

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)
COMPANY FOR CERTIFICATES OF)
PUBLIC CONVENIENCE AND NECESSITY) CASE NO. 2011-00161
AND APPROVAL OF ITS 2011 COMPLIANCE)
PLAN FOR RECOVERY BY)
ENVIRONMENTAL SURCHARGE)

-and-

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)
ELECTRIC COMPANY FOR CERTIFICATES)
OF PUBLIC CONVENIENCE AND NECESSITY) CASE NO. 2011-00162
AND APPROVAL OF ITS 2011)
COMPLIANCE PLAN FOR RECOVERY BY)
ENVIRONMENTAL SURCHARGE)

ATTORNEY GENERAL'S RESPONSES TO DATA REQUESTS
FROM LOUISVILLE GAS & ELECTRIC CO.
AND KENTUCKY UTILITIES CO.

Comes now the Attorney General of the Commonwealth of
Kentucky, by and through his Office of Rate Intervention, and tenders his
responses to the Data Requests tendered by Louisville Gas & Electric Co. and
Kentucky Utilities Co.

Respectfully submitted,

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Counsel certifies that an original and fifteen photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

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**Attorney General's Responses to Data Requests
of Louisville Gas & Electric Co. and Kentucky Utilities Co.
Case Nos. 2011-00161 and 2011-00162**

WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION 1:

To the extent not already provided, please provide all work-papers used or created by Dr. Woolridge to support his testimony (including exhibits).

- a. Please provide an electronic copy of all work-papers (including spreadsheets) used or created by Dr. Woolridge to support his testimony (including exhibits), including those already provided in paper format, with spreadsheet formulas intact and unprotected. To the extent feasible, please provide all spreadsheets in Microsoft Excel format.
- b. Please provide copies of all documents, articles, studies, or other publications referenced in Dr. Woolridge's testimony.

RESPONSE:

- a. The requested documents for J. Randall Woolridge are provided on the Woolridge CD. The materials on the CD are grouped into folders, and include source documents of materials used, work papers, publications, articles, studies, and work sheets.
- b. See response to 1 a.

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WITNESS RESPONSIBLE:

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QUESTION 2:

Does Dr. Woolridge agree that bond rating agencies, such as Standard & Poor's, consider the impact of regulation on a utility's risks when evaluating credit ratings? If the answer is anything other than an unqualified "yes," please provide a complete explanation.

RESPONSE:

Yes, Dr. Woolridge believes that bond rating agencies consider the regulated status of utilities in the rating process, as well as other factors that affect utilities' business and financial risks.

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WITNESS RESPONSIBLE:

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QUESTION 3:

Does Dr. Woolridge believe that the beta values referenced on Exhibit JRW-11 reflect the market's assessment of the impact of regulation on the utilities' relative investment risks? If the answer is anything other than an unqualified "yes," please provide a complete explanation.

RESPONSE:

Yes, Dr. Woolridge believes that the betas for utilities reflect their regulated status, as well as other factors that affect utilities' investment risk.

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WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION 4:

Please refer to Dr. Woolridge's testimony at page 31 lines 8-10. Please provide a detailed explanation of how Dr. Woolridge adjusted the DPS growth rate downward from the projected EPS growth rate for each of the companies in his proxy group, and provide the magnitude of the adjustment for each utility.

RESPONSE:

Dr. Woolridge did not make a specific downward adjustment to the DPS growth rate from the projected EPS growth rate for each of the companies in his proxy group. As discussed in his testimony, Dr. Woolridge used the data for the proxy group and measured growth by evaluating the median figures for the proxy group for Value Line historic EPS, DPS, and BVPS growth, Value Line projected EPS, DPS, and BVPS growth, projected sustainable growth, and the projected EPS growth rate forecasts from Zacks, Yahoo, and Reuters.

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WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION 5:

Please refer to Dr. Woolridge's testimony at page 42 lines 14-17. Did Dr. Woolridge directly rely on this 3.4% equity risk premium in determining his recommended ROE? If the answer is anything other than an unqualified "no," please calculate the cost of equity estimate implied by this risk premium for Dr. Woolridge's proxy group.

RESPONSE:

Yes. This figure is one of the more than thirty risk premium results that Dr. Woolridge employed in developing an overall risk premium of 5.1%. As discussed in his testimony, estimates of the equity risk premium are highly variable. As a result, Dr. Woolridge used the median of all the risk premium results, and did not compute equity cost rate estimates using the individual risk premiums. If this risk premium was used by itself, it would result in an equity cost rate estimate of 6.4%.

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WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION 6:

Please refer to Dr. Woolridge's testimony from page 42 line 19 through page 43 line 3. Did Dr. Woolridge directly rely on this 2.87% equity risk premium in determining his recommended ROE? If the answer is anything other than an unqualified "no," please calculate the cost of equity estimate implied by this risk premium for Dr. Woolridge's proxy group.

RESPONSE:

Yes. This figure is one of the more than thirty risk premium results that Dr. Woolridge employed in developing an overall risk premium of 5.1%. As discussed in his testimony, estimates of the equity risk premium are highly variable. As a result, Dr. Woolridge used the median of all the risk premium results, and did not compute equity cost rate estimates using the individual risk premiums. If this risk premium was used by itself, it would result in an equity cost rate estimate of 6.0%.

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WITNESS RESPONSIBLE:

Dr. J. Randall Woolridge

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QUESTION 7:

Please refer to Dr. Woolridge's testimony from page 45 line 18 through page 46 line 1. Please provide all cost of equity estimates developed by Dr. Woolridge using the DCF and CAPM approaches discussed in his testimony for the industry groups presented on JRW-8. If Dr. Woolridge did not perform these analyses, please indicate in detail how the referenced statement confirms the reasonableness of his recommended ROE.

RESPONSE:

Dr. Woolridge did not perform DCF and CAPM analyses for the 100 industry groups listed in Exhibit JRW-8. He has used the betas to highlight the riskiness of utilities relative to other industries as measured by beta. The referenced statement suggests that, as indicated by beta, utilities are among the lowest risk industries in the U.S. and therefore have a low equity cost rate relative to other industries.