u>38.6660%</u></u>	(23)+(24)
(26)		
(27)		
(28)		
(29)		
(30)		
(31) <u>State Income Tax Calculation</u>		
(32) Assume pre-tax income of	\$ 100.0000	
(33)		
(34) Less: Production tax credit @ 6%	<u>6.0000</u>	
(35)		
(36) Taxable income for State income tax	94.0000	(32)-(34)
(37)		
(38) State Tax Rate	<u>6.0000%</u>	
(39)		
(40) State Income Tax	<u><u>\$ 5.6400</u></u>	(36)*(38)

Attachment in Excel

The attachment(s)
provided in separate
file(s) in Excel format.

KENTUCKY UTILITIES COMPANY

**Response to Commission Staff's First Request for Information
To Appendix B of Commission's Order Dated December 21, 2015
and Amended Order Dated January 7, 2016**

Case No. 2015-00411

CORRECTED ATTACHMENT

Question No. 6

Witness: Derek A. Rahn

- Q-6. Provide the actual average residential customer's usage. Based on this usage amount, provide the dollar impact the over/under recovery will have on the average residential customer's bill for the requested recovery period. Provide all supporting calculations and documentation in Excel spreadsheet format, with formulas intact and unprotected and all rows and columns accessible.
- A-6. See the attachment being provided in Excel format.

The actual average residential customer's usage for the 12-months ending November 30, 2015 is 1,146 kWh per month. Actual average monthly usage for residential customers will vary from month to month depending upon the time period of the year.

Based upon distributing the under-recovered position of \$1,309,732 over two months (\$654,866 per month), the ECR billing factor will be higher by approximately 0.54% per month. For a residential customer using 1,146 kWh per month, the impact of the adjusted ECR billing factor would be an increase of approximately \$0.58 per month for two months, using rates and adjustment clause factors in effect for the November 2015 billing month.

INPUTS:		
	Expense Month for calculations	Nov-15
<u>ECR Monthly Filing - Expense Month for calculations</u>		
Form 1.10 - Line 13	Adjusted Net Juris E(M) as filed	\$ 7,444,770
Form 1.10 - Line 14	Group 1 Rev as % 12-mo Total Rev	41.16%
Form 1.10 - Line 15	Group 1 E(m)	\$ 3,064,267
Form 1.10 - Line 16	Group 1 12-month avg revenue	\$ 50,319,679
Form 1.10 - Line 17	Billing Factor filed	6.09%
<u>Financial Reports - Year Ended Current Month</u>		
		Nov-15
Page 28.1	Residential Sales (kWh)	6,153,717,528
Page 17	Residential Avg Customers Year Ended	447,516
	times 12 for 12-month number	5,370,192
Response to DR Q2	Adjustment for (Over)/Under Collection	1,309,732
	Number of Months to collect/distribute	2
	Monthly Adj for (Over)/Under Collection	654,866
	Position for Review Period Collection	UNDER
<u>Billing Factors</u>		
Tariff	Basic Service Charge	10.75
Tariff	Base Rate	0.08508
Monthly Filing	FAC for Nov-15	(0.00375)
Tariff	DSM	0.00259

Residential Bill Impact Calculations

Adjusted Net Juris E(M) as filed	\$ 7,444,770
Adjustment for (Over)/Under Collection	654,866
Adjusted Net Juris E(M) as adjusted for (Over)/Under Collection	\$ 8,099,636

Group 1 Rev as % 12-mo Total Rev	41.16%
Group 1 E(m) as filed	\$ 3,064,267
Group 1 E(m) as adjusted	\$ 3,333,810

Group 1 12-month revenue	\$ 50,319,679
Billing Factor as filed	6.09%
Billing Factor as adjusted	6.63%
Impact to billing factor	0.54%

Bill Impact, Average Residential Customer

Basic Service Charge	10.75	\$	10.75
Base Rate	0.08508		97.50
FAC for Nov-15	(0.00375)		(4.30)
DSM	0.00259		2.97
		\$	106.92

ECR (as billed)	6.09%	\$	6.51
ECR (as adjusted)	6.63%	\$	7.09
Change in ECR	0.54%	\$	0.58

Average Residential Usage 1,146 kWh

negative number = over collection = distribution
positive number = under collection = recovery

Attachment in Excel

The attachment(s)
provided in separate
file(s) in Excel format.