

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY TO FILE) CASE NO. 2007-00564
DEPRECIATION STUDY)

APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY FOR) CASE NO. 2008-00252
AN ADJUSTMENT OF ITS ELECTRIC)
AND GAS BASE RATES)

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

Kentucky Industrial Utility Customers, Inc. ("KIUC"), 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 not 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.

KIUC shall make timely amendment to any prior responses if it 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 KIUC fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its 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 Lane Kollen ("Kollen Testimony"), pages 3-4.

a. Provide clarification that KIUC's testimony addresses only the proposed electric rate increase of Louisville Gas and Electric Company ("LG&E").

b. If the answer to Item 1(a) of this request is affirmative, explain why KIUC is not addressing LG&E's proposed gas rate increase.

2. Refer to the Kollen Testimony, pages 17-18, concerning what is identified as the first premise underlying LG&E's proposed weather normalization of electric revenues and Mr. Kollen's disagreement with that premise. Mr. Kollen indicates that the Commission has historically not favored normalization of Operations & Maintenance ("O&M") expenses with exceptions for items such as the annualization of payroll and benefits expenses.

a. Explain whether Mr. Kollen is recommending that LG&E's proposed electric weather normalization adjustment be evaluated solely on the Commission's historical rate-making practices regarding normalization adjustments or whether the adjustment should be considered on its merits based on the evidence of record.

b. Provide relevant citations and specific language from previous rate Orders in which the Commission explicitly stated that it did not favor normalization of revenues or O&M expenses.

c. Explain whether Mr. Kollen is aware of the type of normalization adjustments the Commission typically accepts based on multi-year averages of items such as storm damage expenses and injuries and damages expenses.

3. Refer to the Kollen Testimony, page 20.

a. Mr. Kollen opposes LG&E's proposal for the weather normalization of electric revenues, in part, because LG&E has presented no evidence that 30 years of weather data from the National Oceanic and Atmospheric Administration ("NOAA") does not contain an inherent bias which masks the effects of recent warming trends, and cites LG&E's use of 20 years of data for budgeting and forecasting purposes. Explain whether Mr. Kollen is aware that the Commission has historically accepted weather normalization of gas revenue adjustments based on NOAA's 30-year data or that it has accepted a 25-year period for weather normalizing gas revenues in natural gas rate cases of Atmos Energy Corporation and Duke Energy Kentucky, Inc.¹

¹ Case No. 1990-00013, Rate Adjustment of Western Kentucky Gas Company, Order dated September 13, 1990; Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company, Order dated December 22, 2005.

b. Explain whether the use of 25 years of temperature data would alleviate KIUC's concerns regarding weather normalization of electric revenues. If no, provide the time period for temperature and weather data KIUC would recommend.

4. Refer to pages 21-22 of the Kollen Testimony concerning the first problem Mr. Kollen identifies regarding LG&E's methodology to compute the reduction in expenses related to the proposed weather normalization-related reduction in revenues.

a. Mr. Kollen contends that the change in expenses should be computed using the same method used to compute changes in expenses related to annualizing revenues for year-end customers. Mr. Kollen's contention appears to be based solely on the fact that the method proposed by LG&E results in less expense than the method used for the year-end customer adjustment. Explain whether Mr. Kollen has concerns with LG&E's proposed method other than the outcome it produces.

b. In response to KIUC's First Data Request, Item 12, LG&E indicated the reason for the different methodologies was that the weather normalization adjustment affects only variable costs while the year-end customer adjustment affects both variable costs and fixed costs. Explain whether Mr. Kollen disagrees with LG&E's reasoning.

5. Refer to page 22 of the Kollen Testimony concerning the second problem Mr. Kollen identifies regarding LG&E's computation of expenses related to the proposed weather normalization-related reduction in expenses.

a. Mr. Kollen claims that LG&E improperly used a test year average Fuel Adjustment Clause ("FAC") factor to compute the expenses related to the weather normalization adjustment rather than the actual fuel cost and FAC factor for the months included in the adjustment. In the event the Commission accepts some form of an

electric weather normalization adjustment, explain whether Mr. Kollen believes it will be necessary to modify the expense component to reflect the actual fuel cost and FAC factor for the months included in the adjustment.

b. Explain why Mr. Kollen chose to raise this issue without providing a calculation of the impact of what he identifies as a clear mismatch between the revenue adjustment and the proposed expense adjustment.

c. Explain whether Mr. Kollen is able to provide the calculation of the impact of using what he believes are the appropriate fuel cost and FAC factor. If Mr. Kollen is able to do so, provide the calculation.

6. Refer to the Kollen Testimony, pages 30-31, relating to the appropriateness of including the Kentucky coal tax credit as a reduction to LG&E's income tax expense.

a. Explain why Mr. Kollen annualized the first quarter of 2008 of this credit in developing the amount he has applied to the determination of LG&E's revenue requirement rather than using the actual credit included in the test year.

b. Mr. Kollen states, at pages 30-31, that, "[I]f the variability of the credit is an issue, then the Commission could simply move the credit from base rates, where it is now, to the fuel adjustment clause, where it could be used dollar for dollar to reduce fuel costs until such time as the credit expired." Explain whether Mr. Kollen has determined that a tax credit falls within the definition of fuel cost established in Kentucky Administrative Regulation 807 KAR 5:054, which governs the application of the FAC for Kentucky's jurisdictional electric utilities.

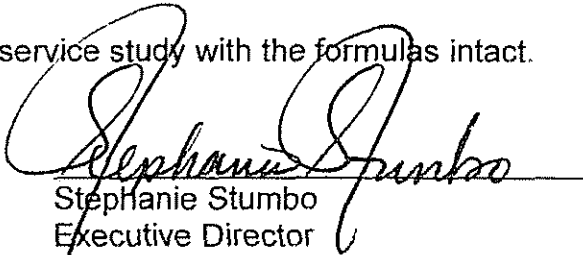
7. Refer to the Kollen Testimony, pages 38-41, regarding his proposed adjustment for consolidated income taxes. Explain whether Mr. Kollen is familiar with

the methodology found appropriate by the Commission for Kentucky-American Water Company in Case No. 2004-00103² to calculate a consolidated income tax adjustment. If he is familiar with that method, describe what consideration Mr. Kollen gave to following that method in calculating his adjustment.

8. Refer to the Kollen Testimony, page 42, lines 6-12, regarding the Commission's historic method used to remove the Environmental Cost Recovery ("ECR") rate base amounts from capitalization. Provide the case names, case numbers, dates of Orders, and specific pages where the Commission has previously rejected the methodology proposed by LG&E in this case.

9. Refer to the Kollen Testimony, pages 44-45, regarding his proposed adjustment to capitalization if LG&E's request to reduce its collection cycle from 15 to 10 days is granted. Given that the Commission uses the "one-eighth" formula to derive the allowance for working capital included in rate base, rather than using a lead-lag study, explain why it is appropriate to reflect a change in LG&E's collection cycle in its capitalization.

10. Refer to the Direct Testimony and Exhibits of Stephen J. Baron. Provide an electronic version of Mr. Baron's cost-of-service study with the formulas intact.


Stephanie Stumbo
Executive Director
Public Service Commission
P. O. Box 615
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DATED November 14, 2008

cc: All Parties

² Case No. 2004-00103, Adjustment of Rates of Kentucky-American Water Company, Order dated February 28, 2005.