

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY)
FOR CERTIFICATES OF PUBLIC CONVENIENCE)
AND NECESSITY AND APPROVAL OF ITS 2011) CASE NO.
COMPLIANCE PLAN FOR RECOVERY BY) 2011-00161
ENVIRONMENTAL SURCHARGE)

APPLICATION OF LOUISVILLE GAS AND ELECTRIC)
COMPANY FOR CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY AND APPROVAL) CASE NO.
OF ITS 2011 COMPLIANCE PLAN FOR RECOVERY) 2011-00162
BY ENVIRONMENTAL SURCHARGE)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

Kentucky Industrial Utility Customers, Inc. ("KIUC"), pursuant to 807 KAR 5:001, is to file with the Commission, **in each of the above styled cases**, the original and 15 copies of the following information, with a copy to all parties of record. The information requested herein shall be filed no later than October 13, 2011. 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 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.

1. Refer to pages 6-8 of the Direct Testimony and Exhibits of Lane Kollen ("Kollen Testimony"), which, among other things, cites the fact that the U.S. Environmental Protection Agency's ("EPA") Hazardous Air Pollutants ("HAPs") rule has been proposed but is not yet final.

a. On page 8, in response to a question beginning at line 17 on page 7, Mr. Kollen states that, "The Commission should not simply assume that the proposed regulations will become final regulations. The proposed regulations may never be adopted and may be modified and/or delayed even if they do become final." Confirm that the regulations referred to in this response pertain solely to the HAPs rule.

b. At lines 7-10 on page 8, Mr. Kollen states, "If at a later date, the U.S. EPA issues final regulations, then the Companies may file Applications for approval of the projects necessary to comply with the final regulations and for recovery of the related costs through the ECR." Explain whether Mr. Kollen is aware that EPA is under a court order to finalize the HAPs rule by November 16, 2011.

c. If the HAPs rule is finalized by November 16, 2011, in essentially the same form as was proposed, explain how Mr. Kollen believes the Commission should address the requests by Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E") for Certificates of Public Convenience and Necessity and for approval of their new environmental compliance plans.

2. Lines 19-20 on page 8 of the Kollen Testimony refer to KU and LG&E each having \$1,050 million in short-term debt available. At lines 19-23 on page 9 of the testimony, Mr. Kollen refers to KU and LG&E maximizing the use of short-term debt during construction as that is "by far the least cost source of financing available to the Companies" Describe Mr. Kollen's understanding of how the rating agencies and capital market participants would view shifts in KU's and LG&E's capital structures that reflected increases of several hundred million in their short-term debt balances.

3. Refer to page 10, lines 17-19, of the Kollen Testimony. Provide the calculations of the savings of \$161 million for KU customers and \$225 million for LG&E customers, respectively, which Mr. Kollen states will occur if the entire amount of their construction expenditures is financed with 0.16 percent commercial paper compared to their proposed rates of return.

4. Refer to pages 16-19 of the Kollen Testimony. On page 16, lines 17-20, he deals with modifying the rate of return ("ROR") on the environmental cost recovery ("ECR") rate base to allocate any new tax-exempt pollution control financing "in its entirety to the debt component of the ROR used in the ECR revenue requirement." Refer also to pages 19-23 of the testimony where Mr. Kollen discusses modifying "ROR to properly allocate short-term debt to the ECR."

a. Mr. Kollen has previously testified in general rate cases and ECR cases of KU and LG&E. Describe his understanding of the historic treatment of tax-exempt pollution control debt for ratemaking purposes in both types of rate proceedings.

b. If Mr. Kollen's proposal, which results in allocating a larger share of lower cost (1) tax-exempt pollution control debt and (2) short-term debt to the ECR, was adopted by the Commission, confirm that, absent these lower cost forms of financing, the capital structures of both utilities would have larger long-term debt and equity components for ratemaking purposes in future general rate cases.

5. Refer to pages 25-26 of the Kollen Testimony where Mr. Kollen cites an administrative rule of the Florida Public Service Commission ("FPSC") in support of his proposal that KU's, LG&E's, and LG&E and KU Energy, LLC's ("LKE") returns on rate base and income tax expense be considered together, rather than separately.

a. Explain whether the FPSC is the only regulatory commission of which Mr. Kollen is aware that has adopted an approach comparable to what he is proposing for KU, LG&E, and LKE.

b. The Commission has historically used a "stand-alone" approach in establishing income tax expense and revenue requirements for utilities that are part of a holding company organization. Explain in detail why Mr. Kollen believes it should adopt a different approach in these KU and LG&E cases.

6. Refer to page 5 of the Direct Testimony of Stephan J. Baron ("Baron Testimony"). Beginning at line 18, Mr. Baron states that, "[b]ecause the environmental costs at issue in this case are primarily demand-related there is no basis to allocate

those costs to business customers based on their fuel usage.” Explain why this statement would not also be true for non-business customers.

7. Refer to page 7, lines 12-15 of the Baron Testimony. Mr. Baron states that, “[b]ecause the majority of ECR revenue requirements are fixed costs that are unrelated to energy use or the level of the Companies’ fuel expenses, it is not appropriate to apply the environmental surcharge to customers on the basis of fuel expenses.”

a. Provide documentation to support the statement that “the majority of ECR revenue requirements are fixed costs that are unrelated to energy use.”

b. Explain whether KIUC has made this same argument in past environmental surcharge proceedings and, if so, identify those cases and where in those case materials KIUC’s argument can be found.

c. Explain why inclusion of some fuel expenses should not be considered when there are ECR costs that are proportional to the level of fuel burned.

8. Explain whether Mr. Baron believes that the need to comply with EPA’s emissions requirements is due to the amount of generation capacity required to meet demand or to the generation of energy required to meet daily energy usage. If the response is “the generation of energy required to meet daily energy usage,” explain why fuel revenues should be excluded from the ECR mechanism of any customer class.

9. Refer to pages 10-11 of the Baron Testimony. Mr. Baron states that in response to a Staff data request, Mr. Bellar stated that, “the use of non-fuel base revenues more properly reflects the demand-related component of revenue, which is

appropriate to allocate ECR costs because 'the preponderance of ECR costs are demand-related.'"

10. Explain whether it is Mr. Baron's understanding that Mr. Bellar would segregate customer classes in a manner similar to Mr. Baron's proposal when considering whether to use fuel-related revenue in the development of the ECR rate factor.

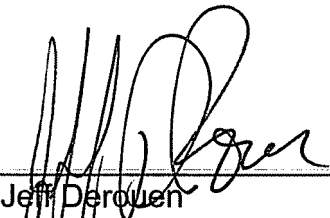
11. Refer to the Direct Testimony of Stephen G. Hill ("Hill Testimony") at pages 6-8. Compare an investor's expected return on an equity investment in a retirement portfolio to an expected return on a firm's investment in a capital project.

12. Refer to the Hill Testimony at pages 30-31.

a. Compare KU's and LG&E's percentage of coal used for generation to that of each company in the proxy group.

b. Explain why selection criteria for the proxy group do not include electric generation fuel mixes similar to that of KU and LG&E.

13. Refer to the Hill Testimony at page 34 and Exhibit (SGH-1) Schedule 5. In the context of a regulated utility proceeding, explain whether the use of earned returns on equity is circular and deterministic, especially for utilities with a high proportion of revenues from regulated operations.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

DATED SEP 30 2011

cc: Parties of Record

Case No. 2011-00161
Case No. 2011-00162

Lonnie Bellar
Vice President, State Regulation & Rates
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40232-2010

Honorable Kendrick R Riggs
Attorney at Law
Stoll Keenon Ogden, PLLC
2000 PNC Plaza
500 W Jefferson Street
Louisville, KENTUCKY 40202-2828

Honorable Leslye M Bowman
Director of Litigation
Lexington-Fayette Urban County Government
Department Of Law
200 East Main Street
Lexington, KENTUCKY 40507

Honorable Iris G Skidmore
415 W. Main Street
Suite 2
Frankfort, KENTUCKY 40601

David Brown
Slites & Harbison, PLLC
1800 Providian Center
400 West Market Street
Louisville, KENTUCKY 40202

Allyson K Sturgeon
Senior Corporate Attorney
LG&E and KU Services Company
220 West Main Street
Louisville, KENTUCKY 40202

Robert M Conroy
Director, Rates
Kentucky Utilities Company
220 W. Main Street
P. O. Box 32010
Louisville, KY 40202

Edward George Zuger, III
Zuger Law Office PLLC
P.O. Box 728
Corbin, KENTUCKY 40702

Kristin Henry
Staff Attorney
Sierra Club
85 Second Street
San Francisco, CALIFORNIA 94105

Honorable Dennis G Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OHIO 45202