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 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 Michael J. Majoros, Jr. – Revenue Requirement (“Majoros RR Testimony”), pages 6 and 7.

a. Has Mr. Majoros examined the pro forma net original cost rate base Kentucky Utilities Company (“KU”) provided in response to the Commission Staff’s Third Data Request dated March 1, 2004, Item 38?

b. If yes, does Mr. Majoros have any comments or recommendations concerning the rate base submitted in the response to Item 38?

c. Provide Mr. Majoros’s proposed rate base for KU.

2. Refer to the Majoros RR Testimony, pages 8 through 10.

a. Was Mr. Majoros aware that the Commission has considered electric weather normalization adjustments in six previous electric utility rate cases?

b. If yes to part (a) above, did Mr. Majoros review the Commission’s Orders in those previous cases in conjunction with the development of his proposed electric weather normalization adjustment?

c. If yes to part (b) above, explain in detail how Mr. Majoros’s proposed electric weather normalization adjustment addresses the concerns the Commission has expressed in previous electric rate cases about such an adjustment.

3. Refer to the Majoros RR Testimony, page 17 and Exhibit MJM-2.

a. If Mr. Majoros agrees that the adjustments discussed by Mr. Henkes should be included in the determination of KU’s revenue requirement, explain in detail why those adjustments do not appear on Exhibit MJM-2.

b. Provide revised versions of Exhibits MJM-1 and MJM-2 that reflect Mr. Henkes’ applicable rate-making adjustments for KU.

4. Refer to the Majoros RR Testimony, Exhibits MJM-1 and MJM-3. Was Mr. Majoros aware that the effective Kentucky income tax rate shown on Exhibit MJM-1 was the rate for Louisville Gas and Electric Company, not KU?

5. 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. Majoros have a position concerning the continuation of these two surcredits? If yes, explain that position.

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

7. Refer to the Majoros Testimony – 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 KU 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.

8. 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.

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

10. Refer to the Direct Testimony of David H. Brown Kinloch ("Kinloch Testimony'), page 20, lines 9 through 14. KU currently charges $10.40 for Regular Hours and $38.00 for After Hours disconnects/reconnects. KU recommends setting the disconnect/reconnect charge for both Regular Hours and After Hours at $31.00. Mr. Kinloch recommends setting the charge at $18.50 for both Regular Hours and After Hours.

a. Explain whether both reducing and equalizing the charge for Regular Hours and After Hours service will likely increase the number of requests for After Hours disconnect/reconnects, which could cost KU more due to shift differentials in the hourly rates for technicians.

b. Explain whether Mr. Kinloch would prefer a higher After Hours disconnect/reconnect rate in order to reduce any required increase in the Regular Hours rate.

11. 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.

12. Refer to the Weaver 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 KU.

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

13. Refer to the Weaver 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 KU.

14. Refer to the Weaver Testimony, page 56. Dr. Weaver elected to use the period 1992 through 2003 in his historical growth Discounted Cash Flow 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.

15. Refer to the Weaver 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.

16. Refer to Weaver Testimony, Schedules 39 and 65. The Capital Asset Pricing Model 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.

17. Would Dr. Weaver's recommendation 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.

18. Refer to the Weaver Testimony, pages 77 and 78, concerning KU'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 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?

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

d. 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.

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Public Service Commission
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Dated April 6, 2004

cc: All Parties