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 KENTUCKY UTILITIES COMPANY FOR THE SIX-MONTH BILLING PERIODS ENDING JULY 31, 2003, JANUARY 31, 2004, JANUARY 31, 2005, JULY 31, 2005, AND JANUARY 31, 2006 AND FOR THE TWO-YEAR BILLING PERIOD ENDING JULY 31, 2004	)	CASE NO. 2006-00129

FIRST DATA REQUEST OF COMMISSION STAFF TO
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ("KIUC"), pursuant to 807 KAR 5:001, is requested to file with the Commission the original and 6 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before August 18, 2006. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), page 9. The current rate design for Kentucky Utilities Company's ("KU") base rates was

established in the Commission's June 30, 2004 Order in Case No. 2003-00434.[1] In his testimony, Mr. Baron advocates that the environmental surcharge roll-in for KU follow an "alternative" proposal offered by KU that would address rate class subsidies still reflected in the existing base rates.

a. Assume for purposes of this question that there is a roll-in of the environmental surcharge into existing base rates and that KU's alternative proposal has been adopted. Would Mr. Baron agree that after the roll-in KU's base rates would reflect two rate design approaches: the approach approved in Case No. 2003-00434 and the approach utilized for the roll-in in the current proceeding?

b. Explain why it is reasonable that base rates after the roll-in should reflect two different rate design approaches.

2. Refer to the Baron Testimony, page 10. Mr. Baron states, "Like a general rate case, an ECR roll-in case is a base rate proceeding and therefore a reasonable venue to address the subsidies in the Companies rate schedules." The 6-month and 2-year environmental surcharge reviews are established in KRS 278.183(3), which states in part:

> At six (6) month intervals, the commission shall review past operations of the environmental surcharge of each utility, and after hearing, as ordered, shall, by temporary adjustment in the surcharge, disallow any surcharge amounts found not just and reasonable and reconcile past surcharges with actual costs recoverable pursuant to subsection (1) of this section. Every two (2) years the commission shall review and evaluate past operation of the surcharge, and after hearing, as ordered, shall disallow improper expenses, and to the extent appropriate,

[1] Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company, final Order dated June 30, 2004.

> incorporate surcharge amounts found just and reasonable into the existing base rates of each utility.

a. When Mr. Baron was preparing his testimony, was he aware that the main purpose of the current proceeding was the 6-month and 2-year reviews of the operation of KU's environmental surcharge? Explain the response.

b. When Mr. Baron was preparing his testimony, was it his understanding that a roll-in of the environmental surcharge into existing base rates would only occur "to the extent appropriate" as determined by the Commission? Explain the response.

c. Explain in detail how Mr. Baron reached the conclusion that the current environmental surcharge review proceeding was a base rate proceeding. Include citations to KRS 278.183 that support Mr. Baron's conclusion.

3. Refer to the Baron Testimony, page 12. Mr. Baron includes the following quote from the Commission's June 20, 2005 Order in Case No. 2004-00426:[2]

> While the Commission appreciates KIUC's concerns as to the discrepancies between KU's cost of service and the recovery of costs through its base rates, we are not persuaded that an environmental surcharge proceeding is an appropriate venue to address those discrepancies.

If the Commission in June 2005 found that a proceeding considering the amendment of KU's environmental compliance plan and surcharge mechanism was not the appropriate venue to address rate design subsidies, explain in detail why Mr. Baron believes the 6-month and 2-year surcharge review cases are an appropriate venue. Include in this

[2] Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan for Recovery by Environmental Surcharge.

response a discussion of the differences between the two proceedings that would make the surcharge review the appropriate forum to consider rate design issues.

4. Refer to KU's response to the Commission Staff's Second Data Request dated June 29, 2006, Item 1(a). In this response KU states, "Based on past practice of implementing a roll-in of the environmental surcharge or the fuel adjustment clause the total bill for a customer has been essentially the same before and after the roll-in."

a. Does Mr. Baron agree with this statement by KU? Explain the response.

b. Describe in detail the change in circumstances that has occurred since KU's last base rate case that requires the Commission to address the inter-class rate subsidy issue in the current environmental surcharge proceeding.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED August 3, 2006

cc: All Parties