COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE ENERGY AND REGULATORY ISSUES IN SECTION 50 OF KENTUCKY'S 2007 ENERGY ACT	))))	ADMINISTRATIVE CASE NO. 2007-00477

FIRST DATA REQUEST OF COMMISSION STAFF TO
LOUISVILLE GAS AND ELECTRIC COMPANY
AND KENTUCKY UTILITIES COMPANY

Louisville Gas and Electric Company and Kentucky Utilities Company ("LG&E/KU"), pursuant to 807 KAR 5:001, are to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before March 20, 2008. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

LG&E/KU shall make timely amendment to any prior responses if they obtain information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which LG&E/KU fail or refuse to furnish all or part of the requested information, they shall provide a written explanation of the specific grounds for their failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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.

1. Refer to pages 2-3 of the Direct Testimony of Lonnie E. Bellar ("Bellar Testimony"), specifically, the proposal for annual reviews of utility's financial results. Provide a more detailed description of the manner in which these financial reviews would be conducted and processed by the Commission.

a. Include in the description a discussion of the information upon which LG&E/KU believe the Commission's decision would be based.

b. Would adjustments to the utility's actual financial results be allowed or be required to reflect changes in items such as the number of customers served, annual degree days, and the level of economic activity in the service territory?

2. Refer to the Bellar Testimony, page 2, lines 16-18. Is Mr. Bellar recommending annual rate adjustments to ensure that the utilities' revenues remain constant only to the extent that revenues have decreased as a direct result of implementing energy efficiency programs? If no, explain in detail the reasons why Mr.

Bellar believes that Section 50 of the 2007 Energy Act encompasses rate adjustments to keep utilities' revenues constant between rate cases when the changes in the levels of revenues are unrelated to energy efficiency programs.

3. Refer to the Bellar Testimony, page 4, lines 4-15. Explain in detail whether LG&E/KU believe that KRS 278.285 already authorizes the recovery of the two rate-making measures discussed by Mr. Bellar. If not, explain in detail the revisions that would be needed to KRS 278.285 to authorize such recovery.

4. Refer to page 4 of the Bellar Testimony, specifically, the discussion of the proposed incentive return-on-equity adder ("ROE adder") for investments in energy efficiency programs. If a portion of the costs of energy efficiency programs are allowed to be capitalized (as also suggested on page 4 of the Bellar Testimony) and permitted to earn a return, explain why it is necessary to have an ROE adder compared to the return allowed on traditional investment in generation, transmission and distribution plant.

5. Refer to page 5 of the Bellar Testimony concerning the proposal that utilities be permitted to capitalize the demand cost portion of any purchased power contracts into which they enter.

a. Explain how not being permitted to capitalize any part of the cost of economic purchased power causes such purchases to be "less economically viable" alternatives to constructing new generation.

b. Mr. Bellar makes reference to the proposal being particularly relevant to renewable resource purchased power twice in the discussion on page 5, lines 1-10. However, the proposal will allow capitalization for all purchased power contracts. Explain why LG&E/KU believe that capitalizing the demand component of all purchased power within the scope of the issues set forth in Section 50 of the 2007 Energy Act and explain which issue(s) encompass this proposal.

c. Filings supporting LG&E/KU's monthly fuel adjustment clause ("FAC") reports, as well as similar supporting filings of other generating utilities reflect that the terms of power purchase transactions have evolved in recent years such that prices typically reflect an all-in energy price stated in dollars per megawatt-hour.[1] Do LG&E/KU have reason to believe that this energy pricing structure will be changing within the industry or, alternatively, that they can negotiate to have both demand and energy pricing in their future purchased power contracts? Explain the response.

d. If LG&E/KU enter into a long-term purchase power contract and are allowed to capitalize the demand-related cost component, will this result in LG&E/KU recovering all of its expenses for purchasing that power plus recovering a return on capital that was never invested?

e. Does LG&E/KU believe that proper consideration would be given to purchase power alternatives, demand-side management programs, and energy efficiency programs if amendments were enacted to the integrated resource plan regulation, 807 KAR 5:058, and the certificate statute, KRS 278.020, to require a showing that such alternatives and programs were considered before a certificate to construct new generation could be issued?

6. Refer to the Bellar Testimony, page 5, lines 5-10.

[1] This evolution has been recognized by the Commission in its FAC treatment of purchased power costs incurred by jurisdictional electric generating utilities.

a. Is capitalization of the demand cost of a long-term purchase power contract required by generally accepted accounting principles or is the capitalization merely a means to establish a regulatory asset?

b. Provide a list of each U.S. regulatory commission that has adopted a policy of allowing a portion of purchased power costs to be capitalized with a return earned on the unamortized balance. For each such commission, provide the statute, regulation, order, etc., which authorizes such treatment of purchased power costs.

c. Considering that Kentucky jurisdictional local distribution gas companies do not earn a return on the demand costs incurred for the purchase of natural gas, explain why the power purchased by an electric utility should be treated differently.

Beth O'Donnell
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DATED: March 11, 2008

cc: Parties of Record