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PUBLIC SERVICE COMMISSION

Ms. Stephanie Stumbo, Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

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

Rick E. Lovekamp
Manager - Regulatory Affairs
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November 19, 2008

RE: ***APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ORDER APPROVING THE ESTABLISHMENT OF A REGULATORY ASSET - CASE NO. 2008-00457***

Dear Ms. Stumbo:

Enclosed please find an original and seven (7) copies of the Response of Kentucky Utilities Company to the First Data Request of Commission Staff dated November 12, 2008, in the above-referenced proceeding.

Please confirm your receipt of this information by placing the File Stamp of your Office on the enclosed additional copy. Should you have any questions regarding this transaction or this information, please contact me at (502) 627-3780.

Sincerely,

Rick E. Lovekamp

Rick E. Lovekamp

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY	)
FOR AN ORDER APPROVING THE ESTABLISHMENT	) CASE NO.
OF A REGULATORY ASSET	) 2008-00457

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST DATA REQUEST
DATED NOVEMBER 12, 2008

FILED: NOVEMBER 19, 2008

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Dan Arbough**, being duly sworn, deposes and says that he is the Treasurer, for E.ON U.S. Services Inc., 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.

DAN ARBOUGH

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 18th day of November, 2008.

(SEAL)
Notary Public

My Commission Expires:

August 31, 2011

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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

Lonnie E. Bellar

LONNIE E. BELLAR

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of November, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says that she is the Controller, for Kentucky Utilities Company, 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.

Valerie L. Scott

VALERIE L. SCOTT

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of November, 2008.

Victoria B. Harper (SEAL)

Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

STATE OF KENTUCKY)
) **SS:**
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director, Rates for Kentucky Utilities Company, 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 19th day of November, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Chris Hermann**, being duly sworn, deposes and says that he is Senior Vice President – Energy Delivery for Kentucky Utilities Company, 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.

C Hermann
CHRIS HERMANN

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 19th day of November, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated November 12, 2008

Case No. 2008-00457

Question No. 1

Witness: Dan Arbough

Q-1. Refer to Paragraph 9 of KU's application and Item 29(c) of KU's response to the Supplemental Request for Information of the Attorney General in Case No. 2008-00251

a. The text in the application states that property and casualty insurance for distribution and transmission storm damage is prohibitively expensive. The data response indicates that KU was covered by storm insurance prior to 2004 when the premium and deductible were raised and the insurance was deemed "[n]ot cost effective." Identify the insurance provider and provide the premium and deductible for KU's storm insurance in 2003.

b. Provide the premium and deductible KU was offered, and which it declined in 2004, and the name of the insurance provider who made the offer.

c. Explain whether KU sought offers from other insurance providers for 2004 after it determined that the offer from the insurance provider identified in part b. of this response was deemed not cost-effective. If no offers were sought, explain why.

d. Explain whether KU has revisited the issue of carrying storm insurance since that time by seeking quotes from any providers of such insurance. If no quotes have been sought since 2004, explain why.

A-1. a. Ergon Insurance Limited was the insurance provider. Ergon Insurance Limited was an affiliate of Powergen, Ltd, KU's parent company at the time. The 2003 policy provided a $15 million per occurrence insurance limit with a $30 million annual aggregate limit. The policy had a $2 million per occurrence deductible and the annual premium was $375,000.

b. Ergon Insurance Limited provided the following renewal terms for the 2004 policy year; $15 million per occurrence insurance limit with a $15 million annual aggregate limit. The policy had a $2 million per occurrence deductible and the annual premium was $3,000,000. The dramatic increase in premium was an indication that Ergon was not interested in continuing to cover the risk.

c. KU did not solicit proposals from other insurance carriers after the renewal proposal from Ergon Insurance Limited was declined because the product is generally not available from insurers. KU had not purchased property and casualty insurance for distribution and transmission prior to 2001 when Ergon Insurance Limited provided coverage. The standard commercial insurance markets have not traditionally provided property insurance for distribution and transmission assets of electric utilities because the exposure to catastrophic loss is too great. There have been several attempts through the years to create a specialty insurance program limited to property coverage of distribution and transmission systems by the electric utility industry. The focus of these programs has been to provide catastrophic coverage and their structure, high minimum deductible, and the premium costs have not been an efficient option for KU based on the traditional annual storm damage costs. KU had reviewed several of these industry programs in the past and most had a minimum annual deductible of $5 million and premiums in excess of $2 million. Very few of these industry insurance programs attracted enough participation to be viable programs.

d. KU has continued to review the insurance market for distribution and transmission systems through discussions with insurance carriers and KU's independent insurance brokers and consultants since 2004. However, there are no known standard commercial insurance carriers providing such products currently. Therefore, no quotes have been sought. There is a new industry program offering catastrophic coverage. The minimum deductible is $25 million which is very high given KU's historical losses. This type of program typically involves the company paying premiums into a special purpose entity that invests the premiums until a loss occurs at which time the premium dollars and investment earnings are available to pay losses. In some of the newer products, there are a few other participants that contribute into the special purpose company. In effect, these products are a form of self-insurance that protect against catastrophic damage. These programs are currently being structured for companies that have incurred significant hurricane damage that has resulted in extremely high losses.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated November 12, 2008

Case No. 2008-00457

Question No. 2

Witness: Lonnie E. Bellar

Q-2. Refer to paragraph 11 of KU's application and Item 31 of KU's response to the Commission Staffs second data request in Case No. 2008-00251.

a. The application text and footnote thereto indicate that, if KU's proposed accounting treatment of Hurricane Ike costs is granted by the Commission, KU anticipates requesting amortization and rate recovery of those costs in Case No 2008-00251. The data response refers to the likelihood that a rate case will need to be filed in the near future due to the need to recover costs related to Trimble County Unit 2 ("Trimble 2"). If the data response means that KU expects to file a rate case to commence recovery of Trimble 2 costs in 2010, when the unit is expected to begin commercial operation, explain why KU plans to seek rate recovery of Hurricane Ike costs in the current rate case rather than in its next rate case

b. If not covered in its response to part a. of this request, state KU's position, including a listing of the positive and negative aspects, on the recovery of Hurricane Ike costs not being considered by the Commission until KU's next general rate case.

A-2. KU and its sister utility, Louisville Gas and Electric Company ("LG&E") (collectively, "Companies") plan to seek rate recovery of their Hurricane Ike costs in their current rate cases rather than their next rate cases for several important reasons. First, Hurricane Ike was the most devastating and costly storm to impact Kentucky in recent history, resulting in enormous expenses for the Companies. The Companies' statistics concerning Hurricane Ike are simply extraordinary: 500,000 customers affected; 376,000 outages; 418,000 outage calls; 10,799 wires down; 698 poles broken; 243 circuits out; and 2,943 restoration workers at peak. As stated in their applications, the Companies incurred approximately $27 million in operations and maintenance expenses associated with Hurricane Ike. By way of comparison, during the 2003 ice storm, which significantly impacted KU's distribution and transmission facilities, KU incurred only about $15.5 million in associated operations and maintenance expenses.

By any measure, then, Hurricane Ike had an historic and devastating impact on the Companies' distribution facilities, and the Companies expended significant resources to repair the damage in a timely and professional manner.

Second, because there are no more Hurricane Ike-related operations and maintenance expenses for the Companies to incur, it is appropriate for each utility to capitalize its expenses in a regulatory asset and begin amortization and rate recovery thereof immediately. The Company will only seek recovery for actual costs incurred and not for any estimates or contingencies.

Third, delaying the Companies' recovery of their Hurricane Ike expenses would create timing inequities. On the other hand, allowing the Companies to begin recovering their Hurricane Ike costs as soon as possible will help ensure that the customers who benefitted from the repair of Hurricane Ike's damages will help pay for those benefits.

Fourth, the Companies incurred these significant but necessary expenses during a capital-intensive, construction program of a new generation facility (i.e., Trimble County Unit No. 2 ("TC2")) and transmission lines, and while a slumping global economy has greatly restricted access to capital. The table below shows that the Companies' Construction Work in Progress in TC2 has grown significantly since the end of the test year in the current base rate case proceeding. The Companies' base rates will be established inclusive of the CWIP balance at April 30, 2008. However, the Companies have continued and will continue to expend significant capital on TC2 that will not be included in base rates until the next rate case. Since April 30, 2008, the end of the test year, the Companies have invested $99 million through October 31, 2008 in TC2 during a time when the tight capital markets put pressure on the ability to raise capital for investment.

Trimble Co. Unit 2 Projects
CWIP Balances

Company	Proj. #	Description		30-Apr-2008	31-Oct-2008
LGE	117149	Trimble Co Unit 2		$ 73,145,421.22	$ 89,700,278.28
KU	117150	Trimble Co Unit 2		$ 307,114,622.36	$ 373,932,709.76
LGE	118209	TC2 Transmission		$ 11,812,398.80	$ 17,796,485.81
KU	118216	TC2 Transmission		$ 28,224,089.03	$ 37,846,661.98
			Total	$ 420,296,531.41	$ 519,276,135.83
				Net Increase	$ 98,979,604.42

Fifth and finally, because it is likely that KU will need to file a rate case to commence recovery of TC2 costs in the near future, rate recovery of Hurricane Ike costs in its current rate case rather than its next rate case is consistent with a gradual change in base rates. The deferral of the recovery of Hurricane Ike costs until KU's next general rate case is likely to cause a higher change in base rates than if Hurricane Ike costs are recovered in KU's current rate case.

For these reasons, if the Commission approves the Companies' requested accounting treatment in these proceedings, the Companies believe it is appropriate and imperative that they seek to amortize and recover their capitalized Hurricane Ike expenses in their current rate cases.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated November 12, 2008

Case No. 2008-00457

Question No. 3

Witness: Valerie L. Scott / Robert M. Conroy

Q-3. Refer to paragraph 16 of KU's application.

a. KU asks that the Commission rule on its request by December 31, 2008, so that it may reflect the related adjustments on its books for calendar year 2008. Provide the date by which KU will close its books for calendar year 2008 and, if that date is in early 2009, explain why KU requests a ruling prior to that date.

b. The text of the paragraph indicates that reflecting the adjustments related to its requested accounting treatment on its books for calendar year 2008 will "[a]void distortion in KU's financial statements, the accuracy of which it is important to maintain." Provide KU's Kentucky jurisdictional income statement for the most recent 12 months available as well as a 2008 calendar year-to-date Kentucky jurisdictional income statement ending with the same month as the 12-months income statement.

A-3. a. KU will close its books for the year ended December 31, 2008, on January 8, 2009. All transactions that impact the year ending December 31, 2008 financial statements of KU will need to be recorded by January 7, 2009 to allow adequate time to analyze the pre-tax results, make the final tax calculation and still close the books on January 8. To the extent possible, the Company attempts to obtain all pertinent information when it starts the closing process on the first business day after year-end (January 2). Since January 1 is a holiday, the Company requested an Order by December 31.

If a ruling to grant relief is made after the books are closed for the year ending December 31, 2008, KU will have recorded Hurricane Ike-related operations and maintenance costs to expense. The result would be artificially decreased earnings in 2008 and artificially increased earnings in 2009. To ensure that the books accurately reflect the financial position of KU, a ruling is requested by December 31, 2008.

b. Attached is the Twelve-Month Ended Income Statement as of September 30, 2008 on a Kentucky Jurisdictional and Other Jurisdictional operations basis. KU recently submitted this statement to the Commission as required in Case Nos. 97-300, 2000-095, and 2001-104. KU does not maintain its books in such a manner that allows jurisdictional allocation factors to be applied for each period. Rather, KU submits quarterly statements as required in the above referenced cases.

KENTUCKY UTILITIES COMPANY

Statement of Income
Twelve Months Ended September 30, 2008

Title of Account	No.	Total Kentucky Utilities	KU Retail Jurisdictional	Other Jurisdictional
Column A	Col. B	Column C	Column D	Column E
Utility Operating Income				
Operating Revenues:				
Residential Sales	440	$ 442,612,743	$ 416,780,083	$ 25,832,660
Commercial and Industrial Sales:	442			
Small (or Comm) - Rural Comm & Comm L&P		311,590,758	298,897,442	12,693,317
Large (or Ind) - Industrial & Mine Power		321,166,969	309,045,221	12,121,748
Public Street and Highway Lighting	444	9,961,024	9,687,414	273,609
Other Sales to Public Authorities	445	95,835,169	90,932,423	4,902,746
Total Sales to Ultimate Consumers		$ 1,181,166,663	$ 1,125,342,583	$ 55,824,080
Sales for Resale	447	160,738,332	63,653,927	97,084,405
Total Sales of Electricity		$ 1,341,904,995	$ 1,188,996,510	$ 152,908,485
Less: Provision for Refund	449.1	-	-	-
Total Revenues Net of Provision for Refund		$ 1,341,904,995	$ 1,188,996,510	$ 152,908,485
Other Operating Revenues:				
Miscellaneous Service Revenues	451	1,350,429	1,310,286	40,143
Rent from Electric Property	454	1,927,936	1,780,145	147,791
Other Electric Revenues	456	4,254,466	3,723,949	530,517
Total Other Operating Revenues		$ 7,532,830	$ 6,814,379	$ 718,451
Total Operating Revenue		$ 1,349,437,825	$ 1,195,810,889	$ 153,626,936
Operating Expenses:				
Operation Expenses	401	$ 852,867,089	$ 743,973,973	108,893,116
Maintenance Expenses	402	97,704,849	86,023,784	11,681,065
Depreciation Expense	403	125,774,173	110,005,890	15,768,283
Amortization of Limited-Term Electric Plant	404	5,095,214	4,448,666	646,548
Regulatory Credits	407	(2,234,397)	(1,934,565)	(299,832)
Taxes Other than Income Taxes	408.1	19,929,833	17,836,162	2,093,671
Income Taxes - Federal	409.1	25,428,308	Total Income Taxes	
Income Taxes - State	409.1	10,584,073	29,569,939	(153,932)
Provision for Deferred Income Taxes	410.1	40,746,673		
Provision for Deferred Income Taxes - Credit	411.1	(47,343,047)		
Accretion Expense	411.1	1,939,620	1,679,453	260,167
Investment Tax Credit Adjustment - Net	411.4	35,519,898	30,737,819	4,782,079
Losses/(Gains) from Disposition of Allowances	411.8	(583,107)	(504,602)	(78,505)
Total Utility Operating Expenses		$ 1,165,429,180	$ 1,021,836,519	$ 143,592,660
Net Utility Operating Income		$ 184,008,645	$ 173,974,370	$ 10,034,276

KENTUCKY UTILITIES COMPANY

Statement of Income
Twelve Months Ended September 30, 2008

Title of Account Column A	No. Col. B		Total Kentucky Utilities Column C		KU Retail Jurisdictional Column D		Other Jurisdictional Column E
Other Income and Deductions are not separated on a jurisdictional basis.							
Other Income and Deductions							
Total Other Income		$	43,512,968				
Total Other Income Deductions			2,443,687				
Total Taxes on Other Income and Deductions			3,173,999				
Net Other Income and Deductions		$	37,895,283				
Interest Charges							
Interest on Long Term Debt	427	$	65,004,158				
Amortization of Debt Discount and Expense	428		269,113				
Amortization of Loss on Re-Acquired Debt	428.1		461,243				
Amortization of Premium on Debt - Credit	429		-				
Amortization of Gain on Re-Acquired Debt - Credit	429.1		-				
Interest on Debt to Associated Companies	430		2,440,681				
Other Interest Expense	431		1,699,903				
Allowance for Borrowed Funds Used During Contruction	432		(1,848,911)				
Net Interest Charges		$	68,026,186	$	61,267,420	$	6,758,766
Cumulative Effect of Accounting Change, Net of Tax		$	-				
Net Income		$	153,877,743				

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Data Request
Dated November 12, 2008

Case No. 2008-00457

Question No. 4

Witness: Chris Hermann / Valerie L. Scott

Q-4. Refer to Exhibit 1 of KU's application which contains estimates of its costs related to restoring service in the aftermath of Hurricane Ike.

a. Costs in the category of Internal Employee Labor for KU are roughly $1.4 million, while offsetting estimates that are considered normal operations and which are identified as Internal Employee Resource Costs "[c]harged to KU storm" in the column headed "KU O&M Expenses" are roughly $435,000. Explain whether the difference in these two amounts consists entirely of employee overtime costs. Identify all cost components that make up this difference.

b. The column headed "KU O&M Expenses" includes an offset of $335,459 identified as "Internal Employee Resource Costs - KU Labor/Transportation charged to LG&E storm." Explain in detail why this amount, which relates to costs charged to Louisville Gas & Electric Company ("LG&E), is an offset against the O&M expenses of KU rather than against the O&M expenses of LG&E.

c. A contingency amount of $678,460 is listed under KU's O&M expense. Explain the need for a contingency in conjunction with estimated storm-related restoration costs and describe how the amount was derived.

d. The exhibit indicates that KU's cost estimate of $2.55 million was determined as of September 14, 2008. Provide an update of the cost estimate based on the most recent information available and, using the same classifications as in Exhibit 1, provide the amounts of KU's known, actual (not estimated) storm-related costs. Show the date on which the updated estimate is based.

A-4. a. The difference between the Internal Employee Labor amount and the offsetting estimates that are considered normal operations consist of employee overtime costs as well as estimated straight time that is normally charged to capital instead of O&M expense.

b. The amount identified as "Internal Employee Resource Costs - KU Labor/Transportation charged to LG&E storm" is shown as an offset against the O&M expense of KU rather than LG&E because those costs are the estimated amount of O&M labor that is normally included in KU O&M expense and therefore imbedded in KU's base rates.

c. A financial model was utilized to estimate storm costs. The estimate initially provided for a 10% contingency, which has proven reasonable, in order to allow for differences between actual and estimated costs. As invoices are received the contingency is used to offset differences between actual and estimated cost. Thus, the contingency amount will vary over time until a substantial amount of invoices has been received and the overall estimate can be refined. In any event, the Company will only seek recovery for actual cost incurred and not for any estimates or contingencies.

d. The estimate in Exhibit 1 was completed on October 27, 2008. The September 14, 2008 date on that exhibit represented the date on which the Ike storm occurred. The cost estimate supplied on Exhibit 1 is still the best estimate for the total storm costs. See attached revised schedule for actual known costs as of October 31, 2008 and remaining estimated costs. The Company will only seek recovery for actual costs incurred and not for any estimates or contingencies.

IKE Storm Restoration Cost Detail

KU IKE Storm Restoration Estimate Detail Summary					
	October 31st Year-to-Date				
	Actuals	Estimated Costs Incurred	Totals	Estimated Remaining Costs	Total KU Operating Expenses
Internal Labor LGE	-	-	-	-	-
Internal Labor KU	1,380,240	-	1,380,240	-	1,380,240
Internal Labor SERVCO	42,758	-	42,758	-	42,758
Subtotal Employee Labor	1,422,997	-	1,422,997	-	1,422,997
Lineman Contractors	182,410	513,000	695,410	-	695,410
Tree Trimming Contractors	97,431	240,000	337,431	-	337,431
PSRT Contractors	-	-	-	-	-
Call Center Contractors	-	-	-	-	-
Subtotal Contractors	279,840	753,000	1,032,840	-	1,032,840
Materials/Other	204,246	-	204,246	-	204,246
Oil Spill Clean up	86,736	300,000	386,736	85,000	471,736
Broadbent/Tom Sawyer	-	-	-	-	-
Contingency	-	-	-	439,902	439,902
Total Distribution Cost total	1,993,819	1,053,000	3,046,819	524,902	3,571,721

Estimated Amount considered Normal Operations:	
Contractor Resource Costs - PSRT	(59,265)
Contractor Resource Costs - Operations	-
Contractor Resource Costs - Call Center	-
Internal Employee Resource Costs - KU Labor/Transportation charged to LG&E	(335,459)
Internal Employee Resource Costs - Servco Labor/Transportation charged to LG&E	(198,430)
Internal Employee Resource Costs - KU Labor/Transportation charged to KU	(409,009)
Internal Employee Resource Costs - Servco Labor/Transportation charged to KU	(14,156)
Total Estimated Amount considered Normal Operation:	(1,016,319)
Total Company Cost Projection -- Net Impact	**2,555,402**