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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
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Rick E. Lovekamp
Manager - Regulatory Affairs
T 502-627-3780
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December 4, 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 Attorney General's Follow-Up Request for Information dated November 26, 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

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
ATTORNEY GENERAL'S FOLLOW-UP
REQUEST FOR INFORMATION
DATED NOVEMBER 26, 2008

FILED: DECEMBER 4, 2008

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 3rd day of December, 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.

CHRIS HERMANN

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 3rd day of December, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

VERIFICATION

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

The undersigned, **Greg Thomas**, being duly sworn, deposes and says that he is Vice President-Energy Delivery-Distribution Operations 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.

Greg Thomas

GREG THOMAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4th day of December, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

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 4th day of December, 2008.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

KENTUCKY UTILITIES COMPANY

Response to Attorney General's Follow-Up Request for Information Dated November 26, 2008

Case No. 2008-00457

Question No. 1

Witness: Valerie L. Scott

Q-1. Rives Exhibit 1, Schedule 1.18 shows storm damage expenses of $5,587,633 for the 12-month period ended 4/30/08. Please provide all actual 2008 storm damage expenses prior to the September 2008 Hurricane Ike expense of $2,555,402.

A-1. The storm damage expenses of $5,587,633 are the Louisville Gas and Electric Company expenses provided in Mr. Rives Exhibit 1, Schedule 1.18 for Case No. 2008-00252. Mr. Rives Exhibit 1, Schedule 1.18 for KU in Case No. 2008-00251, shows storm damage expense of $5,708,101 for the 12-month period ended April 30, 2008.

The actual storm damage operations and maintenance ("O&M") expenses that occurred from January 1, 2008 through September 30, 2008 excluding the September 2008 Hurricane Ike event totaled $5,753,814.

KENTUCKY UTILITIES COMPANY

Response to Attorney General's
Follow-Up Request for Information
Dated November 26, 2008

Case No. 2008-00457

Question No. 2

Witness: Valerie L. Scott

Q-2. Please provide the number of overtime hours by KU's full-time employees in each of the years 2005 through 2007 and in the 12-month period ended 9/30/08.

A-2. Overtime hours by KU's full-time employees:

12 Months Ended:	Total Overtime Hours
12/31/2005	219,662
12/31/2006	193,915
12/31/2007	209,995
09/30/2008	270,370

KENTUCKY UTILITIES COMPANY

Response to Attorney General's Follow-Up Request for Information Dated November 26, 2008

Case No. 2008-00457

Question No. 3

Witness: Chris Hermann / Greg Thomas

Q-3. With regard to the Company's response to AG-1-3(c) and (d), please provide the following information:

a. Since the $1,341,001 internal KU labor cost was incurred by existing KU employees[1] for whom the base and overtime payroll costs are embedded in current rates, what represents the difference of $933,992 between the $1,341,001 and the offsetting $409,009 cost credit for costs "that are normally charged to KU's O&M expenses?

b. Please provide a breakout of the $933,992 difference identified in part (a) above between estimated incremental overtime expenses and straight time labor costs that is normally charged to capital instead of O&M expense.

c. How did the Company determine the straight time labor costs that is normally charged to capital instead of O&M expense to be provided in response to part (b) above?

d. How did the Company determine that the offsetting $409,009 cost credits "are the estimated amounts that are embedded in KU's base rates"?

e. What represents the difference of $25,110 between the $39,266 internal labor cost number for SERVCO employees and the offsetting $14,156 cost credit for costs "that are normally charged to KU's O&M expenses"?; and how did the Company determine this estimated offsetting expense credit amount of $14,156?

[1] KU did not hire additional employees specifically to address the storm – see AG 1-5 response.

A-3. This response was developed using the internal KU labor cost of $1,343,001 that was provided in Exhibit 1 of the Application.

a. The $933,992 difference between the cumulative KU labor costs and the cost credit amounts that would normally be charged to KU O&M expenses represent the overtime labor costs due to the storm event and costs that would normally be capitalized.

b. The $933,992 identified in part (a) above comprises estimated overtime expense for the 2008 Hurricane Ike event totaling $496,468 and estimated straight time labor costs of $437,524 that are normally capitalized.

c. The Company calculated the estimated capital amounts considered normal operations for the straight time labor costs by examining the historical workload for employees. For each department, the actual capital charges for a three-month period of June through August were used as a basis to determine the straight time capital labor costs that would have been expensed by these employees during normal operations.

d. The Company determined that the offsetting cost credits will be recovered through embedded base rates as these amounts would have been charged to KU O&M expense without the storm event.

e. The $25,110 difference between the cumulative SERVCO labor costs charged to KU and the cost credit amounts that would normally be charged to KU O&M expenses represent the overtime labor costs due to the storm event and costs that would normally be capitalized. The Company calculated the estimated O&M amounts considered normal operations for the straight time labor costs by examining the historical workload for employees. For each department, the actual O&M charges for a three-month period of June through August were used as a basis to determine the straight time O&M labor costs that would have been expensed by these employees during normal operations.

KENTUCKY UTILITIES COMPANY

Response to Attorney General's Follow-Up Request for Information Dated November 26, 2008

Case No. 2008-00457

Question No. 4

Witness: Chris Hermann / Greg Thomas

Q-4. With regard to the Company's response to AG-1-4, please provide the following information:

a. Since the $1,536,936 internal KU labor cost was incurred by existing KU employees for whom the base and overtime payroll costs are embedded in current rates, what represents the difference of $1,201,477 between the $1,536,936 and the offsetting $335,459 cost credit for costs "that are normally charged to KU's O&M expenses?"

b. Please provide a breakout of the $1,201,477 difference identified in part (a) above between estimated incremental overtime expenses and straight time labor costs that is normally charged to capital instead of O&M expense.

c. How did the Company determine the straight time labor costs that is normally charged to capital instead of O&M expense to be provided in response to part (b) above?

d. How did the Company determine that the offsetting $335,459 cost credit is the estimated amount that is embedded in KU's base rates?

A-4. This response was developed using the internal KU labor cost of $1,536,963 that was provided in Exhibit 1 of the Application.

a. The $1,201,504 difference between the cumulative KU labor costs of $1,536,963 and the cost credit amounts of $335,459 that would normally be charged to KU O&M expenses represent the overtime labor costs due to the LG&E storm event and costs that would normally be capitalized.

b. The $1,201,504 identified in part (a) above comprises the KU estimated overtime expense for the LG&E 2008 Hurricane Ike event totaling $755,791 and estimated straight time labor costs of $445,713 that are normally capitalized.

c. The Company calculated the estimated capital amounts considered normal operations for the straight time labor costs by examining the historical workload for employees. For each department, the actual capital charges for a three-month period of June through August were used as a basis to determine the straight time capital labor costs that would have been expensed by these employees during normal operations.

d. The Company determined that the offsetting cost credits will be recovered through embedded base rates as these amounts would have been charged to KU O&M expense without the storm event.

KENTUCKY UTILITIES COMPANY

Response to Attorney General's Follow-Up Request for Information Dated November 26, 2008

Case No. 2008-00457

Question No. 5

Witness: Lonnie E. Bellar

Q-5. On page 8 of its Rehearing Order in Case No. 2000-120, the Commission made the following ratemaking ruling:

> "To defer payroll expense between rate cases and then amortize those costs, in addition to the normal recurring payroll expense, would artificially inflate forecasted test year operations."

Please confirm this Commission ratemaking policy.

A-5. The Commission made the above-quoted statement in a context wholly unrelated to storm cost recovery, namely the limited context of which costs to capitalize and amortize in the acquisition of a water and sewer utility:

> In determining the amount of the allowable acquisition adjustment, the Commission has included the purchase price of the BWA facilities and certain other costs to facilitate the transaction. While we recognize that these "other costs" were not part of the purchase price, we find that Kentucky-American has sufficiently demonstrated that these costs were generally essential to the transaction. We have, however, removed from the proposed acquisition adjustment deferred company labor expenses of $46,350. To defer payroll expense between rate cases and then amortize those costs, in addition to the normal recurring payroll expense, would artificially inflate forecasted test year operations.[2]

In that particular utility acquisition, Kentucky-American sought to capitalize, amortize, and recover through rates labor costs that really were going to be included in base rates on a going-forward future test year basis. In the context of

[2] *In the Matter of: Adjustment of the Rates of Kentucky-American Water Company*, Case No 2000-00120, Order at 8 (May 9, 2001).

the Companies' Hurricane Ike cost recovery for extraordinary storm costs, the additional labor and payroll costs that the Companies seek to recover are truly additional to ordinary payroll costs included in base rates, and are therefore appropriate to recover through the amortization of a Commission-approved regulatory asset. The Commission's determination cited in the request for information from the May 9, 2001 Order in *In the Matter of: Adjustment of the Rates of Kentucky-American Water Company*, Case No. 2000-00120 is thus inapplicable to KU's proposed recovery in the pending rate case.