COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ELECTRIC AND GAS BASE RATES	)))	CASE NO. 2009-00549

SECOND DATA REQUEST OF COMMISSION STAFF
TO LOUISVILLE GAS AND ELECTRIC COMPANY

Louisville Gas and Electric Company ("LG&E"), 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 March 15, 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.

LG&E 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

LG&E 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 pages 5 – 7 of the LG&E application and pages 8 – 10 of the Testimony of Daniel K. Arbough ("Arbough Testimony"). Both sections deal with the interest rate swap with Wachovia Bank, N.A. ("Wachovia"), which Wachovia terminated in December 2008 and which caused LG&E to incur a termination fee of $9,950,000. The remaining term of the swap at the time it was terminated was 24.75 years.

a. Explain whether the terms of the swap agreement required LG&E to agree to the December 2008 termination and incur the related termination fee or whether it had any alternatives to the termination.

b. Page 9 of the Arbough Testimony indicates that LG&E expects its future "[i]nterest expense will be reduced as a result of the termination of the swap." It also refers to the interest rates on the Jefferson County, Series 2003A bond being lower since the swap termination than the rate LG&E paid under the swap agreement. Interest rates on the Series 2003A bond since the swap termination refer to rates from December 2008 to the present. Explain whether this means LG&E believes a period only slightly longer than one year, during which interest rates have been historically low

due to the state of the economy, should be relied upon to project interest rates for a future period of roughly 24 years.

c. The sentence starting at line 12 on page 9 of the Arbough Testimony states that LG&E should be allowed to recover the swap termination cost, less $650,449 that had been booked as gain to Other Comprehensive Income, because future interest expense is expected to be reduced as a result of the termination. Absent the expectation of lower interest rates, explain how LG&E would propose to treat the termination cost for rate-making purposes.

2. Refer to P.S.C. Electric No. 8, Original Sheet No. 15. For two average example customers to be served under the proposed Power Service Rate, one a former Industrial Power Service customer and one a former Commercial Power Service customer, provide the effect of all proposed tariff changes on their bills in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

3. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 20 and 20.1. For an average example customer to be served under the proposed Industrial Time-of-Day Secondary Service tariff, provide the effect of all proposed tariff changes on the customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

4. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 21 and 21.1. For an average example customer to be served under the proposed Commercial Time-of-Day Secondary Service tariff, provide the effect of all proposed tariff changes on the

customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

5. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 22 and 22.1. For an average example customer to be served under the proposed Industrial Time-of-Day Primary ("Rate ITODP") Service tariff, provide the effect of all proposed tariff changes on the customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

6. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 23 and 23.1. For an average example customer to be served under the proposed Commercial Time-of-Day Primary ("Rate CTODP") Service tariff, provide the effect of all proposed tariff changes on the customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

7. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 25 and 25.1. For an average example customer served under Retail Transmission Service, provide the effect of all proposed tariff changes on the customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

8. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 30 through 30.3. For an average example customer to be served under the proposed Fluctuating Load Service ("Rate FLS") tariff, provide the effect of all proposed tariff changes on the customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

9. Refer to P.S.C. Electric No. 8, Original Sheet No. 35.2. Explain the basis for porposing a maximum of 150 feet of conductor for overhead service in the Lighting Service tariff.

10. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 40 through 40.6. For an average example customer served under the Cable Television Attachment Charges ("CTAC") tariff, provide the effect of all proposed tariff changes on the customer's bill in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet.

11. Explain the proposed addition of the Attachment Charge Adjustment for the CTAC as set out on P.S.C. Electric No. 8, Original Sheet No. 40, including how LG&E proposes to make changes in the Attachment Charge between rate cases.

12. Refer to P.S.C Electric No. 8, Original Sheet No. 45. A text change is proposed in the Meter Pulse Charge section which changes the language from "$9.00 per month" to "$9.00 per pulse per month." Provide the effect this change will have on customers currently using this service.

13. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 50 through 50.2. For average example customers to be served under the proposed Curtailable Service Rider ("CSR"), one from each current CSR tariff serving customers, provide the effect of all proposed tariff changes on the customers' credits in sufficient detail to show the individual effect of each rate/tariff change as shown on the tariff sheet. Include the effect of choosing Option A or Option B.

14. Refer to P.S.C No. 8, Original Sheet No. 60. Provide the effect that changes to the Excess Facilities rider will have on current customers of this tariff.

15. Refer to P.S.C. Electric No. 8, Original Sheet Nos. 76 and 77. Explain why summer peak months were not increased to include the month of May to be consistent with other proposed tariff changes.

16. Refer to P.S.C No. 8, Original Sheet No. 79.1. This tariff states that customers served under the Low Emission Vehicle ("LEV") service tariff are not eligible for the Budget Payment Plan. Explain why this restriction is included.

17. Refer to P.S.C No. 8, Original Sheet No. 86.3. State whether the Demand-Side Management ("DSM") Revenues from Lost Sales factors shown on this page would change as a result of a change in base rates. If so, explain why no change is being proposed.

18. Refer to current P.S.C No. 7, Original Sheet No. 101.1 and proposed P.S.C No. 8, Original Sheet No. 101.1, the Monitoring of Customer Usage section. Changes in text have been made from "Company will contact customer" to "Company may contact customer" and from "Company will perform a detailed analysis" to "Company may perform a detailed analysis." Explain the reason for these changes and the effect they will have on customers, and the criteria to be utilized to determine when the customer will be contacted and when a detailed analysis will be performed.

19. Refer to P.S.C. Gas No. 8, Original Sheet No. 50. Explain why the distribution charges for Commercial Gas Service ("CGS") and Firm Industrial Gas Service ("IGS") have (a) both increased and (b) increased to the same rate while the As-Available Gas Service ("AAGS") distribution charge has remained the same.

20. Refer to Tab 39 of LG&E's Application.

a. Confirm that the expenses listed at Tab 39 include all test year charges assigned or allocated to LG&E by affiliates or subsidiaries and that there are no other cost assignments or allocations included in the test year or pro forma expenses from any companies listed on the organization chart included in the response to Item 2 of Commission Staff's First Data Request ("Staff's First Request").

b. Explain the significant decrease in the levels of intercompany charges to LG&E from calendar years 2006 and 2007 to the test year.

c. Provide the following information for charges between LG&E and Kentucky Utilities Company ("KU").

(1) A schedule detailing the costs directly charged to and costs allocated to LG&E from KU. Indicate the LG&E accounts where these costs were originally recorded and whether the costs were associated with Kentucky jurisdictional electric operations only, other jurisdictional electric operations only, or total company electric operations. For costs that are allocated, include a description of the allocation factors utilized.

(2) A schedule detailing the costs directly charged to and costs allocated by LG&E to KU. Indicate the LG&E accounts where these costs were recorded. For costs that are allocated, include a description of the allocation factors utilized.

21. Refer to page 7 of the Direct Testimony of Victor A. Staffieri ("Staffieri Testimony"). Provide the calculation of an average residential electric bill at current and proposed rates based on 992 kWh of electricity.

22. Refer to page 7 of the Staffieri Testimony. Provide the most recent J.D. Power & Associates customer satisfaction survey results for LG&E and its sister company, KU.

23. Refer to pages 9 – 10 of the Direct Testimony of Paul W. Thompson ("Thompson Testimony") concerning the fuel and purchase power offsets from Trimble County 2 ("TC2"). Provide the calculations of the amounts of $67 million for TC2's first year of operation and $80 million for 2012.

24. Refer to the discussion on page 10 of the Thompson Testimony concerning the 22.6 percent reserve margin now projected at the time TC2 begins commercial operation and the 19.3 percent reserve margin projected at the time a Certificate of Public Convenience and Necessity was granted by the Commission for the construction of TC2. Provide a schedule showing the calculations of each of these reserve margin percentages.

25. Refer to the discussion on page 10 of the Thompson Testimony concerning the reduction in the annual peak load hour as a result of the DSM programs of LG&E and KU. Provide the amount of the peak load reduction for the 2009 summer peak hour for LG&E and for LG&E and KU on a combined basis.

26. Refer to the discussion of Equivalent Forced Outage Rates ("EFOR") on page 13 of the Thompson Testimony. Mr. Thompson compares LG&E's and KU's test year EFOR rates with the most recent three-year national average.

a. Identify the source of the three-year national average and the three years on which the average of 8.32 percent was based.

b. Provide the three-year averages for LG&E and KU for the same three years identified in response to part a. of this request.

27. Refer to the discussion of capacity factor trends on page 13 of the Thompson Testimony. Since 2005, LG&E's and KU's factors are 78 and 66 percent, respectively.

a. Provide the annual capacity factors for LG&E since 2005 as well as its test year capacity factor.

b. Provide a general description of the factors that cause KU's capacity factor average to be less than 85 percent of LG&E's average.

28. Refer to page 15 of the Thompson Testimony, specifically, the discussion of the reserve sharing arrangement entered into effective as of January 1, 2010 with East Kentucky Power Cooperative, Inc. and the Tennessee Valley Authority, under which LG&E and KU must maintain 201 MW of capacity reserves. Provide the term (length) of the arrangement and explain whether the reserve requirement of 201 MW is subject to change over that term.

29. Refer to Thompson Exhibit 4, which shows the combined annual energy requirements forecast for LG&E and KU for the period 2010 to 2039. Provide the actual annual combined energy requirements of LG&E and KU for the years 2005 through 2009.

30. Refer to the discussion on pages 8 – 13 of the Testimony of Chris Hermann ("Hermann Testimony") regarding the restoration associated with the September 2008 windstorm and the 2009 winter storm. For the $33 million and $56

million, respectively, in restoration costs incurred by LG&E for the 2008 and 2009 storms, provide the following information.

a. The final amounts capitalized and charged to expense.

b. The costs incurred for (1) materials, (2) internal labor, and (3) outside labor.

c. For the outside labor costs, a schedule which identifies each company or entity that performed restoration work, the amount it charged LG&E for its work, and the hours it reported as having worked.

d. Given the circumstances associated with a major storm event, explain how LG&E insures that the amounts it is charged for restoration work performed by third-party contractors are reasonable and/or reflective of the "market" for such work.

31. Refer to page 16 of the Hermann Testimony, specifically, the discussion of the Customer Care Solution ("CCS") system.

a. The testimony indicates that the CCS system was fully implemented in April 2009. Mr. Hermann states that the investment in CCS was "[a]bout $83 million as of October 31, 2009." Provide the level of investment made since April 2009 and explain why additional investment was necessary after the system was fully implemented.

b. If additional investment has been made since October 31, 2009, provide the amount and explain why further investment was needed more than six months after the system was fully implemented.

c. Provide the name of the software installed in the CCS system, the vendor from whom the software was purchased, and a description of the process that LG&E and KU undertook in making their selection of software and vendor.

32. Refer to Exhibit 1, Reference Schedule 1.00, of the Testimony of S. Bradford Rives ("Rives Testimony"), which shows the adjustment to unbilled revenue. The Uniform System of Accounts ("USoA") for electric utilities provides, at the utility's election, for recording unbilled revenues in Account 173, Accrued Utility Revenues. If a utility records unbilled revenue, the USoA requires it to also record unbilled expenses.

a. Explain why LG&E did not make an adjustment to unbilled expenses in conjunction with the adjustment to unbilled revenues.

b. If LG&E did not record unbilled expenses, explain why.

c. Describe LG&E's accounting for revenues and the cost of fuel for the production of power. Specifically, address whether there is a mismatch of revenues and expenses in its general ledger after LG&E records unbilled revenue.

33. Refer to Exhibit 1, Reference Schedule 1.07, of the Rives Testimony and pages 5 – 6 of the Testimony of Robert M. Conroy ("Conroy Testimony").

a. The text on page 6 of the Conroy Testimony states that "LG&E performed the adjustment in a manner generally consistent with the methodology prescribed by the Commission's Order on rehearing in Case No. 98-426,[1] . . . however, total off-system sales revenues, inclusive of Intercompany sales, are used in the calculation." Identify and describe all aspects of the proposed adjustment that cause it

[1] Case No. 1998-00426, Louisville Gas and Electric Company (Ky. PSC June 1, 2000).

to be "generally consistent" rather than "entirely consistent" with the methodology previously prescribed by the Commission.

b. Reference Schedule 1.07 uses an average environmental surcharge factor of 1.20 percent to calculate the off-system sales environmental cost. Explain whether this is a "simple average" of the surcharge factors in column 2 of the schedule or a "weighted average" derived by multiplying the monthly amounts in column 1 by the factors in column 2, summing the results, and dividing that sum by the test year total in column 1.

c. If the calculation of the adjustment is based on the "simple average" of the monthly surcharge factors in column 2 of the schedule, explain why this was done and provide a revised version of the calculation using the weighted average approach described above.

34. Refer to Exhibit 1, Reference Schedule 1.10, of the Rives Testimony and page 6 of the Conroy Testimony regarding the adjustment to eliminate DSM revenues and expenses.

a. Provide a schedule of the test year DSM expenses which identifies the amounts incurred for materials, customer rebates/incentives, outside (contract) labor, and internal labor costs.

b. Provide a detailed description of how internal labor costs are charged or allocated to specific DSM programs.

35. Refer to Exhibit 1, Reference Schedule 1.11 of the Rives Testimony and pages 60 – 74 of the Testimony of William Steven Seelye ("Seelye Testimony") concerning the proposed electric temperature normalization adjustment.

a. Provide a list of all instances, by utility name, case number and jurisdiction, where Mr. Seelye has proposed and a commission has accepted the exact method of analysis used in this case to develop a temperature normalization adjustment for an electric utility.

b. From the list provided in response to part a. of this request, provide copies of two recent commission final orders approving the temperature normalization method used by Mr. Seelye.

c. Provide a list of all instances, by utility name, case number, and jurisdiction, where Mr. Seelye has proposed and a commission has rejected the exact method of analysis used in this case to develop a temperature normalization adjustment for an electric utility.

d. From the list provided in response to part c. of this request, provide copies of two recent commission final orders denying the temperature normalization method used by Mr. Seelye.

36. Compare and contrast, in full detail, the method used by Mr. Seelye to develop the weather normalization adjustment discussed in his testimony to the methods used by LG&E to weather normalize revenues and expenses when developing annual budgets and forecasts.

37. Refer to Exhibit 1, Reference Schedule 1.11, of the Rives Testimony, pages 66 and 70 of the Seelye Testimony, and Seelye Exhibits 15 and 16.

a. Page 66 of the Seelye Testimony discusses the months for which temperature adjustments are proposed (March, July, and October 2009). The data provided in Seelye Exhibit 15 appears to include October as a cooling month, even

though there are 5.5 times more Heating Degree Days ("HDD") than Cooling Degree Days ("CDD"). Explain why October is temperature normalized based on cooling load as opposed to heating load.

b. On page 70 of the testimony, Mr. Seelye explains that R-Square is used to measure how much of the variation in the response variable is explained by the regression model and says he considers an R-Square above 0.60 as being adequate. Explain whether this means that, if the R-Square is below 0.60, insufficient variation in usage is explained by temperature. If yes, explain why October residential usage is temperature-adjusted, when page 1 of Seelye Exhibit 16 shows its R-Square as 0.580.

c. Confirm that the months shown in Seelye Exhibit 15 are November and December 2008 and January through October 2009, and that these months do not represent a calendar year.

d. Explain whether the calculations are based on calendar month or billing cycle average and actual HDD and CDD and provide the source of the average and actual HDD and CDD shown on Exhibit 15.

38. Refer to Exhibit 1, Reference Schedule 1.15, of the Rives Testimony and page 3 of the Testimony of Shannon L. Charnas ("Charnas Testimony") concerning the proposed depreciation adjustment.

a. Provide the workpapers, spreadsheets, etc. showing the derivation of the annualized direct depreciation expense under current rates shown on line 1.

b. Provide the workpapers, spreadsheets, etc. showing the derivation of each of the amounts on lines 2 through 7 which adjust the amount on line 1 to arrive at the total annualized depreciation expense shown on line 8.

39. Refer to Exhibit 1, Reference Schedule 1.16, page 2 of 4, and pages 3 – 4 of the Testimony of Valerie L. Scott ("Scott Testimony") concerning the adjustment for labor and labor-related costs.

a. 78.2 percent of labor costs were recorded as operating expense in the test year. Provide the percentages of labor costs recorded as operating expenses for each of the calendar years from 2005 through 2009.

b. Total overtime and premium labor costs for the test year were $12,540,888. Provide the hours upon which this amount was based and the overtime hours for each of the calendar years 2005 through 2009.

c. Provide workpapers, spreadsheets, etc. supporting the construction/other labor rate of 21.8 percent which separate construction labor from other labor. Provide a detailed description for all entries shown for other labor.

d. Provide workpapers, spreadsheets, etc. supporting the calculation of:

(1) Union pay of $40,769,358;

(2) Exempt LG&E pay of $19,928,674;

(3) Non-exempt pay of $3,983,807;

(4) Exempt Servco pay of $34,173,639;

(5) Non-Exempt Servco pay of $4,681,953;

(6) The Servco allocation percentage to LG&E of 42.6 percent;

(7) The union overtime premium;

(8) Non-exempt/Servco Overtime/Premium; and

(9) Labor related to 2009 Winter Storm in the amount of $2,119,395.

40. Refer to Exhibit 1, Reference Schedule 1.17 of the Rives Testimony.

a. For each expense item shown on lines 1 and 2, provide the corresponding amount capitalized as well as the total cost.

b. Various news media have reported employers revising or eliminating defined benefit pension plans for new hires and freezing or amending plans for tenured employees due, in part, to the impact the recent economic downturn has had on the plans' costs. Describe any revisions LG&E has made in the past three calendar years, or anticipates making in 2010 - 2012, to its defined benefit pension plan, post-retirement plan, and post-employment plan to control the costs related to these plans.

41. Refer to Exhibit 1, Reference Schedule 1.19, of the Rives Testimony and pages 7 – 8 of the Arbough Testimony regarding the adjustment for the premium of a new pollution liability insurance policy.

a. Provide a copy of the insurance policy.

b. Pursuant to the Arbough Testimony at page 7, the policy appears to protect against claims that could be considered the responsibility of shareholders given the Commission's historic rate treatment of pollution-related fines and penalties incurred by jurisdictional utilities. If it serves to protect shareholders, explain why the policy's cost should be recovered via rates and borne by ratepayers.

42. Refer to Exhibit 1, Reference Schedule 1.20, of the Rives Testimony and pages 13 – 14 of the Testimony of Lonnie E. Bellar ("Bellar Testimony") concerning the

"Hazard Tree" program and the related adjustment. Provide the workpapers, spreadsheets, etc. which show the derivation of the total company amount of $5,864,342 and an explanation of how the LG&E allocation of 30 percent was determined.

43. Refer to Exhibit 1, Reference Schedule 1.24, of the Rives Testimony and page 9 of the Charnas Testimony. Provide a detailed analysis of the "Expenses related to Retired Mainframe for the Twelve Months Ended October 31, 2009" that are being eliminated from the test year under the adjustment on the reference schedule.

44. Refer to Exhibit 1, Reference Schedules 1.27 and 1.28, of the Rives Testimony and pages 7 - 8 of the Scott Testimony.

a. Provide copies of the pages of LG&E's general ledger showing the entries made to record and, later, to defer the fall 2008 and winter 2009 storm restoration costs.

b. Given the magnitude of the restoration costs for these storms, explain whether any consideration was given to amortizing the costs over a period longer than five years. Confirm whether the five-year proposed amortization period is based on anything other than the amortization period authorized by the Commission in previous cases.

45. Refer to Exhibit 1, Reference Schedule 1.32, of the Rives Testimony and page 15 of the Bellar Testimony concerning the adjustment related to the settlement with the Southwest Power Pool ("SPP"). The $2.27 million was a one-time payment and

LG&E and KU recently received Commission approval in Case No. 2009-00427[2] to begin performing the Independent Transmission Operator services that SPP has performed but will cease to perform when its contract with LG&E and KU expires. Given the non-recurring, one-time nature of this payment, explain in detail why any portion of it should be included, on an after-the-fact basis, in LG&E's revenue requirement.

46. Refer to Exhibit 1, Reference Schedule 1.43, of the Rives Testimony.

a. Provide workpapers and tax returns supporting the prior year federal and state income tax "true-ups."

b. Provide the tax returns where the basis for the "true-ups" originated.

c. Describe each of the "true-ups" and explain why it is appropriate to include the true-ups in the determination of LG&E's revenue requirement.

47. Refer to Rives Exhibit 1, Reference Schedule 1.45; Rives Exhibit 2; and pages 6 - 9 of the Testimony of Ronald L. Miller concerning the Advanced Coal Investment Tax Credit ("ACITC").

a. The testimony refers to the Commission having approved, in Case No. 2007-00179,[3] LG&E's request to include in capitalization the amount of the ACITC it received in conjunction with the construction costs of eligible assets for TC2. Confirm that LG&E agrees that the Commission's approval in Case No. 2007-00179 related to

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[2] Case No. 2009-00427, Louisville Gas and Electric Company and Kentucky Utilities Company (Ky. PSC Feb. 2, 2010).

[3] Case No. 2007-00179, Louisville and Electric Company (Ky. PSC Sept. 7, 2007).

environmental surcharge recovery and that the Commission expressly denied LG&E's request for a declaration of the appropriate rate-making treatment of the ACITC as it relates to the determination of base rates.

b. Provide workpapers, spreadsheets, etc. showing the derivation of the $345,849 on the reference schedule resulting from the permanent difference due to the loss of depreciable tax basis attributable to the ACITC.

c. Provide workpapers, spreadsheets, etc. which show the derivation of the $22,157,491 amount of the ACITC.

d. Explain why it is appropriate to make an adjustment to pro forma income taxes to remove the effects of this permanent difference.

e. In his testimony in LG&E's application in Case No. 2007-00179, Kent W. Blake described the planned rate-making treatment of the ACITC when determining LG&E's future base rates. Describe all the effects of LG&E's proposed treatment of the ACITC in this case and identify where in the exhibits related to determining its electric revenue requirement, other than Rives Reference Schedule 1.45 and Rives Exhibit 2, those effects are shown.

48. Refer to Exhibit 1, Reference Schedule 1.47, of the Rives Testimony.

a. Provide the calculation of the bad debt factor of .31565 percent and confirm that this is the actual factor for the test year.

b. Provide the bad debt factors for calendar years 2006, 2007 and 2008.

c. Describe LG&E's standard policy on when it charges, or writes off, uncollectible accounts as bad debts.

d. For the test year and the 12 months immediately preceding the test year, provide an end-of-period comparison of the level of uncollectible accounts that were 30, 60 and 90 days old.

49. Refer to the Arbough Testimony at page 2 and Arbough Exhibit 2. The article in the exhibit states "Table 1 in this article is no longer current. It has been superseded by the table found in 'Criteria Methodology: Business Risk/Financial Risk Matrix Expanded,' published May 27, 2009, on RatingsDirect." Provide a copy of this article.

50. Refer to the Direct Testimony of William E. Avera ("Avera Testimony") at page 9.

a. To the extent that LG&E's capital requirements are satisfied through its parent, explain how E.ON and, ultimately, LG&E actually obtain this capital.

b. Explain the role that LG&E's credit ratings from Moody's and Standard & Poor's plays in LG&E's obtaining capital from its parent.

c. To the extent that LG&E issues tax-exempt debt securities to satisfy its capital needs, explain the role that LG&E's credit ratings from Moody's and Standard & Poor's plays in the issuance of this debt.

d. To the extent that LG&E issues tax-exempt debt, explain whether the parent company is liable in any way for repayment.

e. To the extent that LG&E issues tax-exempt debt, explain how LG&E is able to issue this type of debt and how it actually occurs.

51. Refer to the Avera Testimony at pages 10 – 12. Provide a copy of the documents referenced in footnotes 3 – 14.

52. Refer to the Avera Testimony at page 13.

a. Provide a copy of the document referenced in footnote 15 and copies of comparable six-month industry updates for 2009.

b. Explain whether LG&E has requested that the Commission alter its FAC and GCA mechanisms to recover costs in a more timely fashion in order to alleviate investor concerns regarding the lag between expenses incurred and recovered through rates.

c. Explain how LG&E's not earning a return on its fuel, purchased power, or natural gas costs is related to whether it is insulated from fluctuations in its power and gas supply costs.

d. Explain whether LG&E is proposing to earn a return on fuel, purchased power, or natural gas costs in addition to the recovery of its actual costs for these activities.

e. Provide a list of utilities earning a return on fuel, purchased power, or natural gas costs and an explanation of how that is related to exposure to fluctuations in power and gas supply costs.

f. Provide a list of states whose utility regulatory commissions have explicitly authorized the electric or gas utility to earn a return on fuel, purchased power, or natural gas costs and a copy of the order.

g. The fuel, purchased power, or natural gas procurement process is well established in Kentucky and should be well understood by LG&E. Provide an explanation of what actions this Commission has taken to heighten either company or

investor concerns regarding disallowances and how this relates to exposure to fluctuations in power and gas supply costs.

53. Refer to the Avera Testimony at pages 14 - 15. Provide a copy of the documents referenced in footnotes 16 - 23.

54. Refer to the Avera Testimony at pages 17 – 18.

a. Provide a copy of the documents referenced in footnotes 26 – 33.

b. Provide the data supporting the assertion that commercial and manufacturing demand in 2009 fell 8.3 percent from 2008 levels.

55. Refer to the Avera Testimony at page 19.

a. Kentucky is not a restructured state. Explain how investors' views of utilities differ between restructured and traditionally regulated states.

b. Explain whether this Commission has acted in any way that would give investors reason to doubt that LG&E would be able to recover its costs in a timely fashion or in a manner that would lead investors to view the regulatory environment in Kentucky as hostile.

56. Refer to Exhibit WEA-2 and the Avera Testimony at page 25. If available, for each utility listed in the Utility Proxy Group and for LG&E, provide:

a. The most current Value Line company profile sheet;

b. The 2008 gross revenue and number of customers served;

c. The percent of revenues and net income derived from regulated and non-regulated operations, including international operations for 2008 and for 2009 if available;

d. Whether the utility operates in traditional or restructured states; and

e. For each electric utility listed in Value Line, but not selected for the Utility Proxy Group, provide the reason that it was not selected.

57. Refer to Exhibit WEA-4 and the Avera Testimony at pages 25-29.

a. Provide a list of the state utility regulatory commissions and the attendant orders that explicitly based return on equity awards on the estimated returns of non-utility sector companies.

b. The testimony on page 25 states that a "similarity of experienced business risk and financial risk" should be the standard for selecting companies to be included in a proxy group. The testimony discusses at length both the business risk and the financial risks faced by LG&E and the electric and gas utility industry. However, there is neither a comparable discussion of the business risks faced by companies in the Non-Utility Proxy Group nor any discussion of how these risks are comparable to the electric and gas industries. Provide such discussions of the risks faced by each company and non-utility industry.

58. Refer to Exhibit WEA-2 and the Avera Testimony at page 31. Provide a copy of the workpapers and a detailed explanation of how the stock prices were obtained to determine the expected dividend yield.

59. Refer to the Avera Testimony at page 34. Provide a copy of the documents referenced in footnotes 44 and 46.

60. Refer to Exhibit WEA-2 and the Avera Testimony at pages 36 – 37. In the case of regulated utilities, provide an explanation of why it is not circular to use the "sustainable growth" method to determine returns on equity.

61. Refer to Exhibit WEA-2 and the Avera Testimony at page 38. In the case of regulated utilities, provide a discussion of how using the expected growth rate of stock prices determined by stock analysts in the Discounted Cash Flow model satisfies the requirements of the model and produces credible results.

62. Refer to Exhibit WEA-2 and the Avera Testimony at page 39. Provide a copy of the relevant pages in the Federal Energy Regulatory Commission ("FERC") document cited in footnotes 49 and 50 that discuss FERC's rationale and decision with regard to rate of return.

63. Refer to Exhibit WEA-4 and the Avera Testimony at page 42.

a. Provide a copy of the relevant pages discussing returns on equity in the FERC document cited in footnote 57.

b. Provide an explanation of whether the FERC decision establishing an "extreme outlier" ceiling was specific to that 2004 case or was it meant to be a hard and fast rule to be applied as a ceiling in all cases thereafter?

c. It does not follow that there is anything illogical about expected earned returns for firms operating in a competitive market that should be eliminated from the analysis. Provide an explanation of why the logic FERC applied to returns for regulated firms at the federal level should apply to firms operating in open competitive markets.

64. Refer to Exhibit WEA-6 and the Avera Testimony at page 44 - 47.

a. Explain why it was necessary to weight the firms in the calculations as opposed to performing the calculations on an unweighted basis.

b. Explain why 30-year treasury bonds, as opposed to 20-year treasury bonds, were not used in the model.

c. Explain how stock prices were used and how they were obtained in calculating the dividend yield referenced in footnote (a) of Exhibit WEA-6.

d. What were the IBES growth rates referenced in footnote (b) of Exhibit WEA-6? Explain how the 9.2 percent average growth rate was calculated.

e. Explain whether the discussion regarding betas means that the utility proxy group's historical betas as reported by Value Line are too low.

65. Refer to Exhibit WEA-8 and the Avera Testimony at pages 47 and 48. For the expected earnings approach, explain the contribution or effect of the non-regulated operations for each of the companies.

66. Refer to page 4 of the Bellar Testimony.

a. The pro forma electric class rates of return for Special Contracts remain less than half the return for the residential class, and significantly lower than the rates of return for all other rate classes. Is this a factor of the underlying rate schedule under which special contract customers would be served absent the contract?

b. Explain why some lighting service increases were approximately 16 percent, according to the data provided in Seelye Exhibit 7, as opposed to the 11.17 percent increase shown in Bellar Table II.

67. Refer to page 6 of the Bellar Testimony. Explain how the shift from a $9.50 gas customer charge to a $26.53 customer charge takes into account the rate-making principle of gradualism concerning residential rate increases.

68. Refer to pages 10 – 11 of the Bellar Testimony concerning the termination of the Owensboro Municipal Utility ("OMU") contract. Explain whether termination of the OMU contract was anticipated and taken into consideration at the time the ownership split for TC2 of 19 percent for LG&E and 81 percent for KU was determined.

69. Refer to page 9 of the Conroy Testimony. Mr. Conroy states that LG&E and KU are not yet able to completely harmonize their rate schedules. Explain why the companies are unable to do so.

70. Refer to page 11 of the Conroy Testimony. Explain the differences that Rate ITODP customers will see in their bills and how many customers will be affected by the move to kVA billing for customers migrated to this new rate. Provide the same information for Rate CTODP rate customers.

71. Refer to the Conroy Testimony at page 18. Starting at line 17, Mr. Conroy states that Rate FLS will be based on a five-minute demand billing interval. Explain the reason for this change and describe the effect it will have on current customers

72. Pages 23 and 24 of the Conroy Testimony discuss changes to the Availability of Service sections of the Residential Gas Service, Firm Commercial Gas Service, and Firm Industrial Gas Service tariffs to clarify the types of customers to be served under the schedule. Will these clarifications to the customer definitions cause any customers to fail to qualify for the service they are currently receiving? If so, give details of the customers in each class which may be shifted to a different service.

73. Refer to pages 24 and 25 of the Conroy Testimony.

a. How many gas-fired electric generation customers are being served under other rate schedules as opposed to the Distributed Generation Gas Service ("Rate DGGS") tariff which should be applicable to such customers?

b. Explain whether grandfathered gas-fired electric generation customers will continue to be excluded from the provisions of the Rate DGGS tariff after the ninetieth day following the effective date of the revised tariff sheet.

c. Is LG&E currently serving residential customers with gas-fired electric generation capability? If so, under what rate schedule?

d. Provide support for the proposed $30-per-month Basic Service Charge for residential Rate DGGS customers.

e. How many residential customers does LG&E anticipate serving under the Rate DGGS tariff?

f. If residential customers do not require an additional separate point of delivery for gas-fired generation, explain whether they can be served under the residential rate schedule.

74. Refer to Rives Exhibit 2 and page 5 of the Conroy Testimony concerning the adjustment to remove the environmental surcharge rate base from LG&E's capitalization. Provide workpapers, spreadsheets, etc. which show the derivation and the components of the $5,353,166 amount of the environmental surcharge rate base.

75. Refer to pages 29 – 30 of the Rives Testimony and Rives Exhibit 3 concerning the Mill Creek Ash Pond Dredging Regulatory Asset.

a. The amortization of the regulatory asset, in the amount of $6 million, was authorized, by order dated June 20, 2005, to take place over a period of

four years. The test year proposed in the application has an October 31, 2009 ending date. Provide the date when LG&E began to amortize the $6 million.

b. $6 million amortized over four years on a straight-line basis would result in a monthly amortization expense of $125,000. The testimony indicates that the $1,028,827 amount being added to the rate base is "[t]he remaining regulatory asset for the Mill Creek Ash Pond dredging." Clarify whether this is the amount remaining as of the end of the test year.

76. Refer to page 3 of the Testimony of John Wolfram ("Wolfram Testimony").

a. What is the anticipated cost per customer of metering and incremental costs associated with equipment and installation for the proposed LEV service?

b. How many participants does LG&E anticipate for the LEV service? Does LG&E expect to reach a level of 100 applicants and, if so, does it plan to limit participation on the rate or is that simply an option?

77. Refer to page 5 of the Wolfram Testimony. Has LG&E experienced a problem with deposit installment payments related to customers disconnected for nonpayment? If so, provide details. If not, explain why LG&E is proposing to prohibit such customers from participating in deposit installment payments.

78. Refer to page 5 of the Wolfram Testimony.

a. Are there gas customers currently served from high-pressure mains whose service will be affected by the proposed changes to Tariff Sheet Nos. 98.1 and 106? If so, how many?

b. Explain LG&E's decision-making process in determining whether an applicant for service will be approved to connect to a high-pressure main.

79. Refer to page 9 of the Wolfram Testimony regarding the offerings to improve customer self-service. One of the items identified is net metering.

a. Provide the number of net metering customers on the LG&E system as of the end of the test year.

b. Provide the impact its net metering customers have on the amount of LG&E's proposed electric revenue requirement.

80. Refer to pages 9–11 of the Wolfram Testimony regarding the CCS system and Customer Self-Service website.

a. Explain whether there is a direct connection between the CCS system and the Customer Self-Service website, whether the website is a component or function of the CCS system, and when the website became available to customers.

b. Pages 10 and 11 list several functions customers can perform via the Customer Self-Service website. If the website is linked or dependent on the CCS system, identify any of those functions that were not available to customers when the CCS system was implemented on April 1, 2009.

81. The Seelye Testimony at pages 1 and 2 states that LG&E's Cost of Service Studies ("COSS") have been prepared using methodologies that have been accepted by the Commission in past rate cases. Identify and explain any changes in methodologies from the COSS prepared in LG&E's most recent rate case and the COSS prepared for the instant case.

82. Refer to page 2 of the Seelye Testimony. Mr. Seelye summarizes LG&E's proposal to implement Straight Fixed Variable ("SFV") rate design for residential gas service. Mr. Seelye's testimony in Case No. 2008-00252[4] recommended an increase in the gas residential customer charge from $8.50 to $13.65 per customer per month to bring it in line with the cost of service. The COSS in Case No. 2008-00252 showed that the customer cost for the residential class was $13.71 per customer per month. Explain LG&E's departure from its earlier goal of moving closer to the customer cost per month with its residential customer charge and its move to recover all its fixed non-gas cost through a $26.53 per month basic service charge.

83. Provide the calculation of the $26.53 per month basic residential service charge based on the COSS and the location in the COSS of the amounts used in the calculation.

84. Provide the calculation of the monthly basic residential service charge if it were based on the customer-related cost for the residential class from the gas COSS. Provide the location in the COSS of the amounts used in the calculation.

85. Refer to page 7 of the Seelye Testimony. In order to bring the residential electric basic service charge more in line with customer-related cost, LG&E is proposing to increase the charge from $5.00 to $15.00. The COSS indicates residential customer-related costs are $15.80 per month.

[4] Case No. 2008-00252, Application of Louisville Gas and Electric Company for an Adjustment of its Electric and Gas Base Rates (Ky. PSC Feb. 5, 2009).

a. Explain why LG&E elected to propose an increase of 200 percent, when an increase of 216 percent to $15.80 would have covered all the customer-related costs.

b. With the remaining $.80 under-recovery of customer-related costs through the basic service charge, isn't $3.3 million in fixed operating expenses and margins still being collected through the energy charge, causing an intra-class subsidy?

86. In the response to Item 36 of Staff's Second Request in Case No. 2008-00252, filed September 11, 2008, Mr. Seelye stated that "LG&E's electric customer charges are much lower relative to the actual cost of providing service, which would result in a significant electric rate impact if the cost of service were followed more closely. In developing its proposed electric rates, the Company decided not to decrease its residential energy charges in order to bring the customer charge more closely in line with cost of service." Explain why LG&E is now proposing to pursue a rate design change that it explicitly decided against in the previous case.

87. Refer to page 11 of the Seelye Testimony regarding greater electric energy usage of low-income customers. Provide any available studies which would support this observation, including the results of LG&E's 2008 sales data review of low income energy assistance program customers. Include in the response the results if 2009 data were used.

88. Aside from removing any disincentive that may exist for LG&E to promote DSM, energy efficiency, and energy conservation, how do a higher basic service charge and a lower energy charge encourage conservation on the part of customers?

89. Refer to page 12 of the Seelye testimony, line 14, which references other forms of decoupling. Did LG&E consider proposing any other forms of decoupling for its gas or electric rates? If so, what were they and why were they rejected in favor of SFV?

90. Pages 12 and 13 of the Seelye testimony discuss the stabilizing effect of higher basic service charges on customer bills.

a. Explain whether the Budget Payment Plan achieves the same stabilizing effect on customer bills.

b. How many LG&E gas and electric customers use the Budget Payment Plan?

c. How does LG&E promote its Budget Payment Plan to customers?

91. At the end of the test year, how many of LG&E's gas residential customers did not use natural gas for space heating purposes? Provide the average monthly usage of LG&E's non-space-heating residential customers that are billed for gas service.

92. Has LG&E performed any kind of sensitivity analysis to determine the customer charge level that would result in fuel-switching by (1) non-space-heating gas residential and (2) gas space-heating residential customers? If yes, provide the results of the analysis.

93. Refer to pages 13-15 of the Seelye Testimony regarding the proposal to bill primary voltage customers on a kVA basis rather than a kW basis. Mr. Seelye states that billing on a kVA basis "avoids the necessity of including a power factor adjustment charge as a separate component of the rate." Does this statement mean

that, absent any other change for these customers, the net effect of the kVA billing change on the customer's bill would be zero? If no, explain.

94. Refer to pages 16 and 17 of the Seelye Testimony which discusses the month of May as having load patterns more characteristic of a summer month. Provide details of monthly load patterns sufficient to show that May has a summer rather than winter load pattern.

95. Refer to page 20 of the Seelye Testimony. Mr. Seelye states that the peak and intermediate periods were determined using 2008 data. Explain why 2009 data was not used.

96. Refer to the Seelye Testimony at page 21. Mr. Seelye states that "[w]hen the time-differentiated unit charges for the proposed LEV rate are applied to estimated time-differentiated billing units for RS, the revenues are approximately equal to total RS revenues." Explain how the estimated time-differentiated billing units for RS were determined.

97. Beginning at page 21, the Seelye Testimony discusses the proposed changes to the curtailable service riders. State whether LG&E has discussed the proposed changes with those customers. If so, provide the customers' responses.

98. Refer to the Seelye Testimony at page 35. Mr. Seelye states that LG&E is not proposing to increase the charges for mercury vapor and incandescent lights because these lights have been restricted for a number of years and are not being replaced. Explain why the fact that these lights are not being replaced affects the cost to serve these fixtures and thus the rate charged.

99. Refer to page 38 of the Seelye Testimony. How many industrial customers are realistically subject to physical bypass of LG&E's system? How many of those customers threatened bypass during the test year?

100. Refer to page 43 of the Seelye Testimony. In what way(s) does LG&E envision being "even more proactive" in promoting natural gas conservation if the proposed SFV rate design is approved?

101. Refer to page 45 of the Seelye Testimony. If customers respond more to the level of bills than to each component of the rate, what effect will lower gas commodity prices have on the customers' incentive to conserve, and how would a distribution charge consisting only of the gas component provide sufficient incentive for customers to conserve?

102. Refer to page 55 of the Seelye Testimony. Identify the companies that have cable attachments on LG&E's poles.

103. Refer to page 57 of the Seelye Testimony in which Mr. Seelye discusses the calculation of the Excess Facilities charges.

a. Mr. Seelye states a cost of capital and discount rate of 8.32 percent, which is the cost of capital proposed in this case. Explain whether LG&E intends to update the Excess Facilities charges if a different cost of capital is approved.

b. Provide the calculation of the currently approved Excess Facilities charges in the same format as Seelye Exhibit 12.

104. Refer to the Seelye Testimony, page 75, which describes how annual non-temperature-sensitive and temperature-sensitive volumes are determined for each rate

class. Gas deliveries for July and August for each class were multiplied by six in order to establish non-temperature-sensitive volumes.

a. According to LG&E's response to Item 48, page 2 of 2, of Staff's First Request, July had the fewest customers of any month in the test year and August had the third fewest customers for total ultimate consumers. Explain why it is appropriate to use months with relatively few customers to establish non-temperature-sensitive volumes, and if the number of customers served under the Firm Industrial Gas Service ("IGS"), As-Available Gas Service ("AAGS"), and Firm Transportation Service ("FT") rate classes and special contract customers is stable enough to provide a reliable non-heating load for these customer classes.

b. Explain why it would not be more appropriate to establish non-temperature-sensitive volumes by calculating average base load usage per customer for July and August and multiplying by the number of bills for the test year.

c. Provide the Mcf volume used for each of the IGS, AAGS, and FT customer classes as well as for each special contract customer individually, by month for the test year.

d. Explain why it is appropriate to temperature normalize IGS customer volumes, when this service is only available for customers engaged in manufacturing activities.

105. Refer to Seelye Exhibit 19, page 2. Special Contract customers E.I. DuPont and LG&E (Paddy's) have negative temperature-sensitive volumes calculated in column 4. Explain why it is appropriate to temperature-normalize these customers and if the results in column 4 indicate that their usage is not temperature-sensitive.

106. Refer to Seelye Exhibit 19, page 4. Explain why Rate RGS has a positive total dollar adjustment and a negative Mcf adjustment.

107. Refer to Seelye Exhibit 19, page 3. Explain the calculation of the Rate RGS and CGS net revenue adjustments.

108. Seelye Exhibit 22 provides the application of the modified Base-Intermediate-Peak methodology which is based on combined system results for LG&E and KU. Provide the information presented in Seelye Exhibit 22 for the LG&E and KU systems individually.

109. On page 83 of the Seelye Testimony, a reference is made to an unusual weather pattern in the test year which caused the maximum system demand to occur during a winter month. Provide monthly temperature/weather information for the test year sufficient to support the use of a winter peak for LG&E.

110. Explain whether LG&E's electric heating load has increased to the point that using a winter month to establish maximum system demand is reasonable.

111. Refer to Seelye Exhibit 3. Page 1 of this exhibit includes the month of May as a non-summer month. Likewise, on page 3, the month of May is not included in the summer months. However, Mr. Seelye states in his testimony at pages 16 and 17 that May has a summer load pattern. Explain why May is included in this exhibit as a non-summer month.

112. Refer to page 83 of the Seelye Testimony. Mr. Seelye states that "the decision was made to use actual hourly system loads in the cost of service study rather than engaging is (sic) the complicated process of normalizing peak demands." Explain how this differs from the COSS in LG&E's most recent rate case, Case No. 2008-00252.

113. Refer to page 86 of the Seelye testimony. Mr. Seelye states that allocation factors YECust05 and YECust06 were used to allocate meter reading, billing costs, and customer service expenses on the basis of a customer weighting factor based on discussions with LG&E's meter reading, billing and customer service departments.

a. Explain how these discussions were used to determine the allocation factors.

b. Provide examples of questions asked and how the answers were used to calculate the factors.

114. Refer to Seelye Exhibit 4.

a. Explain how the estimated investment per units was determined.

b. Explain how the levelized fixed charge of 17.52 percent was calculated.

c. Explain how the operation and maintenance amounts were determined.

115. Refer to Seelye Exhibits 6 and 9. Explain why the Summary of Gas Revenue Increase exhibit does not include revenue items similar to those included at the end of the "Revenue Adjusted to As Billed Basis" column (Other Miscellaneous Revenue, Rents, etc.) in the Summary of Electric Revenue Increase exhibit.

116. Explain the disparity between the Total Sales to Ultimate Consumers and Inter-Company Base Rate Revenue of $116,181,488 on Seelye Exhibit 9 and the sales and transportation portion of Adjusted Gas Revenues of $119,174,562 on page 3 of 10 of Tab 42 of Volume 3 of 5.

117. Refer to Seelye Exhibit 7. Provide an explanation for the revenues attributed to "Minimum Energy" and calculations used to derive the current and proposed dollar amounts for each customer class.

118. Refer to Seelye Exhibit 10, page 6 of 7. Clarify whether LG&E is proposing to decrease the Demand Charge for Intra-Company Special Contract – Rate FT Customer to $2.00 from $2.43.

119. Refer to Seelye Exhibit 11.

a. Refer to page 1 of 3. State whether the installed costs shown on this schedule are gross or net investment costs. If gross costs, explain why net costs were not used.

b. Refer to page 2 of 3. A rate of return of 8.32 percent was used in the calculation. Explain whether LG&E intends to update the charges if a different cost of capital is approved.

120. Refer to Seelye Exhibit 22.

a. Explain how the minimum system demand figure was calculated or whether it is simply the low point on the system load curve.

b. Explain how the winter and summer peak hours are calculated.

121. Refer to Seelye Exhibit 23.

a. Refer to page 16 of 45. Explain the functional vectors P362, P365, P367, P368, P370, and P373.

b. Refer to pages 43-45. Explain and define the functional vectors PROFIX and PROVAR.

122. Refer to Seelye Exhibit 24.

a. Refer to page 37 of 66. Explain the allocation vector NPT. Include in the response the calculation of the vector or the location of the calculation in the application.

b. Refer to page 43 of 66. Explain why the allocation of the $11,451,462 Year End Revenue Adjustment to the rate classes does not reconcile with the adjustments to the individual rate classes shown in Seelye Exhibit 20, page 1 of 2, column 9.

c. Refer to page 46 of 66. Explain the allocation vectors REVUC, RBT, and OMT. Include in the response the calculation of the vectors or the location of the calculations in the application.

d. Refer to page 55 of 66. Explain the allocation vector MISCR. Include in the response the calculation of the vector or the location of the calculation in the application.

e. Refer to page 58 of 66.

(1) Provide the workpapers supporting the Customer Allocation Factors C02 and C03.

(2) For the Plant Customer Allocators which are based on year-end customer information, explain if the Total System column can be calculated from information contained in Seelye Exhibit 20, page 1 of 2, column 2, Number of Customers Served at October 31, 2009. If so, provide the calculation. If no, explain why they cannot be calculated using Exhibit 20.

123. Refer to Seelye Exhibit 25. Refer to page 4 of 4. Explain how the results of the zero intercept calculations are being split between the Distribution Primary and Distribution Secondary Lines.

124. Refer to Seelye Exhibit 26.

a. The zero intercept analysis of underground conductors results in a percentage classified as customer-related and demand-related of 30.81 and 69.19 percent, respectively. This differs significantly from LG&E's most recent rate case in which the intercept analysis of underground conductors resulted in a percentage classified as customer-related and demand-related of 62.65 and 37.35 percent, respectively. Provide the reason for a difference of this magnitude from one rate case to the next.

b. Refer to page 4 of 4. Explain how the results of the zero intercept calculations are being split between the Distribution Primary and Distribution Secondary.

125. Provide an electronic copy of Seelye Exhibits 5 through 31 with all formulas intact.

126. Refer to the response to Items 12.a. and b. of Staff's First Request, which shows that the test year income statements include Accretion Expense of $1,501,896 and $464,021, respectively, for LG&E's electric and gas operations.

a. Provide the workpapers showing the derivation of the accretion expense along with a narrative description of the derivation.

b. Provide the portions of the two expense amounts that are related to the accrual of Asset Retirement Obligations ("ARO").

c. Explain why accretion expense related to AROs should be part of LG&E's revenue requirement. Specifically, address the reasonableness of such recovery given that the estimated removal costs associated with all assets, including the assets upon which AROs are accrued, are a component of LG&E's depreciation expense.

d. Provide the journal entries originally made to adopt FASB 143.

e. Provide the test year journal entries related to FASB 143.

127. Refer to the response to Item 13 of Staff's First Request.

a. Provide a schedule of all accounts shown in the response to which salaries and payroll overheads were reported for LG&E employees during the test year. State the amount of salaries and each individual payroll overhead charged to each account separately.

b. Provide a schedule listing all accounts shown in the response to which salaries and payroll overheads were reported by LG&E for service provided by Servco employees during the test year. State the amount of salaries and each individual payroll overhead charged to each account separately.

c. Provide a schedule listing all accounts shown in the response to which salaries and payroll overheads were reported by LG&E for services provide by the executive employees listed at Item 46 of LG&E's response to Staff's First Request. State the amount of salaries, other compensation and each individual payroll overhead charged to each account separately.

d. Provide a schedule listing all accounts shown in the response to which salaries and payroll overheads were reported by LG&E for services provided by

KU employees during the test year. State the amount of salaries and each individual payroll overhead charged to each account separately.

e. Provide a schedule listing all accounts as shown in the response to which any salaries, other compensation and payroll overheads were reported during the test year that are not captured in the responses to parts a. through d. of this request. State the amount of salaries, other compensation and each individual payroll overhead charged to each account separately. Provide the employer name for all employees included in this response.

128. Refer to the response to Item 31 of Staff's First Request.

a. For the test year and the three prior calendar years, provide the annual expense reported by LG&E for contracted labor for the following services. If possible, separate the amounts in each category by vendor name.

(1) Vegetation Management.

(2) Meter Reading.

(3) Maintenance Contracts.

(4) Temporary Clerical/Account Services.

(5) Temporary Legal.

b. Explain how LG&E selects the contractors providing the services listed in a. and how it insures that it is securing a competitive market-based cost.

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DATED: MAR - 1 2010

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