

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)	
AND ELECTRIC COMPANY FOR APPROVAL OF)	CASE NO.
ITS 2004 COMPLIANCE PLAN FOR RECOVERY)	2004-00421
BY ENVIRONMENTAL SURCHARGE)	

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

The Kentucky Industrial Utility Customers, Inc. ("KIUC") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 7 copies of the following information, with a copy to all parties of record. The information requested is due on April 20, 2005. 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 has been provided previously in the format requested, reference may be made to the specific location of that information in responding to this information request.

1. Refer to the Direct Testimony of Lane Kollen ("Kollen Direct Testimony"). Does Mr. Kollen have a position on the projects proposed by Louisville Gas and Electric Company ("LG&E")? Explain the response.

2. Refer to Kollen Direct Testimony, page 8. Concerning the change in the federal income tax law, does all of LG&E's taxable income represent "qualified production activities income"? Explain the response.

3. House Bill 272 was passed by the Kentucky General Assembly during the 2005 Regular Session and signed by the Governor on March 18, 2005. Included in the provisions of House Bill 272 is a revision to the Kentucky corporate income tax rate, reducing the rate from 8.25 percent to 7.00 percent during the period from January 1, 2005 through December 31, 2006. Should this Kentucky corporate income tax rate reduction be reflected in the gross-up on the equity components of the overall rate of return? Explain the response.

4. Refer to Kollen Direct Testimony, Exhibit LK-2. Provide all calculations, assumptions, and workpapers used to develop the information shown on this exhibit.

5. Refer to Kollen Direct Testimony, page 23.

a. In previous rate-making proceedings, has the Commission normally included the unamortized balance of deferred expenses in the rate base? Explain the response.

b. Explain why Mr. Kollen believes it is reasonable to include the unamortized balance of the deferred ash transfer expense in the surcharge rate base.

6. Refer to the Direct Testimony of Richard A. Baudino ("Baudino Direct Testimony"), pages 13, 33 and 34.

a. Mr. Baudino states that he performed two Capital Asset Pricing Model ("CAPM") analyses but did not incorporate these results into his recommendation. Explain why he performed the analysis if he did not use the results.

b. On page 34, Mr. Baudino states that his Discounted Cash Flow ("DCF") results have remained fairly stable and are consistent with interest rate trends

throughout 2004 and 2005. Because interest rates have currently begun an upward trend, would Mr. Baudino's DCF analysis also trend upward?

7. Refer to the Baudino Direct Testimony, pages 19 and 20. Mr. Baudino used electric companies, listed and covered by C.A. Turner Utility Reports ("C.A. Turner"), with at least 50 percent of total revenues coming from electric revenues.

a. Provide a copy of the information from C.A. Turner for all companies used in this analysis.

b. Explain why Mr. Baudino used 50 percent as his criteria to include a company, as opposed to, for example, 75 percent.

8. Refer to the Baudino Direct Testimony, page 31. Mr. Baudino averaged the yields for 20-year Treasury bonds with the yields for 5-year Treasury notes to determine the risk-free rate in his CAPM analysis. Provide any source that advocates using this averaging method to determine the risk-free rate in a CAPM analysis.

9. Refer to the Baudino Direct Testimony, page 35. Mr. Baudino states that the 2003 reduction in taxes on dividends means that an investor would require a lower pre-tax return to earn the same return as before the tax reduction. Explain why an investor would expect a lower pre-tax return rather than a higher after-tax return.

10. Is Mr. Baudino familiar with the recent approvals for electric companies of returns on equity by public utility commissions nationwide? If so, how does his recommendation compare to those approvals?



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DATED April 6, 2005

cc: All Parties