COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE GAS AND ELECTRIC	)	
RATES, TERMS, AND CONDITIONS OF	)	CASE NO.
LOUISVILLE GAS AND ELECTRIC COMPANY	)	2003-00433

COMMISSION STAFF'S THIRD DATA REQUEST
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Louisville Gas and Electric Company ("LG&E") file the original and 8 copies of the following information with the Commission with a copy to all parties of record. The information requested herein is due March 11, 2004. Each copy of the information 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 its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. Provide a statement of the work experience and education for Paula H. Pottinger, Ph.D. If individuals, other than Dr. Pottinger or those who have filed direct testimony provide responses to this data request or the requests of the Intervenors due on March 1, 2004, provide statements of those individuals' work experience and education.

2. Refer to the response to the Commission Staff's Second Data Request dated February 3, 2004 ("Staff Second Request"), Item 1.

a. Concerning the schedule showing the post-retirement benefit plans for LG&E, are the amounts shown for the benefit obligation, fair value of plan assets, and the accrued benefit costs determined for LG&E on a stand-alone basis or an allocation of the total amounts for each item? Explain the response.

b. Concerning the schedule showing the post employment benefits for disabled employees for LG&E, is the amount shown for LG&E determined on a stand-alone basis or an allocation of the total amount? Explain the response.

3. Refer to the response to the Staff Second Request, Item 1, the invoices for legal services included in this response.

a. How are the invoices for services from Ogden Newell & Welch PLLC ("Ogden") allocated between gas and electric operations? Explain why the allocation is appropriate.

b. The invoices from Ogden include several references to a regulatory oversight counsel meeting or a regulatory oversight committee. Explain the purpose of this regulatory oversight group and why costs associated with it should be included in the rate case expenses of LG&E.

c. Several of the Ogden invoices make reference to work on testimony by Howard Bush. Mr. Bush did not file testimony in the LG&E rate case.

(1) Explain why hours associated with the preparation of testimony by Mr. Bush have been included as rate case expenses.

(2) For the invoices provided in this response, provide the total number of hours by "timekeeper" for Mr. Bush's testimony preparation.

d. In this response, LG&E notes that is has redacted some of the information on the legal invoices to protect privileged information. A review of the invoices from Ogden and Stoll, Keenon & Park, LLP ("Stoll") reveals that 114.6 hours of legal services costing $18,928.50 from Ogden and 6 hours costing $1,560 from Stoll contain no disclosure of the services provided. Given its stated desire to protect privileged information, how can LG&E demonstrate that these legal costs actually represent costs associated with its rate case?

4. Refer to the response to Staff Second Request, Item 3. The electric/gas adjustment balancing mechanism shown on the balance sheet for the test year is $70,313,397. Does the size of this adjustment cause LG&E any concern, given that it represents approximately 14 percent of the Total Liabilities and Other Credits of LG&E's gas operations?

5. Refer to the response to Staff Second Request, Item 8(a). LG&E was requested to provide an updated version of the corporate organization section of the LG&E Energy Services Inc. ("LG&E Services") Cost Allocation Manual ("CAM"). LG&E's response discusses why the CAM has not been updated and when revision of the CAM would be required. LG&E has misunderstood the nature of this request, which

sought current information concerning the corporate organization. This request is similar to the update of LG&E's "Energy Trading & Risk Management Activities" provided in the response to Staff Second Request, Item 6. Given this clarification, provide an updated narrative discussing the corporate organization.

6. Refer to the response to Staff Second Request, Items 9(a) through 9(d).

a. Explain how the decision to invest in the Distributed Control Systems ("DCS") was cost justified given Mr. Thompson's response in Item 9(a) that "Recontrolling each unit provides benefits that cannot be necessarily quantified."

b. Concerning the response to Item 9(b), indicate the year when LG&E began the transition from a time-based preventive maintenance approach to a predictive, reliability-centered maintenance process and when LG&E believes this transition will be completed.

c. Concerning the response to Item 9(b) describe and calculate the savings from transitioning to a predictive reliability-centered maintenance approach.

d. Concerning the response to Item 9(c), if predictive technologies do not provide sufficient information to extend the run time of units between normally scheduled overhauls, explain how DCS differs from the previous time-based schedule approach. In addition, quantify the savings associated with the use of predictive technologies.

e. Concerning the response to Item 9(d), quantify the "avoided costs" from unplanned equipment failures resulting from the use of predictive technologies.

7. Refer to the response to Staff Second Request, Item 11. LG&E has indicated that MAXIMO® was installed in 1997. Was the installation of MAXIMO® in any

way associated with LG&E's activities in response to the "Year 2000" computer problem? Explain the response.

8. Refer to the response to Staff Second Request, Item 13(b), page 2 of 2.

a. Is DCS designed to alert the system operator to the types of events listed in the response to Item 13(b)? Explain the response.

b. Would LG&E's previous approach of a time-based maintenance schedule have alerted the system operator to the types of events listed in the response to Item 13(b)? Explain the response.

9. Refer to the response to Staff Second Request, Item 15(a).

a. Provide a complete copy of the Federal Energy Regulatory Commission ("FERC") Order 627, Docket No. RM02-3-000.

b. Has FERC responded to the correspondence from the Edison Electric Institute ("EEI"), shown as an attachment to Item 15(a)(3)? If yes, provide a copy of FERC's reply. If no, indicate when a response is expected.

c. Given the provisions of General Instructions Number 23, part C, of the FERC Uniform System of Accounts ("USoA"), explain in detail why EEI believed it was necessary to seek FERC guidance on establishing a regulatory asset for the portion of the minimum pension liability included in other comprehensive income.

d. The EEI correspondence repeatedly refers to appropriate rate-making treatment when discussing the proposal that a regulatory asset should be created to reflect the portion of the minimum pension liability that is recognized as other comprehensive income. Is EEI in its correspondence seeking an accounting or a rate-making ruling from FERC? Explain the response.

e. Refer to page 10 of 16 of the attachment to Item 15(a)(3). Included in the EEI correspondence are the following statements:

> Furthermore, the unusual economic circumstances that lead to the recording of a minimum pension liability are expected to be temporary. Ratemaking should not include the effects of temporary contingent liabilities recorded solely on the balance sheet to satisfy the FASB's theoretical accountants who focus mainly on the completeness of the balance sheet liabilities at a point in time.

If the minimum pension liability that has been included in other comprehensive income is expected to be a temporary occurrence, explain in detail how a regulatory asset as defined by the FERC USoA can be created for such a temporary item.

f. The account description in the FERC USoA for Account No. 182.3, Other Regulatory Assets, includes the following:

> The amounts included in this account are to be established by those charges which would have been included in net income determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services.[1]

(1) Would the minimum pension liability that has been recognized as other comprehensive income have been included in LG&E's net income determinations in the test year under the general requirements of the USoA?

(2) Would the current amount of the minimum pension liability that has been recognized as other comprehensive income have been included in a different period for purposes of developing the rates of LG&E?

g. Provide complete copies of the Massachusetts Department of Telecommunications and Energy orders in D.T.E. 02-78 and D.T.E. 03-47-A.

[1] 18 CFR Part 101, Account No. 182.3, subpart B.

10. Refer to the response to Staff Second Request, Item 15(b)(3). In this response, LG&E indicates that it will provide regular updates of the changes affecting the capital cost and structure since September 30, 2003.

a. Does LG&E intend to propose that the capital structure used in this case should reflect a period of time other than test-year end? Explain the response.

b. Was LG&E aware that the Commission in previous cases has recognized the impact on the capital structure of significant post-test-year issues of debt or equity?

11. Refer to the response to Staff Second Request, Item 15(c)(3).

a. Is LG&E aware that the Commission has accepted on a trial basis the use of the effective Kentucky income tax rate[2] for the determination of income tax effects in general rate cases?

b. Explain why this trial use of the effective Kentucky income tax rate should not be extended to LG&E in this case.

12. Refer to the response to Staff Second Request, Item 16(b) and the attachment to that response.

a. The Target Award Participation levels are shown on page 2 of 18 of the attachment. Explain how the Target Award for each group was determined.

b. Page 12 of 18 shows the Regulated Generation Team Effectiveness Targets. Provide an explanation of what each effectiveness target

[2] See Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company, final Order dated January 31, 2002 at 58-60.

represents and how the targets were used to determine awards. Also explain why there is no reference to 50 percent, 100 percent, and 150 percent payouts.

13. Refer to the response to Staff Second Request, Item 16(e) and the attachment to that response, pages 1 and 2 of 5. Based on the information provided on pages 1 and 2 of 5 of the attachment, state whether LG&E's pension plan and post-retirement benefit plan are over-funded or under-funded as of test-year end.

14. Refer to the response to Staff Second Request, Items 16(g)(1) through 16(g)(3).

a. Does LG&E agree that the injuries and damages expense adjustment contained in the Commission's September 27, 2000 Order in Case No. 2000-00080[3] did not include a Consumer Price Index - Urban factor in the calculations?

b. In Items 16(g)(2) and 16(g)(3), LG&E was requested to explain why its proposed adjustment to injuries and damages was not based on 10 years' experience, and to explain why the test-year level of expense was not included in the calculation of the average. LG&E's responses did not address these requests. Provide the originally requested information.

15. Refer to the response to Staff Second Request, Item 16(h).

a. Concerning the Value Delivery Team ("VDT") Workforce Reduction surcredit refunded to customers, does the adjustment to the revenues in effect result in the pro forma test year reflecting more than 12 months of revenues? Explain the response.

[3] Case No. 2000-00080, The Application of Louisville Gas and Electric Company to Adjust Its Gas Rates and to Increase Its Charges for Disconnecting Service, Reconnecting Service and Returned Checks.

b. Provide the calculations, workpapers, and assumptions used to determine the "Actual VDT costs" and "VDT settlement cost amortization" for electric and gas operations as shown on Rives Exhibit 1, Schedule 1.21.

(1) Include the total beginning balance of the "Actual VDT costs" and "VDT settlement cost amortization."

(2) Include the accounting journal entries LG&E filed with the Commission under the terms of the settlement agreement.

(3) Include a reconciliation between the amounts shown as "VDT settlement cost amortization" and the LG&E electric and gas cost amortization as shown in LG&E's response to the First Data Request of Kroger dated February 3, 2004, Item 2, attachment to the response, page 36 of 38.

c. Does LG&E agree that pursuant to the settlement agreement approved in Case No. 2001-00169,[4] the amount of the deferred debit to be amortized associated with the VDT Workforce Reduction was capped at $114,569,000 for LG&E's electric operations and $56,300,000 for LG&E's gas operations? If not, explain in detail why LG&E disagrees.

d. Explain in detail why the actual costs incurred by LG&E for the VDT Workforce Reduction exceeded the amounts included in the settlement agreement approved in Case No. 2001-00169.

[4] Case No. 2001-00169, Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be Included in Earnings Sharing Mechanism Calculations.

e. Explain in detail why LG&E has been recording the actual amount of VDT expenses on its books rather than the amounts agreed to in the settlement agreement in Case No. 2001-00169.

16. Refer to the response to Staff Second Request, Item 16(i).

a. In Item 16(i)(1), LG&E was asked to identify any savings and/or benefits anticipated at the time of the merger of LG&E Energy with KU Energy Corp. that had not been realized. LG&E's response stressed that savings could not be specifically tracked once the merger was consummated. The request did not seek an identification of actual dollar savings. In the merger case, LG&E had identified potential savings in the areas of labor, corporate and administrative programs, purchasing economies, and capacity deferrals. The information sought in the request was whether, for any of these areas, efforts to achieve some level of savings and/or benefits had not been undertaken. With this clarification, provide the originally requested information.

b. In Item 16(i)(5), LG&E states that the discontinuance of the Merger Surcredit in this case would be "clearly contrary" to the settlement agreement reached by the parties and approved by the Commission in Case No. 2002-00430.[5] Are there any provisions in that settlement agreement that prohibit the Commission from considering whether the Merger Surcredit should be continued as part of a general rate case? If yes, identify the specific provisions contained in the settlement agreement.

c. In order to maintain the balance between ratepayers and shareholders in the Merger Surcredit, LG&E's revenue requirement in this case has

[5] Case No. 2002-00430, Louisville Gas and Electric Company's Plan to Address the Future of the Merger Surcredit Approved by the Kentucky Public Service Commission in Case No. 1997-00300.

been increased by approximately $19.4 million plus the applicable tax effect. LG&E has proposed an increase in its electric rates of $63.8 million. However, under the terms of the settlement agreement approved in Case No. 2002-00430, LG&E will be refunding to ratepayers approximately $19.4 million through the Merger Surcredit. In effect, if LG&E is granted its proposed increase in electric rates, it will be returning through the Merger Surcredit $19.4 million of its $63.8 million increase to ratepayers. In light of these statements, explain why it is reasonable to continue this mechanism.

17. Refer to the response to Staff Second Request, Item 16(j).

a. Have any of the costs incurred by Midwest Independent Transmission System Operator, Inc. ("MISO") in conjunction with the August 2003 "blackout" been charged to LG&E, either directly or indirectly? Explain the response.

b. If yes to part (a) above, provide the actual or a best estimate of the amount charged to LG&E.

c. If MISO should file for bankruptcy, would LG&E become liable for any of MISO's indebtedness? Explain the response.

18. Refer to the response to Staff Second Request, Item 16(j)(1) and the attachment to that response. As shown on the attachment, LG&E's MISO expenses are 3 times the level of its MISO revenues. Explain why LG&E's MISO expenses are significantly higher than its MISO revenues?

19. Refer to the response to Staff Second Request, Item 16(k). Provide the test-year Team Incentive Award payments to the IT employees recorded on LG&E's books. Separate the amount between electric and gas operations.

20. Refer to the response to Staff Second Request, Items 16(m) and 16(n). In both requests LG&E was instructed to include in its discussion why it is reasonable to allow it to defer an item already expensed in the test year. LG&E's responses in Items 16(m) and 16(n) failed to include this discussion. Provide the originally requested information.

21. Refer to the response to Staff Second Request, Item 17(c). Explain how LG&E concludes that it has met the provision of the settlement agreement in Case No. 2001-00141[6] with the filing of a depreciation study in this case, considering that the new depreciation study is based on plant-in-service as of December 31, 2002 while the settlement agreement states that the next depreciation study is to be based on plant-in-service as of December 31, 2003.

22. Refer to the response to Staff Second Request, Item 30(a).

a. Mr. Rosenberg states that if a three-year Earning Sharing Mechanism ("ESM") were to be adopted without the opportunity to file a rate case in the interim, LG&E's cost of equity would be substantially higher than if it has the opportunity to file a rate case. Provide an estimate of the additional cost of equity that LG&E would incur if not allowed an opportunity to file a rate case while an ESM was in effect.

b. Describe and compare the effect on the cost of equity to LG&E between not having an ESM at all and having one that does not allow interim rate case filings.

[6] Case No. 2001-00141, Application of Louisville Gas and Electric Company for an Order Approving Revised Depreciation Rates.

23. Refer to the response to Staff Second Request, Item 31. Mr. Rosenberg's analysis resulted in a higher Return on Equity for gas operations than for electric operations. Is this consistent with Mr. Rosenberg's experience in other jurisdictions? If yes, in Mr. Rosenberg's opinion, why are gas operations viewed as more risky than electric operations?

24. Refer to the response to Staff Second Request, Item 32.

a. Provide a schedule similar to Seelye Exhibit 9, which calculates an adjustment based on the average number of customers for the 13-month period ending September 30, 2003, rather than the 12-month period used in Exhibit 9.

b. Refer to the response to Item 32(b), which includes "gas sales by rate schedules" for the months of October 2002 through September 2003. Provide the "gas sales by rate schedule" for September 2002.

25. Refer to the response to Staff Second Request, Item 33 and Volume 5 of 7 of the Application, Seelye Exhibit 11.

a. Mcf volumes for both "purification volumes" and "storage field loss volumes" have been trending upward over the period 1998 through the test year. Provide a detailed explanation for these trends.

b. Refer to the response to Item 33(c)(2), which compares the advantages and disadvantages of recovering the cost of these volumes through base rates versus recovering them through LG&E's Gas Supply Clause. Assuming, for this question, that the Commission is indifferent to where these cost are recovered, what would be LG&E's preference? Explain the response.

26. Refer to the response to Staff Second Request, Item 38 and page 52 of the Direct Testimony of William Steven Seelye ("Seelye Testimony"). On page 52 of the Seelye Testimony is the statement, "Because LG&E is proposing to eliminate the 1995 Plan from its monthly Environmental Surcharge filings on a going-forward basis, only the operating expenses associated with the post-1995 Plan are eliminated in this adjustment."

a. Where has LG&E made the referenced proposal to eliminate the 1995 Environmental Surcharge Compliance Plan ("1995 Plan") costs from its monthly surcharge filings on a going-forward basis?

b. Explain why LG&E believes the environmental surcharge adjustment in this case should be based on whether the cost is associated with the 1995 Plan or the post-1995 Environmental Surcharge Compliance Plan ("Post-1995 Plan").

c. Explain how LG&E's approach reasonably reflects the impact of the "roll in" calculation of the surcharge in Case No. 2002-00193.[7]

d. Provide the calculation of the "roll in" amount determined in Case No. 2002-00193. The calculations should show separately the environmental surcharge rate base and operating expenses.

e. Using the rate base and operating expense amounts used to determine the "roll in" in Case No. 2002-00193 and the corresponding balances for the

[7] Case No. 2002-00193, 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, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001.

environmental surcharge rate base and operating expenses as of September 30, 2003, provide an example demonstrating LG&E's concerns about the alternative method suggested in Item 38(b).

f. Explain in detail why LG&E believes that if the alternative method suggested in Item 38(b) were utilized,

(1) The reduction to the monthly billing factor that is currently performed would be eliminated.

(2) LG&E would start using a new baseline elimination of rate base and operating expenses and in effect stop using the base-current methodology.

27. Refer to the response to Staff Second Request, Item 39. The "raw cost" for field work for the third-trip gas inspection charge is shown as $50.45 per man-hour. Provide supporting calculations and a narrative explanation in support of this level of cost.

28. Refer to the response to Staff Second Request, Item 40.

a. Provide a schedule similar to Seelye Exhibit 25, which calculates an adjustment based on the average number of customers for the 13-month period ending September 30, 2003, rather than the 12-month period used in Exhibit 25.

b. Refer to the response to Item 40(b), which includes "electric sales by rate schedules" for the months of October 2002 through September 2003. Provide the "electric sales by rate schedule" for September 2002. Also, in the schedule for October 2002, on page 12 of 12, all the spreadsheet cells show only zeros. Provide a corrected page 12 of 12.

29. Refer to the response to Staff Second Request, Item 44 regarding losses on deliveries to transportation customers.

a. The response to Item 44(c) indicates that deliveries to transportation customers connected to LG&E's high pressure system account for 85 percent of total deliveries to transportation customers and that deliveries to transportation customers connected to LG&E's lower pressure system account for less than 2 percent of the total deliveries to transportation customers. These volumes account for roughly 87 percent of total deliveries to transportation customers. Explain what accounts for the remaining 13 percent.

b. The attachment to the response to Items 44(a) and 44(b) shows the test year lost and unaccounted-for gas ("LAUFG"), based on total sendout, of 3.67 percent, which falls midway between the high and low LAUFG percentages over the past 6 years. It also appears to be consistent with the most frequent LAUFG percentages, which range from 3.20 percent to 3.70 percent. Based on the discussion included in Items 44(c) and 44(d) of the response, what is LG&E's best general estimate of the portion of LAUFG that could be attributed to transportation customers, served from its high, medium or low pressure systems? Explain the basis for the response.

c. Refer to the response to Item 44(d), page 4 of 4, second full paragraph. The response indicates that charging transportation customers for LAUFG should be considered only in conjunction with a decrease in the rates to transportation customers and a corresponding shift of revenue responsibility to customers relieved of a share of the responsibility for LAUFG. By a decrease in rates for transportation customers, explain whether LG&E is suggesting (1) a decrease sufficient only to offset the portion of LAUFG they may be charged or (2) a decrease determined in some other manner.

30. Refer to the response to Staff Second Request, Item 50(e). Explain why combustion turbine generation was down 74 percent during the test year.

31. Refer to the response to Staff Second Request, Item 52. Explain the reason(s) for the reduction in total overtime hours in 2001 and 2002.

32. Refer to the response to Staff Second Request, Item 56 and the attachment to that response. For each of the vendors listed below, provide a more detailed description of the services provided to LG&E:

a. James E. Andriot – Contract Auditor, page 1 of 270.

b. Robert Half Management Resources – Contract Auditor, pages 4 and 5 of 270.

c. American Payment Systems, Inc. – Credit Card Processing Service, pages 14 and 15 of 270.

d. Commercial Movers Inc. – Office relocation movers, pages 29 and 30 of 270.

e. Creative Alliance – Image Campaign Services, pages 36 and 37 of 270.

f. William W. Gamblin – Budgeting and Financial Services, page 92 of 270.

g. Harry K. Moore Company – Real Estate Services, page 94 of 270.

h. Heidrick and Struggles Inc. – Management Recruitment Services, page 94 of 270.

i. ICR – Customer Survey Services, pages 97 and 98 of 270.

j. J. Y. Legner Associates Inc. – Administrative, Purchase order, writing operational procedures support, pages 101 through 106 of 270.

k. Jarboe – Customer Demonstration and Sales Services, pages 106 and 107 of 270.

l. Lakeshore Staffing Group – Sourcing Contractor, pages 135 and 136 of 270.

m. R. E. Lyon – Sourcing Contractor, page 136 of 270.

n. Neace Lukens Inc. – Risk Management Fees, page 182 of 270.

o. Ryan Co. LLC – External communications consulting services, page 191 of 270.

p. Schlumberger Industries – Mapping Services, page 192 of 270.

q. Schmidt Consulting Services Inc. – Customer educational services, pages 192 and 193 of 270.

r. The Prime Group – Regulatory Management Services, pages 211 and 212 of 270.

33. Refer to the response to Staff Second Request, the attachment to Item 56.

a. Refer to pages 36 and 37 of 270. Were the costs associated with Creative Alliance reclassified to Account No. 426 during or after test-year end?

b. Refer to pages 38 through 47 of 270. Explain why the costs associated with services provided by Dewolff Boberg and Associates are recurring.

c. Refer to pages 101 through 106 of 270. Explain why the costs associated with services provided by J. Y. Legner Associates Inc. are recurring.

d. Refer to pages 163 and 164 of 270. Were the costs associated with Mo Better Marketing Communications reclassified during or after test-year end?

e. Refer to pages 189 through 191 of 270. Explain why the costs associated with services provided by QDRO Consultants Company are recurring.

f. Refer to page 192 of 270. Explain why the costs associated with services provided by Schlumberger Industries are recurring.

g. Refer to pages 204 through 209 of 270. Based on the information contained in these pages, LG&E spent approximately $585,000 on underground line locating.

(1) Were these costs associated with underground line locating related to locating LG&E's entire system of underground lines or on an "as needed" basis for individual projects?

(2) Does LG&E believe that the test-year expense for this item reflects the reasonable on-going level, is higher than the on-going level, or is lower than the on-going level? Explain the response.

34. Refer to the response to Staff Second Request, Item 57. Would LG&E agree that the charitable contributions recorded in error in accounts other than Account No. 426 should be removed for rate-making purposes?

35. Refer to the response to Staff Second Request, Item 60(c). LG&E was requested to identify the adjustments proposed by it in this case that would be modified by the recognition of the decision in Case No. 2003-00236[8] and to indicate how the

[8] Case No. 2003-00236, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Two-Year Billing Period Ending April 30, 2003.

proposed adjustment would be revised. LG&E was also requested to include all supporting workpapers, calculations, and assumptions. LG&E responded that its intent was to provide the requested impact of the "roll in" on the case at the time it filed rebuttal testimony. LG&E has not explained why it is reasonable to delay filing the requested information until April 26, 2004. Provide the originally requested information.

36. Refer to the response to Staff Second Request, Item 66(c). Provide an amount for the 5 percent of Mr. Rosenberg's invoiced amounts that related to LG&E's Earnings Sharing Mechanism case. Include all assumptions and calculations used to determine the amount.

37. Refer to the response to the Attorney General's First Data Request dated February 3, 2004 ("AG First Request"), Item 3.

a. Explain why billed revenues from ultimate consumers for the 12 months ended May 31, 2003, rather than the 12 months ended September 30, 2003, were used in the determination of the 0.49 percent bad debt factor.

b. Provide a revised calculation of the bad debt factor using billed revenues from ultimate consumers for the 12 months ended September 30, 2003.

38. Refer to the response to the AG First Request, Item 7(a) and the attachment to the response to the Commission Staff's First Data Request dated December 19, 2003 ("Staff First Request"), Item 43. LG&E has indicated that the appropriate cost of long-term debt to use for rate-making purposes is 3.576 percent. However, the attachment to Staff First Request Item 43 shows that the cost of long-term

debt consistent with the Commission's January 7, 2000 Order in Case No. 1998-00426[9] is 3.533 percent.

a. Is the use of the 3.576 percent cost of long-term debt consistent with previous decisions of the Commission? Explain the response.

b. Explain in detail why LG&E believes the 3.576 percent cost of long-term debt is appropriate for rate-making purposes.

39. Refer to the response to the AG First Request, Item 13.

a. Why hasn't LG&E prepared and submitted in this case a pro forma rate base for electric operations, gas operations, and total company? Explain the response.

b. Prepare a pro forma rate base for LG&E's electric operations, gas operations, and total company. Include the appropriate references for all pro forma adjustments recognized in determining the pro forma rate base.

40. Refer to the response to the AG First Request, Item 20(a) and the attachment to that response.

a. Explain the meaning of "(NC)" as shown on the attachment to Item 20(a).

b. Explain in detail why there is a gas portion to the miscellaneous deferred debit associated with pollution control bond refinancing expense.

41. Refer to the response to the AG First Request, Item 77 and the attachment to that response. Concerning the expenses associated with employee gifts

[9] Case No. 1998-00426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service.

and award banquets, social events and parties, and other employee-related social expenses, does LG&E believe the $118,804 for electric operations and $20,825 for gas operations should be included for rate-making purposes? Explain the response in detail.

42. Refer to the response to the AG First Request, Item 78. For each of the lawsuits and other legal actions listed in this response, indicate whether the expense is of a recurring nature, and if recurring, explain why LG&E believes it to be recurring.

43. Refer to the response to the AG First Request, Item 81 and the attachment to that response. For each of the organizations listed below, describe the nature of the organization and explain why the membership should be included for rate-making purposes:

a. Association of the United States.

b. Focus Louisville Alumni Group.

c. Louisville Apartment Association.

d. North Carolina Coal Institute Inc.

e. Okolona Business and Professional Association.

f. Tennessee Regional Safety Council Inc.

g. The Conference Board.

h. The Law Club.

44. Refer to the response to the AG First Request, Item 85, page 2 of 2. Explain in detail why the percentage of the dues to EEI associated with Legislative and Regulatory Advocacy, Advertising, Marketing, and Public Relations should be included for rate-making purposes.

45. Refer to the response to the AG First Request, Item 148, page 2 of 4. Identify the independent power producers referenced in this response, indicate the size in megawatts of each producer's facility, and indicate when each entered LG&E's service territory.

46. Refer to the response to the AG First Request, Item 240. The AG asked Mr. Seelye and Mr. Beer if, when considering what rate of return is appropriate for each rate class, they had considered the fact that serving industrial customers poses a greater risk to the utility and its earnings because of the potential of such customers leaving the system. LG&E's response was that Mr. Seelye did not agree with the premise of the question. In Mr. Rosenberg's opinion, does the risk of losing industrial customers affect a utility's required rate of return? Explain the answer.

47. Refer to the response to the AG First Request, Item 265 regarding the elimination of the Water Heater rider. The response indicates that under a single tariff, customers will not be billed two customer charges and that, over time, the extra meters will be removed. The response to the AG First Request, Item 268, regarding elimination of the General Service Space Heating rider indicates that, while all service will be billed under a single tariff, the customers will have two meters and will pay two customer charges. Considering the similarity of the tariffs proposed for elimination, explain why LG&E proposes this disparate treatment for the former customers served under the two riders.

48. Refer to the response to the AG First Request, Item 313.

a. Explain why certain EEI expenses were allocated to gas operations during the test year.

b. Provide an analysis like the one shown in the response to Item 313 for test-year expenses associated with the American Gas Association. Include a breakdown of membership dues using the format shown in the response to the AG First Request, Item 85, page 2 of 2.

49. Refer to the response to the Kentucky Industrial Utility Customers, Inc. ("KIUC") First Data Request dated February 3, 2004 ("KIUC First Request"), Item 128. The response states that the Redundant Capacity Rider is being offered in response to customer requests over the years. LG&E also states that it has not had any communication with customers regarding the rate schedule either before, or subsequent to, filing this case.

a. Provide a narrative description of the customer interest in the Redundant Capacity Rider. Include an estimate of the number of customers making a request for such a service and state when the most recent inquiries were made.

b. LG&E states that, as a new offering, there are no test year revenues or billing determinates, or estimates of revenues or determinants. Based on the information provided in part (a) above, provide LG&E's best general estimate of the level of revenues the rider will generate.

50. Refer to the response to the KIUC First Request, Item 130. LG&E states that, as a new offering, there are no test year revenues or billing determinants, or estimates of revenues or determinants for the Intermittent and Fluctuating Loads Rider. Provide LG&E's best general estimate of the level of revenues the rider will generate.

51. Refer to the response to the Metro Human Needs Alliance and People Organized and Working for Energy Reform's First Data Request dated February 3,

2004, Item 30 regarding LG&E's contributions to "WeCare." The amount of the contributions has increased significantly from 2001 to 2003. Provide the account(s) in which LG&E records the contributions and explain whether or not they are recorded "below the line."

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

DATED March 1, 2004

cc: All Parties