

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

The 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 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.

KIUC 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 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.

1. Refer to the Direct Testimony of Lane Kollen (“Kollen Testimony”), page 6, at which Mr. Kollen states that KIUC opposed the unbilled revenue adjustment in a previous Kentucky Utilities Company (“KU”) rate case, Case No. 2003-00434.¹ State whether KIUC opposed the unbilled revenue adjustment in KU’s subsequent rate case, Case No. 2008-00251.² If no, explain why it was not opposed.

2. Refer to page 13 of the Kollen Testimony, specifically, lines 8 through 15, where Mr. Kollen discusses the harm to ratepayers until base rates are reset in the next base rate case if off-system sales (“OSS”) margins are not normalized and states that “[i]t is vitally important that base rates reflect a normal amount of OSS margins. . . .” (Emphasis added).

a. Confirm whether it is Mr. Kollen’s understanding that historically, in KU rate cases, the Commission has not adjusted or normalized OSS margins.

¹ Case No. 2003-00434, An Adjustment of the Electric Rates, Terms, and Conditions of Kentucky Utilities Company (Ky. PSC Mar. 31, 2006).

² Case No. 2008-00251, Application of Kentucky Utilities Company for an Adjustment of Electric Base Rates (Ky. PSC Feb. 5, 2009).

b. Confirm that, by a “normal” amount of OSS margins, Mr. Kollen means an average of historical annual OSS margins.

c. If the Commission were to adopt Mr. Kollen’s recommendation in this case, when OSS margins are below “normal” and the normalization adjustment increases them and lowers the revenue requirement, does KIUC commit to supporting adjustments to normalize OSS margins in future KU cases irrespective of the test year level and the adjustment’s impact on the revenue requirement? If no, explain why.

3. Refer to page 14 of the Kollen Testimony where he cites KU’s proposal to normalize revenues based on normal weather and its proposed normalizations of storm damage expense and injuries and damages expense. Mr. Kollen points out that KU’s temperature normalization of revenues is based on normal temperatures over 30 years and that its storm damage expense and injuries and damages expense normalizations are based on 10-year averages. Given the use of these time periods in the adjustments proposed by KU, explain why Mr. Kollen opted to use only five years to develop an average to normalize OSS margins.

4. Refer to pages 12 – 13 of the Kollen Testimony, specifically lines 11 – 17 on page 12 and the chart on page 13.

a. KU’s OSS margins always exceeded 15 percent of related fuel costs, and averaged more than 25 percent, for the years 2005 – 2008. For the test year, they were 11 percent of related fuel costs. In nominal dollars, they averaged more than \$18 million annually for 2005 – 2008. For the test year, they were \$4.5 million. What part of the data on pages 12 – 13 leads Mr. Kollen to believe that OSS margins will increase in the near-term future to the “normal” amount he has calculated?

b. Mr. Kollen has referred to ratepayers being harmed if base rates reflect too low a level of OSS margins. Explain whether he agrees that shareholders may be harmed if the level of OSS margins is set too high.

5. Refer to the Kollen Testimony, pages 17 and 18. Mr. Kollen states that the Commission historically removed KU's share of Electric Energy, Inc. ("EEI") earnings and KU's investment in EEI from the determination of KU's revenue requirement to avoid a double recovery which would have otherwise occurred as a result of the Commission's allowing KU a return of and on its rate base investment in EEI through the purchased power expense recovered through base rates. Cite any specific Orders, including page number, in which the Commission stated this as a reason for its rate-making treatment of KU's EEI earnings and investment.

6. Refer to the Kollen Testimony, page 21, where Mr. Kollen states that KU's investment in EEI is a "utility" investment, not a "non-utility" investment. Explain the basis for Mr. Kollen's position and provide citations to any parts of the Uniform System of Accounts which support Mr. Kollen's position.

7. Refer to the Direct Testimony of Stephen J. Baron ("Baron Testimony"), page 10, line 7. Did Mr. Baron intend to state that winter peak period costs are assigned based on winter coincident peak rather than summer coincident peak?

8. Refer to the Baron Testimony, Exhibit SJB-3. Provide this exhibit in electronic format with the formulas intact.

9. Refer to the Testimony of Richard A. Baudino ("Baudino Testimony"), page 5. Provide a copy of the entire article referenced in footnote 1.

10. Refer to the Baudino Testimony, page 8. Provide a copy of the Standard and Poor's article referenced at lines 5 through 7.

11. Refer to the Baudino Testimony, pages 16 - 17.


a. Explain why using 50 percent of revenues derived from electric operations is an appropriate screen for the proxy companies.

b. For the electric companies not selected for the proxy group, provide the reason each did not pass the screening process.

12. Refer to the Baudino Testimony and Exhibit RAB-5.

a. Explain why it is appropriate to use five-year Treasury note yields in the Capital Asset Pricing Model ("CAPM") analysis.

b. Explain why 30-year Treasury bond yields should not be considered in the CAPM analysis.


_____ on behalf of
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DATED: MAY - 6 2010

cc: Parties of Record

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