HOLLY RACHEL SMITH, PLLC

Attorney and Counselor at Law
Hitt Business Center
3803 Rectortown Road
Marshall, Virginia 20115

Holly R. Smith *

* Admitted in DC, PA, VA

Dir: (202) 302-3172
Fax: (540) 364-0150
holly@raysmithlaw.com

April 21, 2010

RECEIVED
APR 22 2010
PUBLIC SERVICE COMMISSION

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

RE: Case No. 2009-00548

Dear Mr. Derouen:

Enclosed for filing, please find the original and twelve (12) copies of the DIRECT TESTIMONY OF JAMES T. SELECKY ON BEHALF OF WAL-MART STORES EAST, LP AND SAM'S EAST, INC.

By copy of this letter, all parties listed on the Certificate of Service have been served.

Please stamp as received the extra copy of this filing and kindly return it in the enclosed postage-prepaid envelope.

Please do not hesitate to contact me should you have questions.

Sincerely,

HRS

Holly Rachel Smith

ORIG

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter of:	)	
APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF BASE RATES	)	**CASE NO. 2009-00548**

RECEIVED
APR 22 2010
PUBLIC SERVICE COMMISSION

Direct Testimony of

James T. Selecky

On behalf of

Wal-Mart Stores East, LP and Sam's East, Inc.

Project 9295
April 22, 2010

BAI
BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter of: APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF BASE RATES	CASE NO. 2009-00548

Direct Testimony of James T. Selecky

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A James T. Selecky. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q **WHAT IS YOUR OCCUPATION?**

A I am a consultant in the field of public utility regulation and managing principal of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

A This information is included in Appendix A to my testimony.

Q **ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

A I am testifying on behalf of Wal-Mart Stores East, L.P. and Sam's East, Inc. (collectively referred to as "Wal-Mart"). Wal-Mart purchases its electricity from Kentucky Utilities Company, Inc. ("KU") primarily on Power Service-Secondary and Time of Day-Secondary.

Q WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A My testimony will address KU's cost of service study and revenue allocation. The fact that an issue is not addressed should not be construed as an endorsement of KU's position.

Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A My conclusions and recommendations are summarized as follows:

1. KU has filed the results of the class cost of service study ("CCOSS") that allocates the fixed production and transmission cost utilizing Base-Intermediate-Peak methodology ("BIP methodology").

2. Under the BIP methodology, approximately 35% of the fixed production and transmission costs are allocated based on energy rather than peak demands. This results in allocating a disproportionate share of these costs to high load factor customers.

3. The Commonwealth of Kentucky Public Service Commission ("Commission") should utilize a coincident peak cost allocation methodology for allocating fixed production and transmission cost in future rate cases.

4. Because of the significant under-collection that the Residential and All Electric Schools rate classes are providing, based on the results of KU's cost of service study, the Commission should utilize the results of this cost study to allocate any increase.

5. If the Commission awards a revenue increase that is less than the amount requested by KU, at least 50% of the reduction from the Company's request should be utilized to reduce the over-collection that certain rate classes are providing. That is, rates should be adjusted so parody will exist between cost of service and revenue collection.

<u>Cost of Service Overview</u>

Q HAS KU FILED A CCOSS IN THIS PROCEEDING?

A Yes. KU has filed an embedded CCOSS in this case. A CCOSS is used to determine the costs that KU incurs to serve the various customer classes.

Q WHAT INFORMATION IS CONTAINED IN A CCOSS?

A A CCOSS compares the cost that each customer class imposes on the system to the revenues each class contributes. This relationship is generally presented by comparing the rate of return that a class is providing with the utility's overall jurisdictional rate of return.

For example, when a customer class produces the same rate of return as the total utility rate of return, the customer class is paying revenue to the utility just sufficient to cover the costs that the utility incurs to serve that class. If a class produces a below-average rate of return, it may be concluded that the revenue provided by the class is insufficient to cover all relevant costs to serve that class. On the other hand, if a class produces a rate of return above the system average, it is not only paying revenues sufficient to cover the cost attributable to it, but in addition, it is paying part of the cost attributable to other classes who produce below system average rates of return.

Q WHY IS A CCOSS OF IMPORTANCE?

A A CCOSS shows the costs that a utility incurs to serve each customer class. It is a widely held principle that costs should be allocated among customer classes on the basis of cost-causation. That principle is perhaps the most universally accepted principle of allocating costs that cannot be directly assigned to a particular customer class. The costs should be allocated to those classes on the basis of how or why those costs are incurred by the utility. The results of such studies are used in assigning cost responsibilities to various customer classes in regulatory proceedings.

Q DO YOU SUPPORT THAT PRINCIPLE?

A Yes. Rates that are based on consistently applied cost-causation principles are not only fair and reasonable, but further the causes of stability, conservation and efficiency. When consumers are presented with price signals that convey the consequences of their consumption decisions (i.e., how much energy to consume, at what rate, and when), they tend to take actions which not only minimize their own costs, but those of the utility as well.

Although factors such as simplicity, gradualism, economic development and ease of administration may also be taken into consideration when determining the final spread of the revenue requirement among classes, the fundamental starting point and guideline should be the cost of serving each customer class produced by the CCOSS.

Q HOW IS THE COST OF SERVING EACH CUSTOMER CLASS DETERMINED?

A The appropriate mechanism to determine the cost of serving each customer class is a *fully allocated embedded* CCOSS. It follows, however, that the objective of cost-based rates cannot be attained unless the CCOSS is developed using cost-causation principles consistently.

Q BRIEFLY DESCRIBE THE MAJOR STEPS IN PERFORMING A CCOSS?

A The first step in a CCOSS is known as <u>functionalization</u>. This simply refers to the process by which the Company's investments and expenses are reviewed and put into different categories of cost. The primary functions utilized are production, transmission and distribution. Of course, each broad function may have several subcategories to provide for a more refined determination of cost of service.

The second major step is known as <u>classification</u>. In the classification step, the functionalized costs are separated into the categories of demand-related, energy-related and customer-related costs in order to facilitate the allocation of costs applying the cost-causation principles.

Demand or capacity-related costs are those costs that are incurred by the utility to serve the amount of demand that each customer class places on the system. A traditional example of capacity-related costs is the investment associated with generating stations, transmission lines and a portion of the distribution system. Once the utility makes an investment in these facilities, the costs continue to be incurred, irrespective of the number of kilowatthours generated and sold or the number of customers taking service from the utility.

Energy-related costs are those costs that are incurred by the utility to provide the energy required by its customers. Thus, the fuel expense is almost directly proportional to the amount of kilowatthours supplied by the utility system to meet its customers' energy requirements.

Customer-related costs are those costs that are incurred to connect customers to the system and are independent of the customers' demand and energy requirements. Primary examples of customer-related costs are investments in meters, services and the portion of the distribution system that is necessary to connect customers to the system. For example, some level of investment must be incurred to meet minimum safety requirements when connecting customers to the system.[1] This minimum level of investment is generally independent of either the demand level of the customers or the energy usage over time. In addition, such

[1]This level of investment is sometimes referred to as the "minimum system" or "minimum distribution system."

accounting functions as meter reading, bill preparation and mailing, and revenue accounting are considered customer-related costs.

The final step in the CCOSS is the allocation of each category of the functionalized and classified costs to the various customer classes using the cost-causation principles. Demand-related costs are allocated on the basis which gives recognition to each class's responsibility for the Company's need to build plant to serve demands imposed on the system. Energy-related costs are allocated on the basis of energy use by each customer class. Customer-related costs are allocated based upon the number of customers in each class, weighted to account for the complexity of servicing the needs of the different classes of customers.

Q WHAT CUSTOMER CLASSES DID KU INCLUDE IN ITS CCOSS?

A KU developed CCOSS for Residential, General Service, All Electric Schools, Power Service-Primary and Secondary, Time of Day-Primary and Secondary, Retail Transmission Service, Fluctuating Load Service and Lighting. These classes conform to KU's current electric tariffs. The test year that was used for the CCOSS was the 12-month period ending October 31, 2009.

<u>KU's Class Cost of Service Study and Results</u>

Q PLEASE COMMENT ON KU'S CCOSS.

A Yes. KU's witness Steven Seelye performed a cost of service study utilizing a modified BIP methodology. Under this methodology, production and transmission demand related costs were assigned to three categories of "capacity" – base, intermediate and peak. These three categories of demand related costs are allocated to the various rate classes using different allocation factors.

Q UNDER THE BIP METHODOLOGY, ARE ALL DEMAND-RELATED PRODUCTION AND TRANSMISSION COSTS ALLOCATED BASED ON DEMANDS?

A No. Under the BIP methodology, the base load costs are allocated to the various rate classes based on average demand or energy. However, the intermediate and peak demand related or fixed production and transmission costs are allocated using the winter and summer demands, respectively. As a result, approximately 35% of the production and transmission fixed costs are allocated to the various rate classes based on energy rather than peak demands.

Q BEFORE YOU DISCUSS THE BIP METHODOLOGY, HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE RESULTS OF KU'S CCOSS?

A Yes. Selecky Exhibit 1 shows the results of KU's cost of service study under present rates. Selecky Exhibit 1 shows the rate of return, index of return, the revenue under-collection and over-collection and the percent increase needed to being rates to cost of service for each rate class. A revenue under-collection means a class is providing revenues below its cost of service. For each rate class, a revenue over-collection means that a class is providing revenues in excess of its cost of service.

The results of KU's CCOSS show that the Residential-Rate RS and the All Electric Schools-Rate AES are providing revenues insufficient to meet their cost to serve. Those two rate classes would need rate increases of 17.5% and 18.8% to bring their rates to cost of service under the BIP methodology. All other rate classes are paying rates that exceed their cost of service.

Q **DO YOU SUPPORT THE USE OF THE BIP METHOD FOR ALLOCATING FIXED AND/OR DEMAND RELATED PRODUCTION AND TRANSMISSION COSTS?**

A No. Generally, those who endorse the methodology similar to the BIP argue that it reflects resources planning because it accounts for both coincident peak and average demand. Typically, the reasons for using this type of method is because this method assumes that the electric utility will invest in more expensive types of generation capacity solely because of more fuel cost associated with that capacity. As a result, this assumes a substitution of capital investment for fuel costs.

Q **WHAT ARE THE FLAWS WITH THE BIP METHOD?**

A The basic flaws with utilizing the BIP method are:

1. Energy consumption or average demand is double counted in the allocation process.
2. The BIP method, which is used as capital substitution, fails to approximately recognize the tradeoffs between capital and operating costs. This is some times referred to as fuel symmetry problem.
3. The BIP method is an over-simplification of the utility planning process.

Q **WHY DO YOU SAY THAT THE BIP METHOD DOUBLE COUNTS AVERAGE DEMAND OR ENERGY?**

A Double counting occurs because the average demand, which is equivalent to the year-round energy consumption divided by 8,760 hours, is also a component of the coincident peak demand. By allocating some capital costs relative to average demand, and some relative to coincident peak demand, energy is counted twice – once by itself and the second time as a subset of the coincident peak. If the year-round energy is analogous to base load units, which supply capacity on a continuing basis throughout the year, then it follows that the only time when intermediate and peaking units would be needed to meet the system demands are when they are in excess of the average year demand. The BIP method improperly allocates the cost of this additional capacity relative to the total coincident demand, rather than the excess demand.

Q TURNING TO YOUR SECOND CRITICISM, HOW DOES THE BIP METHOD, AS A CAPITAL SUBSTITUTION METHOD, FAIL TO PROVIDE A SYMMETRICAL ALLOCATION OF BOTH CAPITAL AND OPERATING COSTS?

A The BIP method focuses on the allocation of fixed production costs. For example, the BIP method allocates more production plant to high load factor classes than the coincident peak method. This method will be discussed later in my testimony. Allocating fixed production costs on average demand or energy is claimed to be fair by proponents of these allocation methodologies because high load factor customers require more base load capacity and because the capital cost of base load units tends to be higher than peaking plants. However, the BIP method, as applied, makes no attempt to recognize the other side of the capital cost/operating cost trade-off. Base load plants may have above average capital costs, but they also have below average operating costs relative to peaking units. To ignore the fuel cost differential creates a mismatch between the theory and application. If system planning principles are to be applied in determining the allocation of production plant, it is also logical and consistent to apply the same principles to the allocation of fuel expense.

Q DO UTILITY PLANNERS CONSTRUCT MORE CAPITAL-INTENSIVE CAPACITY FOR THE SOLE PURPOSE OF REDUCING FUEL COSTS?

A No. This belief is based on an oversimplification of the planning process. In reality, planners are faced with the decision of providing reliable service and minimizing total costs.

Utilities are required to minimize costs (i.e., provide service at the lowest overall cost). The utility strives to install a mix of generating capacity that, along with its existing generation, yields the lowest total cost. In other words, the economic choice between a base load plant and a peaking plant must consider both capital costs and operating costs.

The utility's investment decisions can also be affected by existing generation mix, the availability of a suitable site for the plant, environmental restrictions and fuel diversification, just to mention a few factors.

Q IS THE BIP METHOD APPROPRIATE FOR ALLOCATING PRODUCTION AND TRANSMISSION COSTS?

A No. It is inappropriate for allocating fixed production and transmission cost for the reasons I have previously stated.

Alternative Allocation Methods For Production and Transmission Fixed Costs

Q WHAT METHOD WOULD BE MORE APPROPRIATE THAN BIP FOR ALLOCATING MP'S PRODUCTION AND TRANSMISSION COSTS?

A I believe that the coincident peak method best reflects cost-causation principles.

Q PLEASE DESCRIBE THE COINCIDENT PEAK METHOD.

A The coincident peak method uses each customer class's coincident peak (the peak for each class at the time of the system peak) demand to allocate the fixed costs of production and transmission.

Q WHY DO YOU BELIEVE THE COINCIDENT PEAK METHOD IS APPROPRIATE FOR ALLOCATING PRODUCTION AND TRANSMISSION COSTS?

A The method used to allocate production and transmission costs should be consistent with the principles of cost-causation. The allocation method should reflect the contribution of each customer class to the demands that cause utilities to incur demand-related or capacity-related costs.

Q WHEN UTILIZING A COINCIDENT PEAK DEMAND, WHAT FACTORS SHOULD BE CONSIDERED IN ALLOCATING THE PRODUCTION AND TRANSMISSION COSTS?

A The selection of the coincident peak allocation factor should properly reflect the operating characteristics of the loads that are served by the utility. For example, if a utility has a substantially higher summer peak relative to the demands during the other times during the year, then the production and transmission fixed cost should be allocated based on each customer's contribution to the summer peak. On the other hand, if a utility has predominant peaks in both the summer and winter months, then the allocation of the production and transmission fixed cost should be based on both the summer and winter peak periods.

Q EARLIER IN YOUR TESTIMONY, YOU DISCUSSED ALLOCATING FIXED PRODUCTION AND TRANSMISSION COST ON USING A COINCIDENT PEAK METHODOLOGY. HAVE YOU PERFORMED A COST STUDY UTILIZING THIS METHODOLOGY?

A No. As shown on Selecky Exhibit 1, the current BIP methodology shows that the Residential and All Electric Schools rate classes are already significantly below cost of service. Since the BIP method generally provides more favorable allocation to lower load factor customers utilizing a coincident peak method would only farther increase the under-collection from the Residential class. Therefore, I recommend for purposes of this case that the Commission utilize the results of the Company's cost of service to allocate any revenue requirement increase.

Revenue Allocation

Q HAS KU ALLOCATED THE INCREASE IN THIS CASE RECOGNIZING THE RESULTS OF THEIR COST OF SERVICE STUDY?

A Yes, to some extent, KU's proposed revenue allocation does recognize the results of KU's cost of service study. However, the revenue allocation that is proposed still results in the Residential and All Electric Schools rate classes providing revenues significantly below their cost to serve.

Q HAVE YOU PREPARED A SCHEDULE THAT SHOWS THE RESULTS OF KU'S COST OF SERVICE STUDY AT PROPOSED RATES?

A Yes. Selecky Exhibit 2 shows the results of the cost of service study under KU's proposed revenue allocation. The results of this CCOSS shows that the Residential and the All Electric Schools rate classes are providing revenues insufficient to meet their cost of service. In fact, those two rate classes would need rate increases of 16.5% and 17.8%, respectively to bring their rates to cost of service.

Q DO YOU PROPOSE ANY ALTERNATIVE ALLOCATION?

A Although I would like to see more movement toward cost of service, I am limiting the Residential rate increase to the level proposed by KU in this proceeding. However, if the Commission authorizes an increase that is less than that level proposed by the Company, that reduction should be utilized to reduce the subsidies of those classes that are paying rates above cost of service.

Q HAVE YOU PREPARED A SCHEDULE THAT SHOWS THIS ALTERNATIVE ALLOCATION?

A Yes. Selecky Exhibit 3 shows alternative allocations assuming the Company receives two-third or 66.7% of its requested amount. Under this proposed allocation, 50% of the reduction from the requested amount is used to reduce the revenue increases to all classes proposed by KU. The other 50% is used to reduce the over-collection from those classes that are providing revenues in excess of their cost to serve.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and am a principal with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978, I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company (DECo) in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and troubleshooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

In May of 1975, I transferred to the Rate and Revenue Requirement area of DECo. From that time, and until my departure from DECo in June 1984, I held various positions which included economic analyst, senior financial analyst, supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division and director of the Revenue Requirement Department. In these positions, I was responsible for overseeing and performing economic and financial studies and book depreciation studies; developing fixed charge rates and parameters and procedures used in economic studies; providing a financial analysis consulting service to all areas of DECo; developing and designing rate structure for electrical and steam service; analyzing profitability of various classes of service and recommending changes therein; determining fuel and purchased power adjustments; and all aspects of determining revenue requirements for ratemaking purposes.

In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc. (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and staff. At DBA and BAI I have testified in electric, gas and water proceedings involving almost all aspects of regulation. I have also performed economic analyses for clients related to energy cost issues.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona and Corpus Christi, Texas.

Q **HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?**

A Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In these cases I have testified to rate base, income statement adjustments, changes in book depreciation rates, rate design, and interim and final revenue deficiencies.

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, Wisconsin, and

Wyoming, and the Provinces of Alberta, Nova Scotia and Saskatchewan. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Florida, Montana, New York and Pennsylvania and the Province of British Columbia. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, and rate base adjustments for items such as plant held for future use, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates and rate design.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A Yes, I am a registered professional engineer in the State of Michigan.

\\Huey\Shares\PLDocs\MED\9295\Testimony - BAI\174895 doc

Kentucky Utilities Company

Results of KU Cost Of Service Study At Present Rates Using BIP Methodology

(thousand of dollars)

Line	Description	Total System	Residential Rate RS	General Service Sec GSS	All Electric School AES	Power Service PS-Sec	Power Service PS-Pri	Time of Day TOD-Sec	Time of Day TOD-Pri	Retail Trans Service RTS	Fluct Load Service FLS - Trans	Street Lighting SL LT
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Total Operating Revenue	$1,160,847	$436.891	$162,257	$8,179	$215,554	$85,729	$9,814	$137,312	$71,257	$13,042	$20,814
2	Total Operating Expenses	$1,030,540	$418,045	$123,363	$7,863	$187,711	$78,141	$9,873	$122,573	$60,108	$9,496	$13,366
3	Pro-Forma Adjustments	(38,379)	(17,068)	5,246	(347)	(10,652)	(7,560)	(1,349)	(4,725)	(1,446)	(1,175)	698
4	Total Operating Expenses	$992,161	$400,978	$128,608	$7,516	$177,059	$70,581	$8,524	$117,849	$58,662	$8,321	$14,064
5	Net Operating Income	$168,686	$35,913	$33,649	$663	$38,494	$15,148	$1,290	$19,464	$12,595	$4,721	$6,750
6	Rate Base	$3,157,293	$1,543,739	$363,985	$30,304	$464,002	$192,511	$22,792	$302,275	$129,392	$36,014	$72,279
7	Rate of Return	5.34%	2.33%	9.24%	2.19%	8.30%	7.87%	5.66%	6.44%	9.73%	13.11%	9.34%
8	Index of Return		0.44	1.73	0.41	1.55	1.47	1.06	1.21	1.82	2.45	1.75
9	Under / (Over) Collection		$75,812	($23,122)	$1,557	($22,312)	($7,917)	($117)	($5,395)	($9,250)	($4,554)	($4,703)
10	Percent Change		17.5%	-14.2%	18.8%	-10.2%	-9.1%	-1.2%	-3.9%	-12.7%	-24.0%	-22.4%
11	Revenue @ Present Rates	$1,174,374	$433,896	$162,979	$8,265	$219,186	$87,466	$9,970	$139,874	$72,780	$18,976	$20,982

Note: Excludes impact of cutailable riders

Source:
1. Second Data Request of Commission Staff (Q-77)
2. Seelye Exhibit 7

Kentucky Utilities Company

Results of KU Cost Of Service Study At Proposed Rates Using BIP Methodology
(thousand of dollars)

Line	Descrition	Total System	Residential Rate RS	General Service Sec GSS	All Electric School AES	Power Service PS-Sec	Power Service PS-Pri	Time of Day TOD-Sec	Time of Day TOD-Pri	Retail Trans Service RTS	Fluct Load Service FLS - Trans	Street Lighting SL LT
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Total Operating Revenue	$1,160,847	$436,891	$162,257	$8,179	$215,554	$85,729	$9,814	$137,312	$71,257	$13,042	$20,814
2	KU's Proposed Increase	134,341	58,747	16,388	1,149	23,088	8,938	1,075	15,517	7,258	115	2,065
3	Increase in Misc. Charges	926	446	202	3	179	73	1	12	7	2	0
4	Curtailable Service Riders	(1,756)	0	0	0	0	0	0	0	0	(1,756)	0
4	Total Pro-Forma Operating Revenue	$1,294,356	$496,084	$178,847	$9,330	$238,821	$94,740	$10,890	$152,841	$78,522	$13,159	$22,879
5	Total Operating Expenses	$1,030,540	$418,045	$123,363	$7,863	$187,711	$78,141	$9,873	$122,573	$60,108	$9,496	$13,366
6	Pro-Forma Adjustments	(38,379)	(17,068)	5,246	(347)	(10,652)	(7,560)	(1,349)	(4,725)	(1,446)	(1,175)	698
7	Incremental Income Taxes	50,308	22,015	6,170	428	8,653	3,351	400	5,775	2,702	44	768
8	Total Operating Expenses	$1,042,469	$422,993	$134,778	$7,944	$185,713	$73,932	$8,924	$123,624	$61,364	$8,365	$14,832
9	Net Operating Income	$251,887	$73,092	$44,069	$1,386	$53,108	$20,808	$1,966	$29,217	$17,158	$4,794	$8,047
10	Rate Base	$3,157,293	$1,543,739	$363,985	$30,304	$464,002	$192,511	$22,792	$302,275	$129,392	$36,014	$72,279
11	Rate of Return	7.98%	4.73%	12.11%	4.57%	11.45%	10.81%	8.63%	9.67%	13.26%	13.31%	11.13%
12	Index of Return	1.00	0.59	1.52	0.57	1.43	1.35	1.08	1.21	1.66	1.67	1.40
13	Under / (Over) Collection		$81,514	($24,471)	$1,680	($26,197)	($8,873)	($240)	($8,306)	($11,128)	($3,128)	($3,714)
14	Percent Change To Bring Rates To Cost of Service		16.5%	-13.6%	17.8%	-10.8%	-9.2%	-2.2%	-5.3%	-13.9%	-15.0%	-16.1%
15	Revenue @ Present Rates	$1,174,374	$433,896	$162,979	$8,265	$219,186	$87,466	$9,970	$139,874	$72,780	$18,976	$20,982
16	KU's Proposed Increase	136,096	58,747	16,388	1,149	23,088	8,936	1,075	15,517	7,258	1,873	2,065
17	Total	$1,310,470	$492,643	$179,367	$9,414	$242,274	$96,402	$11,045	$155,391	$80,038	$20,849	$23,047
18	Percent Increase	11.59%	13.54%	10.06%	13.90%	10.53%	10.22%	10.78%	11.09%	9.97%	9.87%	9.84%

Note: Excludes impact of cutailable riders

Source:
1. Second Data Request of Commission Staff (Q-77)
2. Seelye Exhibit 7

Kentucky Utilities Company

Allocation Of Increase Assuming KU Receives 66.7% Of Requested Amount
(thousand of dollars)

Line	Descrition	Total System	Residential Rate RS	General Service Sec GSS	All Electric School AES	Power Service PS-Sec	Power Service PS-Pri	Time of Day TOD-Sec	Time of Day TOD-Pri	Retail Trans Service RTS	Fluct Load Service FLS - Trans	Street Lighting SL LT
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Revenue @ Present Rates	$1,174,374	$433,896	$162,979	$8,265	$219,186	$87,466	$9,970	$139,874	$72,780	$18,976	$20,982
2	Requested Increase	$136,096	$58,747	$16,388	$1,149	$23,088	$8,936	$1,075	$15,517	$7,258	$1,873	$2,065
3	Percent Increase	11.59%	13.54%	10.06%	13.90%	10.53%	10.22%	10.78%	11.09%	9.97%	9.87%	9.84%
4	75% of Requested Increase	$90,776										
5	50% of the Reduction Allocated To Al Classes	$22,660	$9,781	$2,729	$191	$3,844	$1,488	$179	$2,584	$1,208	$312	$344
6	50% of the Reduction Reduces Subsidies	$22,660	$0	$6,772	$0	$6,535	$2,319	$34	$1,580	$2,709	$1,334	$1,377
7	Rate Increase	$90,776	$48,966	$6,887	$958	$12,709	$5,129	$862	$11,353	$3,340	$228	$344
8	Percent Increase	7.73%	11.29%	4.23%	11.59%	5.80%	5.86%	8.64%	8.12%	4.59%	1.20%	1.64%
9	Under / (Over) Collection - Present Rates		$75,812	($23,122)	$1,557	($22,312)	($7,917)	($117)	($5,395)	($9,250)	($4,554)	($4,703)

VERIFICATION

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

I, James T. Selecky, a Consultant and Managing Principal of Brubaker & Associates, Inc., affirm that the matters set forth in the foregoing testimony and exhibits are true and correct to the best of my knowledge, information and belief.

James Selecky

James T. Selecky
4/20/2010

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20th, day of April, 2010.

Maria E. Decker

Notary Public

My Commission Expires:

May 5, 2013

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2013
Commission # 09706793

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by mailing a true and correct copy via electronic mail (when available) and by first-class postage prepaid mail, to all parties on this 21st day of April, 2010.

David C. Brown
Stites & Harbison
1800 Providian Center
400 West Market Street
Louisville, KY 40202

Lonnie E Bellar
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Kendrick Riggs
Robert M. Watt
Stoll Keenan Ogden, PLLC
2000 PNC Plaza
500 W. Jefferson Street
Louisville, KY 40202-2828

Lawrence W. Cook
Assistant Attorney General
Office of Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

James T. Selecky
BAI Consulting
16690 Swingley Ridge Road, Suite 140
Chesterfield, MO 63017

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45212

Iris G. Skidmore
415 W. Main Street, Suite 2
Frankfort, KY 40601

Allyson K Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Gardner F. Gillespie
Dominic F. Perella
HOGAN & HARTSON LLP
555 Thirteenth Street, N.W.
Washington, D.C. 20004

Frank Chuppe
Wyatt Tarrant & Combs LLP
500 West Jefferson Street, Suite 2600
Louisville, KY 40202
fchuppe@wyattfirni.com