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 FIRST DATA REQUEST
TO THE ATTORNEY GENERAL

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that the Attorney General, by and through his Office of Rate Intervention, 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 April 19, 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. Refer to the Direct Testimony of Robert J. Henkes – Electric Case ("Henkes Electric Testimony"), page 9. Mr. Henkes states his agreement with Louisville Gas and Electric Company's ("LG&E") proposed removal of the environmental surcharge rate base associated with the post-1995 Compliance Plan.

a. In reaching this conclusion, did Mr. Henkes review the Commission's Orders in Case Nos. 2002-00193[1] and 2003-00236[2] concerning the calculation of a "roll-in" of the environmental surcharge revenue requirement into LG&E's base rates?

b. Does Mr. Henkes believe LG&E's treatment of the environmental surcharge as it relates to capitalization is consistent with the determination of the amount of the environmental surcharge "rolled into" existing base rates in Case Nos. 2002-00193 and 2003-00236? Explain the response.

2. Refer to the Henkes Electric Testimony, pages 14 through 20, concerning LG&E's adjusted electric rate base.

a. Has Mr. Henkes examined the pro forma net original cost rate base LG&E provided in response to the Commission Staff's Third Data Request dated March 1, 2004, Item 39?

---

[1] 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.

[2] 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.

b. If yes, does Mr. Henkes have any comments or recommendations concerning the rate base submitted in the response to Item 39?

3. Refer to the Henkes Electric Testimony, pages 24 and 25. As an alternative to restating the test year income taxes to reflect the effective Kentucky income tax rate of 7.87 percent, would a calculation of the income tax liability based on the adjusted operating statement, before consideration of taxes and reflecting the effective tax rate, be reasonable? Explain the response.

4. Refer to the Henkes Electric Testimony, page 43, concerning LG&E's proposed rate case expense adjustment.

a. In order to protect privileged information, LG&E has redacted some information on its legal invoices included in this proceeding and submitted affidavits from its counsel to demonstrate the legal costs were associated with this rate case. Does Mr. Henkes have a position as to whether these legal invoices should be included as part of LG&E's rate case expense? If yes, provide the position.

b. Does Mr. Henkes believe that the cost of the new depreciation study should be amortized over the same time period as all other rate case expenses? Explain the response.

5. Refer to the Henkes Electric Testimony, pages 54 and 55 and Schedule RJH-4.

a. If Mr. Henkes agrees that the pension adjustment discussed by Mr. Majoros should be included in the determination of LG&E's electric revenue requirement, explain in detail why that adjustment does not appear on Schedule RJH-4.

b. Provide revised versions of Schedules RJH-1, RJH-3, and RJH-4 that reflect Mr. Majoros's pension adjustment.

6. In Case No. 2003-00434,[3] Mr. Majoros recommends an electric weather normalization for the Kentucky Utilities Company ("KU"). Explain in detail why Mr. Henkes did not propose a similar adjustment for LG&E's electric operations.

7. Refer to the Direct Testimony of Robert J. Henkes – Gas Case ("Henkes Gas Testimony"), pages 13 through 17, concerning LG&E's adjusted gas rate base.

a. Has Mr. Henkes examined the pro forma net original cost rate base LG&E provided in response to the Commission Staff's Third Data Request dated March 1, 2004, Item 39?

b. If yes, does Mr. Henkes have any comments or recommendations concerning the rate base submitted in the response to Item 39?

8. Refer to the Henkes Gas Testimony, pages 21 and 22. As an alternative to restating the test year income taxes to reflect the effective Kentucky income tax rate of 7.87 percent, would a calculation of the income tax liability based on the adjusted operating statement, before consideration of taxes and reflecting the effective tax rate, be reasonable? Explain the response.

9. Refer to the Henkes Gas Testimony, page 41, concerning LG&E's proposed rate case expense adjustment.

a. In order to protect privileged information, LG&E has redacted some information on its legal invoices included in this proceeding and submitted affidavits

[3] Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company.

from its counsel to demonstrate the legal costs were associated with this rate case. Does Mr. Henkes have a position as to whether these legal invoices should be included as part of LG&E's rate case expense? If yes, provide the position.

b. Does Mr. Henkes believe that the cost of the new depreciation study should be amortized over the same time period as all other rate case expenses? Explain the response.

10. Refer to the Henkes Gas Testimony, page 52 and Schedule RJH-4.

a. If Mr. Henkes agrees that the pension adjustment discussed by Mr. Majoros should be included in the determination of LG&E's gas revenue requirement, explain in detail why that adjustment does not appear on Schedule RJH-4.

b. Provide revised versions of Schedules RJH-1, RJH-3, and RJH-4 that reflect Mr. Majoros's pension adjustment.

11. The Kroger Company's witness, Kevin C. Higgins, has recommended that the Merger Surcredit and the Value Delivery Team surcredit should be discontinued. Does Mr. Henkes have a position concerning the continuation of these two surcredits? If yes, explain that position.

12. The Kentucky Industrial Utility Customers, Inc. ("KIUC") witness, Lane Kollen, has recommended that the Earnings Sharing Mechanism ("ESM") should be terminated. Does Mr. Henkes have a position concerning the termination of the ESM? If yes, provide that position.

13. Refer to the Direct Testimony of Michael J. Majoros, Jr. – SFAS No. 143, pages 15 through 21.

a. On page 15, lines 6 through 25, Mr. Majoros quotes paragraph 38 of the Federal Energy Regulatory Commission's ("FERC") Notice of Proposed Rulemaking ("NOPR") in Docket No. RM02-7-000. Provide the paragraph number(s) and text of the paragraph(s) from FERC's Order No. 631 that specifically address NOPR paragraph 38.

b. On page 17, Mr. Majoros refers to the requirements contained in paragraph B73 of Statement of Financial Accounting Standards ("SFAS") No. 143. Provide the complete text of paragraph B73.

c. On page 18, Mr. Majoros quotes paragraphs 38 and 39 of FERC Order No. 631. Provide the complete text of paragraphs 36 and 37 of FERC Order No. 631.

d. Given the statements contained in paragraphs 20 and B73 of SFAS No. 143, and paragraphs 36 through 39 of FERC Order No. 631, explain in detail how Mr. Majoros has reached the conclusion that LG&E must record a regulatory liability for removal costs that do not qualify as legal retirement obligations.

e. On page 21, Mr. Majoros states, "The most important aspect of Order No. 631 is its requirement to separate or unbundle non-legal cost of removal allowances from depreciation rates." Provide citations to the applicable paragraphs in FERC Order No. 631 that support Mr. Majoros's statement.

14. Refer to the Majoros Testimony – Depreciation, page 26, lines 6 through 9. Isn't it true that FERC Order No. 631 only requires utilities to maintain separate subsidiary records for the cost of removal for non-legal retirement obligations that are included as specific identifiable allowances recorded in accumulated depreciation,

rather than Mr. Majoros's statement that these costs must be separated from depreciation expenses? Explain the response.

15. KIUC witness Lane Kollen has filed testimony concerning LG&E's proposed depreciation rates. Does Mr. Majoros have a position concerning Mr. Kollen's proposed depreciation rates? If yes, explain the position.

16. Refer to the Testimony of David H. Brown Kinloch ("Kinloch Testimony"), pages 10 through 12, concerning his proposed rate increases for LG&E's G-7 and Special Contract gas customers.

a. For the Special Contract customer class, Mr. Kinloch proposes an increase of 32.95 percent. Explain how an increase of this level comports with the gradualism concept Mr. Kinloch advocates for various rates and miscellaneous charges in other parts of his testimony.

b. LG&E has expressed concern about increasing rates of customers which can possibly leave, or bypass, its distribution system for economic reasons. Explain Mr. Kinloch's understanding of how LG&E would recover fixed costs presently assigned to such customers in the event they opted to bypass LG&E's system.

17. Refer to the Kinloch Testimony, pages 27 and 28, where he discusses the recommended percentage increases for LG&E's electric customer classes. On page 28, line 10, Mr. Kinloch answers "No" when asked if he is proposing an alternative allocation of rate increases. On lines 12 through 14, Mr. Kinloch says he "would recommend that the five classes that are under-earning be held to an increase that does not exceed 1% over the overall increase. . . ." Clarify whether this recommendation, in fact, differs from LG&E's proposed allocation of the rate increases.

18. Refer to the Kinloch Testimony, page 30, and Exhibit DHBK-13, page 1 of 13, which shows his calculation of residential electric rates for LG&E's customers. Mr. Kinloch recommends eliminating any seasonal differential in residential energy charges. Under this recommendation, energy charges proposed by Mr. Kinloch would result in $23.4 million of the proposed $26.3 million increase for the residential class falling on customers' winter season electric bills, excluding those customers' share of his proposed customer charge. The resulting increase, for residential customers' winter season electric bills, is approximately 20 percent. Explain how an increase of this level comports with the gradualism concept Mr. Kinloch advocates for various rates and miscellaneous charges in other parts of his testimony.

19. Refer to the Kinloch Testimony, pages 31 through 33, and his discussion of the upper limit on customer size included in LG&E's General Service ("GS") electric tariff, which LG&E currently limits to 200 KW. Mr. Kinloch recommends increasing the size limit to 5,000 KW, which is the limit in the GS tariff of KU.

a. Explain whether Mr. Kinloch is recommending this change solely because the 5,000 KW limit is included in KU's tariff.

b. If yes to part (a) above, explain why it is appropriate to make a change of this sort based on the terms in another utility's tariff.

20. Refer to the Testimony of Carl G. K. Weaver ("Weaver Testimony"), page 28. Dr. Weaver provides citations from *Security Analysis and Portfolio Management* in his discussion of the arithmetic and geometric means. Provide a copy of the pages from *Security Analysis and Portfolio Management* that discuss this subject.

21. Refer to the Weaver Electric Testimony, page 38. Dr. Weaver eliminates five companies from the comparison group because *Value Line* does not recommend them to investors.

a. Explain why this is an important criterion in selecting companies that are similar to LG&E.

b. Provide a copy of the *Value Line* that contains the statement that it does not recommend these companies to investors.

22. Refer to the Weaver Electric Testimony, page 39. Dr. Weaver eliminated six companies from the comparison group because they had an equity to total capital ratio lower than 38 percent.

a. Explain the basis for using 38 percent as a threshold.

b. Explain why this is an important criteria to use in developing a group of companies comparable to LG&E.

23. Refer to the Weaver Electric Testimony, page 56. Dr. Weaver elected to use the period 1992 through 2003 in his historical growth Discounted Cash Flow ("DCF") analysis. Dr. Weaver states that this time period includes two periods of expansion and one period of contraction.

a. Explain why it is important for the historical time period to have this configuration.

b. Explain the effect of using a longer period of time.

24. Refer to the Weaver Electric Testimony, page 57. Dr. Weaver states that he used the geometric mean of the historical growth rates in his analysis. For comparison, provide the arithmetic mean of the same data.

25. Refer to Weaver Electric Testimony, Schedules 39 and 65. The Capital Asset Pricing Model ("CAPM") risk free rate is described as the rate on 10-year Treasury notes and bonds. Explain why it is appropriate to use a 10-year note or bond instead of a 20-year or 30-year bond as the risk free rate.

26. Would Dr. Weaver's recommendation for electric be the same if LG&E no longer had the ESM?

a. If yes, explain why.

b. If no, provide an estimate of the revised recommendation and explain why the absence of an ESM affects the recommendation.

27. Refer to the Weaver Gas Testimony, page 65. Dr. Weaver states that he eliminated three companies because *Value Line* did not recommend them to investors.

a. Explain why this is an important criteria when selecting comparison companies.

b. Provide a copy of the *Value Line* that contains the statement that it does not recommend these companies to investors.

28. Refer to the Weaver Gas Testimony, page 73. Dr. Weaver elected to use the period 1992 through 2003 in his historical growth DCF analysis. Explain the effect of using a longer period of time.

29. Refer to the Weaver Gas Testimony, page 73. Dr. Weaver states that he used the geometric mean of the historical growth rates in his analysis. For comparison, provide the arithmetic mean.

30. Refer to the Weaver Gas Testimony, Schedules 39 and 65. The CAPM risk free rate is described as the rate on 10-year Treasury notes and bonds. Explain

why it is appropriate to use a 10-year note or bond instead of a 20-year or 30-year bond as the risk free rate.

31. Refer to the Weaver Testimony, pages 77 and 78, concerning LG&E's capitalization and capital structure.

a. Was Dr. Weaver aware that the Accounts Receivable Securitization program was terminated on January 16, 2004?

b. Was Dr. Weaver aware that LG&E replaced the funds from the Accounts Receivable Securitization program with a mix of short-term and long-term debt borrowed from Fidelia, Inc. ("Fidelia") in January 2004?

c. Explain why Dr. Weaver believes the Accounts Receivable Securitization program should be included as part of LG&E's capital structure in this case.

d. Should the Fidelia debt financing be recognized in the capital structure of LG&E, but the dollars of capitalization remain unchanged from the total as of test-year end? Explain the response.

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

Dated April 6, 2004

cc: All Parties