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PUBLIC SERVICE
COMMISSION

Ms. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
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Robert M. Conroy
Director - Rates
T 502-627-3324
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February 27, 2009

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH
BILLING PERIOD ENDING OCTOBER 31, 2008
CASE NO. 2008-00550***

Dear Mr. Derouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Direct Testimony of Robert M. Conroy and the Response of Kentucky Utilities Company to the Information Requested in Appendix B of the Commission's Order dated January 28, 2009, in the above-referenced matter.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL)
SURCHARGE MECHANISM OF KENTUCKY)
UTILITIES COMPANY FOR THE SIX-MONTH)
BILLING PERIOD ENDING OCTOBER 31, 2008)**

**CASE NO.
2008-00550**

DIRECT TESTIMONY OF

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

Filed: February 27, 2009

1 **Q. Please state your name, title, and business address.**

2 A. My name is Robert M. Conroy. I am the Director – Rates for E.ON U.S. Services
3 Inc., which provides services to Louisville Gas and Electric Company (“LG&E”) and
4 Kentucky Utilities Company (“KU”) (collectively “the Companies”). My business
5 address is 220 West Main Street, Louisville, Kentucky, 40202. A complete statement
6 of my education and work experience is attached to this testimony as Appendix A.

7 **Q. Have you previously testified before this Commission?**

8 A. Yes. I have previously testified before this Commission in proceedings concerning
9 the Companies’ most recent rate case, fuel adjustment clauses, and environmental
10 surcharge mechanisms.

11 **Q. What is the purpose of this proceeding?**

12 A. The purpose of this proceeding is to review the past operation of KU’s environmental
13 surcharge during the six-month billing period ending October 31, 2008 and determine
14 whether the surcharge amounts collected during the period are just and reasonable.

15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to review the operation of KU’s environmental
17 surcharge during the billing period under review, demonstrate the amounts collected
18 during the period were just and reasonable, present and discuss KU’s proposed
19 adjustment to the Environmental Surcharge Revenue Requirement based on the
20 operation of the surcharge during the period and explain how the environmental
21 surcharge factors were calculated during the period under review.

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

1 A. KU billed an environmental surcharge to its customers from May 1, 2008 through
2 October 31, 2008. For purposes of the Commission's examination in this case, the
3 monthly KU environmental surcharges are considered as the six-month billing period
4 ending October 31, 2008. In each month of the period, KU calculated the
5 environmental surcharge factors by using the costs incurred as recorded on its books
6 and records for the expense months of March 2008 through August 2008, and in
7 accordance with the requirements of the Commission's previous orders concerning
8 KU's environmental surcharge.

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

11 A. The capital and operating costs included in the calculation of the environmental
12 surcharge factors for the billing period were the costs incurred each month by KU
13 from March 2008 through August 2008, as detailed in the attachment in response to
14 Question No. 2 of the Commission Staff Request for Information, incorporating all
15 required revisions.

16 The monthly environmental surcharge factors applied during the billing period
17 under review was calculated consistent with the Commission's orders in KU's
18 previous applications to assess or amend its environmental surcharge mechanism and
19 plan, as well as orders issued in previous review cases, most recently Case No. 2008-
20 00216. The monthly environmental surcharge reports filed with the Commission
21 during this time reflect the various changes to the reporting forms ordered by the
22 Commission from time to time.

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

3 **A.** During the period under review, there were no changes to Rate Base from the
4 originally filed billing period as summarized in KU's response to the Commission
5 Staff Request for Information, Question No. 1. In addition, there were no changes
6 identified as a result of preparing responses to the requests for information in this
7 review.

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

10 **A.** Yes. Adjustments to E(m) are necessary for compliance with the Commission's
11 Order in Case No. 2000-00439 to reflect the actual changes in the overall rate of
12 return on capitalization that is used in the determination of the return on
13 environmental rate base associated with the Post 1994 Plans. The changes in the
14 actual cost of long term debt and capital structure resulted in a decrease to cumulative
15 E(m) of \$715,967. The details of and support for this calculation are shown in KU's
16 response to Question No. 1 of the Commission Staff Request for Information.

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

19 **A.** Yes. KU experienced a cumulative under-recovery of \$3,949,299 for the billing
20 period ending October 31, 2008. KU's response to Question No. 2 of the
21 Commission Staff Request for Information shows the calculation of the \$3,949,299
22 cumulative under-recovery. Therefore, an adjustment to the revenue requirement is

1 necessary to reconcile the collection of past surcharge revenues with the actual cost
2 for the billing period under review.

3 **Q. Has KU identified the causes of the net under-recovery during the billing period**
4 **under review?**

5 A. Yes. KU has identified four components that make up the net under-recovery during
6 the billing period under review. The components are (1) changes in overall rate of
7 return, (2) inconsistency in the calculation of BESF in the review case and application
8 of BESF in the monthly filings beginning with the March 2008 expense month, (3)
9 the use of the BESF percentage in determining the amount collected in base rates, and
10 (4) the use of 12 month average revenues to determine the billing factor. The details
11 and support of the components that make up the net under-recovery during the billing
12 period under review are shown in KU's response to Question No. 2 of the
13 Commission Staff Request for Information. The table below summarizes the
14 components of the under-recovery position.

OVER/UNDER RECONCILIATION		
Combined Over/Under Recovery		(3,949,299)
Due to BESF Inconsistency	(1,565,892)	
Due to use of BESF %	(2,883,254)	
Due to Change in ROR	715,967	
Use of 12 Month Average Revenues	<u>(216,120)</u>	
Subtotal		<u>(3,949,299)</u>
Unreconciled Difference		-

15

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

2 A. As previous stated, the cumulative impact of the revised rate of return resulted in a
3 decrease to the jurisdictional revenue requirement and an over-recovery of \$715,967.

4 **Q. Please explain the inconsistency that occurred in determining BESF.**

5 A. In the course of preparing the responses in this proceeding, KU discovered an
6 inconsistency between the calculation of the BESF in the previous 2-year review case
7 and the application of the BESF in the monthly filings beginning with the March
8 2008 expense month. Specifically, in Case No. 2007-00379, KU calculated the BESF
9 factor using base rate revenues excluding the customer charge revenues, while the
10 monthly filings use BESF times total base revenues to estimate the ECR revenues
11 collected through base rates. BESF was calculated using a lower revenue total than is
12 used in its application in the monthly filings thereby overstating the BESF
13 percentage. Because the monthly estimate of ECR revenues collected through base
14 rates is made by multiplying BESF times total base revenues, overstating BESF
15 overstates the ECR revenues collected through base rates. When ECR revenues
16 collected through base rates are overstated, the monthly E(m) is understated which
17 contributes to KU's net under-recovery position. If the BESF had been calculated
18 using total revenues, the BESF would be 5.20% instead of 5.51% as filed. Applying
19 the recalculated BESF to the base rate revenues results in an under-recovery of
20 \$1,565,892.

21 **Q. For the other two components, please explain how the function of the ECR**
22 **mechanism contributes to the net under-recovery in the billing period under**
23 **review?**

1 A. The first component is the use of the BESF percentage to estimate the amount
2 collected through base rates. In the monthly filings, the BESF percentage is used to
3 determine the amount of ECR revenue collected through base rates by applying the
4 percentage to total base rate revenues. In the review proceedings, the billing
5 determinants are used to determine the actual ECR revenues collected through base
6 rates. This methodology results in a perpetual mismatch between actual revenues
7 collected and estimated revenues as reported in the monthly filings. In the billing
8 period under review, the mismatch resulted in an under-recovery of \$2,883,254.

9 The second component is the use of 12-month average revenues to calculate
10 the MESF and then applying that same MESF to the actual monthly revenues. The
11 result is an over-collection during the summer months when actual revenues will
12 generally be greater than the 12-month average and an under-collection during the
13 shoulder months when actual revenues will generally be less than the 12-month
14 average. In the billing period under review, the use of 12-month average revenues
15 resulted in an under-recovery of \$216,120.

16 **Q. What kind of adjustment is KU proposing in this case as a result of the operation**
17 **of the environmental surcharge during the billing period?**

18 A. KU is proposing that the cumulative under-recovery of \$3,949,299 be recovered over
19 the nine months following the Commission's Order in this proceeding. Specifically,
20 KU recommends that the Commission approve an increase to the Environmental
21 Surcharge Revenue Requirement of \$658,217 per month for the first three months
22 and \$658,216 per month for the following three months, beginning in the first full
23 billing month following the Commission's Order in this proceeding. This method is

1 consistent with the method of implementing previous over- or under- recovery
2 positions in prior ECR review cases.

3 **Q. What rate of return is KU proposing to use for all ECR Plans upon the**
4 **Commission's Order in this proceeding?**

5 A. KU is recommending an overall rate of return on capital of 11.12%, including the
6 currently approved 10.63% return on equity and adjusted capitalization, to be used to
7 calculate the environmental surcharge. This is based on capitalization as of August
8 31, 2008 and the Settlement Agreement approved by the Commission in its February
9 5, 2009 Order in Case No. 2008-00251.

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

- 11 A. KU makes the following recommendations to the Commission in this case:
- 12 a) The Commission should approve the proposed increase to the Environmental
13 Surcharge Revenue Requirement of \$658,217 per month for the first three
14 months and \$658,216 per month for the following three months, beginning in
15 the first full billing month following the Commission's Order in this
16 proceeding;
 - 17 b) The Commission should determine environmental surcharge amount for the
18 six-month billing period ending October 31, 2008 to be just and reasonable;
 - 19 c) The Commission should approve the use of an overall rate of return on capital
20 of 11.12% using a return on equity of 10.63% beginning in the first billing
21 month following the Commission's Order in this proceeding.

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

23 A. Yes.

APPENDIX A

Robert M. Conroy

Director – Rates
E.ON U.S. Services Inc.
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3324

Education

Masters of Business Administration
Indiana University (Southeast campus), December 1998. GPA: 3.9.
Bachelor of Science in Electrical Engineering;
Rose Hulman Institute of Technology, May 1987. GPA: 3.3
Essentials of Leadership, London Business School, 2004.
Center for Creative Leadership, Foundations in Leadership program, 1998.
Registered Professional Engineer in Kentucky, 1995.

Previous Positions

Manager, Rates	April 2004 – Feb. 2008
Manager, Generation Systems Planning	Feb. 2001 – April 2004
Group Leader, Generation Systems Planning	Feb. 2000 – Feb. 2001
Lead Planning Engineer	Oct. 1999 – Feb. 2000
Consulting System Planning Analyst	April 1996 – Oct. 1999
System Planning Analyst III & IV	Oct. 1992 - April 1996
System Planning Analyst II	Jan. 1991 - Oct. 1992
Electrical Engineer II	Jun. 1990 - Jan. 1991
Electrical Engineer I	Jun. 1987 - Jun. 1990

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO.
UTILITIES COMPANY FOR THE SIX-MONTH)	2008-00550
BILLING PERIOD ENDING OCTOBER 31, 2008)	

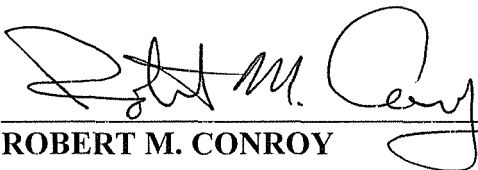
RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED JANUARY 28, 2009

FILED: February 27, 2009

VERIFICATION

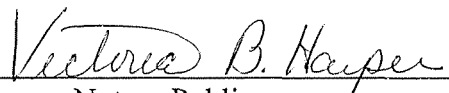
STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director, Rates for 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.



ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 26th day of February 2009.

 (SEAL)

Notary Public

My Commission Expires:

Sept 20, 2010

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Shannon L. Charnas**, being duly sworn, deposes and says that she is the Director, Utility Accounting and Reporting for E.ON U.S. Services Inc., that she has personal knowledge of the matters set forth in the responses for which she is identified as the witness, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

Shannon L. Charnas
SHANNON L. CHARNAS

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 26th day of February 2009.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00550

Question No. 1

Witness: Shannon L. Charnas / Robert M. Conroy

Q-1. Concerning the rate of return on the four amendments to the environmental compliance plan, for each of the periods under review, calculate any true-up adjustment needed to recognize changes in KU's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in KU's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the billing period under review.

A-1. Please see the attachment.

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. No further revisions to Rate Base were identified during this review period.

Page 3 provides the adjusted weighted average cost of capital for the period under review.

KU did not engage in accounts receivable financing or have any preferred stock during the period under review.

Kentucky Utilities
Overall Rate of Return True-up Adjustment - Revised Rate Base
Impact on Calculated E(m) - Post 1994 Plan

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base	True-up Adjustment	Jurisdictional Allocation, ES Form 1 00	Jursidictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
May-08	Mar-08	11.42%	\$ 893,514,146	\$ 893,514,146	\$ -	\$ -	81.31%	\$ -
Jun-08	Apr-08	11.42%	928,185,321	928,185,321	-	-	84.71%	-
Jul-08	May-08	11.42%	962,572,421	962,572,421	-	-	81.63%	-
Aug-08	Jun-08	11.42%	1,000,575,344	1,000,575,344	-	-	83.46%	-
Sep-08	Jul-08	11.42%	1,032,461,736	1,032,461,736	-	-	81.02%	-
Oct-08	Aug-08	11.13%	1,056,151,360	1,056,151,360	-	-	85.16%	-
						\$ -		\$ -
Cumulative Impact of Changes in Rate Base						\$ -		\$ -

Kentucky Utilities
Overall Rate of Return True-up Adjustment - Revised Rate of Return
Impact on Calculated E(m) - Post 1994 Plan

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return	Rate Base as Revised	True-up Adjustment	Jurisdictional Allocation, ES Form 1.00	Jursidictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
May-08	Mar-08	11.42%	11.19%	-0.23%	\$ 893,514,146	(171,257)	81.31%	(139,249)
Jun-08	Apr-08	11.42%	11.19%	-0.23%	928,185,321	(177,902)	84.71%	(150,701)
Jul-08	May-08	11.42%	11.19%	-0.23%	962,572,421	(184,493)	81.63%	(150,602)
Aug-08	Jun-08	11.42%	11.19%	-0.23%	1,000,575,344	(191,777)	83.46%	(160,057)
Sep-08	Jul-08	11.42%	11.19%	-0.23%	1,032,461,736	(197,888)	81.02%	(160,329)
Oct-08	Aug-08	11.13%	11.19%	0.06%	1,056,151,360	52,808	85.16%	44,971
						<u>(870,510)</u>		<u>(715,967)</u>
Cumulative Impact of Changes in Rate of Return						\$ <u>(870,510)</u>		\$ <u>(715,967)</u>

Kentucky Utilities Company
Adjusted Electric Rate of Return on Common Equity
10/31/2008

(1)	(2) Total Company Capitalization	(3) Adjustments to Total Co Capitalization	(4) Adjusted Total Company Capitalization	(5) Capital Structure	(6) Jurisdictional Capitalization Allocation	(7) Kentucky Jurisdictional Capitalization
	(20)	(2) - (3)	(4) / (4), row 4	(4) * (6)		
1 Long-Term Debt	1,393,879,405	12,017,467	1,381,861,938	43.88%	87.94%	1,215,209,388
2 Short-Term Debt	121,961,454	1,051,503	120,909,951	3.84%	87.94%	106,328,211
3 Common Equity	1,686,860,000	40,198,888	1,646,661,112	52.28%	87.94%	1,448,073,782
4	3,202,700,859	53,267,858	3,149,433,001	100.00%		2,769,611,381

(1)	(8) Kentucky Jurisdictional Capitalization	(9) Adjustments to Ky Juris Capitalization	(10) Adjusted Ky Jurisdictional Capitalization	(11) Capital Structure	(12) Annual Cost Rate	(13) Weighted Cost of Capital
	(7)	(24)	(8) - (9)	(10) / (10), row 4		(11) * (12)
1 Long-Term Debt	1,215,209,388	422,378,232	792,831,156	43.88%	5.30%	2.33%
2 Short-Term Debt	106,328,211	36,957,188	69,371,023	3.84%	4.95%	0.19%
3 Common Equity	1,448,073,782	503,316,423	944,757,359	52.28%	10.50%	5.49%
4	2,769,611,381	962,651,843	1,806,959,538	100.00%		8.01%
5 Weighted Cost of Capital Grossed up for Income Tax Effect $\{ROR + (ROR - DR) \times [TR / (1 - TR)]\}$						11.19%

Adjustments to Total Company Capitalization

(1)	(14) Total Company Capitalization	(15) Capital Structure	(16) Undistributed Subsidiary Earnings	(17) Investments in EEI	(18) Other Investments	(19) Minimum Pension Liability	(20) Total Adjustments to Total Company Capitalization
	(2)	(14) / (14), row 4		(17) row 4 x (15)	(18) row 4 x (15)		(16) + (17) + (18) - (19)
1 Long-Term Debt	1,393,879,405	43.52%	-	11,729,726	287,741	-	12,017,467
2 Short-Term Debt	121,961,454	3.81%	-	1,026,326	25,177	-	1,051,503
3 Common Equity	1,686,860,000	52.67%	25,655,459	14,195,207	348,222	-	40,198,888
4	3,202,700,859	100.00%	25,655,459	26,951,259	661,140	-	53,267,858

Adjustments to Kentucky Jurisdictional Capitalization

(1)	(21) Kentucky Jurisdictional Capitalization	(22) Capital Structure	(23) Environmental Surcharge Post-1994 Plan	(24) Adjustments to Ky Juris Capitalization
	(8)	(21) / (21), row 4	(23) row 4 x (22)	(23)
1 Long-Term Debt	1,215,209,388	43.88%	422,378,232	422,378,232
2 Short-Term Debt	106,328,211	3.84%	36,957,188	36,957,188
3 Common Equity	1,448,073,782	52.28%	503,316,423	503,316,423
4	2,769,611,381	100.00%	962,651,843	962,651,843

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00550

Question No. 2

Witness: Robert M. Conroy

- Q-2. For each of the periods under review, 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 billing period under review. Include the expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for 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 periods under review. Include a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the 6-month reviews. Include all supporting calculations and documentation for any such additional over- or under-recovery.
- A-2. Please see the attachment to this response for the summary schedule and cumulative components which make up the net under-recovery.

Kentucky Utilities
Calculation of E(m) and Jurisdictional Surcharge Billing Factor
Summary Schedule for Expense Months March 2008 through August 2008

(1) Expense Month	(2) Rate Base as Revised ES Form 2.00	(3) Monthly Rate Base as Revised (2) / 12	(4) Rate of Return as Revised	(5) Operating Expenses (net of allowance proceeds) ES Form 2.00	(6) Total E(m) (3) * (4) + (5)	(7) Retail Allocation Ratio ES Form 1.10	(8) Retail E(m) (6) * (7)	Comments: As Revised in This Review
Mar-08	893,514,146	74,459,512	11.19%	1,178,399	9,510,418	81.31%	7,732,921	
Apr-08	928,185,321	77,348,777	11.19%	1,580,406	10,235,734	84.71%	8,670,690	
May-08	962,572,421	80,214,368	11.19%	1,974,752	10,950,740	81.63%	8,939,089	
Jun-08	1,000,575,344	83,381,279	11.19%	2,477,145	11,807,510	83.46%	9,854,548	
Jul-08	1,032,461,736	86,038,478	11.19%	3,085,086	12,712,792	81.02%	10,299,904	
Aug-08	1,056,151,360	88,012,613	11.19%	3,742,987	13,591,598	85.16%	11,574,605	

Kentucky Utilities
Calculation of E(m) and Jurisdictional Surcharge Billing Factor
Summary Schedule for Expense Months March 2008 through August 2008

(1) Expense Month	(2) Retail E(m)	(3) Adjustment For OMU Environmental Expenses per Case No. 2003-00434	(4) Adjustment to Retail E(m) for Monthly True- up Case No. 2007-00379 and 2008-00216	(5) Retail E(m) Including all Adjustments	(6) Average Monthly Retail Revenues	(7) Current Environmental Surcharge Factor (CESF)	(8) Base Environmental Surcharge Factor (BESF)	(9) Monthly Environmental Surcharge Factor (MESF) (7)-(8)	(10) ECR Billing Factor Revenues	(11) ECR Revenue Recovered Through Base Rates	(12) Combined Total Over/(Under) Recovery
Mar-08	7,732,921	83,333	424,939	8,241,193	ES Form 1.00 89,584,234	9.20%	5.51%	3.69%			
Apr-08	8,670,690	83,333	424,939	9,178,962	90,279,515	10.17%	5.51%	4.66%	2,816,309	3,406,885	(2,017,999)
May-08	8,939,089	83,333	424,939	9,447,361	90,203,338	10.47%	5.51%	4.96%	4,470,912	3,767,850	(940,200)
Jun-08	9,854,548	83,333	424,938	10,362,819	89,828,391	11.54%	5.51%	6.03%	6,243,205	4,216,621	1,012,465
Jul-08	10,299,904	83,333		10,383,237	89,962,316	11.54%	5.51%	6.03%	7,422,675	4,215,753	1,273,610
Aug-08	11,574,605	83,333	22,563	11,680,501	91,159,943	12.81%	5.51%	7.30%	5,832,354	4,177,504	(373,379)
Sep-08											
Oct-08									5,175,991	3,598,715	(2,905,795)
	57,071,757			59,294,073					31,961,447	23,383,327	(3,949,299)
									Grand Total		

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2008 through August 2008

(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 (4) - (3)	Rate Base as Revised	True-up Adjustment (5) * (6) / 12	Jurisdictional Allocation, ES Form 100	Jurisdictional True up Adjustment (7) * (8)
May-08	Mar-08	11.42%	11.19%	-0.23%	893,514,146	(171,257)	81.31%	(139,249)
Jun-08	Apr-08	11.42%	11.19%	-0.23%	928,185,321	(177,902)	84.71%	(150,701)
Jul-08	May-08	11.42%	11.19%	-0.23%	962,572,421	(184,493)	81.63%	(150,602)
Aug-08	Jun-08	11.42%	11.19%	-0.23%	1,000,575,344	(191,777)	83.46%	(160,057)
Sep-08	Jul-08	11.42%	11.19%	-0.23%	1,032,461,736	(197,888)	81.02%	(160,329)
Oct-08	Aug-08	11.13%	11.19%	0.06%	1,056,151,360	52,808	85.16%	44,971
Cumulative Impact of Changes in Rate of Return						\$ (870,510)		\$ (715,967)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
		Base Rate Revenues (from ES Form 3.00)	As filed BESF * Base Rates (from ES Form 2.00)	Actual ECR Base Rates (Q2, pg 2, Col 11)	As Filed BESF (from ES Form 1.00)	Recalculated BESF	Recalc BESF * Base Rates (3) * (7)	Recalculation Difference (8) - (4)	BESF % Difference (5) - (8)
May-08	Mar-08	73,722,800	4,062,126	3,406,885	5.51%	5.20%	3,833,586	(228,541)	(426,701)
Jun-08	Apr-08	81,577,064	4,494,896	3,767,850	5.51%	5.20%	4,242,007	(252,889)	(474,157)
Jul-08	May-08	91,497,390	5,041,506	4,216,621	5.51%	5.20%	4,757,864	(283,642)	(541,244)
Aug-08	Jun-08	90,868,140	5,006,835	4,215,753	5.51%	5.20%	4,725,143	(281,691)	(509,390)
Sep-08	Jul-08	90,521,028	4,987,709	4,177,504	5.51%	5.20%	4,707,093	(280,615)	(529,590)
Oct-08	Aug-08	76,940,137	4,239,402	3,598,715	5.51%	5.20%	4,000,887	(238,514)	(402,172)
		505,126,559	27,832,473	23,383,327			26,266,581	(1,565,892)	(2,883,254)
		Actual Base Rate Collections	23,383,327		Actual Base Rate Collections		23,383,327		
			(4,449,146)				(2,883,254)		

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Billing Month	Expense Month	Combined Total Over/(Under) Recovery (Q2, pg 2, Col 12)	ROR Trueup	BESF Inconsistency	Use of BESF %	Use of 12 Month Average Revenues
May-08	Mar-08	(2,017,999)	(139,249)	(228,541)	(426,701)	(1,502,007)
Jun-08	Apr-08	(940,200)	(150,701)	(252,889)	(474,157)	(363,855)
Jul-08	May-08	1,012,465	(150,602)	(283,642)	(541,244)	1,686,748
Aug-08	Jun-08	1,275,610	(160,057)	(281,691)	(509,390)	1,906,634
Sep-08	Jul-08	(373,379)	(160,329)	(280,615)	(529,590)	276,497
Oct-08	Aug-08	(2,905,795)	44,971	(238,514)	(402,172)	(2,220,137)
		(3,949,299)	(715,967)	(1,565,892)	(2,883,254)	(216,120)

OVER/UNDER RECONCILIATION	
Combined Over/Under Recovery	(3,949,299)
Due to BESF Inconsistency	(1,565,892)
Due to use of BESF %	(2,883,254)
Due to Change in ROR	715,967
Use of 12 Month Average Revenues	(216,120)
Subtotal	(3,949,299)
Unreconciled Difference	-

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00550

Question No. 3

Witness: Shannon L. Charnas

Q-3. Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported during the billing period under review for Pollution Control Deferred Income Taxes.

A-3. 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 or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the review period.

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2001 - Plan

Project 16 -- Emission Monitoring

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	9,775,541	16,203	38,431	22,228	38.9000%	8,647	1,014,881	18,994
Apr-08	9,775,541	16,203	38,431	22,228	38.9000%	8,647	1,023,528	18,994
May-08	9,775,541	16,203	38,431	22,228	38.9000%	8,647	1,032,175	18,994
Jun-08	9,775,541	16,203	38,431	22,228	38.9000%	8,647	1,040,822	18,994
Jul-08	9,775,541	16,203	38,431	22,228	38.9000%	8,647	1,049,469	18,994
Aug-08	9,775,541	16,203	38,431	22,228	38.9000%	8,647	1,058,114	18,994

**Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project**

2001 - Plan
Project 17 -- NOx

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	29,679,839	205,174
Apr-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	29,804,656	205,174
May-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	29,929,473	205,174
Jun-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	30,054,290	205,174
Jul-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	30,179,107	205,174
Aug-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	30,303,925	205,174

Note: Due to Bonus Depreciation for tax purposes, taken on certain components of Project 17, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2005 received 30% bonus depreciation, which reduces the Federal tax basis to 70% of the plant balance. A sample calculation of deferred taxes for March 2008 is shown below:

Federal Basis	Book Depr.	Federal Tax Depr	Fed Difference	Fed Tax Rate	Fed Def Tax
151,874,994	456,301	746,478	290,177	35.0000%	101,562
State Basis	Book Depr.	State Tax Depr	St Difference	State Tax Rate	St Def Tax
216,964,277	456,301	1,052,574	596,273	6.0000%	35,776

St. Offset for Fed Taxes not Owed
(12,522)

Total Deferred Tax
124,817

**Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project**

**2003 - Plan
Project 18 -- New Ash Storage**

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,284,951	-
Apr-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,295,478	-
May-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,306,005	-
Jun-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,316,532	-
Jul-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,327,059	-
Aug-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,337,584	-

Note: Due to Bonus Depreciation for tax purposes taken on Project 18, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2005 received 30% bonus depreciation, which reduces the Federal tax basis to 70% of the plant balance. A sample calculation of deferred taxes for March 2008 is shown below:

Federal Basis	Book Depr.	Federal Tax Depr	Fed Difference	Fed Tax Rate	Fed Def Tax
11,303,807	29,067	53,816	24,749	35.0000%	8,662
State Basis	Book Depr.	State Tax Depr	St. Difference	State Tax Rate	St Def Tax
16,148,295	29,067	76,879	47,812	6.0000%	2,869
					St. Offset for Fed Taxes not Owed (1,004)
					Total Deferred Tax 10,527

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2005 - Plan
Project 19 -- Ash Handling at Ghent 1 and Ghent Station

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	398,915	718	3,737	3,019	38.9000%	1,174	28,049	28,433
Apr-08	398,915	718	3,737	3,019	38.9000%	1,174	29,223	28,433
May-08	398,915	718	3,737	3,019	38.9000%	1,174	30,398	28,433
Jun-08	398,915	718	3,737	3,019	38.9000%	1,174	31,572	28,433
Jul-08	398,915	718	3,737	3,019	38.9000%	1,174	32,747	28,433
Aug-08	398,915	718	3,737	3,019	38.9000%	1,174	33,921	28,433

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2005 - Plan

Project 20 -- Ash Treatment Basin at E.W. Brown

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	19,697,162	32,090	246,216	214,126	38.9000%	83,295	83,295	-
Aug-08	19,697,162	64,180	246,216	182,036	38.9000%	70,812	154,106	-

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2005 - Plan
Project 21 -- FGD's

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	143,837,362	668,875	1,347,619	678,744	38.9000%	264,031	2,715,100	761,567
Apr-08	143,837,362	668,875	1,347,619	678,744	38.9000%	264,031	2,979,131	761,567
May-08	143,837,362	668,875	1,347,619	678,744	38.9000%	264,031	3,243,163	761,567
Jun-08	302,195,610	1,042,996	2,818,091	1,775,095	38.9000%	690,512	3,933,675	761,567
Jul-08	425,024,402	1,698,128	4,002,513	2,304,385	38.9000%	896,406	4,830,081	761,567
Aug-08	425,024,402	1,979,138	4,002,513	2,023,375	38.9000%	787,093	5,617,175	761,567

Kentucky Utilities Company
 Deferred Tax Calculations
 Post-1994 Environmental Compliance Plans, by Approved Project

2006 - Plan
 Project 23 - TC2 AQCS Equipment

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	-	-	-	-	38.9000%	-	-	-
Aug-08	-	-	-	-	38.9000%	-	-	-

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 24 - Sorbent Injection

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	-	-	-	-	38.9000%	-	-	-
Aug-08	3,498,412	3,149	35,483	32,334	38.9000%	12,578	12,578	-

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2006 - Plan
Project 25 - Mercury Monitors

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	265,290	2,308	3,627	1,319	38.9000%	513	9,549	-
Apr-08	265,290	2,308	3,627	1,319	38.9000%	513	10,062	-
May-08	265,290	2,308	3,627	1,319	38.9000%	513	10,575	-
Jun-08	265,290	2,308	3,627	1,319	38.9000%	513	11,088	-
Jul-08	265,290	2,308	3,627	1,319	38.9000%	513	11,601	-
Aug-08	265,290	2,308	3,627	1,319	38.9000%	513	12,114	-

Kentucky Utilities Company
Deferred Tax Calculations
Post-1994 Environmental Compliance Plans, by Approved Project

2006 - Plan

Project 27 - E.W. Brown Electrostatic Precipitators

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-08	46,715	152	571	419	38.9000%	163	3,663	2,274
Apr-08	46,715	152	571	419	38.9000%	163	3,826	2,274
May-08	46,715	152	571	419	38.9000%	163	3,989	2,274
Jun-08	46,715	152	571	419	38.9000%	163	4,152	2,274
Jul-08	46,715	152	571	419	38.9000%	163	4,315	2,274
Aug-08	46,715	152	571	419	38.9000%	163	4,478	2,274

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00550

Question No. 4

Witness: Shannon L. Charnas

- Q-4. Provide the percentage of KU's long-term debt that has a variable interest rate as of the last expense month in the billing period under review.
- A-4. For the last expense month of the billing period of May 1, 2008 through October 31, 2008, the percentage of KU's long-term debt with a variable rate was 19%.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00550

Question No. 5

Witness: Shannon L. Charnas

- Q-5. Refer to ES Form 2.50, Pollution Control – Operations & Maintenance Expenses, for the March 2008 through August 2008 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-5. Attached please find a schedule showing the changes in operations and maintenance expense accounts for March through August 2008 expense months. The changes in the expense levels are reasonable and occurred as a part of routine plant operations and maintenance. Monthly variances in the NOx operation account, 506104 and 506105, and the sorbent injection operation account, 506109, result from the timing of ammonia purchases and operation of the NOx and SO₃ removal system during the ozone season (May through September). Fluctuations in NOx maintenance expenses, account 512101, are the result of routine monthly maintenance of the SCRs. April and May NOx maintenance expenses in account 512101 were higher than the other months due to larger purchases of parts and the labor to install them. Scrubber operation account 502006 expenses are the result of regular operation of the Ghent FGDs. The increases in sorbent injection maintenance costs, account 512102, are the result of normal system maintenance during the ozone season. Account 512102 for June 2008 was lower than the other months due to no material purchases being required. Monthly variances in account 512005, scrubber maintenance, are the result of regular maintenance of the FGD at Ghent.

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Ghent												
	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Period	% Change from Prior Period	Period	% Change from Prior Period	Period	% Change from Prior Period	
2001 Plan													
506104 NOx Operation -- Consumables	-	112,726	228,603	177,442	151,209	461,037		103%	-22%	-15%			205%
506105 NOx Operation -- Labor and Other	-	-	-	-	-	-		0%	0%	0%			0%
512101 NOx Maintenance	22,036	51,395	49,841	14,906	19,189	20,394		133%	-70%	29%			6%
Total 2001 Plan O&M Expenses	22,036	164,121	278,444	192,348	170,398	481,431							
2005 Plan													
502006 Scrubber Operations	144,582	68,868	111,051	134,901	194,097	183,975		61%	21%	44%			-5%
512005 Scrubber Maintenance	6,200	4,545	6,723	25,853	22,576	10,480		48%	285%	-13%			-54%
Total 2005 Plan O&M Expenses	150,782	73,413	117,774	160,754	216,673	194,455							
2006 Plan													
506109 Sorbent Injection Operation	-	34,800	266,582	449,286	329,495	386,910		666%	69%	-27%			17%
512102 Sorbent Injection Maintenance	-	13,935	19,945	2,687	11,337	7,442		43%	-87%	322%			-34%
506110 Mercury Monitors Operation	-	-	-	-	-	-		0%	0%	0%			0%
512103 Mercury Monitors Maintenance	-	-	-	-	-	-		0%	0%	0%			0%
Total 2006 Plan O&M Expenses	-	48,735	286,527	451,973	340,832	394,352							

¹ Off by \$1 from filing due to rounding.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated January 28, 2009**

Case No. 2008-00550

Question No. 6

Witness: Shannon L. Charnas

- Q-6. The Commission previously ordered that KU's cost of debt and preferred stock would be reviewed and re-established during the 6-month review case. Provide the following information as of August 31, 2008:
- 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.
 - c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-6.
- a. Please see the attachment. There was no preferred stock as of August 31, 2008, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of August 31, 2008, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. KU is utilizing a return on equity of 10.63% as agreed to and approved by the Commission in its February 5, 2009 Order in Case No. 2008-00251.

Kentucky Utilities Company
Outstanding Balances - Capitalization
As of August 31, 2008

1	2	3
	Outstanding Balance Total Company	Outstanding Balance KY Jurisdictional 87.94%
1 Long-Term Debt	\$1,359,159,520	\$1,195,244,882
2 Short-Term Debt	\$129,285,454	\$113,693,628
3 Common Equity	\$1,611,419,322	\$1,417,082,152

Kentucky Utilities Company
Blended Interest Rates
As of August 31, 2008

	1
	Blended Interest Rate <u>Total Company</u>
1 Long-Term Debt	5.32%
2 Short-Term Debt	2.44%

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2008

LONG-TERM DEBT

	Due	Rate	Principal	Interest(income)	Annualized Cost			Total	Embedded Cost
					Amortized Debt Issuance Expense	Premium	Amortized Loss-Required Debt		
Pollution Control Bonds -									
Series 11 - Series A	05/01/23	1 90000% *	12,900,000 ²	245,100	-	-	34,599	279,699	2 17
Series 11 - Series A	05/01/23	1 90000% *	(12,900,000) ²	(245,100)	-	-	-	(245,100)	1 90
Series 12	02/01/32	1 75000% *	20,930,000	366,275	4,104	-	36,300	406,679	1 94
Series 13	02/01/32	1 75000% *	2,400,000	42,000	2,856	-	4,164	49,020	2 04
Series 14	02/01/32	1 75000% *	7,400,000	129,500	3,180	-	15,660	148,340	2 00
Series 15	02/01/32	1 75000% *	2,400,000	42,000	1,140	-	12,744	55,884	2 33
Series 16	10/01/32	3 62300% *	96,000,000	3,478,080	72,837	-	186,036	3,736,953	3 89
Series 17	10/01/34	4 00000% *	50,000,000 ²	2,000,000	-	-	94,212	2,094,212	4 19
Series 17	10/01/34	4 00000% *	(50,000,000) ²	(2,000,000)	-	-	-	(2,000,000)	4 00
Series 18	06/01/35	3 55000% *	13,266,950	470,977	17,813	-	-	488,790	3 68
Series 19	06/01/35	3 55000% *	13,266,950	470,977	18,102	-	-	489,079	3 69
Series 20	06/01/36	6 15800% *	16,693,620	1,027,993	20,806	-	-	1,048,799	6 28
Series 21	06/01/36	1 66000% *	16,693,620 ²	277,114	-	-	20,839	297,953	1 78
Series 21	06/01/36	1 66000% *	(16,693,620) ²	(277,114)	-	-	-	(277,114)	1 66
Series 22	10/01/34	6 21000% *	54,000,000	3,353,400	37,464	-	-	3,390,864	6 28
CC 2007A \$17 8M	02/01/26	5 75000% *	17,875,000	1,027,813	31,205	-	-	1,059,018	5 92
TC 2007A \$8 9M	03/01/37	6 00000% *	8,927,000	535,620	14,287	-	-	549,907	6 16
Called Bonds			-	-	-	-	110,904 ¹	110,904	-
Total External Debt			253,159,520	10,944,635	223,794		515,458	11,683,887	0.86%
Notes Payable to Fidelia Corp									
Notes Payable to Fidelia Corp	04/30/13	4 550%	100,000,000	4,550,000	-	-	-	4,550,000	4 55
Notes Payable to Fidelia Corp	08/15/13	5 310%	75,000,000	3,982,500	-	-	-	3,982,500	5 31
Notes Payable to Fidelia Corp	11/24/10	4 240%	33,000,000	1,399,200	-	-	-	1,399,200	4 24
Notes Payable to Fidelia Corp	01/16/12	4 390%	50,000,000	2,195,000	-	-	-	2,195,000	4 39
Notes Payable to Fidelia Corp	07/08/15	4 735%	50,000,000	2,367,500	-	-	-	2,367,500	4 74
Notes Payable to Fidelia Corp	12/21/15	5 360%	75,000,000	4,020,000	-	-	-	4,020,000	5 36
Notes Payable to Fidelia Corp	06/23/36	6 330%	50,000,000	3,165,000	-	-	-	3,165,000	6 33
Notes Payable to Fidelia Corp	10/25/16	5 675%	50,000,000	2,837,500	-	-	-	2,837,500	5 68
Notes Payable to Fidelia Corp	02/07/22	5 690%	53,000,000	3,015,700	-	-	-	3,015,700	5 69
Notes Payable to Fidelia Corp	03/30/37	5 860%	75,000,000	4,395,000	-	-	-	4,395,000	5 86
Notes Payable to Fidelia Corp	06/20/17	5 980%	50,000,000	2,990,000	-	-	-	2,990,000	5 98
Notes Payable to Fidelia Corp	09/14/28	5 960%	100,000,000	5,960,000	-	-	-	5,960,000	5 96
Notes Payable to Fidelia Corp	10/25/19	5 710%	70,000,000	3,997,000	-	-	-	3,997,000	5 71
Notes Payable to Fidelia Corp	12/19/14	5 450%	100,000,000	5,450,000	-	-	-	5,450,000	5 45
Notes Payable to Fidelia Corp	05/22/23	5 850%	75,000,000	4,387,500	-	-	-	4,387,500	5 85
Notes Payable to Fidelia Corp	07/25/18	6 160%	50,000,000	3,080,000	-	-	-	3,080,000	6 16
Notes Payable to Fidelia Corp	08/27/18	5 645%	50,000,000	2,822,500	-	-	-	2,822,500	5 65
Total Internal Debt			1,106,000,000	60,614,400				60,614,400	4.46%
Total			1,359,159,520	71,559,035	223,794	0	515,458	72,298,287	5.32%

SHORT TERM DEBT

	Rate	Principal	Interest	Annualized Cost			Total	Embedded Cost
				Expense	Premium	Loss		
Notes Payable to Associated Company	2 440% *	129,285,454	3,154,565	-	-	-	3,154,565	2 44
Total		129,285,454	3,154,565				3,154,565	2.44%

Embedded Cost of Total Debt 75,452,852 **5.07%**

* Composite rate at end of current month

1 Series P and R bonds were redeemed in 2003, and 2005, respectively They were not replaced with other bond series The remaining unamortized expense is being amortized over the remainder of the original lives (due 5/15/07 and 6/1/25 respectively) of the bonds as loss on required debt

2 Reacquired bonds, which net to zero as they are also included in Short Term Debt Notes Payable to Associated Company

Kentucky Utilities Company
 Outstanding Balances - Adjusted Jurisdictional Capitalization
 August 31, 2008

1	2	3	4	5	6	7
	Electric Only	Capital Structure	Cost Rate	Weighted Average Cost of Capital	Tax Gross-up Factor	Weighted Average Cost of Capital with Equity Gross-up
1	Long-Term Debt	781,961,523	44.20%	5.32%	2.35%	2.35%
2	Short-Term Debt	74,381,446	4.20%	2.44%	0.10%	0.10%
3	Common Equity	912,829,361	51.60%	10.63%	5.49%	8.67%
4	Total	1,769,172,330			7.94%	11.12%

Rate of Return (ROR) Grossed Up:

11.12%

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

See tax rate (TR) calculation on 6(c) page (2)

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2008**

		2008 Federal & State Production Credit W/ 6% 2008 State <u>Tax Rate Included</u>
(1) 1. Assume pre-tax income of	\$ 100.0000	
(2)		
(3) 2. State income tax (see below)	<u>5.6604</u>	(37)
(4)		
(5) 3. Taxable income for Federal income tax		
(6) before production credit	94.3396	(1) - (3)
(7)	6%	
(8) 4. Less: Production tax credit (6% of Line 3)	<u>5.6604</u>	(6) * (7)
(9)		
(10) 5. Taxable income for Federal income tax	88.6792	(6) - (8)
(11)		
(12) 6. Federal income tax (35% of Line 5)	<u>31.0377</u>	(10) * 35%
(13)		
(14) 7. Total State and Federal income taxes		
(15) (Line 2 + Line 6)	<u>\$ 36.6981</u>	(3) + (12)
(16)		
(17) 8. Gross-up Revenue Factor	<u><u>63.3019</u></u>	100 - (15)
(18)		
(19) 9. Therefore, the composite rate is:		
(20) 10. Federal	31.0377%	(12) / 100
(21) 11. State	<u>5.6604%</u>	(3) / 100
(22) 12. Total	<u><u>36.6981%</u></u>	(20) + (21)
(23)		
(24)		
(25)		
(26)		
(27)		
(28) <u>State Income Tax Calculation</u>		
(29) 1. Assume pre-tax income of	\$ 100.0000	
(30)		
(31) 2. Less: Production tax credit	<u>5.6604</u>	(8)
(32)		
(33) 3. Taxable income for State income tax	94.3396	(29) - (31)
(34)		
(35) 4. State Tax Rate	<u>6.0000%</u>	
(36)		
(37) 5. State Income Tax	<u><u>5.6604</u></u>	(33) * (35)