

a PPL company

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

RECEIVED

JUL 20 2012

PUBLIC SERVICE  
COMMISSION

**Kentucky Utilities Company**  
State Regulation and Rates  
220 West Main Street  
PO Box 32010  
Louisville, Kentucky 40232  
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July 20, 2012

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION  
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF  
KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH  
BILLING PERIODS ENDING OCTOBER 31, 2011 AND APRIL 30,  
2012***  
**CASE NO. 2012-00207**

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and seven (7) copies of the Response of Kentucky Utilities Company to the Commission Staff's Questions Raised at the July 12, 2012 Technical Conference, in the above-referenced matter.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'R. M. Conroy', with a large, stylized flourish at the end.

Robert M. Conroy

Enclosures

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

<b>AN EXAMINATION BY THE PUBLIC SERVICE</b>	)	
<b>COMMISSION OF THE ENVIRONMENTAL</b>	)	
<b>SURCHARGE MECHANISM OF KENTUCKY</b>	)	<b>CASE NO.</b>
<b>UTILITIES COMPANY FOR THE TWO-YEAR</b>	)	<b>2012-00207</b>
<b>BILLING PERIOD ENDING OCTOBER 31, 2011</b>	)	
<b>AND APRIL 30, 2012</b>	)	

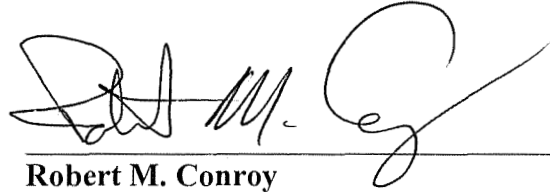
**RESPONSE OF**  
**KENTUCKY UTILITIES COMPANY**  
**TO**  
**COMMISSION STAFF'S QUESTIONS RAISED AT**  
**THE JULY 12, 2012 TECHNICAL CONFERENCE**

**FILED: July 20, 2012**

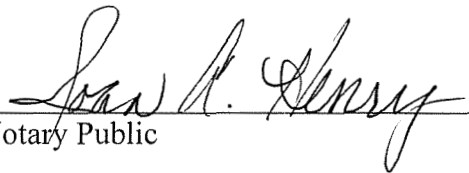
VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Robert M. Conroy**, being duly sworn, deposes and says that he is Director - Rates for LG&E and KU Services Company, 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.

  
Robert M. Conroy

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20<sup>th</sup> day of July 2012.

 (SEAL)  
Notary Public

My Commission Expires:  
July 21, 2015



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
July 12, 2012 Technical Conference**

**Case No. 2012-00207**

**Question No. 1**

**Witness: Robert M. Conroy**

Q-1. Please provide a revised response to Question No. 6 of the Commission Staff's First Request for Information in Appendix B of Commission's Order Dated June 13, 2012 that uses the average residential customers' usage for the twelve month period.

A-1. The actual average residential customer's usage for the 12-months ending March 31, 2012 is 1,179 kWh per month. Actual average monthly usage for residential customers will vary from month to month depending upon the time period of the year. The use of 1,000 kWh per month to reflect the impact on a residential customer's bill provides a general representation that is scalable to an individual residential customer's actual usage.

Based upon distributing the net over-recovered position of \$2,998,160 (\$499,693 per month for four months and \$499,694 per month for two months) over six months, the ECR billing factor will be lower by approximately 1.23% each month. For a residential customer using 1,179 kWh per month the impact of the adjusted ECR billing factor would be a decrease of approximately \$1.05 per month, using rates and adjustment clause factors in effect for the April 2012 billing month.



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
July 12, 2012 Technical Conference**

**Case No. 2012-00207**

**Question No. 2**

**Witness: Robert M. Conroy**

- Q-2. Please refer to pages 3 through 6 of the attachment to the response to Question No. 1 of the Commission Staff's First Request for Information in Appendix B of Commission's Order Dated June 13, 2012.
- a. Provide a reconciliation of the Environmental Surcharge amount in Column 11 to the rate base amount contained in the corresponding expense month for the monthly ECR billing factor filing.
  - b. Provide the support for the calculation of the Jurisdictional Rate Base Percentage contained in Column 8.
  - c. Please explain the Undistributed Subsidiary Earnings contained in Column 3.
- A-2.
- a. Please see the attached. The Environmental Surcharge amount in Column 11 is determined by multiplying the Jurisdictional Rate Base Percentage from Column 8 by the ECR Rate Base contained in the corresponding expense month ECR billing factor filing.
  - b. Please see the attached. The calculation of the Jurisdictional Rate Base Percentage is performed annually at the beginning of the year based on the prior year ending rate base statements.
  - c. The Undistributed Subsidiary Earnings contained in Column 3 represent KU's investment in Electric Energy, Inc. ("EEI"). KU invested in the formation of EEI when it received its charter from the State of Illinois in December 1950. KU records a share of EEI's net income each period in proportion to KU's ownership percentage (20%). The net income has been reported as "Other Income Less Deductions" in KU's reports filed with the Commission and as "Equity Earnings in EEI" in stockholders reports.

**Kentucky Utilities Company****Reconciliation of the Rate Base Amounts in the ECR Monthly filings and  
the Attachments to Question No. 1 in the ECR Review case.**As of October 31, 2011 / October 2011 Expense Month

ES Form 1.10, line 1 - Environmental Compliance Rate Base	\$ 1,227,064,849
Jurisdictional Rate Base Percentage (Column 8)	<u>87.36%</u>
Subtotal	\$ 1,071,963,852
Environmental Compliance Plans (Column 11) Attachment to Response to Question No. 1, page 3 of 6	\$ 1,071,963,852

As of January 31, 2012 / January 2012 Expense Month

ES Form 1.10, line 1 - Environmental Compliance Rate Base (Pre-2011 Plans)	\$ 1,242,892,839
ES Form 1.10, line 1 - Environmental Compliance Rate Base (2011 Plan)	\$ 19,986,822
Subtotal - Environmental Compliance Rate Base	<u>\$ 1,262,879,661</u>
Jurisdictional Rate Base Percentage (Column 8)	<u>87.43%</u>
Subtotal	\$ 1,104,135,688
Environmental Compliance Plans (Column 11) Attachment to Response to Question No. 1, page 4 of 6	\$ 1,104,135,688

As of April 30, 2012 / April 2012 Expense Month

ES Form 1.10, line 1 - Environmental Compliance Rate Base (Pre-2011 Plans)	\$ 1,253,579,055
ES Form 1.10, line 1 - Environmental Compliance Rate Base (2011 Plan)	\$ 26,890,090
Subtotal - Environmental Compliance Rate Base	<u>\$ 1,280,469,145</u>
Jurisdictional Rate Base Percentage (Column 8)	<u>87.43%</u>
Subtotal	\$ 1,119,514,174
Environmental Compliance Plans (Column 11) Attachment to Response to Question No. 1, pages 5 and 6 of 6	\$ 1,119,514,174



**KENTUCKY UTILITIES**

**Net Original Cost Kentucky Jurisdictional Rate Base  
At December 31, 2011**

Title of Account (1)	Kentucky Jurisdictional Rate Base (2)	Other Jurisdictional Rate Base (3)	Total Company Rate Base (4)
1 Utility Plant at Original Cost	\$ 5,910,656,975	\$ 872,043,039	\$ 6,782,700,014
2 Deduct:			
3 Reserve for Depreciation	2,080,816,019	314,221,754	2,395,037,773
4 Net Utility Plant	<u>3,829,840,956</u>	<u>557,821,285</u>	<u>4,387,662,241</u>
5 Deduct:			
6 Customer Advances for Construction	2,998,149	157,790	3,155,939
7 Accumulated Deferred Income Taxes	416,039,970	59,901,791	475,941,761
8 Asset Retirement Obligation-Net Assets	47,120,453	7,247,837	54,368,290
9 Asset Retirement Obligation-Regulatory Liabilities	3,062,534	471,064	3,533,598
10 Investment Tax Credit (a)	87,006,521	14,401,246	101,407,767
11 Total Deductions	<u>556,227,627</u>	<u>82,179,728</u>	<u>638,407,355</u>
12 Net Plant Deductions	<u>3,273,613,329</u>	<u>475,641,557</u>	<u>3,749,254,886</u>
13 Add:			
14 Materials and Supplies (b)	115,624,820	17,612,133	133,236,953
15 Prepayments (b)(c)	6,956,784	810,920	7,767,704
16 Emission Allowances (b)	442,484	68,059	510,543
17 Cash Working Capital (page 2)	95,623,468	7,917,449	103,540,917
18 Total Additions	<u>218,647,556</u>	<u>26,408,561</u>	<u>245,056,117</u>
19 Total Net Original Cost Rate Base	<u><u>\$ 3,492,260,885</u></u>	<u><u>\$ 502,050,118</u></u>	<u><u>\$ 3,994,311,003</u></u>
20 Percentage of Rate Base to Total Company Rate Base	<u>87.43%</u>	<u>12.57%</u>	<u>100.00%</u>
21 Net Operating Income	\$ 219,338,878	\$ 23,251,310	\$ 242,590,188
22 Net Operating Income / Net Original Cost Rate Base	6.28%	4.63%	6.07%

(a) Reflects investment tax credit treatment per Case No 2007-00178

(b) Average for 13 months

(c) Excludes PSC fees

**KENTUCKY UTILITIES**

**Calculation of Cash Working Capital  
At December 31, 2011**

Title of Account (1)	Kentucky Jurisdictional Rate Base (2)	Other Jurisdictional Rate Base (3)	Total Company Rate Base (4)
1 Operating and maintenance expense for the 12 months ended December 31, 2011	\$ 859,662,125	\$ 101,913,524	\$ 961,575,649
2 Deduct:			
3 Electric Power Purchased	<u>94,674,385</u>	<u>14,440,563</u>	<u>109,114,948</u>
4 Total Deductions	<u>\$ 94,674,385</u>	<u>\$ 14,440,563</u>	<u>\$ 109,114,948</u>
5 Remainder (Line 1 - Line 4)	<u>\$ 764,987,740</u>	<u>\$ 87,472,961</u>	<u>\$ 852,460,701</u>
6 Cash Working Capital	<u>\$ 95,623,468</u>	<u>\$ 7,917,449</u>	<u>\$ 103,540,917</u>

Kentucky Jurisdictional (12 1/2% of Line 5)  
Other Jurisdictional comprised of FERC, Tennessee,  
and Virginia Jurisdictional methodologies.

KENTUCKY UTILITIES

Net Original Cost Kentucky Jurisdictional Rate Base  
At December 31, 2010

Title of Account (1)	Kentucky Jurisdictional Rate Base (2)	Other Jurisdictional Rate Base (3)	Total Company Rate Base (4)
1. Utility Plant at Original Cost	\$ 5,661,438,627	\$ 834,859,657	\$ 6,496,298,284
2 Deduct:			
3 Reserve for Depreciation	1,966,638,078	295,288,704	2,261,926,782
4. Net Utility Plant	3,694,800,549	539,570,953	4,234,371,502
5 Deduct:			
6 Customer Advances for Construction	2,862,085	7,189	2,869,274
7 Accumulated Deferred Income Taxes	318,782,523	45,596,000	364,378,523
8 Asset Retirement Obligation-Net Assets	45,455,634	6,974,824	52,430,458
9 Asset Retirement Obligation-Regulatory Liabilities	3,798,226	582,810	4,381,036
10 Investment Tax Credit (a)	89,415,185	14,678,984	104,094,169
11. Total Deductions	460,313,653	67,839,807	528,153,460
12 Net Plant Deductions	3,234,486,896	471,731,146	3,706,218,042
13. Add:			
14 Materials and Supplies (b)	123,472,575	19,397,854	142,870,429
15 Prepayments (b)(c)	5,936,818	684,065	6,620,883
16 Emission Allowances (b)	621,872	95,421	717,293
17 Cash Working Capital (page 2)	89,520,992	7,799,888	97,320,880
18 Total Additions	219,552,257	27,977,228	247,529,485
19. Total Net Original Cost Rate Base	<u>\$ 3,454,039,153</u>	<u>\$ 499,708,374</u>	<u>\$ 3,953,747,527</u>
20 Percentage of Rate Base to Total Company Rate Base	<u>87.36%</u>	<u>12.64%</u>	<u>100.00%</u>
21 Net Operating Income	\$ 226,197,402	\$ 26,271,060	\$ 252,468,462
22 Net Operating Income / Net Original Cost Rate Base	6.55%	5.26%	6.39%

(a) Reflects investment tax credit treatment per Case No. 2007-00178.

(b) Average for 13 months.

(c) Excludes PSC fees

**KENTUCKY UTILITIES**

**Calculation of Cash Working Capital  
At December 31, 2010**

Title of Account (1)	Kentucky Jurisdictional Rate Base (2)	Other Jurisdictional Rate Base (3)	Total Company Rate Base (4)
1. Operating and maintenance expense for the 12 months ended December 31, 2010	\$ 866,640,592	\$ 128,526,746	\$ 995,167,338
2. Deduct:			
3. Electric Power Purchased	<u>150,472,658</u>	<u>24,149,279</u>	<u>174,621,937</u>
4. Total Deductions	<u>\$ 150,472,658</u>	<u>\$ 24,149,279</u>	<u>\$ 174,621,937</u>
5. Remainder (Line 1 - Line 4)	<u>\$ 716,167,934</u>	<u>\$ 104,377,467</u>	<u>\$ 820,545,401</u>
6. Cash Working Capital	<u>\$ 89,520,992</u>	<u>\$ 7,799,888</u>	<u>\$ 97,320,880</u>

Kentucky Jurisdictional (12 1/2% of Line 5)  
Other Jurisdictional comprised of FERC, Tennessee,  
and Virginia Jurisdictional methodologies.



**KENTUCKY UTILITIES COMPANY**

**Response to Commission Staff's Questions Raised at the  
July 12, 2012 Technical Conference**

**Case No. 2012-00207**

**Question No. 3**

**Witness: Robert M. Conroy**

- Q-3. Please provide an explanation of the Production credit shown on Line 34 of Page 4 of 4 in Attachment to the Response to Question No. 5 of the Commission Staff's First Request for Information in Appendix B of Commission's Order Dated June 13, 2012. Provide the calculations shown on Page 4 of 4 in electronic media with formulas intact.
- A-3. Please see the attached provided on compact disc with the formulas intact.

The "Domestic Production Activities Deduction" ("DPAD") is a deduction pursuant to Section 199 of the Internal Revenue Code. The 2011 DPAD rate for federal tax purposes is 9%.

For Kentucky, pursuant to KRS 141.010(11)(c) and (13)(c), for taxable years beginning on or after January 1, 2010, the amount of DPAD is 6%. Line 34 of Page 4 of 4 is calculated by multiplying the 6% state DPAD rate times the Taxable income for Federal income tax before production credit, Line 6, of \$94.3396 ( $\$94.3396 \times 6\% = \$5.6604$ ).

Lines 3 and 34 on the attached do not have formulas because one of the dependant variables in the calculation of the Production Tax Credit is the dollar value of State Income Taxes. One of the dependant variables in the calculation of State Income Taxes is the dollar value of the Production Tax Credit. The nature of this dependency creates a circular reference as any change in one of these variables will cause the other to change. Microsoft Excel can be set to increase the number of iterations per calculation above one and solve this circular reference.