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Mr. Jeff DeRouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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APR 15 2010

PUBLIC SERVICE
COMMISSION

Kentucky Utilities Company
State Regulation and Rates
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Lonnie E. Bellar
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April 15, 2010

**RE: *Application of Kentucky Utilities Company for an Adjustment of Its
Base Rates – Case No. 2009-00548***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and ten (10) copies of the Response of Kentucky Utilities Company to the Supplemental Data Requests of The Kentucky Cable Telecommunications Association dated April 2, 2010, in the above-referenced matter.

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

Sincerely,

Lonnie E. Bellar

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	CASE NO.
COMPANY FOR AN ADJUSTMENT OF)	2009-00548
ITS BASE RATES)	


RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO THE
SUPPLEMENTAL DATA REQUEST OF
THE KENTUCKY CABLE TELECOMMUNICATIONS ASSOCIATION
DATED APRIL 2, 2010

FILED: April 15, 2010

VERIFICATION

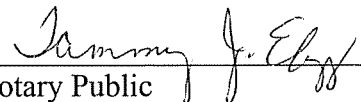
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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



Lonnie E. Bellar

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 14th day of April 2010.



Notary Public (SEAL)

My Commission Expires:

November 9, 2010

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 29

Responding Witness: Shannon L. Charnas/William Steven Seelye

- Q-29. You indicated in response to KCTA's initial data request No. 13 that the data in Seelye Exhibit 8 was obtained from the company's records as of November 30, 2009, not October 31, 2009.
- a. Please provide a new version of Seelye Exhibit 8, recalculated to reflect October 31, 2009 data.
 - b. In response to initial data requests, you provided KCTA with data dated October 31, 2009, for KU Accounts 364, 365, 369, and 593. Please confirm that this data in fact reflects October 31, 2009 figures. Please provide the relevant additional data to the extent it does not reflect October 31, 2009 figures.
- A-29. a. See attached CD in the folder titled Question No. 29.
- b. KU confirms that the data provided was as of October 31, 2009.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 30

Responding Witness: William Steven Seelye

- Q-30. Are the costs of minor appurtenances (as defined in KCTA initial data request No. 6) excluded from the KU pole-cost figures used in Seelye Exhibit 8? If they are excluded, please show your calculations deducting them from pole costs and/or demonstrate where the costs for such minor appurtenances are separately recorded in the continuing property records for Account 364 or other KU accounts.
- A-30. Yes, the costs of minor appurtenances are excluded. Minor appurtenance items are separately recorded in the Company's continuing property records and are not included in the pole-cost figures shown in Seelye Exhibit 8.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010

Question No. 31

Responding Witness: William Steven Seelye

- Q-31. Please explain (separately for each item) the basis for KU to have applied the “rate of return,” “depreciation-sinking fund,” and “income tax” components of its carrying charge (see Seelye Exhibit 8 page 2) to gross pole costs without netting those figures to reflect depreciation.
- A-31. Consistent with the principles of financial economics, a capital recovery factor must be applied to gross investment and not net investment. For example, see Richard Brealey and Stewart Myers, *Principles of Corporate Finance* (McGraw-Hill, 2007); Eugene F. Brigham, *Financial Management: Theory and Practice* (Harcourt Publishing, 2005); G. J. Thuesen and W. J. Fabrycky, *Engineering Economy*, 9th Edition (Prentice Hall, 2001). Calculating carrying charges by applying a capital recovery factor to net investment (gross less accumulated depreciation) rather than gross investment would result in charges that significantly under-recover carrying cost over the life of the property.

The capital recovery factor CRF is equal to the rate of return i plus the sinking fund depreciation factor S , as follows:

$$\begin{aligned} CRF &= i + S \\ &= i + \frac{i}{(1+i)^n - 1} \\ &= \frac{i(1+i)^n}{(1+i)^n - 1} \end{aligned}$$

To calculate an equal-payment series (or "annuity"), the capital recovery factor CRF must be multiplied by the original investment and not the net investment. This method is also used to calculate mortgage payments. In calculating a mortgage payment, for example,

the capital recovery factor is applied to the original investment and not recalculated periodically by applying the capital recovery to the depreciated investment.

Multiplying the rate of return i and the sinking fund depreciation factor S individually by the gross investment is therefore equivalent to multiplying the capital recovery factor by the gross investment, as follows:

$$\begin{aligned} CRF \times \text{Gross Investment} &= (i + S) \times \text{Gross Investment} \\ &= (i \times \text{Gross Investment}) + (S \times \text{Gross Investment}) \end{aligned}$$

Multiplying the income tax component is simply a gross-up of the return component for income taxes.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 32

Responding Witness: William Steven Seelye

- Q-32. Please explain the derivation of the \$227,809,902 "Plant in Service – Account 364" figure listed at page 3 of Seelye Exhibit 8. Please justify the use of this number, instead of the \$244,022,288 figure listed in Account 364 as of October 31, 2009, or the \$249,862,383 figure listed in Account 364 as of December 31, 2009, as reflected in KU's Response to initial data request No.1.
- A-32. The \$227,809,902 figure represents the Kentucky balance of poles in service and classified at October 31, 2009, consistent with the plant in service balances used on page 1 of Seelye Exhibit 8. The October 31, 2009 figure referenced in the question above includes the value of property completed but not classified, which is an inappropriate value to use for purposes of calculating the percentage adders to the carrying charge on page 3 of Seelye Exhibit 8.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 33

Responding Witness: Ronald L. Miller / William Steven Seelye

- Q-33. Please explain why it is appropriate to use a “Composite Federal and State Income Taxes Rate” of 36.93% in calculating the carrying charge (see Seelye Exhibit 8 page 2) when KU elsewhere states that the company’s effective tax rate for 2009 was 33.5% (see KU Response to AG Question No. 48).
- A-33. As mentioned in the note to the response to AG 1-48 the effective tax rate for 2009 is a total company rate, it contains tax related items that are above the net operating income and below net operating income. The use of the effective tax rate is not appropriate in a revenue requirement calculation due to the below net operating income items.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 34

Responding Witness: William Steven Seelye

- Q-34. In response to KCTA initial data request No. 18, you described KU's 0.22% "Property Tax and Insurance" figure as a "conservative estimate." Please explain how that estimate is derived and provide the data necessary to derive it. Please explain why KU chose to use the estimate in calculating its attachment rate.
- A-34. The 0.22% figure represents a conservative estimate that the Company has historically used to reflect property taxes and insurance for distribution property. As stated in the response to KCTA 1-18, a more accurate estimate is 0.6104%, which would result in a higher charge than previously calculated in Seelye Exhibit 11.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 35

Responding Witness: William Steven Seelye

- Q-35. Please explain in detail how you derived the \$225,691 figure for “Labor Charged to 593001” at the top of page 3 of Seelye Exhibit 8. Is this the figure produced by calculating the sum of all entries denominated “Labor Cost” in the “GL Journal Name” column of Account 593001? If not, please explain how “Labor” costs were isolated and provide all back up materials and documentation.
- A-35. KU assumes the KCTA is referring to the electronic spreadsheet provided in response to KCTA 1-20. The column labeled “GL Journal Name” in that spreadsheet cannot be summed for labor and burden line items to derive the \$225,691 figure. The Company ran a more detailed query on account 593001 that sums labor and burden costs by the appropriate expenditure type to derive the \$225,691 figure. See attached CD in the folder titled Question No. 35.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 36

Responding Witness: William Steven Seelye

- Q-36. Please explain in detail how you derived the \$635,116 figure for “Tree Trimming” included under the labor costs listed at the top of page 3 of Seelye Exhibit 8. Is this the figure produced by calculating the sum of all entries denominated “LABOR” in the “Description” column of Account 593004? If not, please explain how the figure was derived and provide all back up materials and documentation.
- A-36. KU assumes the KCTA is referring to the electronic spreadsheet provided in response to KCTA 1-20. The column labeled “Description” in that spreadsheet cannot be summed for labor and burden line items to derive the \$635,116 figure. The Company ran a more detailed query on account 593004 that sums labor and burden costs by the appropriate expenditure type to derive the \$635,116 figure. See attached CD in the folder titled Question No. 36.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 37

Responding Witness: Lonnie E. Bellar / William Steven Seelye

Q-37. Please fully explain all bases on which you believe it is appropriate to rely on the percentages of two-user and three-user poles on LG&E's system as determined in 2002.

A-37. Because KU's existing CATV attachment charge does not differentiate between two- and three-user poles, a study to determine the number of two-user and three-user poles has never been conducted by the Company. Therefore, the LG&E relationship of two- and three-user poles was used as a reasonable proxy for KU. Because KU's service territory is less urban than LG&E's service territory it is likely that KU has a somewhat larger percentage of two-user poles than LG&E and a somewhat lower percentage of three-user poles than LG&E. In rural areas, much more of the telephone infrastructure is built on separate, parallel routes, so that when CATV providers attach to KU poles, they are much more likely to be the only other party attaching to the Company's poles. Consequently, it is likely that KU's CATV attachment charge would be slightly higher if the actual number of two-user and three-user for KU were available and could be used to calculate the attachment charge using the methodology approved by the Commission in Case No. 90-158. However, the Company believes that using the LG&E percentages of two-user and three-user poles to calculate the attachment charge for KU is reasonable.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 38

Responding Witness: Lonnie E. Bellar / William Steven Seelye

Q-38. Please provide the number of KU distribution poles and the number of third-party attachments to KU distribution poles as of year-end 2002 and 2009.

A-38. The estimated number of distribution poles on the KU system at the end of 2002 was 300,600 poles. The total number of third party pole attachments in 2002 was 147,760.

The number of distribution poles on the KU system at the end of 2009 was 342,031 poles. The total number of third party pole attachments in 2009 was 159,372.

The pole attachment counts shown for 2002 or 2009 do not include joint-use partner attachments, which are not considered third party attachments, or attachments by third parties (non-CATV) whose agreements are not based on the number of poles on which they are attached.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 39

Responding Witness: Lonnie E. Bellar / William Steven Seelye

Q-39. Please provide the number of KU two-party and three-party distribution poles the last time they were counted by KU, and the year of such count.

A-39. See response to Question No. 37.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 40

Responding Witness: Lonnie E. Bellar / William Steven Seelye

Q-40. Please provide the number of two-party and three-party poles billed by KU for 2009.

A-40. See response to Question No. 37.

KENTUCKY UTILITIES COMPANY

CASE NO. 2009-00548

**Response to Supplemental Data Request of
The Kentucky Cable Telecommunications Association
Dated April 2, 2010**

Question No. 41

Responding Witness: William Steven Seelye

- Q-41. Generally, please provide all data and backup documentation required to derive all figures discussed by you in your responses to these supplemental requests. Please provide all data in manipulable electronic form, such as Microsoft Excel spreadsheets.
- A-41. Please see response to KPSC 2-77. See also the responses to Question Nos. 29, 35 and 36.