COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR APPROVAL OF AN AMENDED COMPLIANCE PLAN FOR PURPOSES OF RECOVERING THE COSTS OF NEW AND ADDITIONAL POLLUTION CONTROL FACILITIES AND TO AMEND ITS ENVIRONMENTAL COST RECOVERY SURCHARGE TARIFF	)))))))	CASE NO. 2000-386

FIRST DATA REQUEST OF COMMISSION STAFF TO
LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before December 7, 2000. 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 person 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 Robert M. Hewett, pages 4 through 7. Currently, the rate of return used in LG&E's environmental surcharge calculations was based on the actual cost of its last pollution control bond issue in October 1993. In this

application, LG&E proposes to use an overall rate of return that reflects the current cost of all debt and equity in the surcharge calculations.

a. For those projects currently reflected in LG&E's environmental surcharge rate base, explain the effect of changing from a rate of return based on pollution control bond debt ("PC debt") rates to an overall rate of return based on the cost of all debt and the cost of common equity.

b. In 1995, when LG&E's environmental surcharge was authorized, it believed the reasonable rate of return was reflected by the PC debt rates. In this application, LG&E believes that an overall rate of return is reasonable. Explain what assumptions have changed which led LG&E to determine that an overall rate of return is now appropriate for its environmental surcharge.

c. LG&E proposes to update the capital structure and cost rates, except for the return on common equity, every 6 months beginning with the first expense month for each 6-month review period. LG&E notes this approach is similar to the approach approved for the American Electric Power Company – Kentucky ("AEP-KY") environmental surcharge. In AEP-KY's environmental surcharge, the cost of debt is reviewed and re-established during each 6-month review case. Identify the differences between LG&E's proposal and the approach approved for AEP-KY and explain why LG&E believes its proposed treatment is reasonable and appropriate.

d. LG&E proposes that if changes are made in the return on common equity reflected in its earnings sharing mechanism ("ESM"), then the rate of return on common equity utilized in the environmental surcharge would be reviewed in the 2-year surcharge review following the change in the return on common equity utilized in the

ESM. In AEP-KY's environmental surcharge, the rate of return on common equity is subject to review during the 2-year review of the surcharge. Explain why LG&E believes its proposed treatment is reasonable and appropriate.

2. Refer to Hewett Direct Testimony at page 4. Provide workpaper calculations showing the derivation of the estimated 2003 rate impact of $1.54 per month for a residential customer using 1,000 kilowatt-hours. This should show the revenue requirement calculation and how that revenue requirement impacts LG&E's residential customers, as a class, and individually.

3. Refer to Hewett Direct Testimony, page 5. Mr. Hewett states that in Case No. 94-332,[1] LG&E proposed a 5.60 percent rate of return on its environmental surcharge rate base and committed to use that return until its next rate case, when the overall return would be applied to the environmental surcharge rate base.

a. Provide excerpts from LG&E's testimony in Case No. 94-332 concerning the commitment to use an overall rate of return after its next rate case.

b. In its testimony in Case No. 94-332, did LG&E's commitment focus on the overall rate of return to be awarded in the future rate case, or the rate of return on common equity that would be awarded in that case? Explain the response.

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[1] Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products.

c. In Case No. 98-426,[2] the Commission authorized a rate of return on rate base of 8.00 percent.[3] Explain why LG&E has not proposed to use this rate of return, adjusted to gross-up for taxes, for its environmental surcharge.

4. Refer to Hewett Direct Testimony, Exhibit RMH-1. Provide the workpapers showing the determination of the annual cost rates for LG&E's short-term debt, long-term debt, and preferred stock as of September 30, 2000. Include all supporting calculations and assumptions.

5. Refer to Hewett Direct Testimony, Exhibit RMH-1. The exhibit shows a weighted cost of capital for LG&E of 8.34 percent as of September 30, 2000.

a. Is LG&E proposing that the overall rate of return on its environmental surcharge rate base be equal to its weighted cost of capital? Explain the response.

b. Is LG&E assuming, that for environmental surcharge purposes, the environmental surcharge rate base is equal to the environmental surcharge capitalization? Explain the response.

c. In Case No. 98-426,[4] the Commission determined for rate-making purposes that LG&E's environmental surcharge rate base was not equal to its environmental capitalization. Explain why this rate-making determination should not be applied for environmental surcharge purposes if the Commission agrees with LG&E that

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[2] Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service, final Order dated January 7, 2000.

[3] Id. at 100.

[4] Case No. 98-426, rehearing Order dated June 1, 2000, at 1-4.

the return on its environmental surcharge rate base should reflect the cost of debt, preferred stock, and common equity.

6. Refer to the Direct Testimony of Carol M. Pfeiffer, pages 6 through 8. Under the Environmental Protection Agency's ("EPA") NO_x State Implementation Plan ("SIP") Call, after review by the U.S. Court Appeals for the D.C. Circuit, the deadline for full implementation of the SIP revisions is May 31, 2004. EPA's final Section 126 rule includes a deadline of May 1, 2003.

a. Provide clarification as to the date by which the 0.15 lb/mmBtu NO_x limitation will take effect.

b. Identify and describe any benefits such as scheduling flexibility that LG&E will realize due to the SIP Call deadline being pushed back to the spring of 2004.

7. Refer to the Direct Testimony of Lonnie E. Bellar, LEB Exhibit 1. Provide the following information concerning LG&E Project No. 6:

a. Indicate whether there will be any replacements or retirements of environmental compliance plant already included in existing rates. For any environmental compliance plant that will be replaced or retired, show the original cost and accumulated depreciation included in LG&E's existing rates. This information should be shown at the generating station level.

b. List any internal work order numbers applicable to Project No. 6, as of December 1, 2000. Include a general description of what portion of Project No. 6 is covered by each work order.

c. List the depreciation rate applicable for each generating station listed as part of Project No. 6.

8. Refer to the Direct Testimony of Michael D. Robinson, page 2. Concerning the depreciation study currently underway:

a. Is the scope of the study limited to new environmental compliance plant investments? If not, explain the scope of the study.

b. Indicate when the study was started and the expected completion date.

c. If depreciation rates change as a result of the study, will LG&E submit the study to the Commission for review and approval prior to using the new depreciation rates? Explain the response.

9. Refer to the Direct Testimony of Ronald L. Willhite, pages 3 and 4. For purposes of this question, assume that the Commission approves LG&E's application in total, but a roll-in of the surcharge does not occur until 2 months after the May 1, 2001 effective date. For these first 2 months, is it correct that LG&E would be applying the 5.60 percent rate of return to the environmental surcharge rate base associated with Project Nos. 1 through 5, and an overall rate of return to the environmental surcharge rate base associated with Project No. 6? Explain the response.

10. Refer to Willhite Direct Testimony, RLW Exhibits 1 and 2. Since the beginning of LG&E's environmental surcharge, it has not reported any emission allowance expense in its monthly surcharge reports.

a. Explain why LG&E's environmental surcharge tariff should continue to include emission allowance expense, when this expense has not been incurred since the beginning of its surcharge.

b. Has LG&E estimated when it would begin to incur emission allowance expense? Explain the response.

c. As of December 1, 2000, provide the number of usable emission allowances owned by LG&E and the dollar value of that inventory.

11. Refer to Willhite Direct Testimony, RLW Exhibit 2. LG&E's revised environmental surcharge tariff defines the rate of return on environmental surcharge rate base as:

$$(ROR + (ROR - DR)(TR/(1 - TR)))$$

ROR is defined as the rate of return on environmental compliance rate base, DR is the debt rate, and TR is the composite federal and state income tax rate.

a. Does ROR in this formula include the cost of preferred stock?

b. If yes to part (a), should the cost of preferred stock be included or excluded from the gross-up treatment? Explain the response.

12. For purposes of this question, assume the Commission approves LG&E's application in total and that the overall rate of return is applied to the entire environmental surcharge rate base. Using the current environmental surcharge monthly reporting formats as a starting point, provide an example of how the monthly surcharge report would look for the first expense month after the effective date of the amended compliance plan and surcharge tariff. Include a description of all assumptions used in the example.

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DATED November 21, 2000

cc: All Parties