COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY TO FILE DEPRECIATION STUDY	)))	CASE NO. 2007-00564
APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS BASE RATES	))))	CASE NO. 2008-00252

FIRST DATA REQUEST OF COMMISSION STAFF
TO ATTORNEY GENERAL'S OFFICE OF RATE INTERVENTION

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), pursuant to 807 KAR 5:001, is 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 no later than December 3, 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.

The AG shall make timely amendment to any prior responses if he obtains 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 the AG fails or refuses to furnish all or part of the requested information, he shall provide a written explanation of the specific grounds for his 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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the Direct Testimony and Exhibits of Robert J. Henkes Pertaining to the Electric Case ("the Henkes Electric Testimony"), page 14, concerning Mr. Henkes's second rate base adjustment. Provide citations to prior rate Orders which reflect the "[w]ell-established and long-standing Commission ratemaking policy" to which Mr. Henkes refers at the bottom of the page.

2. Refer to the Henkes Electric Testimony, page 19, and the Prepared Direct Testimony and Schedules of Glenn A. Watkins ("Watkins Testimony"), pages 3 and 10-13, regarding the electric weatherization adjustment proposed by Louisville Gas and Electric Company ("LG&E").

a. Mr. Henkes refers to the recommendations made by Mr. Watkins with regard to eliminating LG&E's proposed adjustment. Exactly where in the Watkins Testimony does Mr. Watkins make this recommendation?

b. Mr. Watkins refers to "[t]he vast majority of other states." Identify the states of which Mr. Watkins is aware that accept, or have accepted in the past, some form of electric weather normalization adjustment.

c. On pages 10-13 of his testimony, Mr. Watkins discusses his disagreement with various aspects of LG&E's adjustment and his analysis of the test year sales and how they were impacted by temperatures. Mr. Watkins also computes a weather normalization adjustment, the details of which are shown on Schedule GAW_2. Explain whether Mr. Watkins is proposing that the Commission adopt his calculated weather normalization adjustment. If not, explain why he has included such an adjustment in his testimony.

3. Refer to the discussion at the top of page 10 of the Watkins Testimony.

a. Mr. Watkins states that because daily usage varies significantly between weekdays and weekends and holidays, he has reflected this in his analysis of daily observations. Explain in detail how Mr. Watkins reflected the variation in daily observations in his analysis.

b. Mr. Watkins states that he expressed daily kWh usage on a per-customer basis for the residential class in order to prevent any skewness in the regression model but used a total class basis for the commercial and industrial classes. Provide a detailed discussion of how using daily kWh usage per customer prevents skewness in the regression model.

4. Refer to the Henkes Electric Testimony, pages 23-24, regarding the proposed rate-making treatment of LG&E's net MISO costs.

a. Explain in detail why Mr. Henkes believes that LG&E's post-test year net MISO costs should not be deferred until LG&E's next base rate case.

b. Explain why Mr. Henkes favors rate-making recognition of amounts based on various estimates which, to some extent, depend on activity in the MISO market through the year 2014, and which will result in MISO exit fee credits in the first quarter of the year 2015, or 8 years beyond the end of the test year in this case.

5. Refer to the Henkes Electric Testimony, pages 27-29, regarding the Kentucky Coal Tax Credit. LG&E has qualified for the credit for the past 6 years. The amount of its credit for the 3 most recent years has been much greater than in prior years. Explain why Mr. Henkes proposes to normalize LG&E's coal tax credits based on the most recent 5-year period.

6. Refer to the Henkes Electric Testimony, pages 29-32, regarding the Kentucky Recycle Tax Credit. Explain why Mr. Henkes recommends that the $4 million remainder of the recycle credit be amortized over 5 years for rate-making purposes.

7. Refer to the Henkes Electric Testimony, pages 33-34, regarding his proposed adjustment to remove a portion of LG&E's annual dues to the Edison Electric Institute ("EEI"). Mr. Henkes discusses the adjustment made in LG&E's last rate case in which 45.35 percent of LG&E's dues was removed based on that percentage of EEI's activities being related to various types of lobbying activities. The information provided in this case, which is not prepared in the same manner as in previous years, indicates that 16.15 percent of LG&E's 2007 EEI dues was spent on lobbying activities. With this background, explain Mr. Henkes's reasoning for basing his proposed adjustment on the percentage used 5 years ago in LG&E's previous rate case.

8. Refer to the Direct Testimony and Exhibits of Robert J. Henkes Pertaining to the Gas Case ("the Henkes Gas Testimony"), pages 10-11, concerning Mr. Henkes's second rate base adjustment. Provide citations to prior rate Orders which reflect the "[w]ell-established and long-standing Commission ratemaking policy" to which Mr. Henkes refers on page 11.

9. Refer to the Henkes Gas Testimony, page 20, regarding his proposed adjustment to remove a portion of LG&E's annual dues to the American Gas Association ("AGA"). Mr. Henkes discusses the adjustment made in LG&E's last rate case in which 22.59 percent of LG&E's dues was removed based on that percentage of AGA's activities being related to lobbying activities. The information provided in this case indicates that 27.93 percent of LG&E's AGA dues was spent on lobbying activities. With that background, explain Mr. Henkes's reasoning for basing his proposed adjustment on the percentage used 5 years ago in the previous rate case.

10. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony") at pages 9-10 and Exhibit JRW-2. Provide a copy of the most recent published company analysis from Value Line for each of the companies in the electric and gas proxy groups.

11. Refer to the Woolridge Testimony at page 10 and Exhibit JRW-2, Panel B.

a. Show how LG&E's regulated revenues from its gas operations compare, in percentage terms, to each of the companies in the gas proxy group.

b. Explain whether the gas revenue percentages in Column 3 are only for regulated gas distribution operations. If not, provide a breakout of the regulated revenues between distribution activities and all other regulated operations activities.

c. New Jersey Resources Corp. receives only 33 percent of its revenues from regulated gas operations. Explain why this company is an acceptable candidate to include in the proxy group for LG&E's gas operations.

d. Atmos Energy Corporation dwarfs LG&E's gas operations. Explain why this company is an acceptable candidate to include in the proxy group for LG&E's gas operations.

12. Refer to the Woolridge Testimony, page 31, and Exhibit JRW-6, page 3 of 5.

a. Explain how taking the collective average of 5-year and 10-year historical growth rates for Earnings Per Share ("EPS"), Dividends Per Share ("DPS"), and Book Value Per Share ("BVPS") series' mean and median values provides a meaningful estimate of dividend growth as used in the Discounted Cash Flow ("DCF") model.

b. Describe the pros and cons of using each of the data series of EPS, DPS, and BVPS individually for calculating the dividend growth to be used in the DCF model.

c. Several of the electric companies in the proxy group have negative growth rates in the chart. Part of the rationale for including these companies in the proxy group was that each had paid dividends for the last 3 years.

(1) Explain why it is valid to have these companies included in this particular analysis.

(2) To the extent possible, provide LG&E's EPS, DPS, and BVPS 5-year and 10-year growth rates and describe how they compare to those of the companies listed in the proxy group.

13. Refer to the Woolridge Testimony, pages 31-32, and Exhibit JRW-6, page 4 of 5.

a. Explain why using internal growth, which also includes non-regulated revenue returns, as a proxy for dividend growth does not introduce a certain amount of circularity into the calculation and, therefore, should be unacceptable.

b. Explain why it is valid to use the calculated internal growth rate as a meaningful estimate of dividend growth as used in the DCF model.

14. Refer to the Woolridge Testimony, page 44. Provide legible copies of the referenced Derrig and Orr (2003), Fernandez (2007) and Song (2007) articles.

15. Refer to the Woolridge Testimony, pages 44-53, and Exhibit JRW-7, page 3 of 5.

a. For each article listed in the chart for which a low and high range is provided, explain whether EPS or DPS measures serve as the basis for the listed equity risk premium.

b. Regarding the three survey articles, explain whether the assumptions and definitions of risk and return underlying the estimates in each of the studies are consistent, and whether there is any weighting of more recent periods or events relative to more distant events.

c. Explain which, if any, of the estimates are in real terms and which are in nominal terms.

d. Explain why it is valid to use a geometric mean to calculate the equity risk premium and, if it is valid, why it is reasonable to average those projections with those calculated using an arithmetic mean.

e. Several of the equity risk premium estimates appear to be low and may not be valid for the purpose at hand. There are ten studies with estimates ranging from 1.96 percent to 3.5 percent. Explain why an investor would undertake the risk of investing in stocks with such low premiums.

16. Refer to the Woolridge Testimony, page 45. Provide a legible copy of the Ibbotson and Chen article cited in footnote 16.

17. Refer to the Watkins Testimony, Schedule GAW_4, pages 21-28, which list the cost-of-service study allocators. State where in the Watkins cost-of-service study these allocators are used.

18. Provide an electronic version of the Watkins cost-of-service study with the formulas intact.

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DATED November 14, 2008

cc: All Parties