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PUBLIC SERVICE
COMMISSION

Jeff DeRouen
Executive Director
Kentucky Public Service Commission
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September 15, 2009

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
KENTUCKY UTILITIES COMPANY FOR THE TWO-YEAR
BILLING PERIOD ENDING APRIL 30, 2009
CASE NO. 2009-00310***

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 August 18, 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)	CASE NO.
UTILITIES COMPANY FOR THE TWO-YEAR)	2009-00310
BILLING PERIOD ENDING APRIL 30, 2009)	

DIRECT TESTIMONY OF

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

Filed: September 15, 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. Are you sponsoring any exhibits?**

12 A. Yes. I am sponsoring Exhibit RMC-1 – Proposed KU Environmental Surcharge ES
13 Forms 1.00, 1.10, and 2.00.

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

15 A. The purpose of this proceeding is to review the past operation of KU’s environmental
16 surcharge during the six-month billing period ending April 30, 2009 that is part of the
17 two-year billing period also ending April 30, 2009, determine whether the surcharge
18 amounts collected during the period are just and reasonable, and then incorporate or
19 “roll-in” such surcharge amounts into KU’s existing electric base rates.

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

21 A. The purpose of my testimony is to review the operation of KU’s environmental
22 surcharge during the billing period under review, demonstrate the amounts collected
23 during the period were just and reasonable, present and discuss KU’s proposed

1 adjustment to the Environmental Surcharge Revenue Requirement based on the
2 operation of the surcharge during the review period and explain how the
3 environmental surcharge factors were calculated during the period under review.
4 Further, my testimony will recommend that the cumulative ECR revenue requirement
5 for the twelve-months ending with the expense month of February 2009 be used for
6 purposes of incorporating or “rolling-into” KU’s electric base rates the appropriate
7 surcharge amounts using the methodology approved by this Commission in Case Nos.
8 2006-00129 and 2007-00379. Finally, I will propose an improvement to the
9 calculation of the ECR mechanism for consideration by the Commission to help
10 reduce the fluctuation of the over- or under-recovery balance.

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

13 A. KU billed an environmental surcharge to its customers from November 1, 2008
14 through April 30, 2009. For purposes of the Commission’s examination in this case,
15 the monthly KU environmental surcharges are considered as the six-month billing
16 period ending April 30, 2009; that same review period is part of the two-year billing
17 period also ending April 30, 2009. In each month of the period, KU calculated the
18 environmental surcharge factors by using the costs incurred as recorded on its books
19 and records for the expense months of September 2008 through February 2009 and in
20 accordance with the requirements of the Commission’s previous orders concerning
21 KU’s environmental surcharge.

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

1 A. The capital and operating costs included in the calculation of the environmental
2 surcharge factors for the billing period were the costs incurred each month by KU
3 from September 2008 through February 2009. The details are shown in the
4 attachment in response to Question No. 2 of the Commission Staff Request for
5 Information, incorporating all required revisions.

6 The monthly environmental surcharge factors applied during the billing period
7 under review were calculated consistent with the Commission's orders in KU's
8 previous applications to assess or amend its environmental surcharge mechanism and
9 plan, as well as orders issued in previous review cases, most recently Case No. 2008-
10 00550. The monthly environmental surcharge reports filed with the Commission
11 during this time reflect the various changes to the reporting forms ordered by the
12 Commission from time to time.

13 **Q. Are there any changes or adjustments in Rate Base from the amounts originally**
14 **filed as part of the expense month reports?**

15 A. During the period under review, there were no changes to Rate Base from the
16 amounts originally filed during the billing period. This is shown in summary form in
17 KU's response to the Commission Staff Request for Information, Question No. 1.

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

20 A. Yes. Effective with the July 2004 expense month, the scrubber operations expense
21 and gypsum proceeds for the Ghent 1 FGD were included in base rates and removed
22 from the ECR monthly filings due to the elimination of the 1994 ECR Plan in Case

1 No. 2003-00434. Consequently, beginning in July 2004, KU no longer included an
2 adjustment in its ECR monthly filings for the proceeds from gypsum sales.

3 Beginning with the June 2007 expense month, the Ghent 3 FGD was placed in
4 service and KU began reporting scrubber operations expense on Form ES 2.50.
5 Consistent with previous practice, proceeds from the sale of gypsum net of the
6 amount included in base rates should be included as an adjustment to the monthly
7 ECR filing. During the preparation of data responses in Case No. 2009-00197, KU's
8 Amended ECR Compliance Plan filing, KU determined that the proceeds, net of the
9 amount included in base rates, from sale of gypsum from the Ghent FGDs were
10 inadvertently omitted from the monthly ECR filings. Therefore, KU is proposing an
11 adjustment to operating expenses to reflect the difference between actual gypsum
12 proceeds and the amounts included in base rates for the period of June 2007 through
13 February 2009. The result of the adjustment is a decrease to cumulative Jurisdictional
14 E(m) of \$61,113. For the months outside of this review period, a one-time
15 adjustment will be made to the August 2009 expense month filing. Going-forward,
16 the difference between actual monthly byproduct proceeds and the amount in base
17 rates for Ghent will be reported on ES Form 2.00.

18 Furthermore, adjustments to E(m) are necessary for compliance with the
19 Commission's Order in Case No. 2000-00439, to reflect the actual changes in the
20 overall rate of return on capitalization that is used in the determination of the return
21 on environmental rate base associated with KU's Compliance Plans. The changes in
22 the actual cost of long term debt and capital structure result in a decrease to
23 cumulative E(m) of \$1,365,289. The details of and support for this calculation are

1 shown in the attachment to KU's response to Question No. 1 of the Commission Staff
2 Request for Information. Also shown are the revisions to the previous six-month
3 periods included in this two-year review as calculated in Case No. 2008-00216 for
4 billing periods ending October 31, 2007 and April 30, 2008; and Case No. 2008-
5 00550 for billing period ending October 31, 2008. The true-up adjustments were
6 included in the monthly filings consistent with the Commission's final Orders in each
7 case.

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

10 A. Yes. KU experienced a cumulative under-recovery of \$4,272,721 for the six month
11 billing period ending April 30, 2009. The attachment to KU's response to Question
12 No. 2 of the Commission Staff Request for Information shows the calculation of the
13 \$4,272,721 cumulative under-recovery. Therefore, an adjustment to the revenue
14 requirement is necessary to reconcile the collection of past surcharge revenues with
15 actual costs for the billing period under review.

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

18 A. Yes. KU has identified five components that make up the net under-recovery during
19 the billing period under review. The components are: (1) changes in overall rate of
20 return, (2) the exclusion of gypsum proceeds net of the amount in base rates, (3) the
21 difference between the calculation of BESF in the review case and application of
22 BESF in the monthly filings beginning with the March 2008 expense month, (4) the
23 use of the BESF percentage in determining the amount collected in base rates, and (5)

1 the use of 12 month average revenues to determine the billing factor. The details of
 2 and support for the components that make up the net under-recovery during the
 3 billing period under review are shown in the attachment to KU's response to Question
 4 No. 2 of the Commission Staff Request for Information. The table below summarizes
 5 the components of the under-recovery position.
 6

OVER/(UNDER) RECONCILIATION		
Combined Over/(Under) Recovery		(4,272,721)
Due to BESF Calculation Differences	(1,633,929)	
Due to use of BESF %	(3,027,955)	
Due to Change in ROR	1,365,289	
Use of 12 Month Average Revenues	(1,037,238)	
Ghent Gypsum Net Proceeds (including prior period adj.)	61,113	
Subtotal		(4,272,721)
Unreconciled Difference		-

7

8

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

10 A. As previous stated, the cumulative impact of the revised rate of return resulted in a
 11 decrease to the jurisdictional revenue requirement and an over-recovery of
 12 \$1,365,289.

13 **Q. Please explain the exclusion of the Ghent gypsum proceeds**

1 A. As previously stated, the impact of including the Ghent gypsum proceeds, net of the
2 amounts included in base rates, resulted in a decrease to the jurisdictional revenue
3 requirement and an over-recovery of \$61,113.

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

5 A. In the course of preparing the responses in Case No. 2008-00550, KU's most recent
6 six-month review proceeding, KU determined that a difference existed between the
7 calculation of the BESF in the previous 2-year review case and the application of the
8 BESF in the monthly filings beginning with the March 2008 expense month.
9 Specifically, in Case No. 2007-00379, KU calculated the BESF factor using base rate
10 revenues excluding the customer charge revenues, while the monthly filings use
11 BESF times total base revenues to estimate the ECR revenues collected through base
12 rates. BESF was calculated using a lower revenue total than is used in its application
13 in the monthly filings, thereby overstating the BESF percentage. Because the
14 monthly estimate of ECR revenues collected through base rates is made by
15 multiplying BESF times total base revenues, overstating BESF results in a
16 corresponding overstatement of the estimated ECR revenues collected through base
17 rates. When estimated ECR revenues collected through base rates are overstated, the
18 monthly E(m) is correspondingly understated. As a result, KU's net recovery
19 position is understated. If the BESF had been calculated using total revenues, the
20 BESF would be 5.20% instead of 5.51% as filed. Applying the recalculated BESF to
21 the base rate revenues results in an under-recovery of \$1,633,929. As discussed later
22 in my testimony, KU is proposing a change in the use of BESF that will eliminate the
23 impacts from using the BESF percentage as discussed.

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

4 A. The first component is the use of the BESF percentage to estimate the amount
5 collected through base rates. In the monthly filings, the BESF percentage is used to
6 determine the amount of ECR revenue collected through base rates by applying the
7 percentage to total base rate revenues. In the review proceedings, however, the
8 billing determinants are used to determine the actual ECR revenues collected through
9 base rates. The difference between these two methodologies results in a continuous
10 mismatch between actual revenues collected and estimated revenues as reported in
11 the monthly filings. In the billing period under review, the mismatch resulted in an
12 under-recovery of \$3,027,955. As discussed later in my testimony, KU is proposing a
13 change in the use of BESF that will eliminate the impacts of using the BESF
14 percentage as discussed.

15 The second component is the use of 12-month average revenues to calculate
16 the MESF and then applying that same MESF to the actual monthly revenues. The
17 result is an over-collection during the summer months when actual revenues will
18 generally be greater than the 12-month average and an under-collection during the
19 shoulder months when actual revenues will generally be less than the 12-month
20 average. In the billing period under review, the use of 12-month average revenues
21 resulted in an under-recovery of \$1,037,238.

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

1 A. KU is proposing that the cumulative under-recovery of \$4,272,721 be recovered over
2 the six months following the Commission's Order in this proceeding. Specifically,
3 KU recommends that the Commission approve an increase to the Environmental
4 Surcharge Revenue Requirement of \$712,120 per month for the first five months and
5 \$712,121 for the sixth month, beginning in the second full billing month following
6 the Commission's Final Order in this proceeding. This method is consistent with the
7 method of implementing previous over- or under-recovery positions in prior ECR
8 review cases.

9 **Q. Should the Commission in the case approve the incorporation into KU's base**
10 **electric rates the environmental surcharge amounts found just and reasonable**
11 **for the two-year billing period ending April 2009?**

12 A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and
13 reasonable for the two-year billing period ending April 2009 into electric base rates.
14 KU recommends that an incremental environmental surcharge amount of \$86,667,849
15 be incorporated into base rates at the conclusion of this case. KU determined the
16 incremental roll-in amount of \$86,667,849 using the base-current methodology,
17 consistent with current practice and as previously approved by the Commission. If
18 approved, the total amount of environmental surcharge that will be included in base
19 rates will be \$136,185,631 upon conclusion of this proceeding.

20 **Q. If the Commission accepts KU's recommendation to incorporate the proposed**
21 **amount into base rates, what will be the impact on KU's revenue requirement?**

22 A. The incorporation of the recommended surcharge amounts into base rates will
23 increase base rates and simultaneously reduce ECR revenues by an equal amount.

1 Therefore, there will be no impact on KU's revenue requirement or on KU's total
2 ECR revenue. In other words, the roll-in will be revenue neutral to KU.

3 **Q. Can improvements be made to the operation of the Environmental Cost**
4 **Recovery mechanism?**

5 A. Yes. KU reviews the operation of the ECR, during review cases and as a matter of
6 policy, in its ongoing efforts for continuous improvement. As a result of these
7 ongoing efforts, KU has identified a modification to the calculation of the ECR that it
8 is proposing for implementation following the Commission's final Order in this
9 proceeding. Specifically, KU is proposing to revise the calculation of the base-
10 current bill factor from a percentage method to a revenue requirement method.

11 **Q. Why is KU proposing a revision to the calculation of the base-current billing**
12 **factor?**

13 A. A frequently recurring issue with the ECR review cases is the significant fluctuation
14 in the cumulative over- or under-recovered balance of allowed ECR revenue
15 requirement, which typically results in true-up adjustments to the monthly
16 calculations. KU believes that a simple modification to the determination of the
17 monthly billing factor has the potential to significantly reduce these periodic
18 fluctuations, and further believes the modification can be implemented without
19 changing the basic structure of the monthly filing calculations in general or the base-
20 current practice in particular. Further, the modification KU is proposing is
21 completely consistent with the methodologies that have been followed in the periodic
22 ECR review cases beginning with Case No. 2006-00129, when KU began presenting

1 its cumulative over- or under-recovered position as a component of both ECR billing
2 factor revenues and ECR revenues collected through base rates.

3 With recent enhancements in reporting capabilities, KU can now determine in
4 a timely manner the ECR component collected through base rates. This can be
5 accomplished on a monthly basis and incorporated into the monthly filings instead of
6 waiting for a review proceeding. This change will result in more timely and accurate
7 collection of allowed ECR revenues while avoiding the potential for significant
8 swings in over- or under-collection of ECR revenues.

9 Importantly, there will be no change to the total revenues KU is allowed to
10 collect through the ECR as a result of this revision; only the timing and accuracy of
11 revenue collection will be impacted.

12 **Q. Please describe the Base-Current method of billing the ECR subsequent to a**
13 **base rate roll-in.**

14 **A.** KU implemented the Base-Current method of billing current ECR expenses in Case
15 No. 2003-00068, a two-year review of the ECR. In that proceeding, the calculation to
16 determine the Monthly Environmental Surcharge Factor (“MESF”) was established
17 by subtracting the Base Environmental Surcharge Factor (“BESF”) from the Current
18 Environmental Surcharge Factor (“CESF”). This is known as the “Base-Current”
19 methodology. All three environmental surcharge factors are based on a percentage of
20 a 12- month historical revenue calculation. Since that time, both KU and LG&E have
21 consistently used the Base-Current method, using percentage of revenues as the basis
22 for all calculations, with only minor adjustments.

1 The CESF, BESF and MESF as currently defined are based on a percentage of
2 revenue for each component of the Base-Current methodology. The CESF is the net
3 jurisdictional E(m) divided by the 12-month average retail revenues (excluding ECR
4 revenues). The BESF is the ECR annual revenue requirement currently included in
5 base rates divided by 12-month base rate revenues (customer charges, energy charges
6 and demand charges) for the period immediately preceding the effective date of the
7 roll-in adjustment to base rates. The MESF is the arithmetic difference between
8 CESF and BESF and is the billing factor applied to retail bills. However, the CESF
9 and BESF are determined using different 12 month historical revenues in the
10 denominator.

11 **Q. Will you please explain the reason for KU's proposed modification to the current**
12 **methods?**

13 A. Yes. KU believes that greater accuracy and timeliness of revenue collection can be
14 achieved with a minor change to the manner in which the monthly revenue
15 requirement is determined. KU's proposal maintains the base-current methodology, in
16 that each month the revenue requirement to be collected from customers will
17 represent only that portion of the monthly revenue requirement above the level
18 embedded in KU's base rates as a result of cumulative ECR roll-ins.

19 Under the current methodology, KU calculates the appropriate ECR revenue
20 requirement to roll-in to base rates and the corresponding base rate change needed to
21 collect this amount of ECR revenue. This calculation is done on an approximate two-
22 year schedule. Commensurate with the determination of new base rates, a BESF,
23 representing twelve months of environmental costs to be rolled-in divided by twelve

1 month revenues, is determined. On a monthly basis, the Companies calculate the
 2 CESF and adjust the CESF by the BESF to determine the MESF. However, as
 3 previously mentioned, different twelve-month periods of revenues are used in the
 4 calculation of the CESF and BESF.

5 This percentage method results in accurate revenue recovery only when the
 6 environmental surcharge revenue collected through base rates is mathematically equal
 7 to the revenue that would be collected by applying the BESF to monthly revenues.
 8 The following table, using February 2009 actual data illustrates this point:

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		\$ 11,869,041
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		\$ 3,533,362
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		\$103,026,104
(4)	BESF (Actual)		5.51%
(5)	BESF times Revenue (assumed revenue through base rates)	(3) x (4)	\$ 5,676,738
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	\$ 2,143,376

10
 11 As shown above, the approved method of calculating the current billing factor
 12 is based on an assumption that more revenue will be collected through base rates than
 13 historically occurs. Because less revenue is collected through base rates than the
 14 amount assumed by the methodology, an understatement of the monthly billing factor
 15 (the MESF) is caused, which in turn results in an under-collection of the Company's
 16 Jurisdictional E(m).

17 **Q. Please explain the Company's proposed alternative to billing the monthly ECR.**

1 A. KU proposes that the determination of the environmental billing factor be modified in
2 such a way that the monthly filings more accurately reflect the same determination of
3 the over- or under-collected position that is used during the six-month and two-year
4 review cases. Through recent process improvements and modifications to the billing
5 system, KU now knows the amount of ECR revenue collected through base rates in a
6 given expense month is known *prior* to the filing of the ECR monthly billing factor
7 for the expense month. This eliminates the need to use a BESF percentage method as
8 an estimate of the ECR revenue collected through base rates. This is so because the
9 same calculation can be performed on a monthly basis that KU now performs in each
10 ECR review case.

11 The Companies propose that the monthly Net Jurisdictional E(m) (monthly
12 ECR revenue requirement) continue to be determined following current methods, but
13 eliminate the adjustment for the estimated over/under collection. This adjustment has
14 not resulted, as intended, in a reduction of the cumulative over- or under-collection
15 position presented in periodic review cases, as was its intent. KU believes that with
16 the implementation of the proposed modification to the monthly filings, the
17 adjustment for the estimated over/under-collection is not needed and will
18 unnecessarily complicate the monthly filing without any benefits.

19 The Net Jurisdictional E(m) revenue requirement reported on ES Form 1.10
20 will be reduced by the actual ECR revenue collected through base rates during the
21 expense month to arrive at the Net Jurisdictional E(m) to be collected through the
22 monthly billing factor applied to customer bills. The resulting Net Jurisdictional
23 E(m) divided by the average twelve month retail revenues (Jurisdictional R(m)) will

1 calculate the current billing factor (MESF) to be applied to retail customer bills. The
 2 following table, again using actual February 2009 data shows this point:

3

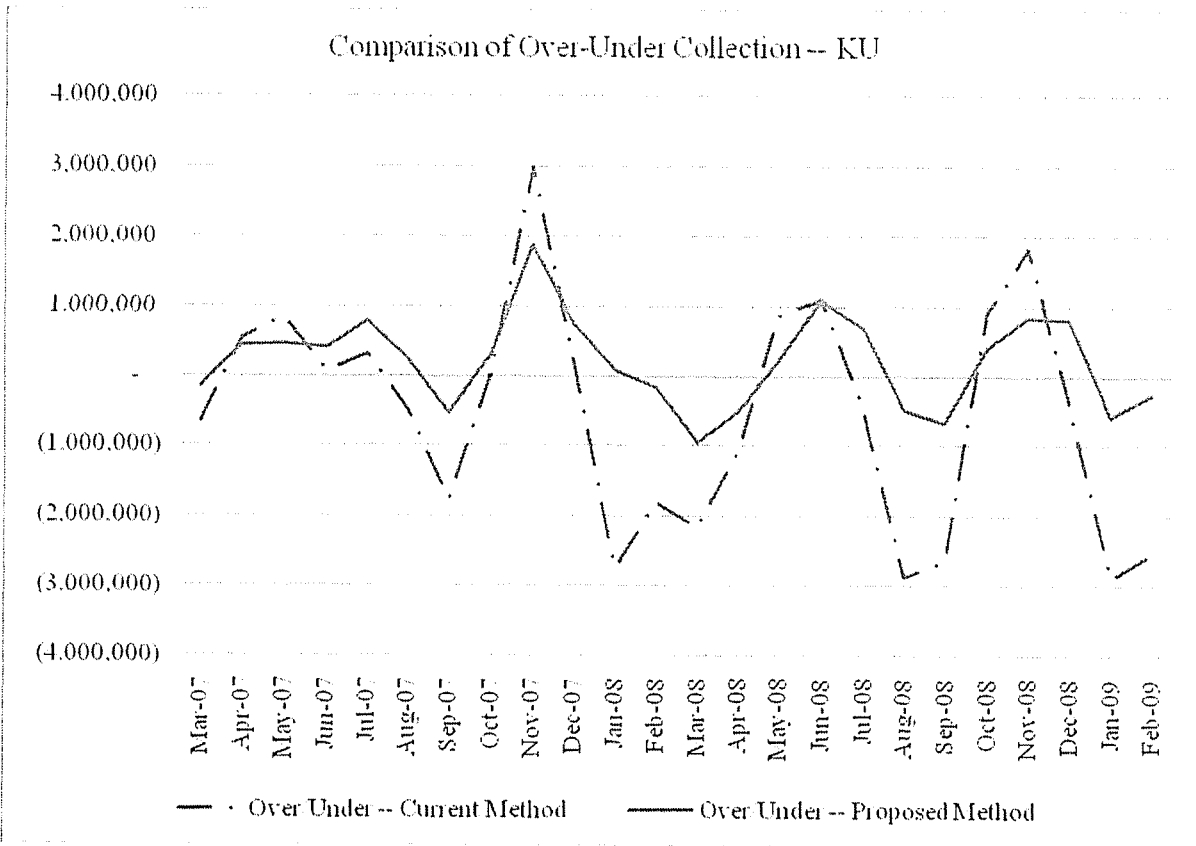
			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		\$ 11,869,041		\$ 11,869,041
(2)	Jurisdictional R(m)		\$ 92,077,262		\$ 92,077,262
(3)	Revenue Collected Through Base Rates (actual Feb)		\$ 3,533,362		\$ 3,533,362
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	\$ 8,335,679
(5)	CESF*	(1) / (2)	12.89%	(4) / (2)	9.05%
(6)	BESF		5.51%		0.00%
(7)	MESF*	(5) - (6)	7.38%	(5) - (6)	9.05%
(8)	Revenue Subject to ECR (April)		\$ 88,769,817		\$88,769,817
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	\$ 6,551,212	(7) x (8)	\$ 8,033,668
(10)	Total Revenue Collected*	(3) + (9)	\$ 10,329,907	(3) + (9)	\$11,567,030
(11)	Revenue Under-collection*	(1) - (10)	\$ 1,539,134	(1) - (10)	\$ 302,011

* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was \$11,070,129; actual CESF was 6.51% and actual revenue collected through billing factor was \$5,801,057

4

5 KU's proposed modification to the monthly filings is the same over/under calculation
 6 that KU uses in its six-month and two-year reviews. However, this modification
 7 allows for a more accurate and timely determination of the amount collected through
 8 base rates and minimizes the volatility from month to month of the impact to
 9 customers. The graph below illustrates the impact on KU's over- and under-
 10 collection of ECR revenues over the two-year period under review using the two
 11 methods of calculating the ECR monthly billing factor.

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As shown by the figure above, the change in the Base - Current method from a percentage to a revenue amount mitigates the month-to-month volatility in the over-or under-collection of total ECR revenue.

Q. Will the implementation of this proposal require any revision to KU’s monthly ECR filing forms?

A. Yes. KU is proposing a revision to ES Forms 1.00, 1.10 and 2.00 to reflect the proposed methodology and elimination of the CESF and BESF percentages. Please see Exhibit RMC-1 for an illustration of the modifications being proposed to the monthly filing forms. It is important to note that the change in methodology will not change the amount of environmental cost collected from customers. The two

1 methodologies, over time, are revenue neutral to customers but will temper the
2 month-to-month variance in the ECR billing factor.

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 11.00%, including the
6 currently approved 10.63% return on equity and adjusted capitalization, to be used to
7 calculate the environmental surcharge going forward upon Commission approval.
8 This is based on capitalization as of February 28, 2009 and the Settlement Agreement
9 approved by the Commission in its February 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 \$712,120 per month for the first five
14 months and \$712,121 for the sixth month, beginning in the second full billing
15 month following the month in which the Commission issues its Final Order in
16 this Proceeding;
- 17 b) The Commission should determine environmental surcharge amounts for the
18 two-year billing period ending April 30, 2009 to be just and reasonable;
- 19 c) KU's proposed incremental roll-in amount of \$86,667,849 should be approved
20 as the incremental amount to be incorporated into base electric rates for bills
21 rendered on and after the second full billing month following the month in
22 which the Commission issues its Final Order in this Proceeding;

- 1 d) The Commission should (1) approve the proposed methodology to calculate
2 the revenue requirement using actual ECR revenues collected through base
3 rates, (2) eliminate the use of the BESF percentage, (3) eliminate the monthly
4 true-up, and (4) approve KU's proposed revisions to ES Forms 1.00, 1.10 and
5 2.00 beginning with the second full billing month following the month in
6 which the Commission issues its Final Order in this Proceeding; and
- 7 e) The Commission should approve the use of an overall rate of return on capital
8 of 11.00% using a return on equity of 10.63% beginning in the second full
9 billing month following the month in which the Commission issues its Final
10 Order in this Proceeding.

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

12 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.

ES FORM 1.00

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

**Net Jurisdictional E(m) and
Jurisdictional Environmental Surcharge Billing Factor
For the Expense Month of**

Net Jurisdictional E(m) = Jurisdictional E(m) less Expense Month Revenue Collected Through Base Rates -- ES Form 1.10, line 13	=	\$	-
Jurisdictional Environmental Surcharge Billing Factor -- ES Form 1.10, line 15	=		0.00%

Effective Date for Billing: billing cycle beginning

Submitted by: _____

Title: Director, Rates

Date Submitted:

**KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Calculation of Total E(m) and
Jurisdictional Surcharge Billing Factor

For the Expense Month of

Calculation of Total E(m)

$E(m) = [(RB / 12) (ROR + (ROR - DR)(TR / (1 - TR)))] + OE - BAS$, where
 RB = Environmental Compliance Rate Base
 ROR = Rate of Return on the Environmental Compliance Rate Base
 DR = Debt Rate (both short-term and long-term debt)
 TR = Composite Federal & State Income Tax Rate
 OE = Pollution Control Operating Expenses
 BAS = Total Proceeds from By-Product and Allowance Sales

		Environmental Compliance Plans	
(1)	RB	= \$	-
(2)	RB / 12	=	-
(3)	$(ROR + (ROR - DR) (TR / (1 - TR)))$	=	11.00%
(4)	OE	=	-
(5)	BAS	=	-
(6)	E(m) (2) x (3) + (4) - (5)	= \$	-

Calculation of Jurisdictional Environmental Surcharge Billing Factor

(7)	Jurisdictional Allocation Ratio for Expense Month -- ES Form 3.00	=	0.00%
(8)	Jurisdictional E(m) = E(m) x Jurisdictional Allocation Ratio [(6) x (7)]	= \$	-
(9)	Adjustment for (Over)/Under-collection pursuant to Case No. xxxx-xxxx	=	-
(10)	Prior Period Adjustment (if necessary)	=	-
(11)	Adjusted Jurisdictional E(m) [(8) + (9) + (10)]		
(12)	Revenue Collected through Base Rates	= \$	-
(13)	Net Jurisdictional E(m) = Jurisdictional E(m) less Expense Month Revenue Collected Through Base Rates [(11) - (12)]	= \$	-
(14)	Jurisdictional R(m) = Average Monthly Jurisdictional Revenue for the 12 Months Ending with the Current Expense Month -- ES Form 3.00	= \$	-
(15)	Jurisdictional Environmental Surcharge Billing Factor [(13) ÷ (14)]	=	0.00%

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT
Revenue Requirements of Environmental Compliance Costs
For the Expense Month of

Determination of Environmental Compliance Rate Base

	Environmental Compliance Plan	
Eligible Pollution Control Plant	\$ -	
Eligible Pollution CWIP Excluding AFUDC	-	
Subtotal		\$ -
Additions:		
Inventory - Emission Allowances per ES Form 2.31, 2.32 and 2.33	-	
Cash Working Capital Allowance	-	
Deferred Debit Balance -- Mill Creek Ash Dredging	-	
Subtotal		-
Deductions:		
Accumulated Depreciation on Eligible Pollution Control Plant	-	
Pollution Control Deferred Income Taxes	-	
Subtotal		-
Environmental Compliance Rate Base		\$ -

Determination of Pollution Control Operating Expenses

	Environmental Compliance Plan
Monthly Operations & Maintenance Expense	\$ -
Monthly Depreciation & Amortization Expense	-
less investment tax credit amortization	-
Monthly Property and Other Applicable Taxes	-
Monthly Insurance Expense	-
Monthly Emission Allowance Expense from ES Form 2.31, 2.32 and 2.33	-
Monthly Permitting Fees	-
Amortization of Monthly Mill Creek Ash Dredging	-
Less : Operating Expenses Associated with Retirements or Replacements	-
Occuring Since Last Roll-In of Surcharge into Existing Rates	-
Total Pollution Control Operations Expense	\$ -

Proceeds From By-Product and Allowance Sales

	Total Proceeds	Amount in Base Rates	Net Proceeds
	(1)	(2)	(1) - (2)
Allowance Sales			\$ -
Scrubber By-Products Sales			\$ -
Total Proceeds from Sales			\$ -

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 TWO-YEAR)	2009-00310
BILLING PERIOD ENDING APRIL 30, 2009)	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED AUGUST 18, 2009

FILED: September 15, 2009

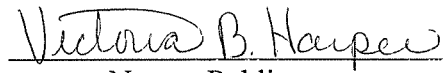
VERIFICATION

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

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 15th day of September 2009.

 (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

Question No. 1

Witness: Robert M. Conroy / Shannon L. Charnas

- Q-1. Concerning the rate of return on the four amendments to the environmental compliance plan, for the period 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 jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any trueup adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding 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 most recent 6-month 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 for the billing months of November 2008 through April 2009.

Revisions to the previous six-month review periods included in this two-year review were calculated in Case Nos. 2008-00216 (billing periods ending October 31, 2007 and April 30, 2008) and 2008-00550 (billing period ending October 31, 2008). The true-up adjustments were included in the monthly filings consistent with the Commission's final Orders in each case.

Pages 3 and 4 provide the adjusted weighted average cost of capital as of April 30, 2009 utilizing a 10.50% ROE (for the expenses months of Sept. 2008 through Jan. 2009) and a 10.63% ROE (for the expense month of Feb. 2009), respectively.

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 of Return
Impact on Calculated E(m)

(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	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
May-07	Mar-07	11.52%	11.13%	-0.39%	\$ 511,921,503	(166,374)	83.42%	(138,790)
Jun-07	Apr-07	11.52%	11.13%	-0.39%	547,830,501	(178,045)	85.81%	(152,780)
Jul-07	May-07	11.52%	11.13%	-0.39%	583,059,022	(189,494)	83.08%	(157,432)
Aug-07	Jun-07	11.52%	11.13%	-0.39%	618,272,493	(200,939)	85.70%	(172,204)
Sep-07	Jul-07	11.52%	11.13%	-0.39%	652,064,986	(211,921)	84.72%	(179,540)
Oct-07	Aug-07	11.52%	11.13%	-0.39%	685,861,631	(222,905)	85.27%	(190,071)
						(1,169,678)		(990,817)
Nov-07	Sep-07	11.52%	11.13%	-0.39%	\$ 717,693,961	(233,251)	84.55%	(197,213)
Dec-07	Oct-07	11.52%	11.13%	-0.39%	752,361,745	(244,518)	85.32%	(208,622)
Jan-08	Nov-07	11.52%	11.13%	-0.39%	776,019,046	(252,206)	83.75%	(211,223)
Feb-08	Dec-07	11.52%	11.13%	-0.39%	811,489,514	(263,734)	82.92%	(218,688)
Mar-08	Jan-08	11.52%	11.13%	-0.39%	839,500,759	(272,838)	84.20%	(229,729)
Apr-08	Feb-08	11.52%	11.13%	-0.39%	865,431,944	(281,265)	85.76%	(241,213)
						(1,547,812)		(1,306,689)
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
						(870,510)		(715,967)
Nov-08	Sep-08	11.13%	10.81%	-0.32%	\$ 1,079,194,834	(287,785)	82.47%	(237,337)
Dec-08	Oct-08	11.13%	10.81%	-0.32%	1,100,204,730	(293,388)	77.38%	(227,024)
Jan-09	Nov-08	11.13%	10.81%	-0.32%	1,121,882,153	(299,169)	75.52%	(225,932)
Feb-09	Dec-08	11.13%	10.81%	-0.32%	1,147,776,100	(306,074)	79.97%	(244,767)
Mar-09	Jan-09	11.13%	10.81%	-0.32%	1,163,146,273	(310,172)	83.81%	(259,955)
Apr-09	Feb-09	11.12%	10.92%	-0.20%	1,182,049,149	(197,008)	86.43%	(170,274)
						(1,693,596)		(1,365,289)
Cumulative Impact of Changes in Rate of Return						\$ (5,281,596)		\$ (4,378,762)

Note: The billing periods ending October 31, 2007 and April 30, 2008 were reviewed in Case No. 2008-00216. The true-up adjustments for those billing periods were included in the monthly filings consistent with the Commission's final Order.
The billing period ending October 31, 2008 was reviewed in Case No. 2008-00550. The true-up adjustment for this period was included in the monthly filings consistent with the Commission's final Order.

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity
at April 30, 2009 (using a 10.50% ROE)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Per Books 04-30-09	Capital Structure	Undistributed Subsidiary Earnings	Investment in EEI	Investments in OVEC and Other	Adjustments to Total Co. Capitalization	Adjusted Total Company Capitalization	Jurisdictional Rate Base Percentage	Kentucky Jurisdictional Capitalization
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		(Col 2 x Col 4 Line 4)	(Col 2 x Col 4 Line 4)	(Col 2 x Col 4 Line 4)	(Col 2 x Col 5 Line 4)	(Sum of Col 3 - Col 5)	(Col 1 + Col 6)		(Col 7 x Col 8)
1. Short Term Debt	\$ 57,849,954	1.68%	\$ -	\$ (21,769)	\$ (11,107)	\$ (32,876)	\$ 57,817,078	87.57%	\$ 50,630,415
2. Long Term Debt	1,581,779,405	45.85%	-	(594,124)	(303,133)	(897,257)	1,580,882,148	87.57%	1,384,378,497
3. Common Equity	1,810,178,246	52.47%	(10,376,577)	(679,907)	(346,900)	(11,403,384)	1,798,774,862	87.57%	1,575,187,147
4. Total Capitalization	\$ 3,449,807,605	100.00%	\$ (10,376,577)	\$ (1,295,800)	\$ (661,140)	\$ (12,333,517)	\$ 3,437,474,088		\$ 3,010,196,059

	Adjusted Kentucky Jurisdictional Capitalization	Adjusted Capital Structure	Adjusted Annual Cost Rate	Cost of Capital
	(Col 9 + Col 11)	(13)	(14)	(Col 14 x Col 13)
	(12)	(13)	(14)	(15)
1. Short Term Debt	\$ 39,222,800	1.68%	0.55%	0.01%
2. Long Term Debt	1,072,095,036	45.99%	4.63%	2.13%
3. Common Equity	1,219,853,521	52.33%	10.50%	5.49%
4. Total Capitalization	\$ 2,331,171,357	100.00%		7.63%
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x (TR / (1 - TR)))				10.81%

KENTUCKY UTILITIES

Adjusted Electric Rate of Return on Common Equity
at April 30, 2009 (using a 10.63% ROE)

	Per Books 04-30-09 (1)	Capital Structure (2)	Undistributed Subsidiary Earnings (3)	Investment in EEI (Col 2 x Col 4, Line 4) (4)	Investments in OVEC and Other (Col 2 x Col 5, Line 4) (5)	Adjustments to Total Co. Capitalization (Sum of Col 3 - Col 5) (6)	Adjusted Total Company Capitalization (Col 1 + Col 6) (7)	Jurisdictional Rate Base Percentage (8)	Kentucky Jurisdictional Capitalization (Col 7 x Col 8) (9)
1. Short Term Debt	\$ 57,849,954	1.68%	\$ -	\$ (21,769)	\$ (11,107)	\$ (32,876)	\$ 57,817,078	87.57%	\$ 50,630,415
2. Long Term Debt	1,581,779,405	45.85%	-	(594,124)	(303,133)	(897,257)	1,580,882,148	87.57%	1,384,378,497
3. Common Equity	1,810,178,246	52.47%	(10,376,577)	(679,907)	(346,900)	(11,403,384)	1,798,774,862	87.57%	1,575,187,147
4. Total Capitalization	\$ 3,449,807,605	100.00%	\$ (10,376,577)	\$ (1,295,800)	\$ (661,140)	\$ (12,333,517)	\$ 3,437,474,088		\$ 3,010,196,059
				Adjusted					
	Kentucky Jurisdictional Capitalization (9)	Environmental Surcharge (Net of ECR Roll-in) (Col 10 x Col 11, Line 4) (11)	Adjusted Kentucky Jurisdictional Capitalization (Col 9 + Col 11) (12)	Adjusted Capital Structure (13)	Annual Cost Rate (14)	Cost of Capital (Col 14 x Col 13) (15)			
1. Short Term Debt	\$ 50,630,415	\$ (11,407,615)	\$ 39,222,800	1.68%	0.55%	0.01%			
2. Long Term Debt	1,384,378,497	(312,283,461)	1,072,095,036	45.99%	4.63%	2.13%			
3. Common Equity	1,575,187,147	(355,333,626)	1,219,853,521	52.33%	10.63%	5.56%			
4. Total Capitalization	\$ 3,010,196,059	\$ (679,024,702)	\$ 2,331,171,357	100.00%		7.70%			
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])									10.92%

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

Question No. 2

Witness: Robert M. Conroy

- 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 a calculation of any additional over- or under-recovery amount KU believes needs to be recognized for the six-month review or the two-year review. 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 of the two-year billing period ending April 30, 2009 and the cumulative components which make up the net under-recovery of \$4,272,721 for the six-month billing period ending April 30, 2009.

As discussed in Mr. Conroy's testimony, KU determined that the proceeds, net of the base amount established in Case No. 2003-00434, from the sale of gypsum from the Ghent FGDs were inadvertently omitted from the monthly ECR filings beginning in June 2007 when the Ghent 3 FGD was placed in service. KU is proposing an adjustment to reduce jurisdictional operating expenses by \$61,113 to reflect the difference between the actual gypsum proceeds and the amounts included in base rates for the period of June 2007 through February 2009. The details of the adjustment are provided on pages 4-5 of the attachment to this response.

The net under-recovery amounts occurring in the previous six-month review periods included in this two-year review were calculated in Case Nos. 2008-00216 (billing periods ending October 31, 2007 and April 30, 2008) and 2008-00550 (billing period ending October 31, 2008). The under-recovery amounts were included in the monthly filings consistent with the Commission's final Orders in each case.

(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) Ghent Gypsum Sales - Total Proceeds	(7) Total E(m) (3) * (4) + (5) + (6)	(8) Retail Allocation Ratio ES Form 1.10	(9) Retail E(m) (7) * (8)	Comments: As Revised in This Review
Mar-07	511,921,503	42,660,125	11.13%	293,904		5,041,976	83.42%	4,206,016	
Apr-07	547,830,501	45,652,542	11.13%	770,850		5,851,978	85.81%	5,021,582	
May-07	583,059,022	48,588,252	11.13%	1,000,328		6,408,200	83.08%	5,323,933	
Jun-07	618,372,493	51,532,708	11.13%	1,759,415	7,323	7,501,215	85.70%	6,428,541	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Jul-07	652,064,986	54,338,749	11.13%	2,144,308	9,550	8,201,761	84.72%	6,948,532	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Aug-07	685,861,631	57,155,136	11.13%	2,028,724	32,541	8,422,652	85.27%	7,181,978	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Sep-07	717,693,961	59,807,830	11.13%	1,499,893	12,477	8,168,982	84.55%	6,906,874	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Oct-07	752,361,745	62,696,812	11.13%	1,617,797	2,774	8,598,727	85.32%	7,336,434	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Nov-07	776,019,046	64,668,254	11.13%	1,554,607	(13,516)	8,738,668	83.75%	7,318,634	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Dec-07	811,489,514	67,624,126	11.13%	1,627,390	(54,016)	9,099,939	82.92%	7,545,669	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Jan-08	839,500,759	69,958,397	11.13%	1,424,993	6,742	9,218,104	84.20%	7,761,644	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Feb-08	865,431,944	72,119,329	11.13%	1,449,628	(13,230)	9,463,279	85.76%	8,115,708	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Mar-08	893,514,146	74,459,512	11.19%	1,178,399	(6,961)	9,503,457	81.31%	7,727,261	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Apr-08	928,185,321	77,348,777	11.19%	1,580,406	(13,942)	10,221,793	84.71%	8,658,880	Revised to include net Ghent gypsum proceeds - See Conroy testimony
May-08	962,572,421	80,214,368	11.19%	1,974,752	(9,867)	10,940,873	81.63%	8,931,035	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Jun-08	1,000,575,344	83,381,279	11.19%	2,477,145	(17,748)	11,789,762	83.46%	9,839,736	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Jul-08	1,032,461,736	86,038,478	11.19%	3,085,086	(15,875)	12,696,917	81.02%	10,287,042	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Aug-08	1,056,151,360	88,012,613	11.19%	3,742,987	(17,266)	13,574,333	85.16%	11,539,902	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Sep-08	1,079,194,834	89,932,903	10.81%	3,737,754	(19,769)	13,439,732	82.47%	11,083,747	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Oct-08	1,100,204,730	91,683,728	10.81%	2,937,712	4,560	12,853,283	77.35%	9,945,871	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Nov-08	1,121,882,153	93,490,179	10.81%	3,244,938	(16,065)	13,335,162	75.52%	10,070,714	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Dec-08	1,147,776,100	95,648,008	10.81%	3,768,559	15,965	14,124,074	79.97%	11,295,022	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Jan-09	1,163,146,273	96,928,856	10.81%	3,638,786	13,708	14,130,504	83.81%	11,842,775	Revised to include net Ghent gypsum proceeds - See Conroy testimony
Feb-09	1,182,049,149	98,504,096	10.92%	2,778,893	16,416	13,551,956	86.43%	11,712,955	Revised to include net Ghent gypsum proceeds - See Conroy testimony

Note:
 The billing periods ending October 31, 2007 and April 30, 2008 were reviewed in Case No. 2008-00216.
 The billing period ending October 31, 2008 was reviewed in Case No. 2008-00550.

Kentucky Utilities
Calculation of E(m) and Jurisdictional Surcharge Billing Factor
Summary Schedule for Expense Months March 2007 through February 2009

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Expense Month	Retail E(m)	Adjustment For O&M Environmental Expenses per Case No. 2003-00434	Adjustment to Retail E(m) for Under-Collection Case Nos. 2006-00129 2007-00379 2008-00216	Retail E(m) Including all Adjustments	Average Monthly Retail Revenues	Current Environmental Surcharge Factor (CESF)	Base Environmental Surcharge Factor (BESF)	Monthly Environmental Surcharge Factor (MESF)	ECR Billing Factor Revenues	ECR Revenue Recovered Through Base Rates	Combined Total Over/(Under) Recovery
					ES Form 1.00	(5) / (6)	(8) / (7)	(9) / (8)	(10) / (9)	(11) / (10)	(12) / (11)
Mar-07	4,206,016	83,333	399,375	4,688,724	79,931,362	5.87%	3.11%	2.76%	24,566,759	13,718,257	1,875,686
Apr-07	5,021,582	83,333	399,374	5,504,289	80,637,289	6.83%	3.11%	3.72%	2,339,019	2,016,822	(332,884)
May-07	5,323,933	83,333		5,407,266	81,235,959	6.66%	3.11%	3.55%	3,973,879	2,214,070	683,660
Jun-07	6,428,541	83,333		6,511,874	82,545,385	7.89%	3.11%	4.78%	4,095,263	2,340,993	1,028,990
Jul-07	6,948,532	83,333		7,031,865	83,244,843	8.45%	3.11%	5.34%	4,367,489	2,479,181	334,796
Aug-07	7,181,978	83,333		7,265,311	83,131,325	8.74%	3.11%	5.63%	5,094,711	2,534,872	597,718
Sep-07									4,696,399	2,132,319	(436,594)
Oct-07									24,566,759	13,718,257	1,875,686
Sep-07	6,906,874	83,333		6,990,207	84,095,039	8.31%	3.11%	5.20%	3,486,782	2,000,449	(1,502,976)
Oct-07	7,336,434	83,333		7,419,767	84,881,902	8.74%	3.11%	5.63%	5,482,500	2,258,900	321,634
Nov-07	7,318,634	83,333		7,401,967	85,220,895	8.69%	3.11%	5.58%	8,085,888	2,527,869	67,395
Dec-07	7,545,669	83,333		7,629,002	85,684,224	8.90%	3.11%	5.79%	5,168,528	2,360,997	(2,519,357)
Jan-08	7,761,644	83,333		7,844,977	88,275,137	8.89%	3.11%	5.78%	2,964,623	2,070,551	(1,541,014)
Feb-08	8,115,708	83,333		8,199,041	88,972,444	9.22%	3.11%	6.11%	4,587,476	2,070,551	(1,891,502)
Mar-08									29,775,797	13,817,663	
Mar-08	7,727,261	83,333	424,939	8,235,533	89,584,234	9.19%	5.51%	3.68%	2,816,309	3,406,885	(2,012,339)
Apr-08	8,658,880	83,333	424,939	9,167,152	90,279,515	10.15%	5.51%	4.64%	4,470,912	3,767,850	(928,390)
May-08	8,931,035	83,333	424,939	9,439,307	90,203,338	10.46%	5.51%	4.95%	6,243,205	4,216,621	1,020,519
Jun-08	9,839,736	83,333	424,938	10,348,007	89,828,391	11.52%	5.51%	6.01%	7,422,675	4,216,621	1,290,422
Jul-08	10,287,042	83,333		10,370,375	89,962,316	11.53%	5.51%	6.02%	5,832,354	4,171,504	(360,517)
Aug-08	11,559,902	83,333	22,563	11,665,798	91,159,943	12.80%	5.51%	7.29%	5,175,991	3,598,715	(2,891,092)
Sep-08									31,961,447	23,383,327	(3,881,397)
Oct-08											
Sep-08	11,083,747	83,333		11,167,080	91,451,709	12.21%	5.51%	6.70%	5,235,307	3,555,299	(2,376,474)
Oct-08	9,945,871	83,333		10,029,204	91,204,801	11.00%	5.51%	5.49%	6,771,154	4,400,119	1,142,069
Nov-08	10,070,714	83,333		10,154,047	91,896,168	11.05%	5.51%	5.54%	7,615,494	4,597,245	2,058,692
Dec-08	11,295,022	83,333		11,378,355	92,504,395	12.30%	5.51%	6.79%	6,688,271	4,530,142	(159,942)
Jan-09	11,842,775	83,333		11,926,108	91,665,017	13.01%	5.51%	7.50%	5,529,205	3,763,723	(2,633,180)
Feb-09	11,712,955			11,712,955	92,077,262	12.72%	5.51%	7.21%	5,801,057	3,533,362	(2,378,536)
Mar-09									37,640,488	24,379,889	(4,347,371)
Apr-09											
Prior Period Adjustment (Details shown on page 4 and 5)											74,650
Total Over/(Under) Recovery for the six-month billing period ending April 30, 2009											(4,272,721)
Grand Total											\$ 123,944,492 \$ 75,299,137 \$ (8,244,583)

Note: The billing periods ending October 31, 2007 and April 30, 2008 were reviewed in Case No. 2008-00216. The net under recovery amount was included in the monthly filings consistent with the Commission's final Order. The billing period ending October 31, 2008 was reviewed in Case No. 2008-00550. The under-recovery total was included in the monthly filings consistent with the Commission's final Order.

Kentucky Utilities Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months September 2008 through February 2009

(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 (3) - (4)	Rate Base as Revised	Impact of change in Rate of Return (5) * (6) / 12	Jurisdictional Allocation, ES Form 1 00	Jurisdictional Impact (7) * (8)
Nov-08	Sep-08	11.13%	10.81%	0.32%	\$ 1,079,194,834	287,785	82.47%	237,337
Dec-08	Oct-08	11.13%	10.81%	0.32%	1,100,204,730	293,388	77.38%	227,024
Jan-09	Nov-08	11.13%	10.81%	0.32%	1,121,882,153	299,169	75.52%	225,932
Feb-09	Dec-08	11.13%	10.81%	0.32%	1,147,776,100	306,074	79.97%	244,767
Mar-09	Jan-09	11.13%	10.81%	0.32%	1,163,146,273	310,172	83.81%	259,955
Apr-09	Feb-09	11.12%	10.92%	0.20%	1,182,049,149	197,008	86.43%	170,274
Cumulative Impact of Changes in Rate of Return						\$ 1,693,596		\$ 1,365,289

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Billing Month	Expense Month	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)
Nov-08	Sep-08	90,521,028	4,987,709	3,555,299	5.51%	5.20%	4,707,093	(280,615)	(1,151,795)
Dec-08	Oct-08	76,940,137	4,239,402	4,400,119	5.51%	5.20%	4,000,887	(238,514)	399,231
Jan-09	Nov-08	74,813,379	4,122,217	4,597,245	5.51%	5.20%	3,890,296	(231,921)	706,949
Feb-09	Dec-08	92,880,410	5,117,711	4,530,142	5.51%	5.20%	4,829,781	(287,929)	(299,639)
Mar-09	Jan-09	97,188,749	5,355,100	3,763,723	5.51%	5.20%	5,053,815	(301,285)	(1,290,092)
Apr-09	Feb-09	94,730,238	5,219,636	3,533,362	5.51%	5.20%	4,925,972	(293,664)	(1,392,610)
		527,073,942	29,041,774	24,379,889			27,407,845	(1,633,929)	(3,027,955)
		Actual Base Rate Collections	24,379,889		Actual Base Rate Collections		24,379,889		
			(4,661,885)					(3,027,955)	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Billing Month	Expense Month	Combined Total Over/(Under) Recovery (Q2, pg 2, Col 12)	ROR Trueup	BESF Calculation Differences	Use of BESF %	Use of 12 Month Average Revenues	Ghent Gypsum Proceeds
Nov-08	Sep-08	(2,376,474)	237,337	(280,615)	(1,151,795)	(1,197,704)	16,304
Dec-08	Oct-08	1,142,069	227,024	(238,514)	399,231	757,857	(3,529)
Jan-09	Nov-08	2,058,692	225,932	(231,921)	706,949	1,345,600	12,132
Feb-09	Dec-08	(159,942)	244,767	(287,929)	(299,639)	195,627	(12,767)
Mar-09	Jan-09	(2,633,180)	259,955	(301,285)	(1,290,092)	(1,290,270)	(11,489)
Apr-09	Feb-09	(2,378,536)	170,274	(293,664)	(1,392,610)	(848,348)	(14,188)
Total Under-Recovery for 6-month billing period		(4,347,371)	1,365,289	(1,633,929)	(3,027,955)	(1,037,238)	(13,537)
Prior Period Adjustment							
Aug07 - Oct08	Jun07 - Aug08	74,650					74,650
Total Under-Recovery for 2-year billing period		(4,272,721)					61,113

OVER/(UNDER) RECONCILIATION	
Combined Over/(Under) Recovery	(4,272,721)
Due to BESF Calculation Differences	(1,633,929)
Due to use of BESF %	(3,027,955)
Due to Change in ROR	1,365,289
Use of 12 Month Average Revenues	(1,037,238)
Ghent Gypsum Net Proceeds (including prior period adj)	61,113
Subtotal	(4,272,721)
Unreconciled Difference	-

KENTUCKY UTILITIES COMPANY

GHENT GYPSUM PROCEEDS

Account 502001

ECR 6-month Review Period	Expense Month	Monthly Proceed Amount	Monthly Amount in Base Rate	Adjustment in Total	Jurisdictional Allocation	Adjustment for ECR	Total Amount in each 6-mo review period	Juris Amount in each 6-mo review period
	Jun-07	(42,366.01)	(49,688.64)	7,322.63	85.70%	6,275.50		
Case No. 2008-00216	Jul-07	(40,138.48)	(49,688.64)	9,550.16	84.72%	8,090.90	49,414.26	42,114.51
	Aug-07	(17,147.18)	(49,688.64)	32,541.46	85.27%	27,748.11		
	Sep-07	(37,211.18)	(49,688.64)	12,477.46	84.55%	10,549.69		
	Oct-07	(46,914.15)	(49,688.64)	2,774.49	85.32%	2,367.20		
	Nov-07	(63,204.26)	(49,688.64)	(13,515.62)	83.75%	(11,319.33)		
	Dec-07	(103,704.90)	(49,688.64)	(54,016.26)	82.92%	(44,790.28)		
Case No. 2008-00216	Jan-08	(42,947.07)	(49,688.64)	6,741.57	84.20%	5,676.40	(58,768.31)	(48,862.33)
	Feb-08	(62,918.60)	(49,688.64)	(13,229.96)	85.76%	(11,346.01)		
	Mar-08	(56,649.60)	(49,688.64)	(6,960.96)	81.31%	(5,659.95)		
	Apr-08	(63,630.26)	(49,688.64)	(13,941.62)	84.71%	(11,809.94)		
	May-08	(59,555.60)	(49,688.64)	(9,866.96)	81.63%	(8,054.40)		
	Jun-08	(67,436.54)	(49,688.64)	(17,747.90)	83.46%	(14,812.40)		
Case No. 2008-00550	Jul-08	(65,563.60)	(49,688.64)	(15,874.96)	81.02%	(12,861.89)	(81,657.95)	(67,901.93)
	Aug-08	(66,954.20)	(49,688.64)	(17,265.56)	85.16%	(14,703.35)		
	Sep-08	(69,457.80)	(49,688.64)	(19,769.16)	82.47%	(16,303.62)		
	Oct-08	(45,128.40)	(49,688.64)	4,560.24	77.38%	3,528.72		
	Nov-08	(65,753.40)	(49,688.64)	(16,064.76)	75.52%	(12,132.10)		
	Dec-08	(33,723.60)	(49,688.64)	15,965.04	79.97%	12,767.24		
Case No. 2009-00310	Jan-09	(35,980.40)	(49,688.64)	13,708.24	83.81%	11,488.88	14,815.14	13,537.06
	Feb-09	(34,181.80)	(50,597.33)	16,415.53	86.43%	14,187.94		
Total Adjustment				(76,196.86)		(61,112.69)	(76,196.86)	(61,112.69)

KENTUCKY UTILITIES COMPANY

GHEAT GYPSUM PROCEEDS

Included in April 2008 test year: (607,167.90)
 Monthly amount (50,597.33)
 Included in Sept 2003 test year: (596,263.71)
 Monthly amount (49,688.64)

Included in 9/30/03 test year:	Per ECR Monthly		Included in 4/30/08 test year:	Per ECR Monthly	
	Forms	Forms		Forms	Forms
Oct-02	-		May-07	(30,336.21)	
Nov-02	(97,808.71)		Jun-07	-	
Dec-02	(37,021.00)		Jul-07	(82,504.49)	
Jan-03	(35,255.00)		Aug-07	(17,147.18)	
Feb-03	(55,512.00)		Sep-07	(37,211.18)	
Mar-03	(39,150.00)		Oct-07	(46,914.15)	
Apr-03	(58,592.00)		Nov-07	(63,204.26)	
May-03	(63,072.00)		Dec-07	(103,704.90)	
Jun-03	(52,876.00)		Jan-08	(42,947.07)	
Jul-03	-		Feb-08	(62,918.60)	
Aug-03	(107,031.00)		Mar-08	(56,649.60)	
Sep-03	(49,946.00)		Apr-08	(63,630.26)	
Total	(596,263.71)		Total	(607,167.90)	

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

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 for Pollution Control Deferred Income Taxes during the billing period under review.

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.

In 2007, KU filed a depreciation study with the Kentucky Commission (Case No. 2007-00565). In 2008, the Kentucky Commission issued an Order consolidating the depreciation study case with the base rate case (Case No. 2008-00251). On February 5, 2009, the Kentucky Commission approved the rate case settlement agreement that established new book depreciation rates that went into effect in February 2009, resulting in the change in that month's expense shown in the attached schedules.

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

2001 - Plan
 Project 16 -- Emission Monitoring

Month	Plant Balance	Book		Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
		Depreciation	Depreciation						
Mar-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	900,209	18,994
Apr-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	910,068	18,994
May-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	919,927	18,994
Jun-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	929,786	18,994
Jul-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	939,645	18,994
Aug-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	949,504	18,994
Sep-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	959,363	18,994
Oct-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	969,222	18,994
Nov-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	979,081	18,994
Dec-07	9,775,541	16,203	16,203	41,547	25,344	38.9000%	9,859	988,940	18,994
Jan-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	997,587	18,994
Feb-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,006,234	18,994
Mar-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,014,881	18,994
Apr-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,023,528	18,994
May-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,032,175	18,994
Jun-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,040,822	18,994
Jul-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,049,469	18,994
Aug-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,058,114	18,994
Sep-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,066,761	18,994
Oct-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,075,408	18,994
Nov-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,084,055	18,994
Dec-08	9,775,541	16,203	16,203	38,431	22,228	38.9000%	8,647	1,092,702	18,994
Jan-09	9,775,541	16,203	16,203	36,610	20,407	38.9000%	7,938	1,100,640	18,994
Feb-09	9,775,541	20,725	20,725	36,610	15,885	38.9000%	6,179	1,106,819	18,994

Kentucky Utilities Company
Deferred Tax Calculations
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-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	27,967,076	205,174
Apr-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	28,115,777	205,174
May-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	28,264,478	205,174
Jun-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	28,413,179	205,174
Jul-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	28,561,880	205,174
Aug-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	28,710,581	205,174
Sep-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	28,859,282	205,174
Oct-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	29,007,983	205,174
Nov-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	29,156,684	205,174
Dec-07	216,964,277	456,301	1,915,513	1,459,212	38.9000%	148,701	29,305,385	205,174
Jan-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	29,430,202	205,174
Feb-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	29,555,019	205,174
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	30,303,924	205,174
Sep-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	30,428,741	205,174
Oct-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,778	30,553,519	205,174
Nov-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	30,678,336	205,174
Dec-08	216,964,277	456,301	1,799,052	1,342,751	38.9000%	124,817	30,803,153	205,174
Jan-09	216,964,277	456,301	1,667,421	1,211,120	38.9000%	102,781	30,905,934	205,174
Feb-09	216,964,277	558,726	1,667,421	1,108,695	38.9000%	62,938	30,968,872	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
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-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,142,671	-
Apr-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,154,971	-
May-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,167,271	-
Jun-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,179,571	-
Jul-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,191,871	-
Aug-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,204,171	-
Sep-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,216,471	-
Oct-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,228,771	-
Nov-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,241,071	-
Dec-07	16,148,295	29,067	141,310	112,243	38.9000%	12,300	2,253,371	-
Jan-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,263,898	-
Feb-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,274,425	-
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	-
Sep-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,348,111	-
Oct-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,358,638	-
Nov-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,369,165	-
Dec-08	16,148,295	29,067	130,695	101,628	38.9000%	10,527	2,379,692	-
Jan-09	16,148,295	29,067	120,904	91,837	38.9000%	8,890	2,388,582	-
Feb-09	16,148,295	37,545	120,904	83,359	38.9000%	5,593	2,394,175	-

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 Defr.	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
 Environmental Compliance Plans, by Approved Project

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

Month	Plant Balance	Book		Tax	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated		Deferred	
		Depreciation	Depreciation					Taxes	Taxes	Taxes on	Retirements
Mar-07	398,915		718	3,809	3,091	38.90000%	1,202	13,702	13,702	28,433	28,433
Apr-07	398,915		718	3,809	3,091	38.90000%	1,202	14,904	14,904	28,433	28,433
May-07	398,915		718	3,809	3,091	38.90000%	1,202	16,107	16,107	28,433	28,433
Jun-07	398,915		718	3,809	3,091	38.90000%	1,202	17,309	17,309	28,433	28,433
Jul-07	398,915		718	3,809	3,091	38.90000%	1,202	18,512	18,512	28,433	28,433
Aug-07	398,915		718	3,809	3,091	38.90000%	1,202	19,714	19,714	28,433	28,433
Sep-07	398,915		718	3,809	3,091	38.90000%	1,202	20,916	20,916	28,433	28,433
Oct-07	398,915		718	3,809	3,091	38.90000%	1,202	22,119	22,119	28,433	28,433
Nov-07	398,915		718	3,809	3,091	38.90000%	1,202	23,321	23,321	28,433	28,433
Dec-07	398,915		718	3,809	3,091	38.90000%	1,202	24,524	24,524	28,433	28,433
Jan-08	398,915		718	3,737	3,019	38.90000%	1,174	25,698	25,698	28,433	28,433
Feb-08	398,915		718	3,737	3,019	38.90000%	1,174	26,872	26,872	28,433	28,433
Mar-08	398,915		718	3,737	3,019	38.90000%	1,174	28,049	28,049	28,433	28,433
Apr-08	398,915		718	3,737	3,019	38.90000%	1,174	29,223	29,223	28,433	28,433
May-08	398,915		718	3,737	3,019	38.90000%	1,174	30,398	30,398	28,433	28,433
Jun-08	398,915		718	3,737	3,019	38.90000%	1,174	31,572	31,572	28,433	28,433
Jul-08	398,915		718	3,737	3,019	38.90000%	1,174	32,747	32,747	28,433	28,433
Aug-08	398,915		718	3,737	3,019	38.90000%	1,174	33,921	33,921	28,433	28,433
Sep-08	398,915		718	3,737	3,019	38.90000%	1,174	35,095	35,095	28,433	28,433
Oct-08	398,915		718	3,737	3,019	38.90000%	1,174	36,270	36,270	28,433	28,433
Nov-08	398,915		718	3,737	3,019	38.90000%	1,174	37,444	37,444	28,433	28,433
Dec-08	398,915		718	3,737	3,019	38.90000%	1,174	38,619	38,619	28,433	28,433
Jan-09	398,915		718	3,672	2,954	38.90000%	1,149	39,768	39,768	28,433	28,433
Feb-09	835,046		1,434	5,157	3,723	38.90000%	1,448	41,216	41,216	79,280	79,280

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

2005 - Plan
Project 20 -- Ash Treatment Basin (Phase I) at E.W. Brown

Month	Plant Balance	Book		Tax	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated		Deferred Taxes on Retirements
		Depreciation	Depreciation					Deferred Taxes	Deferred Taxes	
Mar-07	-	-	-	-	-	38.9000%	-	-	-	-
Apr-07	-	-	-	-	-	38.9000%	-	-	-	-
May-07	-	-	-	-	-	38.9000%	-	-	-	-
Jun-07	-	-	-	-	-	38.9000%	-	-	-	-
Jul-07	-	-	-	-	-	38.9000%	-	-	-	-
Aug-07	-	-	-	-	-	38.9000%	-	-	-	-
Sep-07	-	-	-	-	-	38.9000%	-	-	-	-
Oct-07	-	-	-	-	-	38.9000%	-	-	-	-
Nov-07	-	-	-	-	-	38.9000%	-	-	-	-
Dec-07	-	-	-	-	-	38.9000%	-	-	-	-
Jan-08	-	-	-	-	-	38.9000%	-	-	-	-
Feb-08	-	-	-	-	-	38.9000%	-	-	-	-
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	246,216	214,126	38.9000%	83,295	83,295	83,295	-
Aug-08	19,697,162	64,180	246,216	246,216	182,036	38.9000%	70,812	154,106	154,106	-
Sep-08	19,697,162	64,180	246,216	246,216	182,036	38.9000%	70,812	224,917	224,917	-
Oct-08	19,697,162	64,180	246,216	246,216	182,036	38.9000%	70,812	295,729	295,729	-
Nov-08	19,697,162	64,180	246,216	246,216	182,036	38.9000%	70,812	366,541	366,541	-
Dec-08	19,697,162	64,180	246,216	246,216	182,036	38.9000%	70,812	437,353	437,353	-
Jan-09	19,697,162	64,180	244,370	244,370	180,190	38.9000%	70,094	507,447	507,447	-
Feb-09	19,697,162	45,960	244,370	244,370	198,410	38.9000%	77,181	584,628	584,628	-

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

2005 - Plan
Project 21 -- FGDs

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Mar-07	-	-	-	-	38.9000%	-	-	-
Apr-07	-	-	-	-	38.9000%	-	-	-
May-07	-	-	-	-	38.9000%	-	-	-
Jun-07	136,503,019	322,488	1,267,531	945,043	38.9000%	367,622	367,622	756,585
Jul-07	136,503,019	644,977	1,267,531	622,554	38.9000%	242,174	609,795	756,585
Aug-07	136,503,019	644,977	1,267,531	622,554	38.9000%	242,174	851,969	756,585
Sep-07	136,503,019	644,977	1,267,531	622,554	38.9000%	242,174	1,094,142	756,585
Oct-07	136,503,019	644,977	1,267,531	622,554	38.9000%	242,174	1,336,316	756,585
Nov-07	136,503,019	644,977	1,267,531	622,554	38.9000%	242,174	1,578,489	756,585
Dec-07	143,837,362	656,926	1,542,569	885,643	38.9000%	344,515	1,923,004	756,585
Jan-08	143,837,362	668,875	1,347,619	678,744	38.9000%	264,031	2,187,036	761,567
Feb-08	143,837,362	668,875	1,347,619	678,744	38.9000%	264,031	2,451,067	761,567
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
Sep-08	425,024,402	1,979,138	4,002,513	2,023,375	38.9000%	787,093	6,404,270	761,567
Oct-08	425,024,402	1,979,138	1,007,524	(971,614)	38.9000%	(377,958)	6,026,312	761,567
Nov-08	425,024,402	1,979,138	3,828,100	1,848,962	38.9000%	719,246	6,745,559	761,567
Dec-08	425,024,402	1,979,138	3,828,100	1,848,962	38.9000%	719,246	7,464,805	761,567
Jan-09	425,024,402	1,979,138	3,835,174	1,856,036	38.9000%	721,998	8,186,803	761,567
Feb-09	425,024,402	1,328,930	3,155,974	1,827,044	38.9000%	710,720	8,897,523	761,567

Note: October 2008 tax depreciation adjusted due to Internal Revenue Service audit. Change in rapid amortization tax life.

Kentucky Utilities Company
 Deferred Tax Calculations
 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-07	-	-	-	-	38.9000%	-	-	-
Apr-07	-	-	-	-	38.9000%	-	-	-
May-07	-	-	-	-	38.9000%	-	-	-
Jun-07	-	-	-	-	38.9000%	-	-	-
Jul-07	-	-	-	-	38.9000%	-	-	-
Aug-07	-	-	-	-	38.9000%	-	-	-
Sep-07	-	-	-	-	38.9000%	-	-	-
Oct-07	-	-	-	-	38.9000%	-	-	-
Nov-07	-	-	-	-	38.9000%	-	-	-
Dec-07	-	-	-	-	38.9000%	-	-	-
Jan-08	-	-	-	-	38.9000%	-	-	-
Feb-08	-	-	-	-	38.9000%	-	-	-
Mar-08	-	-	-	-	38.9000%	-	-	-
Apr-08	-	-	-	-	38.9000%	-	-	-
May-08	-	-	-	-	38.9000%	-	-	-
Jun-08	-	-	-	-	38.9000%	-	-	-
Jul-08	-	-	-	-	38.9000%	-	-	-
Aug-08	-	-	-	-	38.9000%	-	-	-
Sep-08	-	-	-	-	38.9000%	-	-	-
Oct-08	-	-	-	-	38.9000%	-	-	-
Nov-08	-	-	-	-	38.9000%	-	-	-
Dec-08	-	-	-	-	38.9000%	-	-	-
Jan-09	-	-	-	-	38.9000%	-	-	-
Feb-09	-	-	-	-	38.9000%	-	-	-

Kentucky Utilities Company
 Deferred Tax Calculations
 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-07	-	-	-	-	38.9000%	-	-	-
Apr-07	-	-	-	-	38.9000%	-	-	-
May-07	-	-	-	-	38.9000%	-	-	-
Jun-07	-	-	-	-	38.9000%	-	-	-
Jul-07	-	-	-	-	38.9000%	-	-	-
Aug-07	-	-	-	-	38.9000%	-	-	-
Sep-07	-	-	-	-	38.9000%	-	-	-
Oct-07	-	-	-	-	38.9000%	-	-	-
Nov-07	-	-	-	-	38.9000%	-	-	-
Dec-07	-	-	-	-	38.9000%	-	-	-
Jan-08	-	-	-	-	38.9000%	-	-	-
Feb-08	-	-	-	-	38.9000%	-	-	-
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	-
Sep-08	3,498,412	6,297	35,483	29,186	38.9000%	11,353	23,931	-
Oct-08	7,397,285	9,904	82,830	72,926	38.9000%	28,368	52,299	-
Nov-08	7,397,285	13,510	82,830	69,320	38.9000%	26,965	79,265	-
Dec-08	7,397,285	13,510	82,830	69,320	38.9000%	26,965	106,230	-
Jan-09	7,397,285	13,510	70,636	57,126	38.9000%	22,222	128,452	-
Feb-09	7,397,285	16,679	70,636	53,957	38.9000%	20,989	149,442	-

Kentucky Utilities Company
Deferred Tax Calculations
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-07	149,749	383	1,728	1,345	38.9000%	523	2,924	-
Apr-07	149,749	383	1,728	1,345	38.9000%	523	3,447	-
May-07	149,749	383	1,728	1,345	38.9000%	523	3,970	-
Jun-07	149,749	383	1,728	1,345	38.9000%	523	4,494	-
Jul-07	149,749	383	1,728	1,345	38.9000%	523	5,017	-
Aug-07	149,749	383	1,728	1,345	38.9000%	523	5,540	-
Sep-07	149,749	383	1,728	1,345	38.9000%	523	6,063	-
Oct-07	265,290	1,346	3,654	2,308	38.9000%	898	6,961	-
Nov-07	265,290	2,308	3,654	1,346	38.9000%	524	7,485	-
Dec-07	265,290	2,308	3,654	1,346	38.9000%	524	8,008	-
Jan-08	265,290	2,308	3,627	1,319	38.9000%	513	8,521	-
Feb-08	265,290	2,308	3,627	1,319	38.9000%	513	9,034	-
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	-
Sep-08	265,290	2,308	3,627	1,319	38.9000%	513	12,628	-
Oct-08	265,290	2,308	3,627	1,319	38.9000%	513	13,141	-
Nov-08	265,290	2,308	3,627	1,319	38.9000%	513	13,654	-
Dec-08	265,290	2,308	3,627	1,319	38.9000%	513	14,167	-
Jan-09	265,290	2,308	3,602	1,294	38.9000%	503	14,670	-
Feb-09	265,290	1,365	3,602	2,237	38.9000%	870	15,540	-

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

2006 - Plan
 Project 27 - E. W. Brown Electrostatic Precipitators

Month	Plant Balance	Book		Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on	
		Depreciation	Depreciation						Retirements	Retirements
Mar-07	46,715	152	580	580	428	38.9000%	166	1,678	2,274	2,274
Apr-07	46,715	152	580	580	428	38.9000%	166	1,844	2,274	2,274
May-07	46,715	152	580	580	428	38.9000%	166	2,011	2,274	2,274
Jun-07	46,715	152	580	580	428	38.9000%	166	2,177	2,274	2,274
Jul-07	46,715	152	580	580	428	38.9000%	166	2,344	2,274	2,274
Aug-07	46,715	152	580	580	428	38.9000%	166	2,510	2,274	2,274
Sep-07	46,715	152	580	580	428	38.9000%	166	2,677	2,274	2,274
Oct-07	46,715	152	580	580	428	38.9000%	166	2,843	2,274	2,274
Nov-07	46,715	152	580	580	428	38.9000%	166	3,010	2,274	2,274
Dec-07	46,715	152	580	580	428	38.9000%	166	3,176	2,274	2,274
Jan-08	46,715	152	571	571	419	38.9000%	163	3,339	2,274	2,274
Feb-08	46,715	152	571	571	419	38.9000%	163	3,502	2,274	2,274
Mar-08	46,715	152	571	571	419	38.9000%	163	3,663	2,274	2,274
Apr-08	46,715	152	571	571	419	38.9000%	163	3,826	2,274	2,274
May-08	46,715	152	571	571	419	38.9000%	163	3,989	2,274	2,274
Jun-08	46,715	152	571	571	419	38.9000%	163	4,152	2,274	2,274
Jul-08	46,715	152	571	571	419	38.9000%	163	4,315	2,274	2,274
Aug-08	46,715	152	571	571	419	38.9000%	163	4,478	2,274	2,274
Sep-08	46,715	152	571	571	419	38.9000%	163	4,641	2,274	2,274
Oct-08	46,715	152	571	571	419	38.9000%	163	4,804	2,274	2,274
Nov-08	46,715	152	571	571	419	38.9000%	163	4,967	2,274	2,274
Dec-08	46,715	152	571	571	419	38.9000%	163	5,130	2,274	2,274
Jan-09	46,715	152	563	563	411	38.9000%	160	5,290	2,274	2,274
Feb-09	46,715	109	563	563	454	38.9000%	177	5,466	2,274	2,274

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

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 applicable billing period under review.
- A-4. For the last expense month of the billing period of May 1, 2007 through April 30, 2009, the percentage of KU's long-term debt with a variable rate was 20%.

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

Question No. 5

Witness: Shannon L. Charnas

- Q-5. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the September 2008 through February 2009 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 September 2008 through February 2009 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 expenses, account 506104, and the sorbent injection operation expenses, account 506109, result from the timing of the operation of the NOx removal systems (SCRs). The SCRs were operated during the 2008 ozone season (May - September), then in December 2008 to earn early reduction credits and prepare for the mandatory year-round SCR operation that began in January 2009. Consumables were purchased in the months prior to this in preparation for the December 2008 start.

Fluctuations in the NOx maintenance expenses, account 512101, are the result of corrective maintenance in October 2008, catalyst testing in November 2008, repairs in December 2008, and catalyst cleaning and repairs during an annual unit maintenance outage in February 2009.

Fluctuations in the scrubber operation expenses, account 502006, are the result of regular operation of the Ghent FGDs. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate. Monthly variances in account 512005, scrubber maintenance, are the result of regular maintenance of the FGDs at Ghent. Monthly variances in account 512102, sorbent injection maintenance, includes labor and materials related to repairs in December 2008, January 2009, and February 2009, and regular system maintenance at Ghent.

KENTUCKY UTILITIES COMPANY
ENVIRONMENTAL SURCHARGE REPORT

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Ghent											
	Sep-08	Oct-08	% Change from Prior Period	Nov-08	% Change from Prior Period	Dec-08	% Change from Prior Period	Jan-09	% Change from Prior Period	Feb-09	% Change from Prior Period	% Change from Prior Period
2001 Plan												
506104 NOx Operation -- Consumables	397,561	-	-100%	75,892	100%	346,686	357%	188,748	-46%	103,813	-45%	
506105 NOx Operation -- Labor and Other	-	-	0%	-	0%	-	0%	-	0%	-	0%	
512101 NOx Maintenance	17,067	28,846	69%	42,490	47%	52,958	25%	32,440	-39%	97,493	201%	
Total 2001 Plan O&M Expenses	414,628	28,846	-93%	118,382	310%	399,644	238%	221,188	-45%	201,306	-9%	
2005 Plan												
502006 Scrubber Operations	141,622	152,866	8%	184,043	20%	215,838	17%	229,022	6%	176,509	-23%	
512005 Scrubber Maintenance	12,901	18,028	40%	16,455	-9%	17,202	5%	18,588	8%	25,972	40%	
Total 2005 Plan O&M Expenses	154,523	170,894	11%	200,498	17%	233,040	16%	247,610	6%	202,481	-18%	
2006 Plan												
506109 Sorbent Injection Operation	492,572	62,929	-87%	26,681	-58%	467,196	1651%	451,885	-3%	198,980	-56%	
512102 Sorbent Injection Maintenance	2,507	1,112	-56%	5,127	361%	10,989	114%	25,140	129%	29,644	18%	
506110 Mercury Monitors Operation	-	-	0%	-	0%	-	0%	-	0%	-	0%	
512103 Mercury Monitors Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%	
Total 2006 Plan O&M Expenses	495,079	64,041	-87%	31,808	-50%	478,185	1403%	477,025	0%	228,624	-52%	

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

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

Question No. 6

Witness: Robert M. Conroy

- Q-6. KRS 278.183(3) provides that, during the two-year review, the Commission shall, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.
- a. Provide the surcharge amount that KU believes should be incorporated into its existing base rates. Include all supporting calculations, workpapers, and assumptions.
 - b. The surcharge factor reflects a percentage-of-revenue approach, rather than a per-kWh approach. Taking this into consideration, explain how the surcharge amount should be incorporated into KU's base rates. Include any analysis that KU believes supports its position.
 - c. Provide the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") that reflects all environmental surcharge amounts previously incorporated into existing base rates and the amount determined in part (a). Include all supporting calculations, workpapers, and assumptions.
 - d. Does KU believe that modifications will be needed to either the surcharge mechanism or the monthly surcharge reports, other than a revision to BESF, as a result of incorporating additional environmental surcharge amounts into KU's existing base rates? If yes, provide a detailed explanation of the modifications and provide updated monthly surcharge reports.
- A-6. a. KU is proposing to roll-in \$86,667,849 of incremental environmental surcharge revenues into base rates resulting in total environmental surcharge revenues in base rates of \$136,185,631. Please see the attached schedule for the determination of the roll-in amount.
- b. The Commission previously approved KU's proposed roll-in methodology in Case No. 2007-00379 which spread the amount of the roll-in to the energy portion of rates without a demand charge and to the demand portion of all

rates that include a separately metered and billed demand component. Lighting rates continue to be billed on a per-light basis. KU recommends that this method continue to be used to accomplish the roll-in to base rates

- c. Attached is an illustrative calculation of the Base Period Jurisdictional Environmental Surcharge Factor ("BESF") using the 12-month period ending February 2009 based on the current methodology.

As discussed in Mr. Conroy's testimony, KU is proposing to modify the determination of the monthly environmental billing factor using actual base rate revenues. If the Commission approves KU's proposed modifications, the use of a BESF percentage will not be necessary.

If the Commission does not approve KU's proposed modifications, KU will recalculate the BESF following the Commission's Order in this proceeding based upon the most recent 12-month period for which information is available.

- d. No. The incorporation of additional environmental surcharge revenues into existing base rates does not require modifications to the surcharge mechanism or monthly ES Forms. However as explained in Mr. Conroy's testimony, KU is proposing modifications to the way the mechanism is calculated. If approved, the modifications will necessitate revisions to the monthly ES Forms as discussed in Mr. Conroy's testimony.

Kentucky Utilities Company

Calculation of ECR Roll-in At February 28, 2009

Calculation of Revenue Requirement for Roll-In:		Environmental Compliance Plans at Feb. 28, 2009
Environmental Compliance Rate Base		
Pollution Control Plant in Service	ES Form 2.00, February 2009	688,693,392
Pollution Control CWIP Excluding AFUDC	ES Form 2.00, February 2009	<u>609,548,490</u>
	Subtotal	1,298,241,882
Additions:		
Limestone, net of amount in base rates	ES Form 2.00, February 2009	689,005
Emission Allowances, net of amount in base rates	ES Form 2.00, February 2009	4,202
Cash Working Capital Allowance	ES Form 2.00, February 2009	<u>1,014,107</u>
	Subtotal	1,707,314
Deductions:		
Accumulated Depreciation on Pollution Control Plant	ES Form 2.00, February 2009	50,725,432
Pollution Control Deferred Income Taxes	ES Form 2.00, February 2009	43,419,014
Pollution Control Deferred Investment Tax Credit	ES Form 2.00, February 2009	<u>23,755,600</u>
	Subtotal	117,900,046
	Environmental Compliance Rate Base	<u>\$ 1,182,049,150</u>
Rate of Return -- Environmental Compliance Rate Base	ES Form 1.10, February 2009	11.12%
	Return on Environmental Compliance Rate Base	<u>\$ 131,443,865</u>
Pollution Control Operating Expenses		
12 Month Depreciation and Amortization Expense	See Support Schedule A	24,486,355
12 Month Taxes Other than Income Taxes	See Support Schedule A	1,368,589
12 Month Operating and Maintenance Expense	See Support Schedule A	8,112,850
12 Month Emission Allowance Expense, net of amounts in base rates	See Support Schedule A	<u>478,162</u>
		<u>\$ 34,445,956</u>
	Gross Proceeds from By-Product & Allowance Sales	300,541
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount		
		131,443,865
		34,445,956
		<u>300,541</u>
		<u>\$ 166,190,362</u>
	Jurisdictional Allocation Ratio -- Roll In	<u>81.9456%</u>
	Jurisdictional Revenues for 12 Months for Roll In	<u>1,104,927,147</u>
Roll In Jurisdictional Environmental Surcharge Factor:		
		\$ 166,190,362
		<u>81.9456%</u>
		136,185,631
		<u>49,517,782</u>
		<u>\$ 86,667,849</u>

Base Revenues for the 12-Months Ending February 2009 \$ 1,033,685,590

BESF, Gross Roll-in Amount 13.1748%

Support Schedule A

12 Month Balances for Selected Operating Expense Accounts

	Depreciation & Amortization Steam Plant	Taxes Other than Income Taxes	Operating and Maintenance Expense			Emission Allowance Expense FERC 509	Total
			FERC 502	FERC 506	FERC 512		
			Mar-08	1,158,571	106,605		
Apr-08	1,158,571	106,605	68,868	147,526	69,875	33,822	1,585,267
May-08	1,158,571	106,605	111,051	495,185	76,509	31,693	1,979,614
Jun-08	1,532,692	106,605	134,901	626,728	43,446	37,634	2,482,006
Jul-08	2,219,914	106,605	194,097	480,704	53,102	35,527	3,089,949
Aug-08	2,536,163	106,605	183,975	847,947	38,316	34,843	3,747,849
Sep-08	2,539,312	106,605	141,622	890,133	32,475	32,469	3,742,616
Oct-08	2,542,920	106,606	152,866	62,929	47,986	29,267	2,942,574
Nov-08	2,546,527	106,611	184,043	102,573	64,072	249,574	3,253,400
Dec-08	2,546,527	106,606	215,838	813,882	81,149	9,418	3,773,420
Jan-09	2,546,527	151,270	229,022	640,633	76,168	28	3,643,648
Feb-09	2,000,060	151,261	176,509	302,793	153,109	23	2,783,755
less Base Rate amount						(58,344)	(58,344)
Totals	24,486,355	1,368,589	1,937,374	5,411,033	764,443	478,162	34,445,956

1,587,592 4,434,102 626,427

Support Schedule B

12 Month Balances for Allowance Sales and By-Product Sales

	Total Proceeds from Allowance Sales	Proceeds from By Product Sales	Total All Sale Proceeds
	ES Form 2.00	ES Form 2.00	
	Mar-08	296,941	-
Apr-08	-	-	-
May-08	-	-	-
Jun-08	-	-	-
Jul-08	-	-	-
Aug-08	-	-	-
Sep-08	-	-	-
Oct-08	-	-	-
Nov-08	3,600	-	3,600
Dec-08	-	-	-
Jan-09	-	-	-
Feb-09	-	-	-
Totals	300,541	-	300,541

Support Schedule C

12 Month Balances for Jurisdictional Revenues and Allocation Ratio

	KY Retail Revenues, Excl. Envir. Surch. Revenues	Total Company Revenues, Excluding Envir. Surch. Revenues	KY Retail Allocation Ratio		Base Customer, Energy, and Demand Revenue
	ES Form 3.00	ES Form 3.00	Total Company		ES Form 3.00
	Mar-08	\$ 90,011,673	\$ 110,700,300		81.3111%
Apr-08	86,491,959	102,101,969	84.7114%	Apr-08	79,215,520
May-08	75,451,022	92,425,802	81.6342%	May-08	73,722,800
Jun-08	83,951,606	100,585,049	83.4633%	Jun-08	81,577,064
Jul-08	93,221,969	115,064,303	81.0173%	Jul-08	91,497,390
Aug-08	104,254,254	122,421,616	85.1600%	Aug-08	90,868,140
Sep-08	99,877,189	121,105,848	82.4710%	Sep-08	90,521,028
Oct-08	85,409,832	110,372,703	77.3831%	Oct-08	76,940,137
Nov-08	82,972,729	109,872,798	75.5171%	Nov-08	74,813,379
Dec-08	97,049,432	121,361,306	79.9674%	Dec-08	92,880,410
Jan-09	103,209,469	123,154,296	83.8050%	Jan-09	97,188,749
Feb-09	103,026,013	119,201,244	86.4303%	Feb-09	94,730,238
Totals	\$ 1,104,927,147	\$ 1,348,367,234	81.9456%		1,033,685,590

KENTUCKY UTILITIES COMPANY

**Response to Information Requested in Appendix B of
Commission's Order Dated August 18, 2009**

Case No. 2009-00310

Question No. 7

Witness: Shannon L. Charnas

- Q-7. In Case No. 2000-00439, the Commission ordered that KU's cost of debt and preferred stock would be reviewed and reestablished during the six-month review case. Provide the following information as of February 28, 2009:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information for 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 for total company and Kentucky jurisdictional bases.
 - c. KU's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-7.
- a. Please see the attachment. There was no preferred stock as of February 28, 2009, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock as of February 28, 2009, 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 approved by the Commission in its February 5, 2009 Order in Case No. 2008-00251.

Kentucky Utilities Company
Outstanding Balances - Capitalization
As of February 28, 2009

1	2	3
	Outstanding Balance Total Company	Outstanding Balance KY Jurisdictional 87.57%
1 Long-Term Debt	\$1,531,779,405	\$1,341,379,225
2 Short-Term Debt	\$29,250,954	\$25,615,060
3 Common Equity	\$1,743,311,639	\$1,526,618,002

Kentucky Utilities Company
Blended Interest Rates
As of February 28, 2009

	1
	Blended Interest Rate <u>Total Company</u>
1 Long-Term Debt	4.64%
2 Short-Term Debt	0.79%

KENTUCKY UTILITIES COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
February 28, 2009

LONG-TERM DEBT									
	Due	Rate	Principal	Annualized Cost				Total	Embedded Cost
				Interest(Income)	Amortized Debt Issuance Expense	Premium	Amortized Loss-Required Debt		
Pollution Control Bonds									
Mercer Co 2000 Series A	05/01/23	0.70000% *	12,900,000	90,300	-	-	41,839	132,139	1.02
Carroll Co 2002 Series A	02/01/32	1.10000% *	20,930,000	230,230	4,104	-	36,300	270,634	1.29
Carroll Co 2002 Series B	02/01/32	1.10000% *	2,400,000	26,400	2,856	-	4,164	33,420	1.39
Muhlenberg Co 2002 Series A	02/01/32	1.10000% *	2,400,000	26,400	1,140	-	12,744	40,284	1.68
Mercer Co 2002 Series A	02/01/32	1.10000% *	7,400,000	81,400	3,180	-	15,660	100,240	1.35
Carroll Co 2002 Series C	10/01/32	0.70700% *	96,000,000	678,720	72,838	-	186,036	937,594	0.98
Carroll Co 2004 Series A	10/01/34	0.90000% *	50,000,000	450,000	-	-	102,154	552,154	1.10
Carroll Co 2006 Series B	10/01/34	0.92000% *	54,000,000	496,800	44,787	-	-	541,587	1.00
Carroll Co 2007 Series A	02/01/26	5.75000% *	17,875,000	1,027,813	33,166	-	-	1,060,979	5.94
Trimble Co 2007 Series A	03/01/37	6.00000% *	8,927,000	535,620	15,484	-	-	551,104	6.17
Carroll Co 2008 Series A	02/01/32	0.90000% *	77,947,405	701,527	26,136	-	-	727,663	0.93
Called Bonds			-	-	-	-	197,927	197,927	-
Total External Debt			350,779,405	4,345,210	203,691	0.00	596,824	5,145,725	0.34%
Notes Payable to Fidelity Corp	11/24/10	4.240%	33,000,000	1,399,200	-	-	-	1,399,200	4.24
Notes Payable to Fidelity Corp	01/16/12	4.390%	50,000,000	2,195,000	-	-	-	2,195,000	4.39
Notes Payable to Fidelity Corp	04/30/13	4.550%	100,000,000	4,550,000	-	-	-	4,550,000	4.55
Notes Payable to Fidelity Corp	08/15/13	5.310%	75,000,000	3,982,500	-	-	-	3,982,500	5.31
Notes Payable to Fidelity Corp	12/19/14	5.450%	100,000,000	5,450,000	-	-	-	5,450,000	5.45
Notes Payable to Fidelity Corp	07/08/15	4.735%	50,000,000	2,367,500	-	-	-	2,367,500	4.74
Notes Payable to Fidelity Corp	12/21/15	5.360%	75,000,000	4,020,000	-	-	-	4,020,000	5.36
Notes Payable to Fidelity Corp	10/25/16	5.675%	50,000,000	2,837,500	-	-	-	2,837,500	5.68
Notes Payable to Fidelity Corp	06/20/17	5.980%	50,000,000	2,990,000	-	-	-	2,990,000	5.98
Notes Payable to Fidelity Corp	07/25/18	6.160%	50,000,000	3,080,000	-	-	-	3,080,000	6.16
Notes Payable to Fidelity Corp	08/27/18	5.645%	50,000,000	2,822,500	-	-	-	2,822,500	5.65
Notes Payable to Fidelity Corp	12/17/18	7.035%	75,000,000	5,276,250	-	-	-	5,276,250	7.04
Notes Payable to Fidelity Corp	10/25/19	5.710%	70,000,000	3,997,000	-	-	-	3,997,000	5.71
Notes Payable to Fidelity Corp	02/07/22	5.690%	53,000,000	3,015,700	-	-	-	3,015,700	5.69
Notes Payable to Fidelity Corp	05/22/23	5.850%	75,000,000	4,387,500	-	-	-	4,387,500	5.85
Notes Payable to Fidelity Corp	09/14/28	5.960%	100,000,000	5,960,000	-	-	-	5,960,000	5.96
Notes Payable to Fidelity Corp	06/23/36	6.330%	50,000,000	3,165,000	-	-	-	3,165,000	6.33
Notes Payable to Fidelity Corp	03/30/37	5.860%	75,000,000	4,395,000	-	-	-	4,395,000	5.86
Total Internal Debt			1,181,000,000	65,890,650	-	-	-	65,890,650	4.30%
Total			1,531,779,405	70,235,860	203,691	0.00	596,824	71,036,375	4.64%

SHORT TERM DEBT								
	Rate	Principal	Annualized Cost				Total	Embedded Cost
			Interest	Expense	Premium	Loss		
Notes Payable to Associated Company	0.790% *	29,250,954	231,083	-	-	-	231,083	0.79%
Total		29,250,954	231,083	-	-	-	231,083	0.79%

Embedded Cost of Total Debt 71,267,458 **4.57%**

* 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, 6/1/25, 6/1/35, and 6/1/36 respectively) of the bonds as loss on required debt.

Kentucky Utilities Company
 Outstanding Balances - Adjusted Jurisdictional Capitalization
 February 28, 2009

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	1,340,584,757	46.49%	4.64%	2.16%		2.16%
2 Short-Term Debt	25,599,808	0.89%	0.79%	0.01%		0.01%
3 Common Equity	1,517,166,077	52.62%	10.63%	5.59%	0.58	8.83%
4 Total	2,883,350,642			7.76%		11.00%

Rate of Return (ROR) Grossed Up:

11.00%

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

See tax rate (TR) calculation on 7(c) page (2)

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2009**

	2009 Federal & State Production Credit W/ 6% 2009 State <u>Tax Rate Included</u>	
(1) Assume pre-tax income of	\$ 100.0000	
(2)		
(3) State income tax (see below)	5.6604	(37)
(4)		
(5) Taxable income for Federal income tax		
(6) before production credit	94.3396	(1)-(3)
(7)	6%	
(8) Less: Production tax credit	5.6604	(6)*(7)
(9)		
(10) Taxable income for Federal income tax	88.6792	(6)-(8)
(11)		
(12) Federal income tax	31.0377	(10)*35%
(13)		
(14)		
(15) Total State and Federal income taxes	\$ 36.6981	(3)+(12)
(16)		
(17) Gross-up Revenue Factor	63.3019	100-(15)
(18)		
(19) Therefore, the composite rate is:		
(20) Federal	31.0377%	(12)/100
(21) State	5.6604%	(3)/100
(22) Total	36.6981%	(20)+(21)
(23)		
(24)		
(25)		
(26)		
(27)		
(28) <u>State Income Tax Calculation</u>		
(29) Assume pre-tax income of	\$ 100.0000	
(30)		
(31) Less: Production tax credit	5.6604	(8)
(32)		
(33) Taxable income for State income tax	94.3396	(29)-(31)
(34)		
(35) State Tax Rate	6.0000%	
(36)		
(37) State Income Tax	5.6604	(33)*(35)