



a PPL company

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

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PUBLIC SERVICE
COMMISSION

**Louisville Gas and
Electric Company**
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Robert M. Conroy
Director - Rates
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January 30, 2013

**RE: *AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION
OF THE ENVIRONMENTAL SURCHARGE MECHANISM OF
LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE SIX-
MONTH BILLING PERIOD ENDING OCTOBER 31, 2012
CASE NO. 2012-00547***

Dear Mr. DeRouen:

Please find enclosed and accept for filing the original and seven (7) copies of the Direct Testimony of Robert M. Conroy and the Response of Louisville Gas and Electric Company to the First Request for Information in Appendix B of the Commission's Order dated January 2, 2013, in the above-referenced matter.

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

Sincerely,

Robert M. Conroy

Enclosures

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 SIX-MONTH) 2012-00547
BILLING PERIOD ENDING OCTOBER 31, 2012)

DIRECT TESTIMONY OF
ROBERT M. CONROY
DIRECTOR - RATES
LG&E AND KU SERVICES COMPANY

Filed: January 30, 2013

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

2 A. My name is Robert M. Conroy. I am the Director – Rates for LG&E and KU
3 Services Company, which provides services to Louisville Gas and Electric Company
4 (“LG&E” or “Company”) and Kentucky Utilities Company (“KU”) (collectively “the
5 Companies”). My business address is 220 West Main Street, Louisville, Kentucky,
6 40202. A complete statement of my education and work experience is attached to this
7 testimony as Appendix A.

8 **Q. Have you previously testified before this Commission?**

9 A. Yes. I have previously testified before this Commission in proceedings concerning
10 the Companies’ most recent rate cases, fuel adjustment clauses, and environmental
11 cost recovery (“ECR”) surcharge mechanisms.

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

13 A. The purpose of this proceeding is to review the past operation of LG&E’s
14 environmental surcharge during the six-month billing period ending October 31, 2012
15 (expense months of March 2012 through August 2012), and to determine whether the
16 surcharge amount collected during the period is just and reasonable.

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

18 A. The purpose of my testimony is to summarize the operation of LG&E’s
19 environmental surcharge during the billing period under review, demonstrate that the
20 amount collected during the period was just and reasonable, present and discuss
21 LG&E’s proposed adjustment to the Environmental Surcharge Revenue Requirement
22 based on the operation of the surcharge during the period and explain how the
23 environmental surcharge factors were calculated during the period under review.

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

3 A. LG&E billed an environmental surcharge to its customers from May 1, 2012 through
4 October 31, 2012. For purposes of the Commission's examination in this case, the
5 monthly LG&E environmental surcharges are considered as of the six-month billing
6 period ending October 31, 2012. In the six-month period under review in this
7 proceeding, LG&E calculated the environmental surcharge factors in accordance with
8 its tariff ECR, and the requirements of the Commission's previous orders concerning
9 LG&E's environmental surcharge. The calculations were made in accordance with
10 the Commission-approved monthly forms and filed with the Commission ten days
11 before the new monthly charge was billed by the Company.

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

14 A. The capital and operating costs included in the calculation of the environmental
15 surcharge factors for the billing period under review were the costs incurred each
16 month by LG&E from March 2012 through August 2012, as detailed in the
17 attachment in response to Question No. 2 of the Commission Staff's Request for
18 Information, incorporating all required revisions.

19 The monthly environmental surcharge factors applied during the billing period
20 under review were calculated consistent with the Commission's Orders in LG&E's
21 previous applications to assess or amend its environmental surcharge mechanism and
22 plan, as well as Orders issued in previous review cases. The monthly environmental

1 surcharge reports filed with the Commission during this time reflect the various
2 changes to the reporting forms ordered by the Commission from time to time.

3 **Q. Has the Commission recently approved changes to LG&E's ECR Compliance**
4 **Plan?**

5 A. Yes. In Case No. 2011-00162, the Commission approved LG&E's 2011 ECR
6 Compliance Plan that included two new projects and associated operation and
7 maintenance costs, and approved the reporting of operation and maintenance costs
8 associated with sorbent injection approved with the 2006 Plan for Mill Creek Units 3
9 and 4 and Trimble County Unit 1 as part of the 2011 Plan. Pursuant to the
10 Commission's December 15, 2011 Order approving the Settlement Agreement in
11 Case No. 2011-00162, LG&E began including the approved projects in the monthly
12 filing for the December 2011 expense month that was billed in February 2012 with
13 separate authorized rates of return for the Pre-2011 and 2011 ECR Plans. In addition,
14 the Commission approved the use of net (non-fuel) revenues to calculate the
15 jurisdictional revenue requirement for non-residential customers defined as Group 2
16 in the ECR tariff. The use of net revenues for Group 2 customers was implemented
17 in Case No. 2011-00232 as discussed below.

18 **Q. Has the Commission recently approved changes to the environmental surcharge**
19 **mechanism and the monthly ES Forms?**

20 A. Yes. In Case No. 2011-00232, LG&E's most recent ECR two-year review, the
21 Commission implemented the use of net revenues to calculate the jurisdictional
22 revenue requirement for non-residential customers defined as Group 2 in the ECR
23 tariff in conjunction with the ECR Roll-in, and revisions to the monthly reporting

1 forms to reflect the implementation of Group 1 and Group 2 billing factors. Pursuant
2 to the Commission's January 31, 2012 Order in that case, the changes were
3 implemented with the January 2012 expense month that was billed in March 2012.

4 **Q. Has the Commission recently approved changes to LG&E's ECR Compliance**
5 **Plan that are not included in the billing period under review?**

6 A. Yes. In Case No. 2012-00222, LG&E's most recent rate case, the Commission
7 approved the elimination of LG&E's 2005 and 2006 ECR Compliance Plans (with the
8 exception of Project 17 related to Emission Allowances) from the monthly
9 environmental surcharge filings and reset the return on equity to be used in the
10 monthly environmental surcharge filings. Pursuant to the Commission's December
11 20, 2012 Order in that case, the changes will be implemented with the January 2013
12 expense month that will be included in the next ECR six-month review. The
13 approved return on equity is used in this proceeding to establish the overall rate of
14 return on capital to be used to calculate the environmental surcharge as discussed
15 later in this testimony.

16 **Q. Are there any changes or adjustments in Rate Base from the originally filed**
17 **expense months?**

18 A. No. During the period under review, there were no changes to Rate Base from the
19 originally filed billing months as summarized in LG&E's response to the
20 Commission Staff's Request for Information, Question No. 1. In addition, there were
21 no changes identified as a result of preparing responses to the requests for
22 information in this review.

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

3 A. Yes. Adjustments to E(m) are necessary for compliance with the Commission's
4 Order in Case No. 2000-00386, to reflect the actual changes in the overall rate of
5 return on capitalization that is used in the determination of the return on
6 environmental rate base. Pursuant to the terms of the Settlement Agreement
7 approving the 2011 ECR Plan, LG&E calculated the short- and long-term debt rate
8 using average daily balances and daily interest rates in the calculation of the overall
9 rate of return true-up adjustment for the six-month billing period ending October 31,
10 2012. The details of and support for this calculation are shown in LG&E's response
11 to Question No. 1 of the Commission Staff's Request for Information.

12 **Q. Are there corrections to information provided in the monthly filings during the**
13 **billing period under review?**

14 A. No.

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

17 A. Yes. LG&E experienced a cumulative over-recovery of \$146,937 for the billing
18 period ending October 31, 2012. LG&E's response to Question No. 2 of the
19 Commission Staff's Request for Information shows the calculation of the cumulative
20 over-recovery. An adjustment to the revenue requirement is necessary to reconcile
21 the collection of past surcharge revenues with actual costs for the billing period under
22 review.

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

3 A. Yes. LG&E has identified the components that make up the net over-recovery during
4 the billing period under review. The components are (1) changes in overall rate of
5 return as previously discussed, and (2) the use of 12-month average revenues to
6 determine the billing factor. The details and support of the components that make up
7 the net over-recovery during the billing period under review are shown in LG&E's
8 response to Question No. 2 of the Commission Staff's Request for Information.

9 **Q. Please explain how the function of the ECR mechanism contributes to the net**
10 **over-recovery in the billing period under review.**

11 A. The use of 12-month average revenues to calculate the monthly billing factors and
12 then applying those same billing factors to the actual monthly revenues will result in
13 an over- or under-collection of ECR revenues. The table below shows a comparison
14 of the 12-month average revenues used in the monthly filings to determine the ECR
15 billing factors and the actual revenues to which the ECR billing factors were applied
16 in the billing month.

Expense Month	12-Month Average Revenues	Billing Month	Actual Revenues Subject to ECR Billing Factors
March 2012	\$ 60,162,728	May 2012	\$ 55,885,732
April 2012	60,309,429	June 2012	69,317,978
May 2012	60,596,825	July 2012	84,825,062
June 2012	60,611,056	August 2012	80,039,652
July 2012	61,382,454	September 2012	69,288,500
August 2012	60,889,595	October 2012	52,173,253

*The 12-month average revenues and the Actual Revenues subject to ECR Billing Factors reflect net revenues for Group 2.

17

1 Generally, an under-recovery will occur when actual revenues for the billing month
2 are less than the 12-month average revenues used for the expense month. Likewise,
3 an over-recovery will occur when actual revenues for the billing month are greater
4 than the 12-month average revenues used for the expense month.

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

7 A. LG&E is proposing that the net over-recovery be distributed in one month following
8 the Commission's Order in this proceeding. Specifically, LG&E recommends that
9 the Commission approve a decrease to the Environmental Surcharge Revenue
10 Requirement of \$146,937 for one month, in the second full billing month following
11 the Commission's Order in this proceeding. This method is consistent with the
12 method of implementing previous over- or under-recovery positions in prior ECR
13 review cases.

14 **Q. What is the bill impact on a residential customer for the proposed distribution of**
15 **the over-recovery?**

16 A. The inclusion of the distribution reflecting the over-recovery position in the
17 determination of the ECR billing factor will decrease the billing factor by
18 approximately 0.19%. For a residential customer using 1,026 kWh the impact of the
19 adjusted ECR billing factor would be a decrease of approximately \$0.19 for one
20 month (using rates and adjustment clause factors in effect for the January 2013 billing
21 month).

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

1 A. LG&E is recommending an overall rate of return on capital of 10.61%, including the
2 currently approved 10.25% return on equity and adjusted capitalization, to be used to
3 calculate the environmental surcharge. This is based on capitalization as of August
4 31, 2012 and the Commission's Order of December 20, 2012 in Case No. 2012-
5 00222. Please see the response and attachment to Commission Staff's Request for
6 Information Question No. 5 following this testimony.

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

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

9 a) The Commission should approve the proposed decrease to the Environmental
10 Surcharge Revenue Requirement of \$146,937 for one month in the second full
11 billing month following the Commission's Order in this proceeding;

12 b) The Commission should determine the environmental surcharge amount for
13 the six-month billing period ending October 31, 2012 to be just and
14 reasonable;

15 c) The Commission should approve the use of an overall rate of return on capital
16 of 10.61%, using a return on equity of 10.25%, beginning in the second full
17 billing month following the Commission's Order in this proceeding.

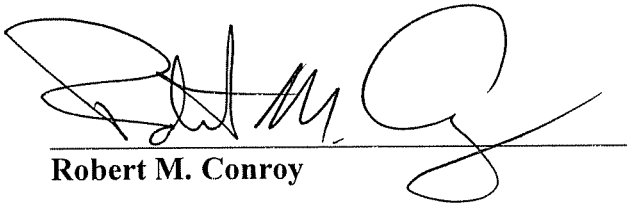
18 **Q. Does this conclude your testimony?**

19 A. Yes.

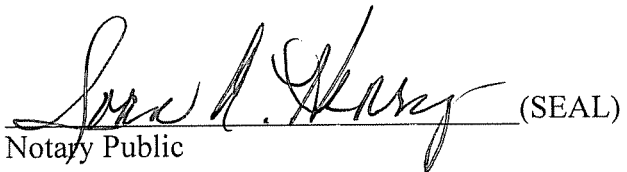
VERIFICATION

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 foregoing testimony, and that 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 30th day of January 2013.


Notary Public (SEAL)

My Commission Expires:

7/21/2015

APPENDIX A

Robert M. Conroy

Director - Rates
LG&E and LG&E Services Company
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 SIX-MONTH) 2012-00547
BILLING PERIOD ENDING OCTOBER 31, 2012)

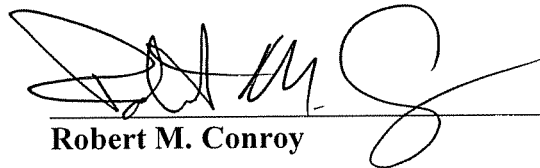
RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION IN
APPENDIX B OF COMMISSION'S ORDER
DATED JANUARY 2, 2013

FILED: January 30, 2013

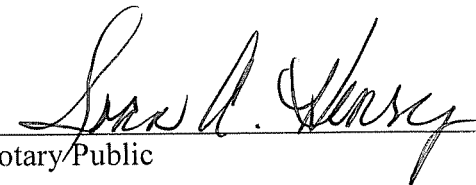
VERIFICATION

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 30th day of January 2013.

 (SEAL)
Notary Public

My Commission Expires:

7/21/2015

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00547

Question No. 1

Witness: Robert M. Conroy

Q-1. Concerning the rate of return on the four amendments to the environmental compliance plan, for the period under review, calculate any true-up adjustment needed to recognize changes in LG&E's cost of debt, preferred stock, accounts receivable financing (if applicable), or changes in LG&E's jurisdictional capital structure. Include all assumptions and other supporting documentation used to make this calculation. Any true-up adjustment is to be included in the determination of the over- or under-recovery of the surcharge for the corresponding billing period under review,

A-1. Please see the attachment.

LG&E calculated the true-up adjustment to recognize changes in the cost of debt and capital structure in two steps, shown on Pages 1 and 2 of the attachment to this response. Page 1 reflects the true-up required due to the changes between the Rate Base as filed and the Rate Base as Revised through the Monthly Filings. However, during the period under review there were no revisions to reflect. Page 2 represents the true-up in the Rate of Return as filed compared to the actual Rate of Return calculations. No further revisions to Rate Base were identified in preparation of this response.

Pages 3 and 4 provide the weighted average cost of capital for the Pre-2011 and 2011 Plans, respectively, for the period ending October 31, 2012. LG&E calculated the short- and long-term debt rates using average daily balances and daily interest rates pursuant to the Commission's Order in Case No. 2011-00162. The Pre-2011 and 2011 Plans are also shown separately to reflect the different rates of returns approved by the Commission in Case No. 2011-00162.

LG&E did not engage in accounts receivable financing or have any preferred stock outstanding during the period under review.

Louisville Gas & Electric Company
Overall Rate of Return True-up Adjustment - Revised Rate Base
Impact on Calculated E(m)

Attachment to Response to Question No. 1
Page 1 of 4
Conroy

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate Base as Filed	Rate Base As Revised	Change in Rate Base	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
					(5) - (4)	(3) * (6) / 12		(7) * (8)
Pre-2011 Plans								
May-12	Mar-12	10.82%	\$ 76,523,810	\$76,523,810	\$ -	\$ -	89.22%	\$ -
Jun-12	Apr-12	10.82%	76,563,034	76,563,034	-	-	86.27%	-
Jul-12	May-12	10.82%	76,671,169	76,671,169	-	-	92.09%	-
Aug-12	Jun-12	10.82%	77,154,218	77,154,218	-	-	97.04%	-
Sep-12	Jul-12	10.82%	77,628,085	77,628,085	-	-	96.37%	-
Oct-12	Aug-12	10.82%	77,775,220	77,775,220	-	-	96.86%	-
					\$ -	\$ -		\$ -
2011 Plan								
May-12	Mar-12	10.37%	\$ 1,968,363	1,968,363	-	-	89.22%	-
Jun-12	Apr-12	10.37%	2,399,970	2,399,970	-	-	86.27%	-
Jul-12	May-12	10.37%	5,268,700	5,268,700	-	-	92.09%	-
Aug-12	Jun-12	10.37%	8,761,465	8,761,465	-	-	97.04%	-
Sep-12	Jul-12	10.37%	24,869,986	24,869,986	-	-	96.37%	-
Oct-12	Aug-12	10.37%	28,786,440	28,786,440	-	-	96.86%	-
					\$ -	\$ -		\$ -
Cumulative Impact of Changes in Rate Base						\$ -		\$ -

Notes: Pursuant to the Commission's Order dated December 15, 2011 approving the Settlement Agreement in Case No. 2011-00162, LG&E calculated the short- and long-term debt using average daily balances and daily interest rates in connection with the ECR true-up calculation shown above and used a separate rate of return for the Pre-2011 and 2011 ECR Plans beginning with the December 2011 expense month.

Louisville Gas & Electric Company
Overall Rate of Return True-up Adjustment - Revised Rate of Return
Impact on Calculated E(m)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Billing Month	Expense Month	Rate of Return as Filed	Rate of Return as Revised	Change in Rate of Return	Rate Base as Revised	True-up Adjustment	Jurisdictional Allocation, ES Form 1.10	Jurisdictional True up Adjustment
				(4) - (3)		(5) * (6) / 12		(7) * (8)
Pre-2011 Plans								
May-12	Mar-12	10.82%	10.94%	0.12%	\$ 76,523,810	7,652	89.22%	6,827
Jun-12	Apr-12	10.82%	10.94%	0.12%	76,563,034	7,656	86.27%	6,605
Jul-12	May-12	10.82%	10.94%	0.12%	76,671,169	7,667	92.09%	7,061
Aug-12	Jun-12	10.82%	10.94%	0.12%	77,154,218	7,715	97.04%	7,487
Sep-12	Jul-12	10.82%	10.94%	0.12%	77,628,085	7,763	96.37%	7,481
Oct-12	Aug-12	10.82%	10.94%	0.12%	77,775,220	7,778	96.86%	7,533
						46,232		42,995
2011 Plan								
May-12	Mar-12	10.37%	10.48%	0.11%	1,968,363	180	89.22%	161
Jun-12	Apr-12	10.37%	10.48%	0.11%	2,399,970	220	86.27%	190
Jul-12	May-12	10.37%	10.48%	0.11%	5,268,700	483	92.09%	445
Aug-12	Jun-12	10.37%	10.48%	0.11%	8,761,465	803	97.04%	779
Sep-12	Jul-12	10.37%	10.48%	0.11%	24,869,986	2,280	96.37%	2,197
Oct-12	Aug-12	10.37%	10.48%	0.11%	28,786,440	2,639	96.86%	2,556
						6,605		6,328
Cumulative Impact of Changes in Rate of Return						\$ 52,837		\$ 49,322

Notes: Pursuant to the Commission's Order dated December 15, 2011 approving the Settlement Agreement in Case No. 2011-00162, LG&E calculated the short- and long-term debt using average daily balances and daily interest rates in connection with the ECR true-up calculation shown above and used a separate rate of return for the Pre-2011 and 2011 ECR Plans beginning with the December 2011 expense month.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Adjusted Electric Rate of Return on Common Equity - 2005-2010 ECR Plans
As of October 31, 2012**

	Per Books 10-31-12 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 4 - Col 5) (5)	Adjusted Electric Capitalization (Col 4 + Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
ELECTRIC									
1. Short Term Debt	\$ - (c)	0.00%	78.980%	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,105,810,455 (c)	43.64%	78.980%	873,369,097	(36,252,777)	837,116,320	43.64%	3.73%	1.63%
3. Common Equity	1,427,896,912	56.36%	78.980%	1,127,752,981	(46,819,582)	1,080,933,399	56.36%	10.63%	5.99%
4. Total Capitalization	<u>\$ 2,533,707,367</u>	<u>100.000%</u>		<u>\$ 2,001,122,078</u>	<u>\$ (83,072,359)</u>	<u>\$ 1,918,049,719</u>	<u>100.000%</u>		<u>7.62%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])									<u>10.94%</u>

	Electric Capitalization (Col 4) (10)	Capital Structure (11)	Trimble County Inventories (a) (Col 11 x Col 12 Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13 Line 4) (13)	JDIC (Col 11 x Col 14 Line 4) (14)	Environmental Compliance Rate Base (Col 11 x Col 15 Line 4) (15)	DSM Rate Base (Col 11 x Col 16 Line 4) (16)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 17 Line 4) (17)	Total Adjustments To Capital (Sum of Col 12 - Col 17) (18)
ELECTRIC									
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2. Long Term Debt	873,369,097	43.64%	(1,991,927)	(490,083)	7,606,745	(51,136,245)	(105,254)	9,863,987	(36,252,777)
3. Common Equity	1,127,752,981	56.36%	(2,572,525)	(632,930)	9,823,926	(66,041,219)	(135,933)	12,739,099	(46,819,582)
4. Total Capitalization	<u>\$ 2,001,122,078</u>	<u>100.000%</u>	<u>\$ (4,564,452)</u>	<u>\$ (1,123,013)</u>	<u>\$ 17,430,671</u>	<u>\$ (117,177,464)</u>	<u>\$ (241,187)</u>	<u>\$ 22,603,086</u>	<u>\$ (83,072,359)</u>

(a) Trimble County Inventories	As of October 31, 2012
Materials and Supplies	\$ 6,824,248
Stores Expense	1,274,132
Coal	9,788,400
Limestone	208,079
Fuel Oil	162,022
Emission Allowances	925
Total Trimble County Inventories	<u>\$ 18,257,806</u>
Multiplied by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	<u>\$ 4,564,452</u>

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.

(c) Average daily balance.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Adjusted Electric Rate of Return on Common Equity - 2011 ECR Plan
As of October 31, 2012**

	Per Books 10-31-12 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 18) (5)	Adjusted Electric Capitalization (Col 4 + Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
ELECTRIC									
1. Short Term Debt	\$ - (c)	0.00%	78.980%	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,105,810,455 (c)	43.64%	78.980%	873,369,097	(36,252,777)	837,116,320	43.64%	3.73%	1.63%
3. Common Equity	1,427,896,912	56.36%	78.980%	1,127,752,981	(46,819,582)	1,080,933,399	56.36%	10.10%	5.69%
4. Total Capitalization	<u>\$ 2,533,707,367</u>	<u>100.000%</u>		<u>\$ 2,001,122,078</u>	<u>\$ (83,072,359)</u>	<u>\$ 1,918,049,719</u>	<u>100.000%</u>		<u>7.32%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect (ROR + (ROR - DR) x [TR / (1 - TR)])									<u>10.48%</u>

	Electric Capitalization (Col 4) (10)	Capital Structure (11)	Trimble County Inventories (a) (Col 11 x Col 12 Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13 Line 4) (13)	JDIC (Col 11 x Col 14 Line 4) (14)	Environmental Compliance Rate Base (Col 11 x Col 15 Line 4) (15)	DSM Rate Base (Col 11 x Col 16 Line 4) (16)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 17 Line 4) (17)	Total Adjustments To Capital (Sum of Col 12 - Col 17) (18)
ELECTRIC									
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2. Long Term Debt	873,369,097	43.64%	(1,991,927)	(490,083)	7,606,745	(51,136,245)	(105,254)	9,863,987	(36,252,777)
3. Common Equity	1,127,752,981	56.36%	(2,572,525)	(632,930)	9,823,926	(66,041,219)	(135,933)	12,739,099	(46,819,582)
4. Total Capitalization	<u>\$ 2,001,122,078</u>	<u>100.000%</u>	<u>\$ (4,564,452)</u>	<u>\$ (1,123,013)</u>	<u>\$ 17,430,671</u>	<u>\$ (117,177,464)</u>	<u>\$ (241,187)</u>	<u>\$ 22,603,086</u>	<u>\$ (83,072,359)</u>

(a) Trimble County Inventories	As of October 31, 2012	
Materials and Supplies		\$ 6,824,248
Stores Expense		1,274,132
Coal		9,788,400
Limestone		208,079
Fuel Oil		162,022
Emission Allowances		925
Total Trimble County Inventories		<u>\$ 18,257,806</u>
Multiplied by Disallowed Portion		25.00%
Trimble County Inv. Disallowed		<u>\$ 4,564,452</u>

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.

(c) Average daily balance.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00547

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 expense months for the two expense months subsequent to the billing period in order to show the over- and under-recovery adjustments for the months included for 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 and cumulative components which make up the net over-recovery.

For the period under review, LG&E experienced a net over-recovery of \$146,937.

Louisville Gas & Electric Company
 Calculation of E(m) and Jurisdictional Surcharge Billing Factor
 Summary Schedule for Expense Months March 2012 through August 2012

Attachment to Response to Question No. 2
 Page 1 of 3
 Conroy

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Expense Month	Rate Base as Revised	Monthly Rate Base as Revised	Rate of Return as Revised	Operating Expenses (net of allowance proceeds)	Total E(m)	Jurisdictional Allocation Ratio	Retail E(m)	Comments: As Revised in This Review
	ES Form 2.00	(2) / 12		ES Form 2.00	(3) * (4) + (5)	ES Form 1.10	(6) * (7)	
Pre-2011 Plans								
Mar-12	\$ 76,523,810	6,376,984	10.94%	\$ 568,926	1,266,568	89.22%	1,130,032	
Apr-12	76,563,034	6,380,253	10.94%	325,222	1,023,222	86.27%	882,733	
May-12	76,671,169	6,389,264	10.94%	382,863	1,081,849	92.09%	996,274	
Jun-12	77,154,218	6,429,518	10.94%	376,266	1,079,655	97.04%	1,047,697	
Jul-12	77,628,085	6,469,007	10.94%	425,746	1,133,455	96.37%	1,092,311	
Aug-12	77,775,220	6,481,268	10.94%	612,263	1,321,314	96.86%	1,279,825	
2011 Plan								
Mar-12	\$ 1,968,363	164,030	10.48%	\$ 52,077	69,267	89.22%	61,800	
Apr-12	2,399,970	199,998	10.48%	105,079	126,039	86.27%	108,734	
May-12	5,268,700	439,058	10.48%	146,819	192,832	92.09%	177,579	
Jun-12	8,761,465	730,122	10.48%	82,005	158,522	97.04%	153,830	
Jul-12	24,869,986	2,072,499	10.48%	72,340	289,538	96.37%	279,028	
Aug-12	28,786,440	2,398,870	10.48%	103,011	354,413	96.86%	343,284	

Notes: In Case No. 2011-00162, the Commission approved the 2011 ECR Plan and the use of separate rates of return for the Pre-2011 and 2011 ECR Plans beginning with the December 2011 expense month.

Louisville Gas & Electric Company
 Calculation of E(m) and Jurisdictional Surcharge Billing Factor
 Summary Schedule for Expense Months March 2012 through August 2012

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Expense Month	Retail E(m) for All ECR Plans	Adjustment to Retail E(m) for Over/Under-Collection	Retail E(m) including all Adjustments to be billed as ECR	Monthly Billing Factor (Group 1)	Monthly Billing Factor (Group 2)	ECR Revenue Recovered Through Base Rates	Billing Period	ECR Billing Factor Revenues (Group 1)	ECR Billing Factor Revenues (Group 2)	Combined Total Over/(Under) Recovery
	Page 1 Col (8)		(2) + (3)	As Filed	As Filed	As Filed		As Filed	As Filed	(7) + (9) + (10) - (4)
Mar-12	\$ 1,191,832	\$ -	\$ 1,191,832	0.61%	0.93%	\$ 724,414	May-12	\$ 174,319	\$ 253,839	\$ (39,260)
Apr-12	991,467	-	991,467	0.37%	0.57%	704,561	Jun-12	135,410	201,644	\$ 50,148
May-12	1,173,854	-	1,173,854	0.58%	0.89%	727,258	Jul-12	285,991	306,547	\$ 145,942
Jun-12	1,201,527	-	1,201,527	0.40%	0.62%	888,647	Aug-12	182,511	220,802	\$ 90,433
Jul-12	1,371,339	-	1,371,339	0.37%	0.58%	1,073,324	Sep-12	140,160	171,589	\$ 13,736
Aug-12	1,623,109	-	1,623,109	0.76%	1.19%	1,027,408	Oct-12	187,221	294,418	\$ (114,062)
			\$ 7,553,128			\$ 5,145,612		\$ 1,105,613	\$ 1,448,840	\$ 146,937
Net Over-Recovery to be returned to customers for the 6-month billing period ending October 31, 2012:										<u>\$ 146,937</u>

Note: In Case No. 2011-00162, the Commission approved the 2011 ECR Plan and the use of separate rates of return for the Pre-2011 and 2011 ECR Plans beginning with the December 2011 expense month.

Louisville Gas & Electric Company
Reconciliation of Combined Over/(Under) Recovery
Summary Schedule for Expense Months March 2012 through August 2012

(1) Billing Month	(2) Expense Month	(3) Rate of Return as Filed	(4) Rate of Return as Revised	(5) Change in Rate of Return (4) - (3)	(6) Rate Base as Revised	(7) Impact of change in Rate of Return (5) * (6) / 12	(8) Jurisdictional Allocation, ES Form 1 10	(9) Jurisdictional Impact (7) * (8)
Pre-2011 Plans (Note 1)								
May-12	Mar-12	10.82%	10.94%	0.12%	\$ 76,523,810	7,652	89.22%	6,827
Jun-12	Apr-12	10.82%	10.94%	0.12%	76,563,034	7,656	86.27%	6,605
Jul-12	May-12	10.82%	10.94%	0.12%	76,671,169	7,667	92.09%	7,061
Aug-12	Jun-12	10.82%	10.94%	0.12%	77,154,218	7,715	97.04%	7,487
Sep-12	Jul-12	10.82%	10.94%	0.12%	77,628,085	7,763	96.37%	7,481
Oct-12	Aug-12	10.82%	10.94%	0.12%	77,775,220	7,778	96.86%	7,533
						46,232	42,995	
2011 Plan (Note 1)								
May-12	Mar-12	10.37%	10.48%	0.11%	\$ 1,968,363	180	89.22%	161
Jun-12	Apr-12	10.37%	10.48%	0.11%	2,399,970	220	86.27%	190
Jul-12	May-12	10.37%	10.48%	0.11%	5,268,700	483	92.09%	445
Aug-12	Jun-12	10.37%	10.48%	0.11%	8,761,465	803	97.04%	779
Sep-12	Jul-12	10.37%	10.48%	0.11%	24,869,986	2,280	96.37%	2,197
Oct-12	Aug-12	10.37%	10.48%	0.11%	28,786,440	2,639	96.86%	2,556
						6,605	6,328	
Cumulative Impact of Changes in Rate of Return						\$ 52,837	\$ 49,322	

(1) Billing Month	(2) Expense Month	(3) Combined Total Over/(Under) Recovery (Q2, pg 2, Col 11)	(4) ROR Trueup (Pre-2011 Plans)	(5) ROR Trueup (2011 Plan)	(6) Use of 12 Month Average Revenues
May-12	Mar-12	\$ (39,260)	\$ (6,827)	\$ (161)	\$ (32,272)
Jun-12	Apr-12	50,148	(6,605)	(190)	56,943
Jul-12	May-12	145,942	(7,061)	(445)	153,448
Aug-12	Jun-12	90,433	(7,487)	(779)	98,699
Sep-12	Jul-12	13,736	(7,481)	(2,197)	23,414
Oct-12	Aug-12	(114,062)	(7,533)	(2,556)	(103,973)
Total Over-Recovery for 6-month billing period		146,937	(42,995)	(6,328)	196,259

OVER/(UNDER) RECONCILIATION	
Combined Over/(Under) Recovery	146,937
Due to Change in ROR (Pre-2011 Plans)	(42,995)
Due to Change in ROR (2011 Plan)	(6,328)
Use of 12 Month Average Revenues	196,259
Subtotal	146,937
Unreconciled Difference	-

NOTE 1: Pursuant to the KPSC's Order dated December 15, 2011 approving the Settlement Agreement in Case No. 2011-00162, the 2011 ECR Plan, LG&E calculated the short- and long-term debt rates using average daily balances and daily interest rates in connection with the ECR true-up calculation shown above and used a separate rate of return for the Pre-2011 and 2011 Plans beginning with the December 2011 expense month.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00547

Question No. 3

Witness: Robert M. Conroy

- Q-3 Provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts LG&E has reported during each billing period under review for Pollution Control Deferred Income Taxes.
- A-3. LG&E calculates Deferred Income Taxes as the taxable portion of the difference between book depreciation, using straight line depreciation, and tax depreciation, generally using 20 year MACRS accelerated depreciation or 5 or 7 year rapid amortization. Accelerated depreciation results in a temporary tax savings to the Company and the Accumulated Deferred Tax balance reflects the value of those temporary savings as a reduction to environmental rate base.

See the attachment for the calculation of Deferred Income Taxes and the balance of Accumulated Deferred Income Taxes reported each month of the period under review.

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 11 -- Special Waste Landfill Expansion - MC

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							638,511	
Mar-12	4,818,430	10,067	16,995	6,928	38.9000%	2,695	641,206	275,368
Apr-12	4,818,430	10,067	16,995	6,928	38.9000%	2,695	643,900	275,368
May-12	4,818,430	10,067	16,995	6,928	38.9000%	2,695	646,595	275,368
Jun-12	4,818,430	10,067	16,995	6,928	38.9000%	2,695	649,290	275,368
Jul-12	4,818,430	10,067	16,995	6,928	38.9000%	2,695	651,985	275,368
Aug-12	4,818,430	10,067	16,995	6,928	38.9000%	2,695	654,679	275,368

Due to Bonus Depreciation for tax purposes, taken on certain components of Project 11, the deferred tax calculation for this project is computed separately for Federal and State purposes. Specifically, for Federal taxes, certain assets placed in service in 2011 received 50% bonus depreciation, which reduces the Federal tax basis to 50% of the plant balance. A sample calculation of deferred taxes for March 2012 is shown below:

Federal Basis	Book Depr.	Federal Tax Dep.	Fed. Difference	Fed Tax Rate	Fed Def Tax
2,285,981	6,158	8,603	2,445	35.0000%	856
1,267,725	3,909	7,626	3,717	35.0000%	1,301
1,267,725		-	-	35.0000%	-
State Basis	Book Depr.	State Tax Dep.	St. Difference	State Tax Rate	St Def Tax
2,282,981	6,158	8,603	2,445	6.0000%	147
2,535,449	3,909	15,253	11,344	6.0000%	681
					St. Offset for Fed Taxes not Owed (290)
					Total Deferred Tax 2,695

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 12 – Special Waste Landfill Expansion - CR

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							357,292	
Mar-12	5,595,065	9,348	24,631	15,283	38.9000%	5,945	363,237	536
Apr-12	5,595,065	10,300	24,631	14,331	38.9000%	5,575	368,813	536
May-12	5,595,065	10,300	24,636	14,336	38.9000%	5,577	374,390	536
Jun-12	5,595,065	10,300	24,636	14,336	38.9000%	5,577	379,968	536
Jul-12	5,595,065	10,300	24,475	14,175	38.9000%	5,514	385,482	536
Aug-12	5,595,065	10,300	24,603	14,303	38.9000%	5,564	391,046	536

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 13 – Scrubber Refurbishment - TC1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							111,568	
Mar-12	850,100	2,564	7,591	5,027	38.9000%	1,956	113,524	73,550
Apr-12	850,100	2,564	7,591	5,027	38.9000%	1,956	115,480	73,550
May-12	850,100	2,564	7,591	5,027	38.9000%	1,956	117,435	73,550
Jun-12	850,100	2,564	7,591	5,027	38.9000%	1,956	119,391	73,550
Jul-12	850,100	2,564	7,591	5,027	38.9000%	1,956	121,346	73,550
Aug-12	850,100	2,564	7,591	5,027	38.9000%	1,956	123,302	73,550

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 14 -- Scrubber Refurbishment - CR6

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							20,461	
Mar-12	308,507	1,147	1,384	237	38.9000%	92	20,553	9,075
Apr-12	308,507	1,147	1,384	237	38.9000%	92	20,646	9,075
May-12	308,507	1,147	1,384	237	38.9000%	92	20,738	9,075
Jun-12	308,507	1,147	1,384	237	38.9000%	92	20,830	9,075
Jul-12	308,507	1,147	1,384	237	38.9000%	92	20,923	9,075
Aug-12	308,507	1,147	1,384	237	38.9000%	92	21,015	9,075

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 15 – Scrubber Refurbishment - CR5

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							-	
Mar-12	-	-	-	-	38.9000%	-	-	-
Apr-12	-	-	-	-	38.9000%	-	-	-
May-12	-	-	-	-	38.9000%	-	-	-
Jun-12	-	-	-	-	38.9000%	-	-	-
Jul-12	-	-	-	-	38.9000%	-	-	-
Aug-12	-	-	-	-	38.9000%	-	-	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2005 - Plan

Project 16 -- Scrubber Improvements - TC1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							1,316,239	
Mar-12	7,361,077	22,206	64,051	41,845	38.9000%	16,278	1,332,517	26,166
Apr-12	7,361,077	22,206	64,051	41,845	38.9000%	16,278	1,348,794	26,166
May-12	7,361,077	22,206	64,051	41,845	38.9000%	16,278	1,365,072	26,166
Jun-12	7,361,077	22,206	64,051	41,845	38.9000%	16,278	1,381,350	26,166
Jul-12	7,361,077	22,206	64,051	41,845	38.9000%	16,278	1,397,627	26,166
Aug-12	7,361,077	22,206	64,051	41,845	38.9000%	16,278	1,413,905	26,166

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 18 -- Trimble County 2 AQCS

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							862,387	
Mar-12	44,236,424	153,863	344,626	190,763	38.9000%	74,207	936,594	-
Apr-12	44,236,424	155,174	345,511	190,337	38.9000%	74,041	1,010,635	-
May-12	44,236,424	155,174	345,511	190,337	38.9000%	74,041	1,084,676	-
Jun-12	44,236,424	155,174	345,511	190,337	38.9000%	74,041	1,158,717	-
Jul-12	44,236,424	155,174	345,511	190,337	38.9000%	74,041	1,232,759	-
Aug-12	44,236,424	155,174	345,511	190,337	38.9000%	74,041	1,306,800	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 19 - Sorbent Injection, Mill Creek & Trimble 1

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							363,878	
Mar-12	3,440,076	9,777	31,175	21,398	38.9000%	8,324	372,202	-
Apr-12	3,440,076	9,777	31,175	21,398	38.9000%	8,324	380,526	-
May-12	3,440,076	9,777	31,175	21,398	38.9000%	8,324	388,850	-
Jun-12	3,440,076	9,777	31,175	21,398	38.9000%	8,324	397,174	-
Jul-12	3,440,076	9,777	31,175	21,398	38.9000%	8,324	405,498	-
Aug-12	3,440,076	9,777	31,175	21,398	38.9000%	8,324	413,822	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 20 - Mercury Monitors, all plants

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							68,643	
Mar-12	2,050,346	8,867	11,563	2,696	38.9000%	1,049	69,692	-
Apr-12	2,050,346	8,867	11,563	2,696	38.9000%	1,049	70,741	-
May-12	2,050,346	8,867	11,563	2,696	38.9000%	1,049	71,790	-
Jun-12	2,050,346	8,867	11,563	2,696	38.9000%	1,049	72,839	-
Jul-12	2,050,346	8,867	11,563	2,696	38.9000%	1,049	73,888	-
Aug-12	2,050,346	8,867	11,563	2,696	38.9000%	1,049	74,937	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2006 - Plan

Project 21 -- Particulate Monitors, Mill Creek

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							79,952	
Mar-12	397,151	1,361	1,255	(106)	38.9000%	(41)	79,911	-
Apr-12	397,151	1,361	1,255	(106)	38.9000%	(41)	79,870	-
May-12	397,151	1,361	1,255	(106)	38.9000%	(41)	79,829	-
Jun-12	397,151	1,361	1,255	(106)	38.9000%	(41)	79,788	-
Jul-12	397,151	1,361	1,255	(106)	38.9000%	(41)	79,747	-
Aug-12	397,151	1,361	1,255	(106)	38.9000%	(41)	79,706	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2009 - Plan

Project 23 - Trimble County Ash Treatment Basis (BAP/GSP)

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							164,986	
Mar-12	9,594,347	20,438	57,718	37,280	38.9000%	14,502	179,488	-
Apr-12	9,594,347	20,438	57,718	37,280	38.9000%	14,502	193,990	-
May-12	9,594,347	20,438	57,718	37,280	38.9000%	14,502	208,492	-
Jun-12	9,594,347	20,438	57,718	37,280	38.9000%	14,502	222,994	-
Jul-12	9,594,347	20,438	57,718	37,280	38.9000%	14,502	237,495	-
Aug-12	9,594,347	20,438	57,718	37,280	38.9000%	14,502	251,997	-

**Louisville Gas and Electric Company
Deferred Tax Calculations
Environmental Compliance Plans, by Approved Project**

2011 - Plan

Project 26 - Mill Creek Station Air Compliance

Month	Plant Balance	Book Depreciation	Tax Depreciation	Temporary Difference	Income Tax Rate	Deferred Tax	Accumulated Deferred Taxes	Deferred Taxes on Retirements
Beg Balance							-	
Mar-12	-	-	-	-	38.9000%	-	-	-
Apr-12	-	-	-	-	38.9000%	-	-	-
May-12	-	-	-	-	38.9000%	-	-	-
Jun-12	-	-	-	-	38.9000%	-	-	-
Jul-12	1,965,028	3,152	154,417	151,265	38.9000%	58,842	58,842	-
Aug-12	1,965,028	6,304	154,417	148,113	38.9000%	57,616	116,458	-

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013

Case No. 2012-00547

Question No. 4

Witness: Robert M. Conroy

- Q-4. Refer to ES Form 2.50, Pollution Control - Operations & Maintenance Expenses, for the March 2012 through August 2012 expense months. For each expense account number listed on this schedule, explain the reason(s) for any change in the expense levels from month to month if that change is greater than plus or minus 10 percent.
- A-4. Attached please find a schedule showing the changes in the operations and maintenance expense accounts for March 2012 through August 2012 expense months. The changes in the expense levels are reasonable and generally occurred as a part of routine plant operations and maintenance or normal annual testing expenses.

2005 Plan

Fluctuations in the scrubber operation expenses, accounts 502006 and 502056, are the result of regular operation of the Trimble County Unit 1 ("TC1") FGD. These are variable production expenses and will fluctuate with generation, coal quality and the SO₂ removal rate. The significant variance in August is due to the correction of a billing error that occurred March-July 2012; \$108K.

2006 Plan

Fluctuations in sorbent injection operation expenses, accounts 506109 and 506159, are the result of on-going system operation of the Trimble County Unit 2 ("TC2") sorbent injection system.

Fluctuations in sorbent injection reactant are the result of normal operation of the TC2 sorbent injection system. The variable material, hydrated lime, will fluctuate with stack opacity. In general, warmer temperatures and increased sunlight exacerbates the issue remediated by the hydrated lime.

Fluctuations in sorbent injection system maintenance expenses, accounts 512102 and 512152, are the result of normal system maintenance.

Fluctuations in mercury monitor operation expenses, accounts 506110 and 506150, are the result of normal system operation.

Fluctuations in the scrubber maintenance expenses, accounts 512005 and 512055, are the result of normal system maintenance on TC2. The increases in April and June 2012 reflect maintenance performed during a maintenance outage.

Monthly variances in the NOx operation expenses, accounts 506104, 506154, 506105 and 506155, reflect normal and expected SCR operations of TC2. The variances for accounts 506104 and 506154 are driven by the purchase and delivery timing of the raw consumable material as well as variations in generation and coal quality. TC2 was offline April-May 2012 for a maintenance outage.

Fluctuations in the precipitator operation expenses, accounts 506001 and 506051, are the result of normal system operation of TC2.

Expenses for activated carbon, accounts 506111 and 506151, are the result of regular operation of the TC2 baghouse for the removal of mercury. This is a variable production expense and will fluctuate with generation, coal quality and flue gas chemistry. The unit was offline April-May 2012 for a maintenance outage.

Fluctuations in the precipitator maintenance expenses, accounts 512011 and 512051, are the result of normal system maintenance on TC2.

Please note that the sorbent injections O&M from the 2006 plan, beginning December 2011, is now reflected in the 2011 Plan for all units except TC2, which will continue to be recovered through the 2006 plan.

2011 Plan

Fluctuations in sorbent injection operation expenses, account 506159, are the result of ongoing system operation of the TC1 sorbent injection system.

Fluctuations in sorbent injection reactant are the result of normal operation of the TC1 sorbent injection system. The variable material, hydrated lime, will fluctuate with stack opacity. In general, warmer temperatures and increased sunlight exacerbates the issue remediated by the hydrated lime.

Fluctuations in sorbent infection system maintenance expenses, accounts 512102 and 512152, are the result of normal maintenance of the TC1 sorbent injection system.

**LOUISVILLE GAS AND ELECTRIC COMPANY
ENVIRONMENTAL SURCHARGE REPORT**

Pollution Control - Operations & Maintenance Expenses

O&M Expense Account	Mar-12	Apr-12	% Change from Prior Period	May-12	% Change from Prior Period	Jun-12	% Change from Prior Period	Jul-12	% Change from Prior Period	Aug-12	% Change from Prior Period
2005 Plan											
502006/502056 Scrubber Operations	34,405.60	44,731.58	30%	86,331.01	93%	62,025.50	-28%	59,177.74	-5%	205,303.41	247%
512005/512055 Scrubber Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
501201 Ashpond Dredging Expense	-	-	0%	-	0%	-	0%	-	0%	-	0%
Total 2005 Plan O&M Expenses	34,405.60	44,731.58	30%	86,331.01	93%	62,025.50	-28%	59,177.74	-5%	205,303.41	247%
2006 Plan											
506109/506159 Sorbent Injection Operation	1,916.85	1,386.63	-28%	1,947.22	40%	2,076.84	7%	4,150.21	100%	2,946.52	-29%
506152 Sorbent Reactant - Reagent Only	7,857.61	-	-100%	-	0%	14,811.05	100%	12,971.16	-12%	20,221.79	56%
512102/512152 Sorbent Injection Maintenance	189.49	1,719.06	100%	988.07	-43%	561.44	-43%	191.30	-66%	709.34	271%
506110/506150 Mercury Monitors Operation	4,932.12	1,306.13	-74%	1,212.96	-7%	5,146.45	324%	(1,840.33)	-136%	1,227.18	167%
512103/512153 Mercury Monitors Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
502006/502056 Scrubber Operations	10,360.07	-	-100%	-	0%	15,130.07	100%	20,948.60	38%	45,520.68	117%
512005/512055 Scrubber Maintenance	(905.47)	28,024.99	3195%	8,522.54	-70%	10,279.18	21%	6,330.17	-38%	7,151.62	13%
506104/506154 NOx Operation -- Consumables	12,647.38	-	-100%	-	0%	14,870.94	100%	28,827.04	94%	39,560.86	37%
506105/506155 NOx Operation -- Labor and Other	847.93	1,061.51	25%	830.25	-22%	1,265.46	52%	1,033.42	-18%	1,212.67	17%
512101/512151 NOx Maintenance	910.19	892.94	-2%	1,966.72	120%	621.04	-68%	486.97	-22%	437.01	-10%
506001/506051 Precipitator Operation	2,567.54	1,760.46	-31%	1,786.49	1%	1,405.05	-21%	1,946.88	39%	2,212.64	14%
506111/506151 Activated Carbon	26,475.36	-	-100%	5,163.34	100%	-	-100%	36,117.48	100%	35,831.73	-1%
512011/512051 Precipitator Maintenance	6,540.78	10,997.17	68%	40,148.55	265%	8,745.80	-78%	2,142.70	-76%	3,132.62	46%
Total 2006 Plan O&M Expenses	74,339.85	47,148.89	-37%	62,566.14	33%	74,913.32	20%	113,305.60	51%	160,164.66	41%
2009 Plan											
502013 Landfill Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512105 Landfill Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
Adjustment for CCP Disposal in Base Rates (ES Form 2.51)	-	-	0%	-	0%	-	0%	-	0%	-	0%
Total 2009 Plan O&M Expenses	-	-	0%	-	0%	-	0%	-	0%	-	0%
2011 Plan											
502056 Scrubber Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512055 Scrubber Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
506159 Sorbent Injection Operation	8,748.21	6,431.85	-26%	10,245.57	59%	7,858.43	-23%	18,522.42	136%	13,178.09	-29%
506152 Sorbent Reactant - Reagent Only	41,895.43	98,178.80	134%	136,130.17	39%	73,659.62	-46%	45,217.87	-39%	79,015.89	75%
512152 Sorbent Injection Maintenance	1,298.71	333.44	-74%	307.94	-8%	351.92	14%	260.48	-26%	702.73	170%
506156 Baghouse Operations	-	-	0%	-	0%	-	0%	-	0%	-	0%
512156 Baghouse Maintenance	-	-	0%	-	0%	-	0%	-	0%	-	0%
506151 Activated Carbon	-	-	0%	-	0%	-	0%	-	0%	-	0%
Adjustment for Base Rates Baseline Amounts	-	-	0%	-	0%	-	0%	-	0%	-	0%
Total 2011 Plan O&M Expenses	51,942.35	104,944.09	-102%	146,683.68	40%	81,869.97	-44%	64,000.77	-22%	92,896.71	45%

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00547

Question No. 5

Witness: Robert M. Conroy

- Q-5. In Case No. 2000-00386, the Commission ordered that LG&E's cost of debt and preferred stock would be reviewed and re-established during the six-month review case. Provide the following information as of August 31, 2012:
- a. The outstanding balances for long-term debt, short-term debt, preferred stock, and common equity. Provide this information on total company and Kentucky jurisdictional bases.
 - b. The blended interest rates for long-term debt, short-term debt, and preferred stock. Include all supporting calculations showing how these blended interest rates were determined. If applicable, provide the blended interest rates on total company and Kentucky jurisdictional bases. For each outstanding debt listed, indicate whether the interest rate is fixed or variable.
 - c. LG&E's calculation of its weighted average cost of capital for environmental surcharge purposes.
- A-5.
- a. Please see the attachment. There was no preferred stock outstanding as of August 31, 2012, therefore it is not listed in the attached schedule.
 - b. Please see the attachment. There was no preferred stock outstanding as of August 31, 2012, therefore it is not listed in the attached schedule.
 - c. Please see the attachment. LG&E is utilizing a return on equity of 10.25% as agreed to for the Pre-2011 and 2011 ECR Plans and approved by the Commission in its December 20, 2012 Order in Case No. 2012-00222.

LOUISVILLE GAS AND ELECTRIC COMPANY

**Adjusted Electric Rate of Return on Common Equity
As of August 31, 2012**

	Per Books 08-31-12 (1)	Capital Structure (2)	Electric Rate Base Percentage (3)	Electric Capitalization (Col 1 x Col 3) (4)	Adjustments to Capitalization (Col 17) (5)	Adjusted Electric Capitalization (Col 4 + Col 5) (6)	Adjusted Capital Structure (7)	Annual Cost Rate (8)	Cost of Capital (Col 8 x Col 7) (9)
ELECTRIC									
1. Short Term Debt	\$ -	0.00%	78.980%	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
2. Long Term Debt	1,105,822,116	43.90%	78.980%	873,378,307	(31,592,587)	841,785,720	43.90%	3.80%	1.67%
3. Common Equity	1,413,367,430	56.10%	78.980%	1,116,277,596	(40,372,303)	1,075,905,293	56.10%	10.25%	5.75%
4. Total Capitalization	<u>\$ 2,519,189,546</u>	<u>100.000%</u>		<u>\$ 1,989,655,903</u>	<u>\$ (71,964,890)</u>	<u>\$ 1,917,691,013</u>	<u>100.000%</u>		<u>7.42%</u>
5. Weighted Cost of Capital Grossed up for Income Tax Effect {ROR + (ROR - DR) x [TR / (1 - TR)]}									<u>10.61%</u>

	Electric Capitalization (Col 4) (10)	Capital Structure (11)	Trimble County Inventories (a) (Col 11 x Col 12 Line 4) (12)	Investments in OVEC & Other (Col 11 x Col 13 Line 4) (13)	JDIC (Col 11 x Col 14 Line 4) (14)	Environmental Compliance Ratebase (Col 11 x Col 15 Line 4) (15)	Advanced Coal Investment Tax Credit (b) (Col 11 x Col 16 Line 4) (16)	Total Adjustments To Capital (Sum of Col 12 - Col 16) (17)
ELECTRIC								
1. Short Term Debt	\$ -	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2. Long Term Debt	873,378,307	43.90%	(2,098,006)	(475,747)	7,792,144	(46,780,569)	9,969,591	(31,592,587)
3. Common Equity	1,116,277,596	56.10%	(2,681,051)	(607,959)	9,957,614	(59,781,091)	12,740,184	(40,372,303)
4. Total Capitalization	<u>\$ 1,989,655,903</u>	<u>100.000%</u>	<u>\$ (4,779,057)</u>	<u>\$ (1,083,706)</u>	<u>\$ 17,749,758</u>	<u>\$ (106,561,660)</u>	<u>\$ 22,709,775</u>	<u>\$ (71,964,890)</u>

(a) Trimble County Inventories	As of August 31, 2012
Materials and Supplies	\$ 6,765,952
Stores Expense	1,281,762
Coal	10,632,173
Limestone	216,386
Fuel Oil	219,617
Emission Allowances	338
Total Trimble County Inventories	<u>\$ 19,116,228</u>
Multiplied by Disallowed Portion	25.00%
Trimble County Inv. Disallowed	<u>\$ 4,779,057</u>

(b) Reflects Investment Tax Credit treatment per Case No. 2007-00179.

LOUISVILLE GAS AND ELECTRIC COMPANY
ANALYSIS OF THE EMBEDDED COST OF CAPITAL AT
August 31, 2012

LONG-TERM DEBT										
Due	Rate	Principal	Interest/(Income)	Annualized Cost				Total	Embedded Cost	
				Amortized Debt Issuance Exp/Discount	Amortized Loss-Reacquired Debt	Letter of Credit and other fees				
Pollution Control Bonds -										
Jefferson Co 2000 Series A	05/01/27	0.841% *	\$ 25,000,000	\$ 210,131	\$ -	\$ 135,301	\$ -	\$ 345,432	1.382%	
Trimble Co 2000 Series A	08/01/30	0.240% *	83,335,000	200,004	38,707	143,700	305,898 ^a	688,309	0.826%	
Jefferson Co 2001 Series A	09/01/27	0.160% *	10,104,000	16,166	20,393	-	35,546 ^a	72,105	0.714%	
Jefferson Co 2001 Series A	09/01/26	0.340% *	22,500,000	76,500	9,924	77,424	22,500 ^b	186,348	0.828%	
Trimble Co 2001 Series A	09/01/26	0.350% *	27,500,000	96,250	10,790	65,400	27,500 ^b	199,940	0.727%	
Jefferson Co 2001 Series B	11/01/27	0.400% *	35,000,000	140,000	10,995	49,056	35,000 ^b	235,051	0.672%	
Trimble Co 2001 Series B	11/01/27	0.400% *	35,000,000	140,000	10,997	48,864	35,000 ^b	234,861	0.671%	
Trimble Co 2002 Series A	10/01/32	0.242% *	41,665,000	100,829	37,221	55,812	178,268 ^a	370,130	0.888%	
Louisville Metro 2003 Series A	10/01/33	1.650%	128,000,000	2,112,000	53,192	313,727	-	2,478,919	1.937%	
Louisville Metro 2005 Series A	02/01/35	5.750%	40,000,000	2,300,000	-	96,444	-	2,396,444	5.991%	
Trimble Co 2007 Series A	06/01/33	4.600%	60,000,000	2,760,000	47,534	6,615	18,270 ^a	2,832,419	4.721%	
Louisville Metro 2007 Series A	06/01/33	5.625%	31,000,000	1,743,750	-	41,718	-	1,785,468	5.760%	
Louisville Metro 2007 Series B	06/01/33	1.600%	35,200,000	563,200	20,459	27,526	-	611,185	1.736%	
Called Bonds			-	-	-	-	167,868 ²	167,868		
First Mortgage Bonds -										
2010 due 2015	11/15/15	1.625%	250,000,000	4,062,500	522,243 ^{**}	-	-	4,584,743	1.834%	
Debt discount on FMB	11/15/15	1.625%	(566,271)	-	176,500 ^{**}	-	-	176,500	-31.169%	
2010 due 2020	11/15/40	5.125%	285,000,000	14,606,250	119,249 ^{**}	-	-	14,725,499	5.167%	
Debt discount on FMB	11/15/40	5.125%	(2,915,613)	-	103,360 ^{**}	-	-	103,360	-3.545%	
S-3 SEC Shelf Registration	03/27/15				2,292			2,292		
Revolving Credit Facility	10/19/16				782,880 ^{6,7}		500,000	1,282,880		
Total External Debt			\$ 1,105,822,116	\$ 29,127,580	\$ 1,966,736	\$ 1,229,455	\$ 1,155,982	\$ 33,479,754	3.028%	
Interest Rate Swaps:										
JP Morgan Chase Bank 5.495%	11/01/20	1		\$ 4,906,579	\$ -	\$ -	\$ -	\$ 4,906,579		
Morgan Stanley Capital Services 3.657%	10/01/33	1		1,226,671	-	-	-	1,226,671		
Morgan Stanley Capital Services 3.645%	10/01/33	1		1,222,447	-	-	-	1,222,447		
Bank of America	10/01/33	1		1,240,047	-	-	-	1,240,047		
Interest Rate Swaps External Debt				\$ 8,595,744	\$ -	\$ -	\$ -	\$ 8,595,744	0.777%	
Notes Payable to PPL		5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Total Internal Debt			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	
Total			\$ 1,105,822,116	\$ 37,723,324	\$ 1,966,736	\$ 1,229,455	\$ 1,155,982	\$ 42,075,498	3.805%	

SHORT-TERM DEBT										
Maturity	Rate	Principal	Interest	Annualized Cost				Total	Embedded Cost	
				Expense	Loss	Premium				
Notes Payable to Associated Company	NA	0.430% *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	
Revolving Credit Facility Payable			-	-	-	-	-	-	0.000%	
Commercial Paper Program	Varies	0.410%	-	-	-	-	-	-	0.000%	
Total			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.000%	

Embedded Cost of Total Debt **\$ 1,105,822,116** **\$ 37,723,324** **\$ 1,966,736** **\$ 1,229,455** **\$ 1,155,982** **\$ 42,075,498** **3.805%**

** Debt discount shown on separate line

1 Additional interest due to Swap Agreements:

Underlying Debt Being Hedged	Notional Amount	Expiration of Swap Agreement	Fixed LG&E Swap Position	Fixed LG&E Swap Position	Variable Counterparty Swap Position
Series Z - PCB	83,335,000	11/01/20	5.495%	5.495%	BMA Index
Series CC, DD & EE - PCB	32,000,000	10/01/33	3.657%	3.657%	68% of 1 mo LIBOR
Series CC, DD & EE - PCB	32,000,000	10/01/33	3.645%	3.645%	68% of 1 mo LIBOR
Series CC, DD & EE - PCB	32,000,000	10/01/33	3.695%	3.695%	68% of 1 mo LIBOR
	<u>179,335,000</u>				

2 Call premium and debt expense is being amortized over the remaining life of bonds due 6/1/15, 7/1/13 and 8/1/17

3 Reacquired bonds were reissued 1/13/11

4 Remarketed bonds, issued at long term fixed rate

5 Fidelity Notes Payable were paid off on 11/1/2010 with PPL Notes Payable that were paid off with the new FMB issues on 11/16/2010

6 Included setup fees for the Wachovia Credit Facility in Long-term Debt due to 4 year credit arrangement

7 Credit Facility amended effective October 19, 2011. New term of 5 years at lower interest rate

a - Insurance premiums annualized - based on actual invoices

b - Remarketing fee = 10 basis points

c - Remarketing fee = 25 basis points

d - Combination of a and c

**ECR - Gross-up Revenue Factor &
Composite Income Tax Calculation
2012**

		2012 Federal & State Production Credit W/ 6% 2012 State <u>Tax Rate Included</u>	
(1)	Assume pre-tax income of	\$ 100.0000	
(2)			
(3)	State income tax (see below)	<u>5.6400</u>	(40)
(4)			
(5)	Taxable income for Federal income tax		
(6)	before production credit	94.3600	(1) - (3)
(7)	a. Production Rate	9%	
(8)	b. Allocation to Production Income	100%	
(9)	c. Allocated Production Rate (a x b)	9.00%	
(10)			
(11)	Less: Production tax credit	<u>8.4924</u>	(6) * (9)
(12)			
(13)	Taxable income for Federal income tax	85.8676	(6) - (11)
(14)			
(15)	Federal income tax	<u>30.0537</u>	(13) * 35%
(16)			
(17)			
(18)	Total State and Federal income taxes	<u>\$ 35.6937</u>	(3) + (15)
(19)			
(20)	Gross-up Revenue Factor	<u><u>64.3063</u></u>	100 - (18)
(21)			
(22)	Therefore, the composite rate is:		
(23)	Federal	30.0537%	(15) / 100
(24)	State	<u>5.6400%</u>	(3) / 100
(25)	Total	<u><u>35.6937%</u></u>	(23) + (24)
(26)			
(27)			
(28)			
(29)			
(30)			
(31)	<u>State Income Tax Calculation</u>		
(32)	Assume pre-tax income of	\$ 100.0000	
(33)			
(34)	Production credit @ 6%	<u>6.0000</u>	
(35)			
(36)	Taxable income for State income tax	94.0000	(32) - (34)
(37)			
(38)	State Tax Rate	<u>6.0000%</u>	
(39)			
(40)	State Income Tax	<u><u>5.6400</u></u>	(36) * (38)

LOUISVILLE GAS AND ELECTRIC COMPANY

**Response to Commission Staff's First Request for Information
in Appendix B of Commission's Order Dated January 2, 2013**

Case No. 2012-00547

Question No. 6

Witness: Robert M. Conroy

Q-6. Provide the actual average residential customer's usage. Based on this usage amount, provide the dollar impact the over/under recovery will have on the average residential customer's bill for the requested recovery period.

A-6. The actual average residential customer's usage for the 12-months ending November 30, 2012 is 1,026 kWh per month. Actual average monthly usage for residential customers will vary from month to month depending upon the time period of the year.

Based upon distributing the net over-recovered position of \$146,937 in one month, the ECR billing factor will be lower by approximately .19% for that month. For a residential customer using 1,026 kWh per month the impact of the adjusted ECR billing factor would be a decrease of approximately \$0.19 on that month's bill, using rates and adjustment clause factors in effect for the January 2013 billing month.