LG&E
an e·on company

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Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED
SEP 29 2009
PUBLIC SERVICE
COMMISSION

September 29, 2009

RE: ***AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2009***
CASE NO. 2009-00311

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Revised Direct Testimony of Robert M. Conroy and a Revised Response of Louisville Gas and Electric Company to Question No. 2 of the Information Requested in Appendix B of the Commission's Order dated August 18, 2009, in the above-referenced matter.

In preparation for the Technical Conference it was discovered that the Over/(Under) recovery position was overstated due to an error in data input. LG&E is providing a redline and clean version of the testimony to allow for the revisions to be easily reviewed. Revisions to the response to Question No. 2 are noted as highlited text.

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

Sincerely,

Robert M. Conroy

Enclosures
cc: Parties of Record

Revised
Direct Testimony of
Robert M. Conroy
Director – Rates
E.ON U.S.

CLEAN VERSION

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 LOUISVILLE GAS	)	**CASE NO.**
AND ELECTRIC COMPANY FOR THE TWO-YEAR	)	**2009-00311**
BILLING PERIOD ENDING APRIL 30, 2009	)	

REVISED

DIRECT TESTIMONY OF

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

Filed: September 29, 2009

VERIFICATION

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

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says he is the Director – Rates for E.ON U.S. Services Inc., and that he has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Robert M. Conroy
ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of September, 2009.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:
Sept 20, 2010

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

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

Q. Have you previously testified before this Commission?

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

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit RMC-1 - Proposed LG&E Environmental Surcharge ES Forms 1.00, 1.10, and 2.00.

Q. What is the purpose of this proceeding?

A. The purpose of this proceeding is to review the past operation of LG&E's environmental surcharge during the six-month billing period ending April 30, 2009 that is part of the two-year billing period also ending April 30, 2009, determine whether the surcharge amounts collected during the period are just and reasonable, and then incorporate or "roll-in" such surcharge amounts into LG&E's existing electric base rates.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to review the operation of LG&E's environmental surcharge during the billing period under review, demonstrate the amounts collected during the period were just and reasonable, present and discuss LG&E's proposed adjustment to the Environmental Surcharge Revenue Requirement based on the operation of the surcharge during the review period and explain how the environmental surcharge factors were calculated during the period under review. Further, my testimony will recommend that the cumulative ECR revenue requirement for the twelve-months ending with the expense month of February 2009 be used for purposes of incorporating or "rolling-into" LG&E's electric base rates the appropriate surcharge amounts using the methodology approved by this Commission in Case Nos. 2006-00130 and 2007-00380. Finally, I will propose an improvement to the calculation of the ECR mechanism for consideration by the Commission to help reduce the fluctuation of the over- or under-recovery balance.

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

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

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

A. The capital and operating costs included in the calculation of the environmental surcharge factors for the billing period were the costs incurred each month by LG&E from September 2008 through February 2009, as detailed in the attachment in response to Question No. 2 of the Commission Staff Request for Information, incorporating all required revisions.

The monthly environmental surcharge factors applied during the billing period under review were calculated consistent with the Commission's orders in LG&E's previous applications to assess or amend its environmental surcharge mechanism and plan, as well as orders issued in previous review cases, most recently Case No. 2008-00549. The monthly environmental surcharge reports filed with the Commission during this time reflect the various changes to the reporting forms ordered by the Commission from time to time.

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

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

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

A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of return on capitalization that is used in the determination of the return on environmental rate base associated with LG&E's Compliance Plans. The changes in the actual cost of long term debt and capital structure result in a decrease to cumulative E(m) of $322,350. The details of and support for this calculation are shown in the attachment to LG&E's response to Question No. 1 of the Commission Staff Request for Information. Also shown are the revisions to the previous six-month periods included in this two-year review as calculated in Case No. 2008-00217 for billing periods ending October 31, 2007 and April 30, 2008; and Case No. 2008-00549 for 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.

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

A. Yes. LG&E experienced a cumulative under-recovery of $1,636,189 for the six month billing period ending April 30, 2009. The attachment to LG&E's response to Question No. 2 of the Commission Staff Request for Information shows the calculation of the $1,636,189 cumulative under-recovery. Therefore, an adjustment to the revenue requirement is necessary to reconcile the collection of past surcharge revenues with actual costs for the billing period under review.

Q. Has LG&E identified the causes of the net under-recovery during the billing period under review?

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

OVER/(UNDER) RECONCILIATION

Combined Over/(Under) Recovery		(1,636,189)
Due to BESF Calculation Differences	(483,622)	
Due to use of BESF %	(178,791)	
Due to Change in ROR	322,350	
Use of 12 Month Average Revenues	(1,296,126)	
Subtotal		(1,636,189)
Unreconciled Difference		-

Q. Please explain the change in rate of return.

A. As previous stated, the cumulative impact of the revised rate of return resulted in a decrease to the jurisdictional revenue requirement and an over-recovery of $322,350.

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

A. In the course of preparing the responses in Case No. 2008-00549, LG&E's most recent six-month review proceeding, LG&E determined that a difference between the calculation of the BESF in the previous 2-year review case and the application of the BESF in the monthly filings beginning with the March 2008 expense month. Specifically, in Case No. 2007-00380, LG&E calculated the BESF factor using base rate revenues excluding the customer charge revenues, while the monthly filings use BESF times total base revenues to estimate the ECR revenues collected through base rates. BESF was calculated using a lower revenue total than is used in its application in the monthly filings, thereby overstating the BESF percentage. Because the monthly estimate of ECR revenues collected through base rates is made by multiplying BESF times total base revenues, overstating BESF results in a corresponding overstatement of the estimated ECR revenues collected through base rates. When estimated ECR revenues collected through base rates are overstated, the monthly E(m) is correspondingly understated. As a result, LG&E's net recovery position is understated. If the BESF had been calculated using total revenues, the BESF would be 3.47% instead of 3.62% as filed. Applying the recalculated BESF to the base rate revenues results in an under-recovery of $483,622. As discussed later in my testimony, LG&E is proposing a change in the use of BESF that will eliminate the impacts from using the BESF percentage as discussed.

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

A. The first component is the use of the BESF percentage to estimate the amount collected through base rates. In the monthly filings, the BESF percentage is used to determine the amount of ECR revenue collected through base rates by applying the percentage to total base rate revenues. In the review proceedings, however, the billing determinants are used to determine the actual ECR revenues collected through base rates. The difference between these two methodologies results in a continuous mismatch between actual revenues collected and estimated revenues as reported in the monthly filings. In the billing period under review, the mismatch resulted in an under-recovery of $178,791. As discussed later in my testimony, LG&E is proposing a change in the use of BESF that will eliminate the impacts of using the BESF percentage as discussed.

The second component is the use of 12-month average revenues to calculate the MESF and then applying that same MESF to the actual monthly revenues. The result is an over-collection during the summer months when actual revenues will generally be greater than the 12-month average and an under-collection during the shoulder months when actual revenues will generally be less than the 12-month average. In the billing period under review, the use of 12-month average revenues resulted in an under-recovery of $1,296,126.

Q. What kind of adjustment is LG&E proposing in this case as a result of the operation of the environmental surcharge during the billing period?

A. LG&E is proposing that the cumulative under-recovery of $1,636,189 be recovered over the three months following the Commission's Order in this proceeding. Specifically, LG&E recommends that the Commission approve an increase to the

Environmental Surcharge Revenue Requirement of $545,396 per month for the first two months and $545,397 per month for the third month, beginning in the second full billing month following the Commission's Final Order in this proceeding. This method is consistent with the method of implementing previous over- or under-recovery positions in prior ECR review cases.

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

A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and reasonable for the two-year billing period ending April 2009 into electric base rates. LG&E recommends that an incremental environmental surcharge amount of $5,289,981 be incorporated into base rates at the conclusion of this case. LG&E determined the incremental roll-in amount of $5,289,981 using the base-current methodology, consistent with current practice and as previously approved by the Commission. If approved, the total amount of environmental surcharge that will be included in base rates will be $30,945,008 upon conclusion of this proceeding.

Q. If the Commission accepts LG&E's recommendation to incorporate the proposed amount into base rates, what will be the impact on LG&E's revenue requirement?

A. The incorporation of the recommended surcharge amounts into base rates will increase base rates and simultaneously reduce ECR revenues by an equal amount. Therefore, there will be no impact on LG&E's revenue requirement or on LG&E's total ECR revenue. In other words, the roll-in will be revenue neutral to LG&E.

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

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

Q. Why is LG&E proposing a revision to the calculation of the base-current billing factor?

A. A frequently recurring issue with the ECR review cases is the significant fluctuation in the cumulative over- or under-recovered balance of allowed ECR revenue requirement, which typically results in true-up adjustments to the monthly calculations. LG&E believes that a simple modification to the determination of the monthly billing factor has the potential to significantly reduce these periodic fluctuations, and further believes the modification can be implemented without changing the basic structure of the monthly filing calculations in general or the base-current practice in particular. Further, the modification LG&E is proposing is completely consistent with the methodologies that have been followed in the periodic ECR review cases beginning with Case No. 2003-00236, when LG&E began presenting its cumulative over- or under-recovered position as a component of both ECR billing factor revenues and ECR revenues collected through base rates.

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

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

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

A. LG&E implemented the Base-Current method of billing current ECR expenses in Case No. 2002-00193, a two-year review of the ECR. In that proceeding, the calculation to determine the Monthly Environmental Surcharge Factor ("MESF") was established by subtracting the Base Environmental Surcharge Factor ("BESF") from the Current Environmental Surcharge Factor ("CESF"). This is known as the "Base-Current" methodology. All three environmental surcharge factors are based on a percentage of 12 month historical revenue calculation. Since that time, both KU and LG&E have consistently used the Base-Current method, using percentage of revenues as the basis for all calculations, with only minor adjustments.

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

Q. Will you please explain the reason for LG&E's proposed modification to the current methods?

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

Under the current methodology, LG&E calculates the appropriate ECR revenue requirement to roll-in to base rates and the corresponding base rate change needed to collect this amount of ECR revenue. This calculation is done on an approximate two-year schedule. Commensurate with the determination of new base rates, a BESF, representing twelve months of environmental costs to be rolled-in divided by twelve month revenues, is determined. On a monthly basis, the Companies calculate the CESF and adjust the CESF by the BESF to determine the

MESF. However, as previously mentioned, different twelve-month periods of revenues are used in the calculation of the CESF and BESF.

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

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		$ 2,844,421
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		$ 1,599,026
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		$56,125,434
(4)	BESF (Actual)		3.62%
(5)	BESF times Revenue (assumed revenue through base rates)	(3) x (4)	$ 2,031,741
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	$ 432,715

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

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

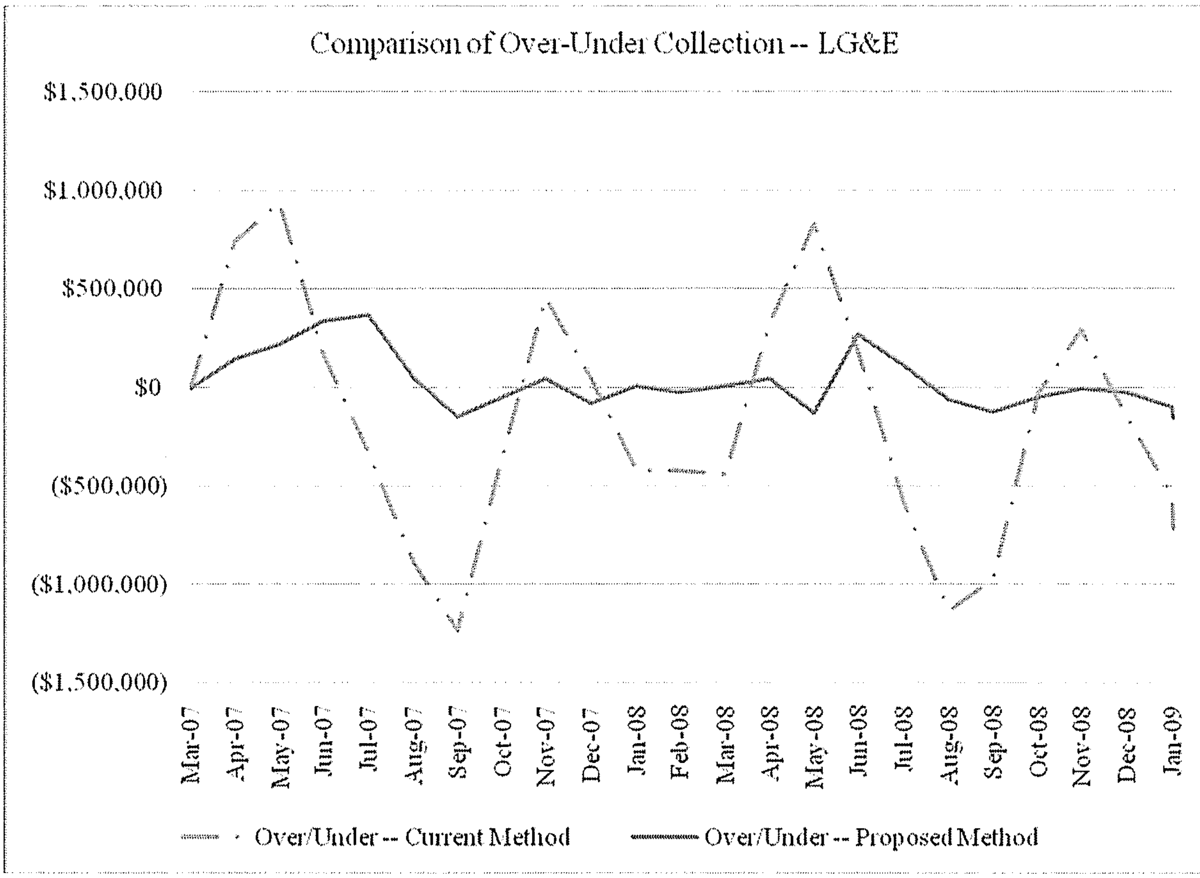
A. LG&E proposes that the determination of the environmental billing factor be modified in such a way that the monthly filings more accurately reflect the same determination of the over- or under-collected position that is used during the six-month and two-year review cases. Through recent process improvements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

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

The Net Jurisdictional E(m) revenue requirement reported on ES Form 1.10 will be reduced by the actual ECR revenue collected through base rates during the expense month to arrive at the Net Jurisdictional E(m) to be collected through the monthly billing factor applied to customer bills. The resulting Net Jurisdictional E(m) divided by the average twelve month retail revenues (Jurisdictional R(m)) will calculate the current billing factor (MESF) to be applied to customer bills. The following table, again using actual February 2009 data, illustrates this point:

			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		$ 2,844,421		$2,844,421
(2)	Jurisdictional R(m)		$64,867,798		$64,867,798
(3)	Revenue Collected Through Base Rates (actual Feb)		$ 1,599,026		$1,599,026
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	$ 1,245,395
(5)	CESF*	(1) / (2)	4.38%	(4) / (2)	1.92%
(6)	BESF		3.62%		0.00%
(7)	MESF*	(5) - (6)	0.76%	(5) - (6)	1.92%
(8)	Revenue Subject to ECR (April))		$53,620,406		$53,620,406
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	$ 407,515	(7) x (8)	$ 1,029,512
(10)	Total Revenue Collected*	(3) + (9)	$ 2,009,196	(3) + (9)	$ 2,628,538
(11)	Revenue Under-collection*	(1) - (10)	$ 835,225	(1) - (10)	$ 215,883
* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was $3,205,970; actual CESF was 4.94% and actual revenue collected through billing factor was $698,050					

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



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 LG&E's monthly ECR filing forms?

A. Yes. LG&E 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 methodologies, over time, are revenue neutral to customer but will temper the month-to-month variance in the ECR billing factor.

Q What rate of return is LG&E proposing to use for all ECR Plans upon the Commission's Order in this proceeding?

A. LG&E is recommending an overall rate of return on capital of 11.18%, including the currently approved 10.63% return on equity and adjusted capitalization, to be used to calculate the environmental surcharge going forward upon Commission approval. This is based on capitalization as of February 28, 2009 and the Settlement Agreement approved by the Commission in its February 5, 2009 Order in Case No. 2008-00252.

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

A. LG&E makes the following recommendations to the Commission in this case:

a) The Commission should approve the proposed increase to the Environmental Surcharge Revenue Requirement of $545,396 per month for the first two months and $545,397 per month for the third month, beginning in the second full billing month following the month in which the Commission issues its Final Order in this Proceeding;

b) The Commission should determine environmental surcharge amounts for the two-year billing period ending April 30, 2009 to be just and reasonable;

c) LG&E's proposed incremental roll-in amount of $5,289,981 should be approved as the incremental amount to be incorporated into base electric rates for bills rendered on and after the second full billing month following the month in which the Commission issues its Final Order in this Proceeding;

d) The Commission should (1) approve the proposed methodology to calculate the revenue requirement using actual ECR revenues collected through base rates, (2) eliminate the use of the BESF percentage, (3) eliminate the monthly true-up, and (4) approve LG&E's proposed revisions to ES Forms 1.00, 1.10 and 2.00 beginning with the second full billing month following the month in which the Commission issues its Final Order in this Proceeding; and

e) The Commission should approve the use of an overall rate of return on capital of 11.18% using a return on equity of 10.63% beginning in the second full billing month following the month in which the Commission issues its Final Order in this Proceeding.

Q. Does this conclude your testimony?

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.

Revised
Direct Testimony of
Robert M. Conroy
Director – Rates
E.ON U.S.

RED-LINE VERSION

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 LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE TWO-YEAR BILLING PERIOD ENDING APRIL 30, 2009	)))))	CASE NO. 2009-00311

REVISED

DIRECT TESTIMONY OF

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

Filed: September 29, 2009

Deleted: 15

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

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

Q. Have you previously testified before this Commission?

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

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit RMC-1 - Proposed LG&E Environmental Surcharge ES Forms 1.00, 1.10, and 2.00.

Q. What is the purpose of this proceeding?

A. The purpose of this proceeding is to review the past operation of LG&E's environmental surcharge during the six-month billing period ending April 30, 2009 that is part of the two-year billing period also ending April 30, 2009, determine whether the surcharge amounts collected during the period are just and reasonable, and then incorporate or "roll-in" such surcharge amounts into LG&E's existing electric base rates.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to review the operation of LG&E's environmental surcharge during the billing period under review, demonstrate the amounts collected during the period were just and reasonable, present and discuss LG&E's proposed adjustment to the Environmental Surcharge Revenue Requirement based on the operation of the surcharge during the review period and explain how the environmental surcharge factors were calculated during the period under review. Further, my testimony will recommend that the cumulative ECR revenue requirement for the twelve-months ending with the expense month of February 2009 be used for purposes of incorporating or "rolling-into" LG&E's electric base rates the appropriate surcharge amounts using the methodology approved by this Commission in Case Nos. 2006-00130 and 2007-00380. Finally, I will propose an improvement to the calculation of the ECR mechanism for consideration by the Commission to help reduce the fluctuation of the over- or under-recovery balance.

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

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

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

A. The capital and operating costs included in the calculation of the environmental surcharge factors for the billing period were the costs incurred each month by LG&E from September 2008 through February 2009, as detailed in the attachment in response to Question No. 2 of the Commission Staff Request for Information, incorporating all required revisions.

The monthly environmental surcharge factors applied during the billing period under review were calculated consistent with the Commission's orders in LG&E's previous applications to assess or amend its environmental surcharge mechanism and plan, as well as orders issued in previous review cases, most recently Case No. 2008-00549. The monthly environmental surcharge reports filed with the Commission during this time reflect the various changes to the reporting forms ordered by the Commission from time to time.

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

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

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

A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of return on capitalization that is used in the determination of the return on environmental rate base associated with LG&E's Compliance Plans. The changes in the actual cost of long term debt and capital structure result in a decrease to cumulative E(m) of $322,350. The details of and support for this calculation are shown in the attachment to LG&E's response to Question No. 1 of the Commission Staff Request for Information. Also shown are the revisions to the previous six-month periods included in this two-year review as calculated in Case No. 2008-00217 for billing periods ending October 31, 2007 and April 30, 2008; and Case No. 2008-00549 for 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.

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

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A. Yes. LG&E experienced a cumulative under-recovery of $1,636,189 for the six month billing period ending April 30, 2009. The attachment to LG&E's response to Question No. 2 of the Commission Staff Request for Information shows the calculation of the $1,636,189 cumulative under-recovery. Therefore, an adjustment to the revenue requirement is necessary to reconcile the collection of past surcharge revenues with actual costs for the billing period under review.

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Q. **Has LG&E identified the causes of the net under-recovery during the billing period under review?**

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

OVER/(UNDER) RECONCILIATION

Combined Over/(Under) Recovery		(1,636,189)	**Deleted:** 1,802,891
Due to BESF Calculation Differences	(483,622)		
Due to use of BESF %	(178,791)		**Deleted:** 179,166
Due to Change in ROR	322,350		
Use of 12 Month Average Revenues	(1,296,126)		**Deleted:** 1,462,454
Subtotal		(1,636,189)	**Deleted:** 1,802,891
Unreconciled Difference		-	

Q. Please explain the change in rate of return.

A. As previous stated, the cumulative impact of the revised rate of return resulted in a decrease to the jurisdictional revenue requirement and an over-recovery of $322,350.

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

A. In the course of preparing the responses in Case No. 2008-00549, LG&E's most recent six-month review proceeding, LG&E determined that a difference between the calculation of the BESF in the previous 2-year review case and the application of the BESF in the monthly filings beginning with the March 2008 expense month. Specifically, in Case No. 2007-00380, LG&E calculated the BESF factor using base rate revenues excluding the customer charge revenues, while the monthly filings use BESF times total base revenues to estimate the ECR revenues collected through base rates. BESF was calculated using a lower revenue total than is used in its application in the monthly filings, thereby overstating the BESF percentage. Because the monthly estimate of ECR revenues collected through base rates is made by multiplying BESF times total base revenues, overstating BESF results in a corresponding overstatement of the estimated ECR revenues collected through base rates. When estimated ECR revenues collected through base rates are overstated, the monthly E(m) is correspondingly understated. As a result, LG&E's net recovery position is understated. If the BESF had been calculated using total revenues, the BESF would be 3.47% instead of 3.62% as filed. Applying the recalculated BESF to the base rate revenues results in an under-recovery of $483,622. As discussed later in my testimony, LG&E is proposing a change in the use of BESF that will eliminate the impacts from using the BESF percentage as discussed.

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

A. The first component is the use of the BESF percentage to estimate the amount collected through base rates. In the monthly filings, the BESF percentage is used to determine the amount of ECR revenue collected through base rates by applying the percentage to total base rate revenues. In the review proceedings, however, the billing determinants are used to determine the actual ECR revenues collected through base rates. The difference between these two methodologies results in a continuous mismatch between actual revenues collected and estimated revenues as reported in the monthly filings. In the billing period under review, the mismatch resulted in an under-recovery of $178,791. As discussed later in my testimony, LG&E is proposing a change in the use of BESF that will eliminate the impacts of using the BESF percentage as discussed.

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The second component is the use of 12-month average revenues to calculate the MESF and then applying that same MESF to the actual monthly revenues. The result is an over-collection during the summer months when actual revenues will generally be greater than the 12-month average and an under-collection during the shoulder months when actual revenues will generally be less than the 12-month average. In the billing period under review, the use of 12-month average revenues resulted in an under-recovery of $1,296,126.

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Q. What kind of adjustment is LG&E proposing in this case as a result of the operation of the environmental surcharge during the billing period?

A. LG&E is proposing that the cumulative under-recovery of $1,636,189 be recovered over the three months following the Commission's Order in this proceeding. Specifically, LG&E recommends that the Commission approve an increase to the

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Environmental Surcharge Revenue Requirement of $545,396 per month for the first two months and $545,397 per month for the third month, beginning in the second full billing month following the Commission's Final Order in this proceeding. This method is consistent with the method of implementing previous over- or under-recovery positions in prior ECR review cases.

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

A. Yes. It is appropriate, at this time, to incorporate surcharge amounts found just and reasonable for the two-year billing period ending April 2009 into electric base rates. LG&E recommends that an incremental environmental surcharge amount of $5,289,981 be incorporated into base rates at the conclusion of this case. LG&E determined the incremental roll-in amount of $5,289,981 using the base-current methodology, consistent with current practice and as previously approved by the Commission. If approved, the total amount of environmental surcharge that will be included in base rates will be $30,945,008 upon conclusion of this proceeding.

Q. If the Commission accepts LG&E's recommendation to incorporate the proposed amount into base rates, what will be the impact on LG&E's revenue requirement?

A. The incorporation of the recommended surcharge amounts into base rates will increase base rates and simultaneously reduce ECR revenues by an equal amount. Therefore, there will be no impact on LG&E's revenue requirement or on LG&E's total ECR revenue. In other words, the roll-in will be revenue neutral to LG&E.

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

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

Q. Why is LG&E proposing a revision to the calculation of the base-current billing factor?

A. A frequently recurring issue with the ECR review cases is the significant fluctuation in the cumulative over- or under-recovered balance of allowed ECR revenue requirement, which typically results in true-up adjustments to the monthly calculations. LG&E believes that a simple modification to the determination of the monthly billing factor has the potential to significantly reduce these periodic fluctuations, and further believes the modification can be implemented without changing the basic structure of the monthly filing calculations in general or the base-current practice in particular. Further, the modification LG&E is proposing is completely consistent with the methodologies that have been followed in the periodic ECR review cases beginning with Case No. 2003-00236, when LG&E began presenting its cumulative over- or under-recovered position as a component of both ECR billing factor revenues and ECR revenues collected through base rates.

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

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

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

A. LG&E implemented the Base-Current method of billing current ECR expenses in Case No. 2002-00193, a two-year review of the ECR. In that proceeding, the calculation to determine the Monthly Environmental Surcharge Factor ("MESF") was established by subtracting the Base Environmental Surcharge Factor ("BESF") from the Current Environmental Surcharge Factor ("CESF"). This is known as the "Base-Current" methodology. All three environmental surcharge factors are based on a percentage of 12 month historical revenue calculation. Since that time, both KU and LG&E have consistently used the Base-Current method, using percentage of revenues as the basis for all calculations, with only minor adjustments.

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

Q. Will you please explain the reason for LG&E's proposed modification to the current methods?

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

Under the current methodology, LG&E calculates the appropriate ECR revenue requirement to roll-in to base rates and the corresponding base rate change needed to collect this amount of ECR revenue. This calculation is done on an approximate two-year schedule. Commensurate with the determination of new base rates, a BESF, representing twelve months of environmental costs to be rolled-in divided by twelve month revenues, is determined. On a monthly basis, the Companies calculate the CESF and adjust the CESF by the BESF to determine the

MESF. However, as previously mentioned, different twelve-month periods of revenues are used in the calculation of the CESF and BESF.

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

(1)	Jurisdictional E(m) (actual Feb, before monthly true-up adjustment)		$ 2,844,421
(2)	ECR Revenue Collected Through Base Rates (Actual Feb)		$ 1,599,026
(3)	Retail Base, FAC and DSM Revenue (Actual, Feb)		$56,125,434
(4)	BESF (Actual)		3.62%
(5)	BESF times Revenue (assumed revenue through base rates)	(3) x (4)	$ 2,031,741
(6)	Assumed Revenue less Actual Revenue	(5) - (2)	$ 432,715

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

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

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

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

The Net Jurisdictional E(m) revenue requirement reported on ES Form 1.10 will be reduced by the actual ECR revenue collected through base rates during the expense month to arrive at the Net Jurisdictional E(m) to be collected through the monthly billing factor applied to customer bills. The resulting Net Jurisdictional E(m) divided by the average twelve month retail revenues (Jurisdictional R(m)) will calculate the current billing factor (MESF) to be applied to customer bills. The following table, again using actual February 2009 data, illustrates this point:

			Current		Proposed
(1)	Jurisdictional E(m)(actual Feb)*		$ 2,844,421		$2,844,421
(2)	Jurisdictional R(m)		$64,867,798		$64,867,798
(3)	Revenue Collected Through Base Rates (actual Feb)		$ 1,599,026		$1,599,026
(4)	Revenue Requirement to Collect Through Billing Factor (in April)			(1) - (3)	$ 1,245,395
(5)	CESF*	(1) / (2)	4.38%	(4) / (2)	1.92%
(6)	BESF		3.62%		0.00%
(7)	MESF*	(5) - (6)	0.76%	(5) - (6)	1.92%
(8)	Revenue Subject to ECR (April))		$53,620,406		$53,620,406
(9)	Revenue Collected Through Billing Factor (April)*	(7) x (8)	$ 407,515	(7) x (8)	$ 1,029,512
(10)	Total Revenue Collected*	(3) + (9)	$ 2,009,196	(3) + (9)	$ 2,628,538
(11)	Revenue Under-collection*	(1) - (10)	$ 835,225	(1) - (10)	$ 215,883
* Amounts are exclusive of the adjustment for monthly true-up. Actual as-filed E(m) was $3,205,970; actual CESF was 4.94% and actual revenue collected through billing factor was $698,050					

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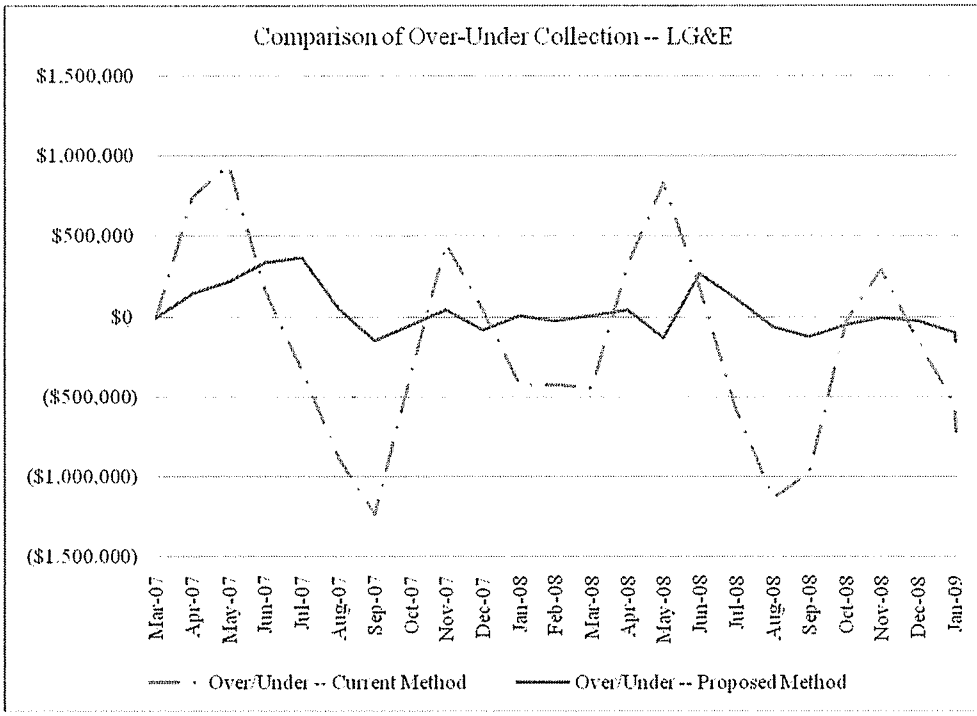
LG&E's proposed modification to the monthly filings is the same over/under calculation that LG&E uses in its six-month and two-year reviews. However, this modification allows for a more accurate and timely determination of the amount collected through base rates and minimizes the volatility from month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



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 LG&E's monthly ECR filing forms?

A. Yes. LG&E 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 methodologies, over time, are revenue neutral to customer but will temper the month-to-month variance in the ECR billing factor.

Q What rate of return is LG&E proposing to use for all ECR Plans upon the Commission's Order in this proceeding?

A. LG&E is recommending an overall rate of return on capital of 11.18%, including the currently approved 10.63% return on equity and adjusted capitalization, to be used to calculate the environmental surcharge going forward upon Commission approval. This is based on capitalization as of February 28, 2009 and the Settlement Agreement approved by the Commission in its February 5, 2009 Order in Case No. 2008-00252.

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

A. LG&E makes the following recommendations to the Commission in this case:

a) The Commission should approve the proposed increase to the Environmental Surcharge Revenue Requirement of $545,396 per month for the first two months and $545,397 per month for the third month, beginning in the second full billing month following the month in which the Commission issues its Final Order in this Proceeding;

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b) The Commission should determine environmental surcharge amounts for the two-year billing period ending April 30, 2009 to be just and reasonable;

c) LG&E's proposed incremental roll-in amount of $5,289,981 should be approved as the incremental amount to be incorporated into base electric rates for bills rendered on and after the second full billing month following the month in which the Commission issues its Final Order in this Proceeding;

d) The Commission should (1) approve the proposed methodology to calculate the revenue requirement using actual ECR revenues collected through base rates, (2) eliminate the use of the BESF percentage, (3) eliminate the monthly true-up, and (4) approve LG&E's proposed revisions to ES Forms 1.00, 1.10 and 2.00 beginning with the second full billing month following the month in which the Commission issues its Final Order in this Proceeding; and

e) The Commission should approve the use of an overall rate of return on capital of 11.18% using a return on equity of 10.63% beginning in the second full billing month following the month in which the Commission issues its Final Order in this Proceeding.

Q. Does this conclude your testimony?

A. Yes.

APPENDIX A

Robert M. Conroy

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

Education

Masters of Business Administration
Indiana University (Southeast campus), December 1998. GPA: 3.9.
Bachelor of Science in Electrical Engineering;
Rose Hulman Institute of Technology, May 1987. GPA: 3.3

Essentials of Leadership, London Business School, 2004.

Center for Creative Leadership, Foundations in Leadership program, 1998.

Registered Professional Engineer in Kentucky, 1995.

Previous Positions

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

Professional/Trade Memberships

Registered Professional Engineer in Kentucky, 1995.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF LOUISVILLE GAS	)	CASE NO.
AND ELECTRIC COMPANY FOR THE TWO-YEAR	)	2009-00311
BILLING PERIOD ENDING APRIL 30, 2009	)	

REVISED

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
INFORMATION REQUESTED IN
APPENDIX B OF COMMISSION'S ORDER
DATED AUGUST 18, 2009

FILED: September 29, 2009

VERIFICATION

STATE OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is the Director - Rates for E.ON U.S. Services Inc., that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Robert M. Conroy

ROBERT M. CONROY

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 29th day of September, 2009.

Victoria B. Harper (SEAL)
Notary Public

My Commission Expires:

Sept 20, 2010

LOUISVILLE GAS AND ELECTRIC COMPANY

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

REVISED Response filed September 29, 2009

Case No. 2009-00311

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 LG&E has submitted during the billing period under review. Include a calculation of any additional over- or under-recovery amount LG&E 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 cumulative components which make up the net under-recovery of $1,636,189 for the six-month billing period ending April 30, 2009.

The net under-recovery amounts occurring in the previous six-month review periods included in this two-year review were calculated in Case Nos. 2008-00217 (billing periods ending October 31, 2007 and April 30, 2008) and 2008-00549 (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) Retail E(m)	(3) Adjustment to Retail E(m) for Monthly True-up	(4) Adjustment to Retail E(m) for Under-Collection Case Nos. 2006-00130 2007 00380 2008-00217	(5) Retail E(m) Including all Adjustments	(6) Average Monthly Retail Revenues	(7) Current Environmental Surcharge Factor (CESF)	(8) Base Environmental Surcharge Factor (BESF)	(9) Monthly Environmental Surcharge Factor (MESF)	(10) ECR Billing Factor Revenues	(11) ECR Revenue Recovered Through Base Rates	(12) Combined Total Over/(Under) Recovery
					ES Form 1.00	(5) / (6)		(7) - (8)			
Mar-07	1,912,445		576,005	2,488,450	58,872,829	4.23%	3.39%	0.84%			
Apr-07	2,401,739		576,005	2,977,744	59,240,731	5.03%	3.39%	1.64%			
May-07	2,450,572		576,005	3,026,577	59,739,102	5.07%	3.39%	1.68%	718,773	1,813,355	43,679
Jun-07	2,652,921		576,005	3,228,926	60,543,994	5.33%	3.39%	1.94%	1,616,567	2,156,011	794,833
Jul-07	2,694,582		576,006	3,270,588	61,140,690	5.35%	3.39%	1.96%	1,688,880	2,328,112	990,415
Aug-07	2,660,337		576,006	3,236,343	61,674,085	5.25%	3.39%	1.86%	941,268	2,510,724	223,066
Sep-07									597,810	2,399,443	(273,334)
Oct-07									384,007	2,022,118	(830,218)
									5,947,304	13,229,764	948,440
Sep-07	2,849,372		576,006	3,425,378	63,078,813	5.43%	3.39%	2.04%			
Oct-07	2,374,174		576,006	2,950,180	64,073,639	4.60%	3.39%	1.21%			
Nov-07	2,399,949		576,006	2,975,955	64,442,120	4.62%	3.39%	1.23%	489,473	1,717,278	(1,218,628)
Dec-07	2,277,604		576,006	2,853,610	64,652,125	4.41%	3.39%	1.02%	805,226	1,810,971	(333,982)
Jan-08	2,298,617			2,298,617	65,652,037	3.50%	3.39%	0.11%	1,433,665	2,007,558	465,268
Feb-08	2,512,829			2,512,829	66,156,852	3.80%	3.39%	0.41%	1,013,332	1,893,625	53,346
Mar-08									44,895	1,838,284	(415,438)
Apr-08									424,236	1,677,262	(411,331)
									4,210,827	10,944,978	(1,860,764)
Mar-08	2,104,065		209,987	2,314,052	66,273,489	3.49%	3.62%	-0.13%			
Apr-08	2,595,478		209,987	2,805,465	66,350,875	4.23%	3.62%	0.61%			
May-08	2,503,053		209,987	2,713,040	66,032,741	4.11%	3.62%	0.49%	189,132	1,710,336	(414,583)
Jun-08	2,893,967		209,987	3,103,954	65,851,834	4.71%	3.62%	1.09%	1,030,406	2,125,384	350,325
Jul-08	2,984,157			2,984,157	65,967,443	4.52%	3.62%	0.90%	1,160,679	2,403,522	851,160
Aug-08	2,998,020		228,081	3,226,101	66,012,146	4.89%	3.62%	1.27%	842,640	2,466,595	205,281
Sep-08									116,583	2,310,965	(556,609)
Oct-08									308,766	1,873,222	(1,044,112)
									3,648,205	12,890,025	(608,538)
Sep-08	2,813,524		228,081	3,041,605	65,524,135	4.64%	3.62%	1.02%			
Oct-08	2,122,586		228,081	2,350,667	65,198,971	3.61%	3.62%	-0.01%			
Nov-08	1,914,569		228,081	2,142,650	65,324,695	3.28%	3.62%	-0.34%	410,730	1,733,033	(897,842)
Dec-08	2,434,224		-	2,434,224	65,376,605	3.72%	3.62%	0.10%	434,087	1,952,883	36,302
Jan-09	2,587,083		-	2,587,083	65,011,287	3.98%	3.62%	0.36%	427,174	2,068,646	353,170
Feb-09	2,867,742		-	2,867,742	64,867,798	4.42%	3.62%	0.80%	413,484	1,937,007	(83,733)
Mar-09									395,266	1,718,397	(473,420)
Apr-09									698,050	1,599,026	(570,667)
Combined Over/(Under) Recovery for the six-month billing period ending April 30, 2009									2,778,790	11,008,991	(1,636,189)
Grand Total									$ 16,585,128	$ 48,073,758	$ (3,157,052)

Note: The billing periods ending October 31, 2007 and April 30, 2008 were reviewed in Case No. 2008-00217. 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. 2008-00549. The under-recovery amount was included in the monthly filings consistent with the Commission's final Order.

Louisville Gas & Electric Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months September 2008 through February 2009

(1) Billing Month	(2) Expense Month	(3) Rate of Return as Filed	(4) Rate of Return as Revised	(5) Change in Rate of Return (3) - (4)	(6) Rate Base as Revised	(7) Impact of change in Rate of Return (5) * (6) / 12	(8) Jurisdictional Allocation, ES Form 1 00	(9) Jurisdictional Impact (7) * (8)
Nov-08	Sep-08	11 49%	11 01%	0 48%	$ 241,851,374	96,741	78 92%	76,348
Dec-08	Oct-08	11 49%	11 01%	0 48%	241,830,839	96,732	67 10%	64,907
Jan-09	Nov-08	11 49%	11 01%	0 48%	240,967,720	96,387	61 82%	59,586
Feb-09	Dec-08	11 49%	11 01%	0 48%	242,211,645	96,885	70 27%	68,081
Mar-09	Jan-09	11 49%	11 01%	0 48%	242,049,061	96,820	79 27%	76,749
Apr-09	Feb-09	10 98%	11 12%	-0 14%	241,886,176	(28,220)	82 64%	(23,321)
					Cumulative Impact of Changes in Rate of Return	$ 455,344		$ 322,350

(1)	(2)	(3) Base Rate Revenues (from ES Form 3 00)	(4) As filed BESF * Base Rates (from ES Form 2 00)	(5) Actual ECR Base Rates (Q2, pg 2, Col 11)	(6) As Filed BESF (from ES Form 1 00)	(7) Recalculated BESF	(8) Recalc BESF * Base Rates (3) * (7)	(9) Recalculated Difference (8) - (4)	(10) BESF % Difference (5) - (8)
Nov-08	Sep-08	51,128,688	1,850,859	1,733,033	3 62%	3 47%	1,774,165	(76,693)	(41,133)
Dec-08	Oct-08	57,953,763	2,097,926	1,952,883	3 62%	3 47%	2,010,996	(86,931)	(58,113)
Jan-09	Nov-08	60,876,805	2,203,740	2,068,646	3 62%	3 47%	2,112,425	(91,315)	(43,779)
Feb-09	Dec-08	56,125,434	2,031,741	1,937,007	3 62%	3 47%	1,947,553	(84,188)	(10,546)
Mar-09	Jan-09	48,018,179	1,738,258	1,718,397	3 62%	3 47%	1,666,231	(72,027)	52,166
Apr-09	Feb-09	48,311,610	1,748,880	1,599,026	3 62%	3 47%	1,676,413	(72,467)	(77,387)
		322,414,479	11,671,404	11,008,991			11,187,782	(483,622)	(178,791)
		Actual Base Rate Collections	11,008,617			Actual Base Rate Collections	11,008,617		
			(662,787)				(179,166)		

(1) Billing Month	(2) Expense Month	(3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 12)	(4) ROR Trueup	(5) BESF Calculation Differences	(6) Use of BESF %	(7) Use of 12 Month Average Revenues
			Recovery Position Explanation - Over/(Under)			
Nov-08	Sep-08	(897,842)	76,348	(76,693)	(41,133)	(856,364)
Dec-08	Oct-08	36,302	64,907	(86,931)	(58,113)	116,438
Jan-09	Nov-08	353,170	59,586	(91,315)	(43,779)	428,678
Feb-09	Dec-08	(83,733)	68,081	(84,188)	(10,546)	(57,080)
Mar-09	Jan-09	(473,420)	76,749	(72,027)	52,166	(530,308)
Apr-09	Feb-09	(570,667)	(23,321)	(72,467)	(77,387)	(397,491)
		(1,636,189)	322,350	(483,622)	(178,791)	(1,296,126)

OVER/(UNDER) RECONCILIATION

Combined Over/(Under) Recovery		(1,636,189)
Due to BESF Calculation Differences	(483,622)	
Due to use of BESF %	(178,791)	
Due to Change in ROR	322,350	
Use of 12 Month Average Revenues	(1,296,126)	
Subtotal		(1,636,189)
Unreconciled Difference		-