COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT FLUE GAS DESULFURIZATION SYSTEMS AND APPROVAL OF ITS 2004 COMPLIANCE PLAN FOR RECOVERY BY ENVIRONMENTAL SURCHARGE	)	CASE NO. 2004-00426

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 projects proposed by Kentucky Utilities Company ("KU")? Explain the response.

2. Refer to Kollen Direct Testimony, page 8. Concerning the change in the federal income tax law, does all of KU'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 12. In light of KU's current construction program, which includes the proposed addition of 6 scrubbers and the majority of the proposed Trimble County Unit 2 generating station, are KU's efforts to lower debt and retain earnings normal, reasonable business actions? Explain the response.

6. Refer to Kollen Direct Testimony, pages 17 and 18. Has the Commission previously utilized a hypothetic capital structure to cap the common equity portion of the capital structure when determining the overall cost of capital? Explain the response.

7. Refer to Kollen Direct Testimony, page 18. Mr. Kollen states he has calculated the effect of his proposal to cap KU's common equity.

a. If common equity was capped at 51.58 percent, what percentages were used for debt and preferred stock?

b. Provide the calculations described on page 18, lines 7 through 15.

8. Refer to the Direct Testimony of Stephen J. Baron ("Baron Direct Testimony"), pages 7, 13, and 14, specifically, the references to the KU customers with competitors (non-KU customers), who are not burdened with subsidy charges added to their electric bills, as are the KU customers.

a. Identify all specific rate schedules under which the KU customers in question take service and, for each customer, identify its average cost per kWh during calendar year 2004.

b. Identify the KU customers' competitors, the utilities from which they receive electric service, and their average cost per kWh in calendar year 2004.

9. Refer to the Baron Direct Testimony, page 10 and Exhibit_SBJ-2. Explain why Mr. Baron chose to use the 12-month test year from KU's recent rate case, Case No. 2003-00434,[1] for purposes of this case, rather than develop cost-of-service analyses based on a more current time period.

10. Refer to the Baron Direct Testimony, page 10 and Exhibits_SBJ-2 and SBJ-3.

c. The testimony states that the average of the subsidy amounts under the 5 methods is $8.35 million. Compared to the total electric costs of the

[1] Case No. 2003-00434, Adjustment of Electric Rates of Kentucky Utilities Company.

customers bearing the subsidy, what percentage will this amount represent in 2009, after reflecting the full impact of KU's proposed increase?

d. The difference under KIUC's allocation proposal compared to KU's proposal in 2009 is $3.3 million. What percentage reduction in the total electric costs of the customers bearing the subsidy will this amount represent?

11. Refer to the Baron Direct Testimony, page 18, the second sentence in the second paragraph.

a. Is a word missing from the phrase "ease of administration is an important for the Commission to consider . . .," perhaps "factor" or a synonym.

b. Provide a detailed description of Mr. Baron's understanding of the manner in which KU's monthly environmental surcharge filings are prepared, including the different accounting information, business records, and KU departments involved in the preparation.

c. Has Mr. Baron developed schedules for KU's monthly surcharge filings to reflect the changes he proposes? If yes, provide the schedules. If no, explain why not and state when they will be developed.

d. Rather than use total revenues to allocate KU's environmental surcharge revenue requirement, Mr. Baron recommends an allocation based on total revenues less fuel revenues. Total revenues are presently used to allocate the revenue requirement between jurisdictional sales and non-jurisdictional sales. Is KIUC advocating that total revenues less fuel revenues be used for purposes of this allocation? If no, explain why not.

12. Refer to the Baron Direct Testimony, pages 26-27, specifically, the discussion of the "adjusted KIUC allocation method" that would cap the percentage increase to rate classes such as General Service at the average system percentage increase. Has Mr. Baron developed schedules for the monthly surcharge filings to reflect this method? If yes, provide the schedules. If no, explain why not and state when they will be developed.

13. 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?

14. 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.

15. 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.

16. 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.

17. 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