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
THE APPLICATION OF KENTUCKY UTILITIES 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 SURCHARGE TARIFF	)	CASE NO. 2000-439

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

Kentucky Industrial Utility Customers, Inc. (“KIUC”) 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 February 16, 2001. 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 page 12 of the Direct Testimony of Lane Kollen.

a. Has Mr. Kollen performed a historic analysis or study reviewing how much Louisville Gas and Electric Company's ("LG&E") overall rate of return on capital has varied month to month? If yes, provide copies of this analysis or study.

b. Has Mr. Kollen prepared an analysis of the impact his proposal to compute the rate of return monthly would have on LG&E's monthly environmental surcharge revenue requirement?

1) If yes, provide copies of this analysis.

2) If no, explain why such an analysis was not performed.

2. Refer to page 13 of the Kollen Direct Testimony. Provide references to this case record where LG&E has stated that its new environmental compliance construction will be financed exclusively with short-term debt.

3. Refer to page 14 of the Kollen Direct Testimony. Mr. Kollen states that LG&E's proposal does not properly reflect the actual cost of capital because the proposal does not utilize an average over a historic 6-month period. Provide citations and examples of situations where this Commission has required an electric utility, in a historic test period situation, to use a cost of capital reflecting average data rather than end of period data.

4. Refer to page 16 of the Kollen Direct Testimony.

a. At the end of the test period in its most recent base rate-making proceeding, did LG&E report in its financial statements any outstanding amounts of short-term debt that have normally been included in capitalization by the Commission?

b. Provide copies of the documents that demonstrate that LG&E financed its existing environmental surcharge rate base exclusively with pollution control bond debt.

5. Refer to page 17 of the Kollen Direct Testimony. Explain how the situation with the Rockport environmental rate base is applicable to LG&E's situation.

6. Refer to page 18 of the Kollen Direct Testimony, lines 6 through 8.

a. Explain in detail why Mr. Kollen believes the pollution control bond debt rate should continue to be the rate of return applied to LG&E's existing environmental rate base.

b. Does Mr. Kollen propose that the pollution control bond debt rate applied to LG&E's existing environmental rate base be adjusted monthly? Explain the response.

7. Refer to page 18 of the Kollen Direct Testimony, lines 17 through 21.

a. Based on the information Mr. Kollen has available, what is the likelihood that LG&E's investment, in new environmental projects it has proposed in this case, will exceed the expected issuances of short-term debt? Explain the response.

b. Based on the approach outlined on lines 17 through 21, would it be correct that in future rate-making proceedings, the rate of return applied to other new construction projects, such as additional combustion turbines, would be higher than the overall cost of capital, since all short-term financing was linked to environmental investments? Explain the response.

8. Refer to page 19 of the Kollen Direct Testimony, lines 5 through 11.

a. If the Commission accepts Mr. Kollen's proposal to use the cost of short-term debt as the rate of return for LG&E's new environmental projects, explain what would happen when LG&E converted the short-term debt to long-term financing.

b. Does LG&E's proposal to apply an overall rate of return on capital to its environmental rate base include its short-term debt?

c. Does LG&E's proposal to include lower cost short-term debt in the overall rate of return on capital provide some benefit of those lower costs to ratepayers through the environmental surcharge? Explain the response.

9. Refer to page 19 of the Kollen Direct Testimony, beginning at line 13.

a. Has LG&E proposed to utilize the Allowance for Funds Used During Construction ("AFUDC") methodology for its new environmental investments?

b. Is Mr. Kollen proposing the use of the AFUDC methodology for LG&E's new environmental investments?

c. If LG&E and/or Mr. Kollen have not proposed the use of the AFUDC methodology, explain the relevance to this proceeding of citations describing how that methodology computes the rate of return.

10. Refer to page 20 of the Kollen Direct Testimony.

a. Explain in detail why Mr. Kollen believes it is appropriate to blend the effects of LG&E's off-balance sheet financing with its on-balance sheet financing.

b. Provide an example showing how Mr. Kollen would reflect off-balance sheet financing as short-term debt for environmental surcharge purposes.

c. Based on representations made by LG&E, would Mr. Kollen agree that the accounts receivable financing should constitute some of the lowest cost financing available to LG&E?

d. Would Mr. Kollen agree that LG&E's utilization of off-balance sheet financing should lessen the need for other more traditional forms of on-balance sheet, short-term financing?

e. Assume LG&E's proposal to use the overall rate of return on capital in its amended environmental surcharge mechanism is approved. Would Mr. Kollen agree that the use of off-balance sheet financing results in an indirect benefit to ratepayers of a lower overall rate of return, because such financing allows LG&E to avoid using other more costly forms of short-term debt? Explain the response.

11. Refer to page 25 of the Kollen Direct Testimony.

a. Are the timing of receipt and the actual cash flows from accounts receivable the only factors that are considered when determining the actual cash working capital requirement of a utility? If no, describe the other factors that must be considered.

b. Based on his concept of what constitutes an actual cash working capital requirement, has Mr. Kollen calculated LG&E's actual cash working capital requirement for environmental surcharge purposes?

1) If yes, provide the calculations.

2) If no, explain why this calculation was not performed.

c. Does Mr. Kollen believe that LG&E's off-balance sheet financing will provide all of its cash working capital requirements? Explain the response.

d. Mr. Kollen has proposed that the off-balance sheet financing should be reflected in the determination of the short-term debt rate to be applied to new environmental investments. Explain how the Commission is to determine what amount of the off-balance sheet financing proceeds should be assigned to LG&E's cash working capital requirements, its investment in new environmental compliance projects, and other capital construction projects such as combustion turbine acquisitions.

12. Refer to Items 1 through 11 of this data request. If Mr. Kollen were asked each of these questions with regard to Kentucky Utilities Company ("KU"), would his responses be the same? If no, identify the item number and the response that would be appropriate as the question applies to KU.

13. Refer to page 8 of the Kollen Direct Testimony.

a. Was Mr. Kollen aware that the gross-up for taxes used in Case Nos. 98-426[1] and 98-474[2] reflected the PSC Assessment?

b. If the Commission includes an income tax gross-up in the environmental surcharge mechanism, should that gross-up only reflect the blended federal and state income tax rates? Explain the response.

14. Refer to page 17 of the Kollen Direct Testimony.

---

[1] Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

[2] Case No. 98-474, The Application of Kentucky Utilities Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

a. Concerning Case No. 96-489,[3] does Mr. Kollen know why the rate of return for the Rockport environmental rate base is updated monthly while the rate of return for the Big Sandy environmental rate base is updated every six months? Explain the response.

b. Concerning the environmental surcharge proceedings cited on lines 6 and 7 of page 17, would Mr. Kollen agree that the Kentucky Power Company proposed an overall rate of return for its environmental rate base, while LG&E and KU proposed a rate of return based on its respective pollution control bond debt rate? Explain the response.

15. Refer to page 25 of the Kollen Direct Testimony. Does LG&E's proposal in this case include a cash working capital allowance in its environmental rate base?

16. Refer to pages 29 and 30 of the Kollen Direct Testimony. In its October 17, 2000 Orders in Case Nos. 2000-105[4] and 2000-106,[5] the Commission found that miscellaneous revenues that were not related to the generation of electricity or a source

---

[3] Case No. 96-489, Application of Kentucky Power Company d/b/a American Electric Power to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with the Clean Air Act and Those Environmental Requirements Which Apply to Coal Combustion Waste and By-Products.

[4] Case No. 2000-105, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 1998, October 31, 1998, and October 31, 1999, and for the Two-Year Billing Period Ending April 30, 1999.

[5] Case No. 2000-106, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company for the Six-Month Billing Periods Ending January 31, 1999, July 31, 1999, and January 31, 2000, and for the Two-Year Billing Period Ending July 31, 1998.

of environmental costs to LG&E or KU should not be considered part of the total company revenues when determining the environmental surcharge allocation ratio.

a. Was Mr. Kollen aware of this finding?

b. Explain in detail why Mr. Kollen believes all transmission service revenues should be included when determining the jurisdictional allocation of the monthly environmental surcharge. Include the reasons why the Commission should reverse the decisions made in Case Nos. 2000-105 and 2000-106.

17. In response to Staff Data Requests,[6] LG&E and KU have stated that under their proposal, any additional plant investment in the existing environmental projects would be subject to the current rate of return, which is based on the pollution control bond debt rate, until a base rate roll-in. After a base rate roll-in, the incremental changes in environmental surcharge rate base-related items for the existing projects would be subject to the overall rate of return as well. Describe Mr. Kollen's recommendation concerning this situation.

Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

DATED February 2, 2001

cc: All Parties

[6] Response to the Second Data Request of Commission Staff to LG&E, dated December 21, 2000, Item 5 and Response to the Second Data Request of Commission Staff to KU, dated December 21, 2000, Item 5.