COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF BASE RATES	))	CASE NO. 2009-00548

FIRST DATA REQUEST OF COMMISSION STAFF TO THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

The Attorney General of the Commonwealth of Kentucky ("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 May 19, 2010. 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 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 response 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 the AG 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.

1. Refer to the testimony of Michael J. Majoros, Jr. ("Majoros Testimony") at pages 1-5. On page 1, Mr. Majoros states that his firm, Snavely King Majoros O'Connor & Bedell, Inc. ("Snavely King") has "participated in more than 1,000 proceedings before almost all of the state commissions." On page 2, he states that he and other members of his firm specialize in the field of "public utility depreciation." On pages 4 and 5, he states that it is appropriate to apply KU's 2008 and 2009 deferred storm damage costs of $2.195 million and $57.237 million, respectively, against the asset removal costs that have been recovered in prior years through depreciation rates.

a. Provide all testimony prepared by a Snavely King member wherein a recommendation was made to apply deferred storm damage costs, or any other type of regulatory asset, to the asset removal costs accumulated by a utility through its depreciation rates (as suggested by Mr. Majoros in this case) in those cases in which the regulatory commission agreed to and accepted this position. In all such instances, provide the pertinent parts of the commission orders approving this rate treatment.

b. Provide a reference to the International Financial Accounting Standards ("IFAS") upon which Mr. Majoros bases the statement shown on page 5 that "KU's Cost of Removal Regulatory Liability is likely to disappear when KU begins accounting under the new IFRS (sic). That is because, when KU adopts IFRS (sic), it will reduce the huge regulatory liability to its present value. It will transfer the entire excess to its equity account."

(1) Explain whether Mr. Majoros is aware that the regulatory liability to which he refers is recorded only for Generally Accepted Accounting Practices ("GAAP") and that for regulatory accounting purposes this amount is recorded as accumulated depreciation.

(2) If current IFAS replaces GAAP in the United States, explain whether Mr. Majoros agrees that asset removal costs will continue to be reported as a component of accumulated depreciation for regulatory purposes.

(3) Explain whether Mr. Majoros is aware that the International Accounting Standards Board ("IASB") issued an Exposure Draft in August 2009 seeking comment to its proposed IFAS standard defining regulatory assets and regulatory liabilities.

(4) If the IASB's Exposure Draft becomes a part of IFAS, would Mr. Majoros change his opinion regarding KU's restatement of its regulatory liability to a discounted present value amount and roll-in to equity? Explain.

c. Would Mr. Majoros agree that the deferred storm restoration costs represent the cost, which would have otherwise been expensed, of repairing existing facilities and that the deferred amounts do not include the cost of removing or replacing assets that were destroyed beyond repair? If no, explain why. If yes, state why Mr. Majoros is of the opinion that it is appropriate to pay for these deferred repair costs with funds that have been collected to remove assets from service when necessary.

d. Would Mr. Majoros agree that the rate treatment he suggests here would impact the depreciation rates of KU in a future depreciation study?

(1) If no, explain why.

(2) If yes, quantify this impact using KU's depreciation rates as approved by the Commission and attached to the Commission's final order in Case No. 2008-00251.[1]

2. Refer to page 6 of the Majoros Testimony where he recommends, with no explanation, that KU's regulatory assets for its investments in the Kentucky Consortium for Carbon Storage and the Carbon Management Resources Group be applied to KU's Cost of Removal Regulatory Liability. Given that these two regulatory assets have no relation to the removal of assets or amounts collected through depreciation expense to cover the cost of asset removal, explain Mr. Majoros's recommendation.

3. Refer to page 40 of the Prepared Direct Testimony and Schedules of Glenn A. Watkins ("Watkins Testimony"). Explain why the customer charge calculated by Mr. Watkins is considerably lower than the customer charges authorized by the Commission for other utilities in recent years. Include in the explanation whether Mr. Watkins believes there are specific reasons for KU that would cause the customer charge to be lower than those of other utilities.

4. Refer to pages 15–20 of the Watkins Testimony. Is Mr. Watkins aware that the modified Base Intermediate Peak methodology employed by KU in this case has been utilized in prior KU rate cases? If yes, explain whether there are differences in the proposed methodology in this case and the methodology used in the prior cases.

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[1] Case No. 2008-00251, Application of Kentucky Utilities Company for an Adjustment of Electric Base Rates (Ky. PSC Feb. 5, 2009).

5. Explain whether Mr. Watkins supports KU's proposed revision to its large commercial and industrial rate design that converts it to a kVa billing demand basis rather than a kW billing demand basis.

6. Explain whether Mr. Watkins agrees with Kentucky Industrial Utility Customer witness Stephen J. Baron's recommendation for a 25 percent subsidy reduction for KU's large industrial rates.

7. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), page 12 and Exhibit JRW-4. Provide a copy of the most recent published company analysis from Value Line for each of the companies in the electric proxy group.

8. Several of the companies in the proxy group shown in Exhibit JRW-10 page 3 have negative growth rates. Explain why it is valid to have these companies included in the analysis.

9. To the extent possible, provide KU's Earnings Per Share ("EPS"), Dividends Per Share ("DPS"), and Book Value Per Share 5-year and 10-year growth rates and describe how they compare to those of the companies listed in the proxy group.

10. Refer to the Woolridge Testimony at pages 28–29 and Exhibit JRW-10. Explain why using internal growth and return calculations, which are derived in part, through rates determined by returns of equity ("ROE") awarded in other jurisdictions, as a proxy for dividend growth does not introduce a degree of circularity into the calculation that could make it unacceptable.

11. Refer to the Woolridge Testimony at page 40. Provide legible copies of the referenced Derrig and Orr (2003), Fernandez (2007) and Song (2007) articles.

12. Refer to the Woolridge Testimony at pages 40-49 and Exhibit JRW-11 page 6 of 11. It is not clear whether the underlying assumptions, definitions of risk and return, as well as the estimates, in each of the studies are consistent and the results are appropriate for use in determining an estimated ROE in a regulated utility rate case.

a. Provide a copy of each article or report listed in the Exhibit on page 6 of 11.

b. 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.

c. 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.

d. Some equity risk premium estimates appear low and, therefore, may not be valid for the stated purpose. Two studies have estimates below 3.0 percent and two additional studies have estimates below 4.0 percent. Explain why an investor would undertake investing in stocks with risk premiums this low.

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