THE UNION LIGHT, HEAT AND POWER COMPANY
Case No. 2003 - 00252
Projected Capitalization
As of December 31, 2006

Line No.	Class of Capital	Company Projected 2006 Total ULH&P 1/	Less: ADIT and ADITC 2/	Projected 2006 Total ULH&P
1	Common Equity	$ 420,807,910	90,792,406	$ 330,015,504
2	Long Term Debt	310,777,604		310,777,604
3	Short Term Debt	46,524,419		46,524,419
4	Total Capitalization	$ 778,109,933	$ 90,792,406	$ 687,317,527

Cost of Capital Summary

Line No.	Class of Capital	Amount	% of Total	% Cost 3/	Weighted Cost %
5	Common Equity	$ 330,015,504	48.015%	11.380%	5.464%
6	Long-Term Debt	310,777,604	45.216%	6.400%	2.894%
7	Short-Term Debt	46,524,419	6.769%	1.950%	0.132%
8	Total Capital	$ 687,317,527	100.000%		8.490%

1/ JPS-3

2/ ADIT of $83,388,148 + Miami Fort #6 ADITC of $93,780 + East Bend ADITC of $7,310,478 = $90,792,406. All figures from Attachment KyAG-01-037, response to KyAG-01-037.

3/ JPS-4

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

CASE NO. 2003-00165

APPLICATION OF
KENERGY CORP.
FOR A REVIEW AND APPROVAL
OF EXISTING RATES

REBUTTAL TESTIMONY OF

DAVID H. BROWN KINLOCH

On Behalf of

THE OFFICE OF THE ATTORNEY GENERAL
FOR THE COMMONWEALTH OF KENTUCKY

NOVEMBER 2003

Soft Energy Associates • 414 South Wenzel Street • Louisville, KY 40204 • 502-589-0975

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORPORATION	)	
FOR REVIEW AND APPROVAL OF	)	CASE NO. 2003-00165
EXISTING RATES	)	

NOTICE OF FILING AND CERTIFICATION OF SERVICE

I hereby give notice that I have filed the original and ten true copies of the foregoing with the Executive Director of the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 this the 7th day of November, 2003, and certify that this same day I have served the parties by mailing a true copy, postage prepaid, to the following:

FRANK N KING JR ESQ
DORSEY KING GRAY NORMENT & HOPGOOD
318 SECOND STREET
HENDERSON KY 42420

MICHAEL L KURTZ ESQ
BOEHM KURTZ & LOWRY
36 EAST SEVENTH STREET STE 2110
CINCINNATI OH 45202

DEAN STANLEY
PRES AND CEO
KENERGY CORPPORATION
3111 FAIRVIEW DRIVE
P O BOX 1389
OWENSBORO KY 42302

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

90. Please state whether a 12-month coincident peak (12 CP) methodology is generally accepted within the electric industry? If so, please provide any authority for this position.

ANSWER:

The 12 CP method is one of many methods used to allocate production and transmission demand costs within the electric industry. The 12 CP demand allocation method suffers from the problem that all demand is allocated based on coincident peak demand. In the past, the Kentucky Commission has not looked favorably upon demand allocation methods that rely solely upon coincident peak.

A good example of the Commission's objection to demand methodologies that solely rely upon coincident peaks is the Commission's Order in LG&E Rate Case No. 90-158. In that case, LG&E performed at Cost of Service Study using the Base-Intermediate-Peak (BIP) method to allocate production and transmission demand costs. The BIP method is a time-differentiated method that assigns demand based on coincident summer and winter peaks, but also assigns some demand based on the other hours of the year. In that case, KIUC offered an alternative Cost of Service study that used the Probability of Peak (POP) method, that relies solely on coincident peaks, like the 12 CP method proposed by Kentucky Power in this case. In the Commission's Order in Case No. 90-158, the Commission rejected methodologies that rely solely upon coincident peaks, stating on page 58 of the Order:

> "The BIP method recognizes that LG&E's embedded production and transmission costs were incurred to meet all customer demand, not just that which is coincident with system peak. KIUC's proposed POP method places too much weight on coincident peak demand. If any customer has access to electricity whenever it is demanded, that customer should bear the responsibility of some portion of demand-related costs."

While the 12 CP demand allocation method used by Kentucky Power in this case may be acceptable to some within the electric industry, the Kentucky Commission has made it clear that such methods are not acceptable to it since they allocate costs based solely on coincident peak.

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

91. Does Mr. Brown Kinloch have his own cost of service methodology? If so, please provide that methodology in electronic format with formulas intact.

ANSWER:

No. Please see Mr. Brown Kinloch's prepared testimony in this case, page 10, lines 7 through 13.

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

92. Has Mr. Brown Kinloch ever reviewed or performed a cost of service study using something other than a spreadsheet? If so, please describe the alternative format in detail.

ANSWER:

Yes. Early in Mr. Brown Kinloch career, utilities performed Cost of Service studies on mainframe computers which did not use spreadsheet programs. Since the introduction of Personal Computers (PCs), all studies reviewed and performed by Mr. Brown Kinloch have used a spreadsheet format. But even in the period before the introduction of PCs, the printouts from the mainframe computers contained all intermediate steps in the cost of service process (cost functionalization, classification, class allocation, and derivation of allocators) which allowed costs to be tracked from initial input to final allocation.

In this case, the TACOS Gold software does not provide a way to follow initial input costs through to final class allocation due to the "black box" nature of the software.

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

93. Has Mr. Brown Kinloch provided cost of service testimony in proceedings outside of Kentucky? If so, please list each such testimony by case name, case number, date and nature and testimony and provide a copy of such testimony and any transcripts of testifying regarding such testimony.

ANSWER:

No.

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

94. Did Mr. Brown Kinloch participate in the last Kentucky Power rate proceeding (Case No. 91-066)? If so, in what capacity?

ANSWER:

Yes. Mr. Brown Kinloch provided expert testimony on behalf of the Office of the Attorney General. The testimony focused primarily of Cost of Service, but also dealt with other issues.

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

95. Does Mr. Brown Kinloch know what cost-of-service methodology Kentucky Power used in its last rate proceeding? If so, what methodology was employed?

ANSWER:

Mr. Brown Kinloch is familiar with the Cost of Service Study filed by Kentucky Power in it last rate proceeding, as he filed testimony with respect to the Cost of Service Study in that case. In that case, Kentucky Power used a 12 CP methodology to allocate production and transmission demand. This was a major area of contention because, in addition to other problems with the method, Kentucky Power's Cost of Service witness, Mr. Brendt, had rejected the 12 CP methodology in Kentucky Power's previous rate case, Case No. 9061, stating that the 12 CP method unfairly discriminates against low load factor customers.

Response of the Attorney General to
Initial Data Request of Kentucky Power Company to the Attorney General
Kentucky Power Company
Case No. 2005-00341

Witness Responsible: David H. Brown Kinloch

96. From the information provided in response to KIUC First Set of Data Requests, Item No. 92, please verify the results of the allocation to classes of the Production Plant Demand line (Total Retail amount of $452,727,608) of the cost of service study? In so doing, please explain the calculation of the value for the residential class.

ANSWER:

The question posed illustrates the problem with the Cost of Service Study filed by the Company in this case. When one finds the "Total Retail" figure of $452,727,608, on line 10 of the EXCEL Spreadsheet provided in response to KIUC-1-92, there is only a "results" figure, with no imbedded formulas that lead to the calculation of that figure. In the same way, the "results" for the residential class has only a number, with no imbedded formula that shows how that number was generated. Without imbedded formulas, explaining how a particular calculation was made within the TACOS Gold "black box" software would simply be speculation on my part.