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February 27 2004

RECEIVED
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PUBLIC SERVICE COMMISSION

VIA HAND DELIVERY
Mr. Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***In the Matter of: An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas & Electric Company***
KPSC Case No. 2003-00433
ON&W File No. 1/294

Dear Mr. Dorman:

Enclosed please find and accept for filing an original and ten copies of the Supplemental Response of Louisville Gas and Electric Company to the First Data Request of the Kentucky Industrial Utility Customers in the above-referenced matter. The supplemental portions of the responses are contained in italics.

Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copy and return it to me in the enclosed self-addressed stamped envelope.

Should you have any questions or need any additional information, please contact me at your convenience.

Yours very truly,

J. Gregory Cornett

JGC/md
Enclosures

cc: Linda S. Portasik
Counsel of Record

298516.02

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE GAS AND ELECTRIC	)	CASE NO.
RATES, TERMS AND CONDITIONS OF	)	2003-00433
LOUISVILLE GAS AND ELECTRIC COMPANY	)	

SUPPLEMENTAL RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
FIRST DATA REQUEST OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. ("KIUC")
DATED FEBRUARY 3, 2004

FILED: FEBRUARY 27, 2004

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

Supplemental Response to First Data Request of the KIUC Dated February 3, 2004
Filed – February 27, 2004

Question No. 66

Responding Witness: W. Steven Seelye

Q-66. a. Please identify the specific provisions of the Case Nos. 2000-080 and 90-158 Orders and/or filings relied on by Mr. Seelye to support the Companies' position that unbilled revenues should be removed from operating revenues. KIUC has been unable to locate a single reference to unbilled revenues in the Case No. 2000-080 Order. To the extent the Companies have relied upon their filings and not the Commission's Orders in these dockets, then please provide a copy of the relevant portions of the Companies' filings.

b. Does LG&E agree that the Case No. 2000-080 Order includes no reference to unbilled revenues? Does LG&E agree that the removal of unbilled revenues, regardless of the treatment in the filing, was not affirmatively adjudicated by the Commission in that proceeding? Please explain your response.

c. Do the Companies agree that the Case No. 90-158 Order addressed only the "initial booking of unbilled revenues reported by LG&E in January 1990" and not the recurring aspect for the net change in unbilled revenues (current month accrual less reversal of prior month accrual) reported by the Companies in operating revenues in their financial statements each month since January 1990 (at least for LG&E)? Please explain your response.

A-66. a. In Case No. 90-158, unbilled revenues were removed in Schedule L, Fowler Exhibit 1. In Case No. 90-158, testimony on unbilled revenues was submitted by Benjamin A. McKnight. In Case No. 2000-080 unbilled revenues were removed in Williams Exhibit 1. There were numerous data requests on the subject in Case No. 2000-080. *Please see the attached.*

b. Although there is no explicit reference to the removal of unbilled revenues in the proceeding, there were a number of data requests on the subject and the Commission affirmatively adjudicated the issue when it approved the pro-forma adjustment eliminating unbilled revenues in the proceeding.

c. Although, the order is accurately quoted, testimony was offered on the subject and the Commission approved the pro-forma adjustment eliminating unbilled revenues in the proceeding.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2000-080

Response to the Attorney General's First Request for Information Dated April 28, 2000

Question No. 60

Responding Witness: Scott Williams (parts a & b), Steve Seelye (part c)

Q-60. With regard to the unbilled revenue data shown on Williams Exhibit 1, Schedule B, please provide the following information:

a. Are the unbilled revenues as of 12/31/98 of $15,961,000 included in the per books test year gas revenues of $177,578,924? If not, explain why not.
b. Are the unbilled revenues as of 12/31/99 of $19,242,000 included in the per books test year gas revenues of $177,578,924? If not, explain why not.
c. The Company uses unbilled revenue accounting to "more closely match revenues with expense" as stated on page 6, lines 16-17. Given this, explain why it is appropriate to reverse this unbilled revenue accounting effect and matching principle for rate making purposes without similarly changing the test year expenses to match the change to state test year revenues on a billed basis.

A-60.

a. Yes.

b. Yes.

c. The unbilled adjustment must be eliminated for rate making purposes for several reasons. There are no billing determinants associated with this adjustment. It is necessary to have billing determinants in order to derive rates. The unbilled adjustment to LG&E's books is merely an estimate to match revenue with expenses which are on a calendar month basis and no attempt is made to calculate this accounting adjustment by individual rate classes. However, this adjustment must be estimated since it is impossible to determine the adjustment directly on the basis of meter readings. The only data that is known and accurate is the billing determinants that are measured at the meter (i.e., billed Mcf and associated revenue). To use unbilled revenue as a part of total test year revenue and include revenue adjustments calculated using billed data is inappropriate and will double count the effect of variations in temperature and customer growth. Two major components that create unbilled revenue adjustments are changes in temperature and changes in number of customers. Both the temperature and year-end adjustments are included in LG&E's test year revenues and are calculated using as-billed billing determinants. We believe that some of the effects of temperature and customer growth are reflected in unbilled revenue as well. Therefore, including a temperature adjustment and year-end adjustments are included in LG&E's test year revenues and are calculated using as-billed billing determinants. We believe that some of the effects of temperature and customer growth are reflected in unbilled revenue as well. Therefore, including a temperature adjustment and year-end adjustment while using unbilled revenue would double count some of these two factors. In fact, if a company experiences normal weather and no customer growth, there should be very little if any unbilled revenue adjustment. The amount of revenue removed at the beginning of the year should very closely match the amount included at the end of the year since the number of customers are the same and the temperature is also assumed to be the same. While we recognize that revenue is based on a billing cycle basis and expenses are based on a calendar month, we believe that once revenue is normalized there is very little difference in billing cycle revenue and calendar month revenue for a given year. We also believe that this methodology yields far more accurate results than trying to base rates on estimated data used to make unbilled adjustments.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2000-080

Response to the Attorney General's Second Request for Information
Dated May 25, 2000

Question No. 184

**Responding Witnesses: Scott Williams – part hh
Steve Seelye – part ii**

Q-184. With regard to the response to AG 1-60, please provide the following information:

hh. Clarify the answers to a and b. How can both the 12/31/98 unbilled revenues and the 12/31/99 unbilled revenues be included in the per books 1999 revenues of $177,578,924? If the answer to either a or b is "no", explain the reasons for this "no" answer.

ii. The Company's O&M expenses booked during the 1999 test year are based on operating activities from 1/1/99 through 12/31/99. However, after making the unbilled revenue adjustment on Williams Exhibit 1, Schedule B, the Company's operating revenues for the 1999 test year will be on actual operating revenue activities running from approximately the middle of December 1998 through approximately the middle of December 1999 with the effect of lowering the mcf sales and number of customers for rate making purposes than is implicit in the actual per books test year revenues (e. g. the unbilled revenue adjustment lowers the Mcf sales volume by 383,000 -see workpapers for the adjustment). Please explain why the Company has not proposed an associated adjustment to similarly reduce its test year per books O&M expenses based on the same 32.13% "Operating Ratio" approach as it has done on Seelye Exhibit 9 for the revenue annualization adjustment?

A-184. hh. In responding to AG-60, we were assuming that the revenues referred to in that question were the "test year" revenues which have been adjusted to reflect actual as-billed customer billings during 1999. In that regard, the unbilled revenues for both 1999 and 1998 had to be taken into account in order to re-state per books revenues and deliveries on an as billed basis. Clearly, the 12/31/98 unbilled revenues are not included in the 1999 per book ("unbilled") revenues.

ii. The "as-billed" revenues correspond with actual customer billing during the test year whereas the per books revenues reflect estimated "unbilled" revenue that was billed outside the test year. As indicated in response to AG-60, the only data that is known and accurate is the billing determinants that are measured at the meter (i.e., billed Mcf and associated revenue). While the per books revenues were adjusted to reflect as-billed revenues, the as-billed revenues and deliveries were subsequently adjusted to reflect both normal temperatures and the year-end level of customers. As a result of these adjustments, the test year revenues on an as-billed basis correspond with the adjusted expenses during the test year.

The assumption made in the question itself is inaccurate. The test year Mcf and revenues are not based on actual operating activities as suggested by the question. Both revenues and Mcf sales are adjusted to reflect what would have been expected given normal temperatures and year-end numbers of customers. This matches the adjusted expenses with adjusted revenue and adjusted billing determinants. If a company experienced normal temperatures and no customer growth, "as-billed" and "as-booked" revenue would be essentially the same. It should be noted that no expense adjustment is made to the weather normalization adjustment. This is because the overwhelming percentage of incremental expenses associated with sales to existing customers is gas supply expenses, which are not included in test year expenses. This is analogous to the decremental adjustment indicated in the question. The 383,000 Mcf decremental adjustment would be virtually all gas supply related since it is sales to existing customers. An expense adjustment is made in association with the year-end adjustment because of additional customers and therefore, non-gas supply costs would be affected. Therefore, as with the temperature normalization adjustment, an expense adjustment is inappropriate for a decremental adjustment associated with "as-booked" revenue. The use of an Operating Ratio similar to that used in computing the year-end customer adjustment would be clearly inappropriate. The purpose of the year-end adjustment is to reflect the additional sales resulting from the year-end number of customers over the average number during the year.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE GAS RATES OF LOUISVILLE GAS AND ELECTRIC COMPANY	)))	CASE NO. 2000-080

DIRECT TESTIMONY OF

J. SCOTT WILLIAMS

recorded during the test year; (f) adjusted expenses for known and measurable changes that have taken place or will take place; (g) provided a tax adjustment for interest applicable to the Job Development Credit (JDC), and other investments; and (h) calculated a tax adjustment for the exclusion of other interest expense.

Q. Please explain the adjustment shown in Schedule A of Exhibit 1.

A. This adjustment has been made to eliminate the effect of gas supply cost recoveries and gas supply expenses for the test year ended December 31, 1999, in compliance with the Commission's Order in Case No. 9133. This adjustment was prepared by Mr. Seelye and will be explained in his testimony.

Q. Explain the adjustment in Schedule B.

A. The Company accrues an estimate for unbilled revenues.

Revenues are recorded as billed to customers on a monthly meter reading cycle. Service that had been rendered from the latest date of each cycle meter reading to the month-end is unbilled. To more closely match revenues with expenses, the Company accrues an estimate for unbilled revenues. This adjustment eliminates from revenues the net effect of recording unbilled revenues for the 12 months ended December 31, 1999, in order to state test year revenues on a billed basis.

Q. Discuss the adjustment shown in Schedule C.

A. Schedule C adjusts gas revenues to reflect normal temperatures for the test

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustments to Gas Operating Revenues, Gas Operating Expenses and Gas Net Operating Income
For the 12 Months Ended December 31, 1999

		Gas Department		
	Reference Schedule (1)	Operating Revenues (2)	Operating Expenses (3)	Net Operating Income (4)
1. Amount per books		$177,578,924	$170,296,004	$7,282,920
2. To eliminate gas supply costs and revenues	A	(113,012,337)	(114,318,558)	1,306,221
3. To eliminate effect of unbilled revenues	B	(3,281,000)		(3,281,000)
Base revenues and expenses:		61,285,587	55,977,446	5,308,141
4. Adjustments for known changes and to eliminate unrepresentative conditions:				
5. To adjust gas revenues/expenses for temperature normalization	C	4,282,718		4,282,718
6. To annualize year-end gas volumes of business	D	772,063	248,063	524,000
7. To adjust for rate switching	E	(420,039)		(420,039)
8. To reflect depreciation expenses	F		80,513	(80,513)
9. To reflect increases and decreases in labor and labor related costs	G		358,435	(358,435)
10. To adjust storage losses	H		304,338	(304,338)
11. To adjust for Year 2000 expenses	I		(260,710)	260,710

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment to Eliminate Gas Unbilled Revenues

	Amount
1. Unbilled Revenues @ December 31, 1998	$15,961,000
2. Unbilled Revenues @ December 31, 1999	(19,242,000)
3. Increase in book revenues due to unbilled revenues.	$ (3,281,000)

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF
ADJUSTMENT OF GAS AND)
ELECTRIC RATES OF)
LOUISVILLE GAS AND)
ELECTRIC COMPANY)

CASE NO. 90-158

TESTIMONY OF BENJAMIN A. MCKNIGHT

Q. Please state your name.

A. My name is Benjamin A. McKnight.

Q. What is your profession and with whom are you associated?

A. I am a certified public accountant and a partner in the firm of Arthur Andersen & Co., independent public accountants. My business address is 33 West Monroe Street, Chicago, Illinois.

Q. Please describe the firm of Arthur Andersen & Co.

A. Arthur Andersen & Co. is an independent public accounting firm with more than 230 offices in 52 countries located throughout the world. We have among our clientele a large number of companies on the New York Stock Exchange. We provide services to approximately one-third of the electric and gas distribution companies in this country, a substantial portion of the natural gas transmission companies and the independent telephone companies and numerous water and sewer utility companies. However, our clients are for the most part users of utility services rather than suppliers.

Q. Please state your professional background and qualifications to testify as an expert in this proceeding.

A. I have a B.S. degree from Florida State University and an M.B.A. from Northwestern University. I have been with Arthur Andersen & Co. since 1972. A substantial portion of my career has been devoted to accounting and regulatory matters related to regulated electric, gas, telecommunications and water companies. I have performed numerous independent audits of these companies. I have participated in or been responsible for determination of historical original cost and cost of service as required by state and Federal regulatory commissions and have supervised our professional services in connection with various rate case proceedings and a large number of public financings. I have testified on accounting and regulatory matters before utility commissions in Arizona, Illinois, North Carolina and Pennsylvania.

I am a member of the American Institute of Certified Public Accountants ("AICPA") and the Illinois Society of Certified Public Accountants.

Q. What are your current responsibilities?

A. I am the Accounting and Audit Coordinator for Arthur Andersen's Utilities and Telecommunications Industries Program, which includes our practice with respect to electric, natural gas, telecommunications and water companies. In this capacity, I am responsible for the consistent application of accounting principles and audit procedures relating to our clients in these industries.

My responsibilities also require me to attend and document all of the Financial Accounting Standards Board's ("FASB") open meetings concerning regulated enterprises and provide timely information for interested parties involved in various regulatory proceedings. The FASB sets required financial accounting standards for all nongovernmental entities, including Louisville Gas and Electric Company (LG&E or the Company). I have worked closely with the FASB and its staff on various technical and practice issues regarding regulated enterprises projects.

I am the engagement partner on several electric and gas utilities, including Commonwealth Edison Company, Iowa Electric Light and Power Company, Kentucky Utilities Company and Madison Gas and Electric Company.

I am also presently Chairman of the AICPA's Public Utilities Committee, whose activities include semi-annual liaison meetings with the Staff Subcommittee on Accounts of the NARUC and the accounting staff of various regulatory commissions.

Q. What is the purpose of your testimony in this proceeding?

A. I have been asked by LG&E to discuss the adjustments to Operating Revenues on line 14 of Fowler Exhibit 1, page 1 of 3, relating to unbilled revenues and explain why they are appropriate.

Q. Mr. McKnight, will you please explain how unbilled revenues arise?

A. Unbilled revenues represent revenues applicable to the time period between when meters are read and the end of the utility's accounting period, which is generally the end of the month. These unbilled revenues result because utilities typically will read meters throughout the month on a cycle basis. At any month end about one-half of the month's service will have been provided to customers which will not yet have been billed to those customers. The unbilled revenue method of accounting is an extension of the accrual method of accounting in that revenues recorded for the accounting period include revenues earned through the rendering of service as described above, even though a portion of such revenues are unbilled as of the end of the accounting period.

Q. Would you please explain how the Company previously accounted for utility revenues and the change to the unbilled revenue method of accounting in 1990?

A. Prior to January 1, 1990, the Company recorded revenues on the basis of revenues billed during the accounting period. That practice was consistent with the accounting followed by many other utilities in the industry. In order to more closely match revenues and expenses of a specific period for financial reporting purposes, and taking into consideration the tax treatment required by the Tax Reform Act of 1986 (TRA '86) for unbilled revenues, the Company, on January 1, 1990, began accruing revenues for service delivered but unbilled.

Q. Why did the Company change the accounting for unbilled revenues for financial reporting purposes?

A. Until the TRA '86, if a company did not record unbilled revenues for financial reporting purposes, the same accounting treatment could also be followed for tax purposes. Consequently, the Company and its customers enjoyed a deferral of the tax liability associated with unbilled revenues.

TRA '86, however, requires that public utilities using the accrual method of accounting must include currently the income attributable to services provided through the end of the tax year. The rule applies even though a different method may be used for financial reporting purposes. As a result of the required change for tax purposes, the Company's income tax liability increased regardless of whether LG&E changed its accounting for financial reporting purposes. With the incentive of tax deferral no longer available and because accounting for unbilled revenues does result in a better matching of revenues and expenses within a reporting period, the Company, and many other utilities, have now adopted the change for financial reporting purposes.

Q. How does the adoption of the unbilled revenues method of accounting affect amounts billed to customers?

A. It does not. The adoption of the unbilled revenues method of accounting has no impact on amounts billed to customers and, therefore, has no impact on LG&E's cash flow. Customer billings are based on usage determined from meters read and approved tariffs. Accounting for unbilled revenues merely recognizes on an accrual basis the application of the approved tariffs to electricity and gas used by customers but not yet billed at the end of an accounting period.

Q. How did the Company record for financial reporting purposes the change in accounting for unbilled revenues?

A. LG&E recorded the cumulative effect of unbilled revenues as of December 31, 1989, $18,236,486 ($29,791,486, net of income taxes of

$11,555,000, equals $18,236,486), as a one-time special item in the Company's January, 1990 income statement. This accounting is in accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB No. 20), under which the one-time impact of such a change is required to be excluded from operating revenues and operating income. Accordingly, the Company's $498,847,001 of electric and $171,495,928 of gas operating revenues for the 12 months ended April 30, 1990 (line 1 of page 1 of 3, Fowler Exhibit 1) do not include the $29,791,486 of revenues associated with the one-time special item in LG&E's 1990 income statement.

Because the one-time special adjustment for pre January, 1990 unbilled revenues was recorded in January, 1990, it is also included in the Company's income statement for the 12 months ended April 30, 1990 (see Exhibit I). Again, the special adjustment, which represents unbilled revenues as of December 31, 1989, was recorded outside of operating revenues and operating income on LG&E's income statement. However, the effect of the new method of accounting for unbilled revenues on post December 31, 1989 operations (January-April, 1990) is reflected in utility operating revenues and operating income for the 12 months ended April 30, 1990.

Q. Why did the Company record the one-time special adjustment for unbilled revenues net of income taxes?

A. Under APB No. 20, the Company is required to report a change in accounting <u>net of any income tax effect</u>. This is required to achieve proper matching and recognize the income tax liability associated with the cumulative effect of changing to unbilled revenues. Unless this was done by the Company, the reported income statement impact applicable to the period prior to 1990 would have been overstated.

Q. What is the purpose of the Company's unbilled revenues adjustments to operating revenues for the 12-month period ended April 30, 1990?

A. Operating revenues for the 12 months ended April 30, 1990, as shown on Fowler Exhibit 1 of $498,847,001 and $171,495,928 for the electric and gas departments, respectively, include 8 months (May-December, 1989) of revenues on the billed method of accounting and 4 months (January-April, 1990) of revenues on the unbilled method of accounting. Specifically, the adjustments remove the unbilled revenues recorded as operating revenues during the 4-month period ended April 30, 1990 so that each month of the test year will include operating revenues on the billed basis. The Company has made a related adjustment to retained earnings as of April 30, 1990, as set forth on page 1 of 2, Fowler Exhibit 2.

This adjustment is an <u>addition</u> to operating revenues because revenues for the 4-month period ended April 30, 1990 under the billed method exceed revenues for the same period on the unbilled method. This difference primarily results from colder weather experienced in the second half of December, 1989 as compared to the second half of April, 1990.

Q. What are the Company proposed adjustments to test year operating revenues?

A. Line 14 of Fowler Exhibit 1, page 1 of 3, includes the Company's net adjustments for unbilled revenues of $3,775,378 for electric operating revenues and $10,738,108 for gas operating revenues.

Q. How are these two amounts computed?

A. The computation is shown on Fowler Exhibit 1, Schedule L. The initial amount of unbilled revenues recorded as a one-time, special item as of January 1, 1990 ($14,689,378 for electric and $15,102,108 for gas) is compared to the balance of unbilled revenues at April 30, 1990 ($10,914,000 for electric and $4,364,000 for gas). The differences represent the amounts recorded by the Company as additional operating revenues for the test year.

Q. LG&E adopted the unbilled revenues method in the middle of the test year. What effect does that have on the test year?

A. With this and certain other Company proposed adjustments explained below, the effect on the test year is no different than if LG&E had adopted the unbilled method at the beginning of the test year and no different than if LG&E had remained on the billed method.

Q. Why are the other Company proposed adjustments which you referred to above an important consideration?

A. In past LG&E rate cases, 12 months of revenues have been matched with 12 months of fuel, gas and other O&M expenses in order to determine a revenue deficiency or excess. Adjusted operating revenues for the test year should be based on the level of customers, the rates in effect and estimated usage based on weather. In each rate case, adjustments were made to achieve this matching of test year revenues and expenses.

Q. Has the Company made an adjustment to operating revenues to reflect the effects of unusual weather?

A. Yes. Fowler Exhibit 1, line 4 of page 1 of 3, contains an adjustment to gas operating revenues for temperature normalization. This was an increase in test year gas operating revenues of $2,324,141.

Q. Did the Company make any adjustments to reflect year end volumes of business?

A. Yes. The Company made an entry, as shown on line 11 of Fowler Exhibit 1, page 1 of 3, to annualize operating revenues for year end electric and gas volumes of business in the amounts of $2,466,806 and $382,599, respectively.

Q. Did the Company adjust test year operating revenues for any rate changes occurring during the test year?

A. Yes. An adjustment was made, as shown on line 3 of Fowler Exhibit 1, page 1 of 3, to decrease test year operating revenues for a base rate decrease during the test year. This adjustment reflects test year operating revenues as if the base rate decrease went into effect at the beginning of the test year.

Q. Mr. McKnight, now that LG&E has adopted the unbilled method for revenues recognition, should test period revenues also be determined on the unbilled basis?

A. It really does not matter whether test period revenues are determined on the billed or unbilled basis. Given the adjustments to the test year operating revenues noted above (lines 3, 4, 11 and 14 of Fowler Exhibit 1, page 1 of 3), either method properly applied should yield substantially the same result. Both methods should result in a representative 12-month level of operating revenues for purposes of setting future rates. For ratemaking purposes, the billed method has a practical advantage of having fewer estimates than are necessary for reporting unbilled revenues for financial reporting purposes.

Q. Does this conclude your testimony?

A. Yes, it does.

LOUISVILLE, KENTUCKY

I, Benjamin A. McKnight, say that the statements contained in the foregoing testimony are true to the best of my knowledge and belief.

Dated this 10th day of July, 1990.

Benjamin A. McKnight

Benjamin A. McKnight

SUBSCRIBED AND SWORN to before me by Benjamin A. McKnight on this 10th day of July, 1990.

Sally L. Patton

Notary Public
Louisville, Kentucky

My commission expires: May 19, 1991.

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

ADJUSTMENT OF GAS AND ELECTRIC RATES OF LOUISVILLE GAS AND ELECTRIC COMPANY	)))	CASE NO. 90-158

TESTIMONY OF M. LEE FOWLER

Q. Please state your name and address.

A. M. Lee Fowler, Louisville, Kentucky.

Q. In what capacity are you employed by Louisville Gas and Electric Company?

A. I am vice president and controller of LG&E.

Q. Briefly describe your educational background and your business experience at the Company.

A. I am a graduate of the University of Louisville with a bachelor of science degree in commerce with a major in accounting and a masters degree in business administration. I have been employed by Louisville Gas and Electric Company since 1954, except for two years during which I served in the U.S. Army. I have held various positions related to accounting, including the position of manager of tax accounting and assistant controller. I became controller in May 1986 and served in this capacity until elected to my present position as vice president and controller on to the customers of LG&E. The $4.5 million annual savings in operating expenses attributable to the restructuring exceeds the annual cost of the amortization, which is $3.2 million, in each of the three years. In addition, customers will ultimately receive the benefit of reduced construction expenses.

Q. Explain the adjustment in Schedule K.

A. Calculations are made each year by the Company to estimate the total amount of customers' accounts receivable that will be charged off each year as uncollectible. Charges are then made each month to a reserve for uncollectible accounts to equalize the expenses throughout the year. As shown in Schedule K, the accrual for the annual provision for uncollectible accounts in 1990 is $1,350,000 or $112,500 per month, which is below the five-year average annual charge off and below the amount charged off in each of the last five years. This adjustment has been made to raise the uncollectible accounts expenses included in the test year to the projected level of annual expenses. The improvement in LG&E's uncollectible accounts over the last few years is attributable to several factors, including improved collection efforts by the Company, relatively mild winter weather and a reduction in the cost of purchased gas.

Q. Let's move on to Schedule L.

A. Beginning January 1, 1990, the Company changed its method of accounting for unbilled revenues. Previously revenues were recorded as billed to customers on a monthly meter reading cycle. Service that had been rendered from the latest date of each cycle meter reading to the month-end was unbilled. To more closely match revenues with expenses, the Company changed its method of accounting to accrue for estimated unbilled revenues. This adjustment is being made to eliminate from revenues the net effect of recording unbilled revenues for the first four months of 1990. Mr. McKnight will discuss the accounting concept of unbilled revenues in his testimony.

Q. Please explain the adjustment shown in Schedule M.

A. This adjustment has been made to eliminate the effects of gas supply cost recoveries and gas supply expenses from the test year ended April 30, 1990, in compliance with the Commission's Order in Case No. 9133.

Q. Explain the adjustment in Schedule N.

A. During November and December 1989, in accordance with the Commission's Order in Case No. 10320, the Company refunded $2.5 million to its electric customers. This adjustment has been made to add the non-recurring refund to revenues for the test year ended April 30, 1990.

Q. Explain the adjustment in Schedule O.

A. Schedule O reflects the projected increase in the Company's sales tax liability as a result of the increase in the Kentucky sales tax rate from 5% to 6%, effective July 1, 1990.

LOUISVILLE GAS AND ELECTRIC COMPANY AND SUBSIDIARY

Adjustments to Operating Revenues, Operating Expenses and Net Operating Income
For the 12 Months Ended April 30, 1990
Case No. 90-158

	Reference Schedule (1)	Electric Department: Operating Revenues (2)	Electric Department: Operating Expenses (3)	Electric Department: Net Operating Income (4)	Gas Department: Operating Revenues (5)	Gas Department: Operating Expenses (6)	Gas Department: Net Operating Income (7)
1. Amount per books		$498,847,001	$380,533,392	$118,313,609	$171,495,928	$168,135,506	$3,360,422
2. Adjustments for known changes and to eliminate unrepresentative conditions:							
3. To adjust revenues due to base rate changes	A	(5,200,309)		(5,200,309)	(2,452)		(2,452
4. To adjust gas revenues for temperature normalization	B				2,324,141		2,324,141
5. To reflect cost of EPRI dues	C		1,311,826	(1,311,826)			
6. To reflect increases and decreases in labor and labor related costs	D		2,677,835	(2,677,835)		892,612	(892,612
7. To reflect increased property taxes	E		982,754	(982,754)			
8. To eliminate advertising expenses pursuant to Commission Rule KAR 5:016	F		(450,049)	450,049		(127,634)	127,634
9. To reflect depreciation expenses	G		15,171,389	(15,171,389)		162,454	(162,454
10. To reflect representative level of storm damage expenses	H		723,291	(723,291)			
11. To annualize year-end gas and electric volumes of business	I	2,466,806	1,023,231	1,443,575	382,599	95,497	287,102
12. To amortize downsizing cost over three years	J		(4,996,249)	4,996,249		(1,328,118)	1,328,118
13. To reflect additional accrual required to provide for uncollectible accounts	K		65,000	(65,000)		35,000	(35,000
14. To eliminate the effect of unbilled revenues	L	3,775,378		3,775,378	10,738,108		10,738,108
15. To eliminate gas supply costs and revenues	M				(120,698,880)	(119,993,180)	(705,700
16. To eliminate non-recurring refund	N	2,500,005		2,500,005			
17. To adjust for state sales tax law changes	O		148,000	(148,000)		15,000	(15,000
18. Total adjustments page 1 of 3		$3,541,880	$16,657,028	($13,115,148)	($107,256,484)	($120,248,369)	$12,991,885

LOUISVILLE GAS AND ELECTRIC COMPANY AND SUBSIDIARY

Adjustment to Eliminate the Effect of Unbilled Revenues As Applied to the 12 Months Ended April 30, 1990

	Electric (1)	Gas (2)	Total (3)
1. Unbilled revenues recorded at January 1, 1990	$14,689,378	$15,102,108	$29,791,486
2. Unbilled revenues recorded at April 30, 1990	10,914,000	4,364,000	15,278,000
3. Net adjustment	$3,775,378	$10,738,108	$14,513,486

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

Supplemental Response to First Data Request of the KIUC Dated February 3, 2004
Filed – February 27, 2004

Question No. 67

Responding Witness: W. Steven Seelye

Q-67. Please indicate why the Companies have not made adjustments to fuel expenses to avoid the recovery through base rates of line losses on off-system sales that are not recoverable through the fuel adjustment clause pursuant to Commission Orders. If the Companies have made such adjustments or they are embedded in other adjustments, then please describe and separately quantify.

A-67. Different line losses by voltage level were considered in the allocation of fuel and other energy-related expenses in the cost of service study.

It is not necessary or appropriate to make an adjustment to fuel expenses because the costs associated with off-system sales are not recovered through base rates. Customers receive the full benefit of margins from off-system sales. The revenues associated with off-system sales are included as a credit in the determination of revenue requirements. Because the costs associated with off-system sales are more than offset by off-system sales revenues, none of the costs are recovered through base rates.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

Supplemental Response to First Data Request of the KIUC Dated February 3, 2004
Filed – February 27, 2004

Question No. 68

Responding Witness: W. Steven Seelye

Q-68. Please quantify the adjustment to fuel expenses necessary to avoid the recovery through base rates of line losses on off-system sales that are not recoverable through the fuel adjustment clause pursuant to Commission Orders.

A-68. See LG&E's response to KIUC Question No. 67. The Company has not quantified the impact of using different loss factors in the cost of service study.

Since costs associated with off-system sales are not recovered through base rates, no adjustment is necessary or appropriate.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

Supplemental Response to First Data Request of the KIUC Dated February 3, 2004
Filed – February 27, 2004

Question No. 69

Responding Witness: Michael S. Beer / *W. Steven Seelye*

Q-69. Refer to Rives Exhibit 1 Schedule 1.05. Please indicate whether the off-system sales revenues used in the actual computation of the Companies' ECR tariff rates also exclude intercompany off-system sales revenues and are consistent with the Companies' computations in column 3 of this schedule. If the Companies' off-system sales revenues used in the actual ECR tariff rates do not exclude intercompany sales revenues, then please explain why the Companies excluded these revenues on this schedule.

A-69. The computation of the Company's ECR monthly billing factors uses total Company revenues to determine the retail jurisdictional percent of ECR recovery. Consistent with the Commission's Order in Case No. 2000-105, total Company revenues include all off-system sales revenues other than brokered sales.

The determination of the adjustment of off-system sales revenue for environmental surcharge costs is consistent with the Commission Order in Case No. 98-426.

The purpose of the adjustment shown in Rives Exhibit 1, Schedule 1.05, is to adjust off-system sales margins, which are credited against revenue requirements in the rate case, for the environmental costs allocated to off-system sales in the monthly ECR calculations. Because ECR costs, including those allocated to off-system sales, are removed from the determination of revenue requirements, the margins associated with the Company's off-system sales are overstated by the amount of the environmental costs allocated to off-system sales.

As explained in the original response, the Company was following prior practice in making this adjustment. However, the Company agrees that Off-System Sales Inter-company Revenue should not have been excluded from Off-System Sales Revenue in Rives Exhibit 1, Schedule 1.05, because excluding those revenues does not allow the full amount of environmental costs assigned to off-system sales to be reflected in the adjustment. Attached is a revised schedule showing a calculation of the pro-forma adjustment without removing Inter-company Revenue.

LOUISVILLE GAS AND ELECTRIC COMPANY

Off-System Sales Revenue Adjustment for the ECR Calculation
For the Twelve Months Ended September 30, 2003

	Electric			
	(1)	(2)	(3)	(4)
	LG&E Off-System Sales Revenue	Monthly Environmental Surcharge Factor	Average Environmental Surcharge Factor	Off-System Sales Environmental Cost (Col. 1 * 3)
Oct-02	$ 12,445,174	1.97%	1.86%	$ 231,480
Nov-02	7,741,067	2.55%	1.86%	143,984
Dec-02	9,362,793	2.95%	1.86%	174,148
Jan-03	17,650,740	1.79%	1.86%	328,304
Feb-03	15,075,495	3.01%	1.86%	280,404
Mar-03	23,103,728	0.09%	1.86%	429,729
Apr-03	16,368,049	0.33%	1.86%	304,446
May-03	5,767,285	1.04%	1.86%	107,272
Jun-03	11,322,041	1.01%	1.86%	210,590
Jul-03	10,772,934	2.81%	1.86%	200,377
Aug-03	12,796,062	2.60%	1.86%	238,006
Sep-03	14,896,692	2.14%	1.86%	277,077
Total	$ 157,302,060			$ 2,925,817
Average		1.86%		
Adjustment				$ (2,925,817)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

Supplemental Response to First Data Request of the KIUC Dated February 3, 2004
Filed – February 27, 2004

Question No. 73

Responding Witness: Earl M. Robinson

Q-73. Please describe whether interim retirements were included in the proposed depreciation rates at future, current, or historic dollar levels. Cite the relevant portions of the depreciation studies relied upon for your response.

A-73. The interim retirement rate incorporated in the development of the depreciation rates for the Company's generation plant investments was determined through the completion of a retirement rate (historical) analysis of the Company plant investments within each property group. The resulting interim retirement rate was incorporated into the life span application in developing the applicable average remaining life and resulting remaining life for each property account and plant site.

That is, estimates of specific interim retirements were not used. The interim retirement rate analysis and application is based upon the use of a depreciation life characteristic applied to the historical embedded investment with each property account. Please refer to Section 3 of the depreciation study report under life span for a discussion of the methodology, Sections 4 and 5 for the applicable account for the derivation of the interim retirement rate and Section 6 of the report which summarizes the calculation of the account and location level average remaining life which incorporates the interim retirement rate.

Specific estimates of interim retirements were not used in the depreciation calculations. Implicitly, the interim retirements were calculated based upon a historic dollar level given that the calculations of the interim retirement rate and the resulting average remaining life were performed using the historical original cost investments of each of the property groups for which interim retirements were utilized.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2003-00433

Supplemental Response to First Data Request of the KIUC Dated February 3, 2004
Filed – February 27, 2004

Question No. 101

Responding Witness: Valerie L. Scott

Q-101. Refer to Schedule 1.29 of Rives Exhibit 1 (LG&E only). Please explain why the Company has not proposed an amortization of the credit due to the renegotiation of the lease of the LG&E building. In addition, please provide all components of this adjustment "that removes the credit to expense and establishes the rent expense at the actual annual amount under the new lease," consistent with the testimony of Ms. Scott on this issue.

A-101. The credit referenced in Schedule 1.29 is not amortized because when it is netted against the expenses for the lease of the LG&E building as recorded in the test year, it results in the representative annual building lease expenses on a going-forward basis. *Please see the attached.*

LG&E Building Lease and Operating Expenses Adjustments For the 12 Months Ended September 30, 2003			
	Booked Expense		
	LG&E Building Rent & Expenses	KU Building Rent & Expenses	
October-02	100,426.80	86,823.54	
November-02	95,462.21	89,866.70	
November-02	(2,276,480.83)	-	Adjustment
December-02	94,249.96	88,725.52	
January-03	94,805.41	89,248.39	
February-03	94,875.25	89,314.14	
March-03	94,374.20	88,842.51	
April-03	36,944.03	34,778.68	
May-03	57,318.83	53,959.08	
June-03	102,120.74	96,134.94	
July-03	102,325.68	96,327.81	
August-03	85,814.62	82,115.05	
September-03	103,075.13	97,033.39	
Total	(1,214,687.97)	993,169.75	(221,518.22)
	Per Lease Agreement		
October-03	90,546.71	82,893.74	
November-03	90,546.71	82,893.74	
December-03	90,546.71	82,893.74	
January-04	90,546.71	82,893.74	
February-04	90,546.71	82,893.74	
March-04	90,546.71	82,893.74	
April-04	90,546.71	82,893.74	
May-04	90,546.71	82,893.74	
June-04	90,546.71	82,893.74	
July-04	90,546.71	82,893.74	
August-04	92,357.65	84,551.60	
September-04	92,357.65	84,551.60	
Total	1,090,182.40	998,040.60	2,088,223.00