COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC RATES,	)	
TERMS, AND CONDITIONS OF KENTUCKY	)	CASE NO.
UTILITIES COMPANY	)	2003-00434

COMMISSION STAFF'S FIRST DATA REQUEST
TO THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that the Kentucky Industrial Utility Customers, Inc. ("KIUC") 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 Lane Kollen ("Kollen Testimony"), pages 11 through 15.

a. On page 12 Mr. Kollen states that ratepayers were to receive 50 percent of the projected savings through a Value Delivery Team ("VDT") surcredit. Would Mr. Kollen agree that the settlement agreement that established the VDT surcredit provided that ratepayers would receive 40 percent of the projected savings?

b. The VDT surcredit reflects the projected savings from the workforce reduction net of the amortization of expenses to achieve those savings. Would Mr. Kollen agree that since the VDT surcredit is based on the projected savings, rather than actual savings, the harm to ratepayers he has identified is somewhat lessened? Explain the response.

c. The Kroger Company's witness, Kevin C. Higgins, has proposed to discontinue the VDT surcredit.

(1) Does Mr. Kollen have a position concerning the recommendation of Mr. Higgins? If yes, provide that position.

(2) If the Commission were to accept Mr. Higgins' proposal and discontinue the VDT surcredit, what would Mr. Kollen's recommendation be concerning the unamortized balance of the deferred expenses incurred to achieve the workforce reduction?

2. Refer to the Kollen Testimony, pages 19 and 20. Assume for purposes of this question that KU's ice storm expenses were subject to the Earnings Sharing Mechanism ("ESM") for calendar year 2003 and the Commission adopts Mr. Kollen's

recommendation that the ESM be discontinued on the effective date of any rate increase authorized in this proceeding.

a. Under these assumptions, is it correct that KU would collect 40 percent of its ice storm expenses for approximately 4 months?

b. Explain why Mr. Kollen believes this is a reasonable recovery of KU's ice storm expenses.

3. Refer to the Kollen Testimony, pages 20 and 21. Explain the basis for Mr. Kollen's position that the Owensboro Municipal Utility's nitrogen oxide compliance costs that are billed to KU can be included as part of a future compliance plan and those costs are eligible to be recovered through KU's environmental surcharge.

4. Refer to the Kollen Testimony, pages 21 through 31 and Exhibit LK-5, concerning KU's proposed adjustment to depreciation expense.

a. As part of the settlement agreement approved in Case No. 2001-00140,[1] KU agreed to reduce its total company electric depreciation expense by $12,774,957. The reduction was to be reflected for accounting and rate-making purposes for all of 2001. In this proceeding, KU is proposing to increase its total company electric depreciation expense by $2,395,535. KU's new depreciation study is based on plant in service as of December 31, 2002. Does Mr. Kollen have any opinions or comments concerning this change from a reduction to an increase in depreciation expense within approximately 3 years?

[1] Case No. 2001-00140, Application of Kentucky Utilities Company for an Order Approving Revised Depreciation Rates.

b. Refer to Exhibit LK-5. Explain why the following plant accounts show a depreciation amount under the column "Depreciation Under Adjusted Rates" but do not show a corresponding amount under the column "Depreciation Under Current Rates."

(1) Tyrone Units 1 & 2, page 1 of 3.

(2) Haefling, page 1 of 3.

(3) Improvements to Leased Property, page 2 of 3.

c. Refer to Exhibit LK-5. Explain why the following plant accounts show a depreciation amount under the column "Depreciation Under Current Rates" but do not show a corresponding amount under the column "Depreciation Under Adjusted Rates."

(1) Overhead Conductors & Devices, page 1 of 3.

(2) Miscellaneous Equipment, page 2 of 3.

d. The Attorney General's witness, Michael J. Majoros, Jr., has addressed KU's current depreciation study and the depreciation rates proposed by KU. Mr. Majoros takes issue with the treatment of net salvage in KU's proposed depreciation rates. Does Mr. Kollen have a position concerning the net salvage treatment proposed by Mr. Majoros? If yes, provide that position.

e. Mr. Majoros has also criticized KU's accounting and proposed adjustments concerning the implementation of Statement of Financial Accounting Standard ("SFAS") No. 143. Does Mr. Kollen have a position concerning Mr. Majoros's criticism of KU's implementation of SFAS No. 143? If yes, provide that position.

5. Refer to the Kollen Testimony, pages 31 and 32 and Exhibit LK-7.

a. Concerning the Accounts Receivable Securitization component of KU's capitalization and capital structure:

(1) Was Mr. Kollen aware that the Accounts Receivable Securitization program was terminated on January 16, 2004?

(2) Was Mr. Kollen aware that KU 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?

(3) Explain why Mr. Kollen believes the Accounts Receivable Securitization program should be included as part of KU's capital structure in this case.

(4) Should the Fidelia debt financing be recognized in the capital structure of KU, but the dollars of capitalization remain unchanged from the total as of test-year end? Explain the response.

b. Concerning the Common Equity component of KU's capitalization and capital structure, does Mr. Kollen agree with KU's proposed adjustment to Common Equity related to its minimum unfunded pension liability currently reported in the Other Comprehensive Income balance? Explain the response.

c. Concerning the adjustment to capitalization to remove the environmental surcharge:

(1) Does Mr. Kollen agree with KU's proposal to remove all investments associated with the post-1994 Compliance Plans from capitalization? Explain the response.

(2) Does Mr. Kollen believe KU'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 No. 2003-00068?[2] Explain the response.

d. Concerning the gross-up of KU’s revenue requirement, does Mr. Kollen believe the stated or effective state income tax rate should be utilized to calculate the gross-up factor? Explain the response.

6. Refer to the Kollen Testimony, pages 50 through 52. Mr. Kollen has recommended that KU be directed to reduce its base rates by the amounts included in the allowed revenue requirements related to the merger surcredit and the VDT surcredit upon their respective expiration dates.

a. Assume for purposes of this question the Commission adopts Mr. Kollen’s recommendation. Explain in detail what steps would have to be taken by the Commission and KU to implement this recommendation.

b. Mr. Higgins has proposed that KU’s merger surcredit adjustments be rejected. Does Mr. Kollen have a position concerning Mr. Higgins’ recommendation concerning the merger surcredit? If yes, provide that position.

c. If Mr. Kollen agrees with Mr. Higgins’ recommendation concerning the merger surcredit, what adjustments would be necessary to recognize the fact that some customers have already received their merger savings credit dollars up front in the form of a discounted, lump-sum payment?

[2] Case No. 2003-00068, 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, 2001, July 31, 2001, January 31, 2002, and January 31, 2003 and for the Two-Year Billing Periods Ending July 31, 2000 and July 31, 2002.

7. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), page 20. On lines 4-6, Mr. Baron states that he does not agree with the underlying methodology associated with the BIP method to allocate costs to rate classes, but KIUC is willing to utilize the methodology in order to apportion the Company's authorized rate increase to rate classes. Explain whether Mr. Baron considered the POD method that was accepted in KU's last rate case as an alternative in the current rate case. In the explanation, provide Mr. Baron's opinion of which methodology is the most appropriate for KU when considering KU on a stand-alone basis.

8. Refer to the Baron Testimony, pages 38 through 44, concerning Mr. Baron's "25% subsidy reduction method" for allocating the proposed revenue increase to the various revenue classes. Explain how Mr. Baron settled on 25 percent as opposed to a different percentage.

9. Refer to the Baron Testimony, pages 48 through 52, concerning the allocation of revenues to large power rate schedules in the event the Commission awards an amount that is less than what has been proposed. Explain why Mr. Baron recommends that the reduction in total revenues be applied solely to the proposed demand charges with none applied to the proposed energy charges.

10. Refer to the Baron Testimony, pages 53 through 55, concerning the proposed redundant capacity tariff. Mr. Baron recommends that the tariff be modified so that the customer has "an opportunity to review and, potentially challenge, the Company's redundant capacity charges." Describe Mr. Baron's recommendation for resolving potential issues on which the customer and utility are unable to agree.

11. Refer to the Baron Testimony, page 56, concerning the roll-in of fuel costs into base rates. Clarify that the belief of KIUC that fuel costs should be rolled-in on a voltage differentiated basis is not an issue in this general rate case.

12. Refer to the Baron Testimony, pages 59 through 67, regarding the proposed Curtailable Service Rider ("CSR"). Mr. Baron recommends that 175 be established as the maximum annual hours of interruption rather than 500 hours as proposed. In the event the number of hours of combustion turbine operation increases in the future, as referenced on page 62 of his testimony, describe how Mr. Baron believes those higher hours of operation should be reflected in the CSR.

13. Refer to the Baron Testimony, page 71, regarding KIUC's proposal to increase from 50 MW to 75 MW the demand limit place on the LCI-TOD rate. Explain whether the only reason for the proposal is to allow MeadWestvaco to take service under the rate. Include in the explanation KIUC's rationale for selecting 75 MW for the demand limit, or whether there is justification for any limit.

14. Refer to the Direct Testimony of Richard A. Baudino ("Baudino"), page 8. Mr. Baudino discusses the increased risk for electric utilities as a result of activities in unregulated areas. Does the recommendation include the effect of LG&E Energy LLC unregulated activity?

15. The Baudino Testimony, pages 8 and 9, provides a quote from Standard & Poor's ("S&P") which says that KU's above-average rating is supported by low production costs, lack of nuclear-generating assets and a favorable regulatory environment. Explain Mr. Baudino's opinion on what S&P considers a "favorable regulatory environment."

16. Refer to the Baudino Testimony, page 10. Mr. Baudino states that he performed a Capital Asset Pricing Model ("CAPM") analysis, but did not incorporate the results into his recommendation. Explain why Mr. Baudino performed the analysis if he did not use it in his recommendation.

17. Refer to the Baudino Testimony, page 25. Mr. Baudino discusses his use of 5-year and 20-year Treasury bonds to develop the risk free rate used in his CAPM analysis. Explain why Mr. Baudino did not include the 30-year Treasury bond in his analysis.

18. Refer to the Baudino Testimony, pages 44 and 45. Mr. Baudino discusses his position on using a geometric mean versus the arithmetic mean in computing the expected market return in the CAPM. Provide an estimate of the difference between using the geometric mean and the arithmetic mean in developing the expected market return.

19. Would Mr. Baudino's recommendation for electric operations be the same if KU 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.

Thomas M. Dorman
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Public Service Commission
P. O. Box 615
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Dated April 6, 2004

cc: All Parties