

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY)
FOR APPROVAL OF AN ALTERNATIVE METHOD) CASE NO. 98-474
OF REGULATION OF ITS RATES AND SERVICE)

DIRECT TESTIMONY
AND EXHIBITS
OF
LANE KOLLEN

ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

MARCH 1999

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1

2

I. QUALIFICATIONS AND SUMMARY

3

4 **Q. Please state your name and business address.**

5

6 **A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.**
7 **("Kennedy and Associates"), 35 Glenlake Parkway, Suite 475, Atlanta, Georgia**
8 **30328.**

9

10 **Q. What is your occupation and by whom are you employed?**

11

12 **A. I am a utility rate and planning consultant holding the position of Vice President and**
13 **Principal with the firm of Kennedy and Associates.**

1 Q. Please describe your education and professional experience.

2

3 A. I earned a Bachelor of Business Administration in Accounting degree from the
4 University of Toledo. I also earned a Master of Business Administration degree from
5 the University of Toledo. I am a Certified Public Accountant, licensed to practice,
6 and a Certified Management Accountant.

7

8 I have been an active participant in the utility industry for more than twenty years,
9 both as an employee and as a consultant. Since 1986, I have been a consultant with
10 Kennedy and Associates, providing services to state government agencies and large
11 consumers of utility services in the ratemaking, financial, tax, accounting, and
12 management areas. From 1983 to 1986, I was a consultant with Energy Management
13 Associates, providing services to investor and consumer owned utility companies.
14 From 1978 to 1983, I was employed by The Toledo Edison Company in a series of
15 positions encompassing accounting, tax, financial, and planning functions.

16

17 I have appeared as an expert witness on accounting, finance, ratemaking, and
18 planning issues before regulatory commissions and courts at the federal and state
19 levels on more than one hundred occasions. I have developed and presented papers
20 at various industry conferences on ratemaking, accounting, and tax issues. My

1 qualifications and regulatory appearances are further detailed in my Exhibit ___ (LK-
2 1).

3

4 **Q. On whose behalf are you testifying?**

5

6 A. I am offering testimony on behalf of the Kentucky Industrial Utility Customers, Inc.
7 ("KIUC"), a group of large customers taking electric service on the Kentucky Utilities
8 Company ("KU" or "Company") system.

9

10 **Q. What is the purpose of your testimony?**

11

12 A. The purpose of my testimony is to describe the KIUC proposal for a comprehensive
13 form of performance based ratemaking ("PBR") as well as to review the substance
14 and context of the Company's PBR proposal. My testimony assumes that PBR or
15 any other form of non-traditional regulation is legal in Kentucky, although that
16 determination is a legal issue.

17

18 **Q. Please summarize your testimony.**

19

20 A. I recommend that the Commission hold this PBR proceeding in abeyance until it
21 completes the rate investigation sought by KIUC in its complaint case filing earlier

1 this month. If the Commission does not hold this PBR proceeding in abeyance, then
2 I recommend that the Commission adopt the KIUC PBR proposal and reject the
3 Company's PBR proposal.

4
5 The KIUC PBR proposal is comprehensive, unlike the Company's limited PBR
6 proposal. The KIUC proposal is grounded in the traditional ratemaking process but
7 provides for enhanced ratemaking flexibility, timely rate reductions, and a system of
8 rewards and penalties for the Company based upon its actually achieved financial and
9 service performance.

10
11 The comprehensive KIUC PBR proposal includes several critical elements. First, I
12 recommend that the Commission reduce the Company's base revenues to fair, just,
13 and reasonable levels as a necessary prerequisite to the adoption of any other
14 elements of a comprehensive PBR plan. The Commission should reduce the
15 Company's base revenues by at least \$55.7 million. Second, I recommend that the
16 Commission adopt an earnings sharing mechanism ("ESM") similar to ESMs adopted
17 for other electric utilities in other jurisdictions. The ESM will provide a
18 comprehensive measure of the Company's cost and revenue performance and will
19 provide a reasonable sharing of the Company's success between the Company and its
20 ratepayers. Third, I recommend that the Commission incorporate provisions into the

1 ESM that provide a disincentive for the Company to allow its service quality to
2 deteriorate.

3

4 I recommend that the Commission adopt the KIUC PBR proposal for the following
5 reasons.

6

- 7 • It sets base rates at fair, just, and reasonable levels.
- 8 • It provides a comprehensive measure of performance.
- 9 • It balances the interests of the Company and its ratepayers.
- 10 • It provides a rational transitional regulatory approach.
- 11 • It provides legitimate incentives to the Company that will benefit the
12 Company and its ratepayers.
- 13 • It protects against deterioration in customer service.

II. BASE REVENUE REDUCTION

1
2
3 **Q. Please summarize the base revenue reduction element of the comprehensive**
4 **KIUC PBR proposal.**

5
6 A. I recommend that the Commission reduce the base rates of the Company to fair, just,
7 and reasonable levels. The Company's base rates should be reduced by at least \$55.7
8 million based upon rate of return regulation applied for the test year ending
9 September 30, 1998. The Company's regulated rate of return for the test year was
10 15.7%, well in excess of the 9.5% return required by current economic conditions.
11 Each 1% change in the rate of return is equivalent to \$8.9 million in base revenue
12 requirements.

13
14 **Q. Please provide some historic background regarding the establishment of the**
15 **Company's base rates by the Commission.**

16
17 A. The Commission historically has regulated the Company on the basis of rate of return
18 regulation, which provides for the setting of the base revenue requirement equal to
19 the Company's costs, including operating expenses and the grossed up return on
20 capital invested in rate base. In this manner, the Commission has set base rates at
21 fair, just, and reasonable levels, in accordance with its statutory mandate.

1 Q. **Doesn't the Company have low rates compared to national averages?**

2

3 A. Yes. However, the Commission historically has not set rates based upon comparisons
4 to national averages. The Commission historically has set rates based upon rate of
5 return regulation as a means of providing the Company a reasonable opportunity to
6 earn a fair rate of return and to provide ratepayers cost based rates that are fair, just,
7 and reasonable, just as other state regulatory commissions historically have set rates.
8 Thus, the fact that the Company's rates are lower than the national averages has no
9 bearing on whether the Company's rates should be higher or lower than existing
10 levels. In fact, it is the Commission's use of rate of return regulation, rather than the
11 use of national averages, that has resulted in the Company's rates being below the
12 national averages.

13

14 Q. **Do the Company's retail ratepayers have the choice of electricity suppliers?**

15

16 A. No. The Company has the exclusive right to serve retail ratepayers located within
17 its franchise territory. A "market," characterized by the ability of the retail customer
18 to choose suppliers, simply does not exist. There are certain regions in the nation
19 where customers now or in the near future will have the choice of electricity
20 suppliers, but that is not the situation in Kentucky. There is no statutory plan or
21 timetable in Kentucky for retail choice or competition. The Company remains a

1 monopoly supplier of electricity. Thus, the Commission necessarily remains the
2 arbiter of fair, just, and reasonable rates, not the "market" and not the Company.

3
4 **Q. Given the importance of establishing base rates at fair, just, and reasonable**
5 **levels prior to the adoption of any form of alternative regulation, how should the**
6 **Commission proceed?**

7
8 A. I recommend that the Commission hold in abeyance the proceedings pursuant to the
9 Company's application in this case and instead determine the level of fair, just, and
10 reasonable rates in the complaint case brought by KIUC. The Commission should
11 reject any form of alternative regulation that fails as a prerequisite to address the
12 excess revenue levels of the Company. If the Commission does not hold in abeyance
13 the proceedings in this case, then it should investigate the Company's base rate levels
14 in conjunction with its review of alternative regulation.

15
16 **Q. If the Commission does not investigate and set the Company's base rates to fair,**
17 **just, and reasonable levels prior to the adoption of any form of alternative**
18 **regulation, what are the consequences?**

19
20 A. The consequences are severe and detrimental to the ratepayers in the Commonwealth,
21 leading to a "taking" of at least \$55.7 million annually from the citizens and the local

1 economies in the Company's service territory for each year during the initial PBR
2 period. This will constitute a significant transfer of wealth from many citizens and
3 companies for the sole benefit of the Company's investors. If the initial PBR period
4 is three years, then the taking and transfer through excessive base rates will exceed
5 \$167.1 million.

6
7 **Q. Please describe the review that you performed in order to quantify the**
8 **Company's earned return and base revenue surplus.**

9
10 A. My review of the Company's revenue requirement is summarized on my
11 Exhibit__(LK-2). This same summary was provided to the Commission Staff, the
12 Company, and all other parties to this case in the course of a presentation made by
13 KIUC at the Commission's offices on January 28, 1999. This same summary was
14 attached to the KIUC complaint case filed with the Commission earlier this month.
15 I may identify and quantify further reductions to the Company's revenue requirement
16 if the Commission allows further investigation of the Company's revenue requirement
17 in either the Complaint proceeding or this proceeding.

18
19 I constructed the Company's per books capitalization, operating income, and rate base
20 from the Company's per books balance sheet and income statement data that I had
21 available. I then incorporated proforma adjustments that were necessary to annualize

1 and normalize the per books amounts for ratemaking purposes. Finally, these
2 amounts were jurisdictionalized between the Company's Kentucky retail and other
3 jurisdictions.

4
5 **Q. Did you make any simplifying assumptions in the review that you performed?**

6
7 **A.** Yes. The review that I performed was based primarily upon financial information
8 that was more aggregated than the information typically available in a base
9 ratemaking proceeding. Consequently, I made several simplifying and reasonable
10 assumptions. I assumed that all fuel and purchase power expenses that qualified for
11 fuel clause recovery were in fact recovered through the fuel clause with no
12 disallowances, e.g., the recoverable fuel and purchased power expenses are equal to
13 the fuel clause recovery revenue. Thus, I made no adjustments to exclude fuel and
14 purchased power expenses and no adjustments to remove fuel clause revenues. This
15 simplifying assumption should have no effect on the base revenue requirement.

16
17 Second, I assumed that the environmental surcharge ("ECR") was rolled into the base
18 ratemaking process. I assumed that the existing lower level of ECR recovery on
19 qualifying environmental investment was instead provided the higher level of base
20 rate recovery. This assumption provided the Company recovery of the return and
21 expense associated with pre-1993 environmental investment through the base revenue

1 requirement. Under the ECR, the Company was allowed a debt only rate of return
2 and pre-1993 environmental investment was disallowed pursuant to the Kentucky
3 Supreme Court's Opinion on the issue. This simplifying assumption benefits the
4 Company, and results in a higher base revenue requirement and lower revenue
5 reduction.

6
7 Third, I made assumptions in order to quantify the approximate effects of certain
8 adjustments for the test year where the Company failed to provide the information
9 requested through discovery, but where information was publicly available and
10 reasonably could be relied upon. I made assumptions in order to quantify the
11 approximate effects of annualizing growth in customers and sales, jurisdictional
12 allocations of sales for resale and transmission service revenues, jurisdictional
13 allocations of operation and maintenance expense, and the effects of annualizing the
14 Company's share of net merger savings. These simplifying assumptions were
15 necessary in order for the Commission to quantify the Company's revenue
16 requirement on a ratemaking basis.

17
18 Fourth, I did not reflect other typical ratemaking adjustments for the test year. The
19 Company did not provide the information requested for these ratemaking adjustments,
20 although it was requested through discovery. Consequently, I did not include
21 ratemaking adjustments for various nonrecurring expenses in the test year, including

1 Year 2000 compliance, certain annualizations and normalizations of revenues and
2 expenses, capital structure adjustments, or any excessive allocations of LGE Energy
3 costs to the Company. Although I assumed these amounts were zero for purposes of
4 my review, I believe that adjustments for these issues would increase the base
5 revenue reductions. Thus, these simplifying assumptions provided a benefit to the
6 Company by not reducing its revenue requirement for these issues.

7
8 **Q. If the Commission opens a docket to investigate the overearnings and revenue**
9 **surplus of the Company, would the parties be able to perform a more detailed**
10 **analysis of the Company's revenue requirement?**

11
12 **A.** Yes. There is no question that the Company is overearning and that its base revenues
13 should be reduced to fair, just and reasonable levels. However, a docket to
14 investigate the Company's revenue requirement would provide an opportunity for
15 discovery that would enable the parties to perform a more detailed analysis.
16 Consequently, the simplifying assumptions no longer would be necessary and all
17 appropriate adjustments could be incorporated.

18
19 **Q. Have you updated the KIUC revenue requirement analysis to reflect a test year**
20 **ending December 31, 1998?**

1 A. No. Although the Company has filed selected financial information for the twelve
2 months ending December 31, 1998, this information is not as detailed as the
3 information I have for the twelve months ending September 30, 1998. There has
4 been no opportunity to obtain documents other than those publicly available that
5 would provide information sufficiently detailed to analyze the Company's
6 computations for the December 31, 1998 period. It also appears that certain
7 operating expenses have increased significantly compared to the test year ending
8 September 30, 1998, the validity of which cannot be ascertained without detailed
9 discovery.

10

11 In addition, I have continued to utilize the 9.50% return on common equity that I
12 utilized in the January 28, 1999 presentation by KIUC to the Staff and other parties
13 in this case. Although KIUC witness Mr. Baudino has updated his analysis and
14 lowered his recommended return from 9.50% to 9.45%, I decided not to update the
15 analysis I presented on January 28, 1999 due to the relatively minor effect on the
16 Company's revenue requirement.

17

18 Q. Please describe the proforma adjustment that you made to the per books
19 amounts to annualize base revenues for growth in customers and sales to test
20 year end levels in the revenue requirement analysis that you performed.

21

1 A. I made a proforma adjustment to annualize base revenues for growth in customers
2 and sales in order to adjust test year revenues to be more representative of going
3 forward levels. I utilized a 1% growth factor, representing an estimated composite 2%
4 annual growth rate in customers and sales, applied to an estimate of base revenues
5 for each customer class, in order to annualize base revenues to year end levels.

6

7 **Q. Please describe the proforma adjustment that you made to the Company's**
8 **jurisdictional allocation to Kentucky retail of per books amounts for sales for**
9 **resales revenues in the revenue requirement analysis that you performed.**

10

11 A. I made a proforma adjustment to sales for resale in order to allocate a portion of the
12 Company's off-system sales revenues (other than to full requirements wholesale
13 customers) to the Kentucky retail jurisdiction. As I previously discussed, I relied
14 upon the Company's September 30, 1998 quarterly filing that it made pursuant to the
15 KPSC Case 97-300 Merger Order for my revenue requirement analysis. In that
16 filing, the Company failed to allocate any amount of off-system sales revenues to the
17 Kentucky retail jurisdiction. However, the Company did provide a cost of service
18 study in response to discovery in the KPSC Case 98-474 in which it developed and
19 utilized a Kentucky retail allocation factor of 85.36% for its off-system sales
20 revenues. Based upon that cost of service study, I utilized the 85.36% Kentucky

1 retail allocation factor to quantify the proforma adjustment included in my revenue
2 requirement analysis.

3

4 **Q. Please describe the proforma adjustment that you made to the Company's**
5 **jurisdictional allocation to Kentucky retail of per books amounts for provision**
6 **for rate refund revenues in the revenue requirement analysis that you**
7 **performed..**

8

9 A. The provision for rate refund is a nonrecurring item in the test year that does not
10 affect the Company's recurring base revenue recovery. Consequently, the adjustment
11 that I made to this revenue line item simply removed the amount from the test year
12 revenues and the revenue requirement.

13

14 **Q. Please describe the proforma adjustment that you made to the Company's**
15 **jurisdictional allocation to Kentucky retail of per books amounts for other**
16 **revenues in the revenue requirement analysis that you performed.**

17

18 A. I made a proforma adjustment to other revenues in order to allocate a portion of the
19 Company's transmission service revenue to the Kentucky retail jurisdiction, similar
20 to, and for the same reasons as, the proforma adjustment that I made to the sales for

1 resale revenues. I utilized the 83.64% Kentucky retail jurisdictional factor for this
2 line item developed by the Company in its jurisdictional cost of service study.

3
4 **Q. Please describe the proforma adjustment that you made to the Company's**
5 **jurisdictional allocation to Kentucky retail of per books amounts for fuel,**
6 **purchased power, and other operating, and maintenance expenses in the revenue**
7 **requirement analysis that you performed.**

8
9 A. Consistent with the proforma adjustments that I made to sales for resale and other
10 (transmission service) revenues, I also made proforma adjustments to allocate the
11 expenses associated with the proforma adjustments to these revenues to the Kentucky
12 retail jurisdiction. For this purpose, I utilized the 86.53% and 86.62% Kentucky
13 retail jurisdiction allocation factors developed by the Company in its jurisdictional
14 cost of service study for fuel, purchased power, and other operating expenses, and for
15 maintenance expenses, respectively.

16
17 **Q. Please describe the proforma adjustment that you made to other operating**
18 **expense for the annualized effect of the Company's net retained merger savings.**

19
20 A. I made a proforma adjustment to increase other operating expenses in order to
21 provide the Company the benefit of its net retained merger savings. I utilized the

1 Company's portion of retained net savings projected by LG&E and KU in the merger
2 proceeding. Although I reflected the entire effect of this proforma adjustment on the
3 fuel, purchased power, and other operating expense line item in my revenue
4 requirement analysis, the adjustment encompassed both other operating expense and
5 maintenance expense.

6
7 **Q. Did you make a proforma adjustment to annualize savings actually achieved by**
8 **the Company?**

9
10 A. No. However, in a more detailed review, actual savings should be annualized and
11 other operating and maintenance expenses reduced accordingly. Likewise, the base
12 revenue effects of the merger surcredits should be annualized. I did neither in my
13 analysis due to the absence of detailed information and the simplifying assumption
14 that the savings achieved by the Company were equal to the projections it made in
15 the merger proceeding. This assumption is reasonable for this analysis because the
16 Company's projections made in the merger proceeding were relied upon by the
17 Commission in approving the level of the merger surcredit.

18
19 **Q. In a more detailed review, with the opportunity for discovery, would you likely**
20 **incorporate additional proforma adjustments to the per book amounts?**

1 A. Yes. With more detailed information, I would be able to avoid the simplifying
2 assumptions that I previously described. In addition, I likely would develop other
3 typical ratemaking adjustments, including adjustments to remove nonrecurring
4 expenses, adjustments to the capital structure and component costs, and affiliate cost
5 allocations, among others.

6

7 **Q. Please summarize your recommendations regarding the Company's overearnings**
8 **and revenue surplus.**

9

10 A. I recommend that the Commission direct the Company to reduce its base revenues
11 by at least \$55.7 million in order to establish just and reasonable rates. In addition,
12 I recommend that the Commission further investigate the Company's base revenue
13 requirement to determine whether additional base revenue reductions are appropriate.

1 **III. EARNINGS SHARING MECHANISM**

2

3 **Q. Please provide a summary description of the ESM element of the KIUC**
4 **comprehensive PBR.**

5

6 **A.** The ESM element of the KIUC comprehensive PBR provides for a three year trial
7 of an earnings sharing mechanism form of alternative regulation. Prior to the
8 completion of the three year period, the Commission should conduct a proceeding to
9 determine whether the base revenue requirement should be reset to fair, just, and
10 reasonable levels, and whether the ESM should be continued, terminated, modified,
11 or replaced.

12

13 The ESM element of the KIUC PBR provides for a sharing of the revenue effects of
14 Company earnings in excess of a threshold level. Earnings will be computed on a
15 ratemaking basis and incorporate proforma adjustments, subject to certain limitations,
16 to per books revenues, expenses, capital structure, and rate base. The earnings
17 threshold for sharing will be the allowed fair rate of return, which would be 9.5%
18 based upon the recommendation of KIUC witness Mr. Baudino in this case. Earnings
19 above the fair rate of return will be shared 60% to ratepayers and 40% to the
20 Company. The existing fuel clause adjustment mechanism will be retained. The
21 existing ECR will be rolled into base revenues consistent with the revenue

1 requirement analysis that I described in the preceding section. Deterioration in the
2 Company's service quality will result in a reduction in the threshold for earnings
3 sharing.

4
5 Through the ESM, the excess earnings to be shared with ratepayers will be applied
6 on a timely basis through a surcredit mechanism revised quarterly and trued up
7 annually. There will be an annual proceeding to evaluate the Company's compliance
8 and for the parties to propose new adjustments.

9

10 **Q. Why is the ESM element of the KIUC PBR superior to the Company's PBR?**

11

12 A. First, the ESM provides a comprehensive measurement of performance. All costs,
13 both expense and capital and all revenues are incorporated. In addition, service
14 quality is incorporated in an explicit manner. By contrast, the Company's PBR is
15 limited only to three areas of performance. The Company's PBR fails to explicitly
16 address the entirety of non fuel costs, revenues, or the expense versus capital
17 expenditure tradeoffs that are fully encompassed in the KIUC PBR.

18

19 Second, the ESM provides a more equitable and timely sharing of cost containment
20 and revenue growth benefits between ratepayers and the Company. By contrast, the
21 Company's PBR is unbalanced and unreasonable, sharing only very limited benefits

1 with ratepayers, while the Company retains the entirety of earnings in excess of its
2 required fair rate of return.

3
4 Third, the ESM provides rational and valid incentives to the Company to reduce its
5 costs and increase revenues. The ESM provides a comprehensive measure of
6 financial performance and allows the Company to retain 40% of increases in its
7 earnings. By contrast, the Company's PBR irrationally provides excessive and
8 unmerited incentives for the Company even in the circumstance of no improved
9 performance because it allows the Company to retain the entirety of its current and
10 future excess earnings.

11
12 Fourth, the ESM provides an appropriate transitional regulatory mechanism consistent
13 with changes in the electric utility industry toward retail competition. As a
14 transitional regulatory mechanism, it remains grounded in historic rate of return
15 regulation but provides significant incentives to increase profitability through reduced
16 costs and increased revenues, incentives normally provided to deregulated companies
17 through the market. By contrast, the Company's PBR does not provide an
18 appropriate transitional regulatory mechanism. The Company's PBR simply ignores
19 the Commission's statutory obligation to ensure that rates are fair, just, and
20 reasonable, apparently under the false premise that deregulation and retail competition

1 already exist or will exist in the near future on a widespread basis throughout the
2 Company's service territory.

3
4 **Q. Please explain why the Commission should utilize the fair rate of return as the**
5 **threshold for sharing under the ESM.**

6
7 A. First, a threshold must be established in order for there to be a measurement of the
8 Company's performance and a sharing between the Company and ratepayers. A
9 threshold is an essential component of the ESM. The threshold should represent a
10 reasoned approach that retains the linkage to the Commission's historical use of rate
11 of return regulation.

12
13 Second, the threshold is and should be tied to the Company's fair rate of return. The
14 threshold for sharing should not be arbitrary. In subsequent annual filings, the
15 Company and other parties may propose changes to the threshold rate of return based
16 upon changes in economic conditions.

17
18 Third, there is no reason to establish a "deadband" above the fair rate of return. To
19 establish a deadband would provide the Company the opportunity to retain 100% of
20 its excess earnings above the fair rate of return up to the upper limit of the deadband.

1 That would be inequitable to ratepayers. All excess earnings over the fair rate of
2 return should be shared.

3

4 **Q. Please explain why it is necessary that the earnings computed pursuant to the**
5 **ESM be on a ratemaking basis rather than on a per books basis.**

6

7 **A. First, similar to the earnings threshold issue, the earnings computation itself should**
8 **be on a ratemaking basis in order to retain the linkage to the Commission's historical**
9 **use of rate of return regulation.**

10

11 Second, it is essential that the Company and the parties know the "rules," to the
12 extent practicable, before and during the implementation of the ESM. Thus, there
13 should be less contention than if the Company simply utilized its unadjusted per
14 books basis earnings.

15

16 Third, stating earnings on a ratemaking basis is a requirement in ESMs adopted by
17 other state commissions.

18

19 **Q. Please explain why a sharing relationship of 60% to ratepayers and 40% to the**
20 **Company is appropriate.**

21

1 A. A 100% sharing to ratepayers arguably would be appropriate, given the history of the
2 Company that any deficiency in earnings must be provided 100% by ratepayers. The
3 Company did not propose a PBR when its costs were rising and its earnings were
4 under pressure. Now that the Company's costs are stable, revenues are growing, and
5 its earnings are in excess of the fair rate of return, the Company has proposed a PBR
6 that, except for certain limited provisions, provides for it to retain 100% of any
7 current and future surplus earnings. Of course, the Company's current position is
8 inconsistent with its historic rejection of the concept that it retain any percentage of
9 its deficiency in earnings. Thus, the question now is what is the appropriate sharing
10 relationship in an earnings surplus situation.

11
12 I recommend a sharing relationship of 60% to ratepayers and 40% to the Company
13 for several reasons. First, this sharing relationship is reasonable. Because the
14 ratepayers are entitled to 100% of the surplus earnings based upon rate of return
15 regulation, the ratepayers should receive more than half of any surplus earnings
16 pursuant to a PBR.

17
18 Second, the sharing relationship of 60% to ratepayers and 40% to the Company
19 represents a balanced approximation of the real world imperfections of historical rate
20 of return regulation. KIUC recognizes that there would be timing delays and
21 administrative inefficiencies resulting from future cases initiated in order to reduce

1 the Company's rates. Presumably, at the conclusion of each of those cases, the
2 Company's base rates would be reduced to remove 100% of the surplus earnings with
3 ratepayers as the beneficiaries. However, between each case, the Company would
4 retain 100% of any surplus earnings.

5
6 Third, inherent in a properly designed PBR is the incorporation of an incentive for
7 the Company to reduce its costs and increase revenues. Thus, the sharing to the
8 Company must be substantive in order to provide a realistic and meaningful incentive.

9
10 **Q. Please describe how the Company's quality of service will affect the ESM and**
11 **the sharing of surplus revenues.**

12
13 **A.** Any deterioration in the Company's quality of service will result in a reduction in the
14 earnings sharing threshold. There will be no rewards for improved customer service.
15 For conceptual purposes, the Commission can incorporate any appropriate quality of
16 service measures in the determination of the reduction to the earnings sharing
17 threshold. The magnitude of the reduction would be a function of the Commission's
18 determination of an appropriate deterrent to allowing the Company's quality of
19 service to deteriorate.

20
21 **Q. Why should there be no reward for improvements in quality of service?**

1 A. First and most importantly, the Company already has a statutory obligation to provide
2 reliable service and no special reward is needed to compel compliance with the law.
3 Second, the Company has offered no evidence that its quality of service, at least in
4 the aggregate and according to the measures proposed by the Company, is deficient
5 or needs to be improved. Third, the Company has offered no evidence that additional
6 resources, beyond those already paid for by ratepayers, are necessary in order to
7 improve customer service. Fourth, the Company has offered no evidence regarding
8 the economic value to its ratepayers of further improving its quality of service.

9
10 **Q. What measures of quality of service do you propose?**

11
12 A. I propose only two measures of quality of service, SAIDI and SAIFI, because these
13 are the only two for which the Company has sufficient historical data. More
14 importantly, SAIDI and SAIFI are objective and verifiable measures of reliability.
15 They do not involve subjective customer survey data as does the Company's proposed
16 customer satisfaction index. For purposes of this testimony, I propose that the
17 Commission utilize the targets for these two measures proposed by the Company.
18 However, KIUC may incorporate quality of service concepts, measures, or targets
19 from the other parties after a review of their Direct Testimonies and the Company's
20 Rebuttal Testimonies. Most of the quality of service measures proposed by the
21 Company more directly impact residential and commercial customers.

1 I have assumed that only the SAIDI and SAIFI quality of service measures should
2 be utilized because they are objective measures that can be directly quantified. Some
3 of the Company's other proposed quality of service measures are subjective in nature
4 and have data problems. For example, the index measuring customer satisfaction
5 with the handling of telephone calls is based on very limited historical experience.
6 LG&E has only been measuring call satisfaction since March 1998 and KU did not
7 plan to institute the call satisfaction survey until January 1999. This is also the case
8 for residential customer overall satisfaction, which the Company has been measuring
9 only since January 1998. This is a very limited time frame over which to judge
10 customer satisfaction and to establish targets for rewards and penalties.

11
12 Further, the Company's proposed customer satisfaction index will most likely result
13 in built-in rewards for the Company. This is because Dr. Kaufmann claimed in his
14 testimony that the survey results show that the Company has higher satisfaction than
15 the peer group of companies against which the Company would measure itself. Thus,
16 in addition to the data problems, this measure is biased in order to provide rewards
17 for a level of service that the Company already provides and ratepayers already pay
18 for. Such a performance is inappropriate and should be rejected by the Commission.

19
20 **Q. How should the quality of service modify the rate of return threshold?**

21

1 A. I recommend that the Commission determine the magnitude of the deterrent it wishes
2 to establish against any deterioration in the quality of service, as measured by
3 Company's achievement of its proposed SAIDI and SAIFI targets. I recommend that
4 a deterioration in either measure be utilized to reduce the rate of return threshold.

5

6 Further, I propose that there be a reduction of 0.1% in the rate of return threshold for
7 each 1% reduction in either the SAIDI or SAIFI quality of service measure. Each
8 0.1% change in the threshold rate of return will result in ratepayers being
9 "compensated" approximately \$0.600 million for each 1% deterioration in their
10 quality of service.

11

12 **Q. How does the ESM proposed by KIUC as an element of a comprehensive PBR**
13 **compare to other ESM's that recently have been adopted by other state**
14 **commissions for electric utilities?**

15

16 A. I have reviewed the ESMs adopted by other state commissions for four other electric
17 utilities, Georgia Power Company, Public Service of Colorado, AEP-Virginia, and
18 Virginia Power. The key components of these ESMs are summarized below.
19 Previously, I provided copies to the parties of the Orders and other documents
20 describing these plans in response to discovery in this proceeding. The plan for
21 Virginia Power has been adopted now by the Virginia State Corporation Commission.

1 **Georgia Power Company PBR:**
2

- 3 • Term of three years.
4 • Earnings sharing mechanism.
5 • Earnings deadband of 10.00% to 12.50%
6 • Earnings determined on regulatory basis.
7 • Earnings threshold of 12.5%.
8 • Earnings above threshold applied first 100% to customers through
9 specific accelerated amortizations/depreciation, thereafter two thirds to
10 customers through rate reductions and one third to Company.
11

12
13 **Public Service of Colorado PBR:**
14

- 15 • Term of five years.
16 • Earnings sharing mechanism.
17 • No earnings deadband.
18 • Earnings determined on regulatory basis.
19 • Earnings threshold of 11.0%.
20 • Earnings above threshold shared on a tiered basis as follows:
21

22

<u>Measured ROE</u>	<u>Customers</u>	<u>Sharing Percentages</u>	
			<u>Company</u>
> 11% ≤ 12%	65%		35%
> 12% ≤ 14%	50%		50%
> 14% ≤ 15%	35		65%
> 15%	100%		0%

28

- 29 • Adjustments to sharing percentages based upon quality of service.
30
31

32 **AEP-Virginia PBR:**
33

- 34 • Term of three years.
35 • Earnings sharing mechanism.
36 • Earnings determined on regulatory basis.
37 • No earnings deadband.
38 • Earnings threshold of 10.85%.
39 • Earnings above threshold allocated two thirds to customers and one
40 third to Company.
41
42

1 **Virginia Power PBR:**
2

- 3 • Term of five years.
4 • Earnings sharing mechanism.
5 • Earnings determined on regulatory basis.
6 • No earnings deadband.
7 • Earnings threshold of 10.5%.
8 • Earnings above threshold allocated two thirds to accelerated
9 amortization of regulatory assets and one third to Company. Earnings
10 above 13.2% allocated 100% to accelerated amortization of regulatory
11 assets.

12

13 **Q. Please describe the implementation of the ESM.**

14

15 A. The ESM will be implemented pursuant to a tariff, with the sharing to customers
16 implemented through a surcredit computed as a uniform percentage of revenues for
17 all customer classes and ratepayers. The tariff will be structured to operate according
18 to a formula, with quarterly filings and an annual expedited review.

19

20 The Company will make an initial filing on or before the end of 14 months after the
21 Commission establishes fair, just, and reasonable rates in the Complaint case or this
22 case. The initial surcredit will go into effect with the first billing cycle in the month
23 following the Company's filing. Thereafter, the Company will make quarterly
24 filings, on a three month cycle following the initial filing, with the change in the
25 surcredit effective with the first billing cycle in the month following the Company's
26 filings.

1 In the initial and each subsequent filing, the Company will determine the earnings on
2 common on a ratemaking basis for the twelve months ending no more than two
3 months earlier. For example, the Company will make its initial filing on or before
4 July 31, 2000 for the twelve months ending May 31, ²⁰⁰⁰1999, assuming an effective date
5 of the Commission's Order in this case during May 1999. The earnings threshold
6 will be reduced for any deterioration in the Company's service quality during the
7 twelve months ending period compared to the targets established by the Commission.
8

9 The earnings over the threshold then will be converted to a revenue requirement
10 surplus, with 60% returned to ratepayers through a surcredit over the next twelve
11 months. The surcredit will be adjusted for cumulative underrecoveries or
12 overrecoveries at the end of the preceding quarter amortized over a twelve month
13 period. The filing must be on a ratemaking basis, consistent with prior Commission
14 precedent. New proforma adjustments may be separately identified by the Company
15 and other parties, but not included in the quarterly computations of the surcredit until
16 the Commission has approved the adjustments in the annual expedited review
17 proceedings.
18

19 The Commission will establish an annual case to consider, on an expedited basis and
20 similar to the biennial reviews of the environmental surcharge and fuel clause
21 recovery, whether the Company's four previous quarterly filings were correctly

1 computed and in compliance with the Commission precedent in prior base ratemaking
2 proceedings involving the Company. The Commission also will consider new
3 proforma ratemaking adjustments proposed by the Company and other parties for
4 incorporation in prospective quarterly filings.

5

6 **Q. Do you have an example of a tariff under a similar type of formula rate plan**
7 **adopted for another electric utility?**

8

9 A. Yes. I have attached as my Exhibit___(LK-3) a copy of a tariff adopted by the
10 Louisiana Public Service Commission to implement a formula rate plan for Entergy
11 Louisiana, Inc. The Commission could utilize a similar approach and direct the
12 Company to file a tariff in compliance with the Commission's Order in this case
13 adopting the ESM.

1 IV. CRITIQUE OF COMPANY'S PBR PROPOSAL

2

3 **Q. Please summarize your recommendations regarding the Company's PBR**
4 **proposal.**

5

6 A. I recommend that the Commission reject the Company's PBR proposal. The
7 Company's PBR proposal does not comport with the Commission's statutory
8 obligations to establish fair, just, and reasonable rates, does not equitably balance the
9 interests of the Company and its ratepayers, assures excessive and increasing rates
10 despite excessive earnings and no near term realistic expectation of retail competition,
11 and abuses its monopoly status and the regulatory process to further increase
12 excessive earnings.

13

14 The Company's proposal does not represent a comprehensive framework for
15 alternative regulation and provides only limited opportunities for customers to share
16 in any actual cost reductions, let alone earnings surpluses. In addition, the
17 Company's proposal retains the vestiges of regulation that benefit the Company,
18 including continued full and contemporaneous recovery of any increases in
19 environmental costs through its environmental surcharge ("ECR"). Thus, the
20 Company's proposal would utilize the regulatory process both to further enhance its
21 opportunities to generate and retain excessive earnings through overrecoveries from

1 ratepayers and to protect itself from the earnings reductions due to environmental cost
2 increases.

3

4 **Q. Please explain why the Company's PBR proposal does not represent a**
5 **comprehensive form of alternative regulation.**

6

7 A. First, the Company's PBR proposal addresses only three limited elements of its
8 operations, its generation performance, its purchased fuel costs, and its quality of
9 service. All other aspects of its operations are ignored, including its nonfuel O&M
10 costs, its investment costs, and its revenues. Second, the Company's PBR proposal
11 fails to address whether the initial or future rates are fair, just, and reasonable. Third,
12 the Company's PBR retains all vestiges of regulation that are beneficial to it,
13 including the ECR and the franchise protection of its retail service territory. In
14 summary, the Company's PBR proposal tinkers around the edges of the historic
15 regulatory process, pretending to replace it, but instead embracing its protections
16 while rejecting its obligations including rates at fair, just, and reasonable levels.

17

18 **Q. Does the Company's PBR proposal address its current overearnings and**
19 **excessive base revenue recovery situation?**

20

1 A. No. The Company's failure to address this situation cannot be countenanced by the
2 Commission. The Commission has a statutory obligation to set rates at fair, just, and
3 reasonable levels. The Company has cast its PBR proposal as an exclusive alternative
4 to the historic rate of return regulation employed by the Commission. However, its
5 PBR proposal is not only not an exclusive alternative, it is an unacceptable
6 alternative.

7
8 In its merger order in Case 97-300, the Commission directed the Company to file
9 "detailed plans to address any future rate regulation," and provided the Company the
10 option to propose "traditional rate of return regulation" or "non-traditional regulation."
11 The Commission stated that it would "then determine, based on all relevant financial
12 information, as well as then current economic and regulatory conditions, whether
13 changes should be made to the existing regulation of LG&E and KU." In addition,
14 the merger order clearly provided that this proceeding would address "any future
15 earnings situations." Thus, the Commission clearly envisioned a comprehensive
16 review of the Company's earnings and revenue requirement, regardless of whether
17 the Company proposed a form of alternative regulation.

18
19 The Commission did not agree to and is under no obligation to change the "existing
20 regulation" of the Company or to do so in the manner proposed by the Company.
21 Thus, the "exclusive alternative" argument of the Company must be rejected. The

1 Commission should consider first the threshold issue of whether base rates are fair,
2 just, and reasonable, and then whether and to what extent it should adopt
3 prospectively an alternative form of ratemaking.

4

5 **Q. How do the ratemaking "savings" impacts of the Company's PBR proposal**
6 **compare to the cost of its proposal?**

7

8 A. The comparison clearly demonstrates the absurdity of the Company's proposal. The
9 cost to ratepayers of the Company's proposal will be at least \$167.1 million (\$55.7
10 million in current excess revenues times three years) compared to possible "savings"
11 of no more than \$15 million (\$5 million under the GP component times three years)
12 or possibly \$30 million if the Company allows its service quality to deteriorate. The
13 cost/benefit ratio for Kentucky ratepayers is at least 11 to 1, assuming no
14 deterioration in service quality. The Company's PBR proposal represents a very poor
15 trade-off for ratepayers.

16

17 **Q. Does the Company's retained excess earnings under its PBR provide a legitimate**
18 **starting point for any PBR?**

19

20 A. No. Current base rate levels are excessive and must be reduced as a prerequisite to
21 adoption of any PBR. The FERC also recognized the need to set base rate levels at

1 fair, just, and reasonable levels as a prerequisite to the adoption of alternative
2 regulation in its Policy Statement on incentive ratemaking, stating:

3

4 **"The Commission must determine that the base rates, calculated**
5 **on a cost-of-service basis, are just and reasonable at the inception**
6 **of an incentive rate program."**

7

8

9

10 **"Initially, it is necessary for a utility to establish that its starting**
11 **rate - or its base rate - is just and reasonable."**

12

13 In addition, the FERC asserted that cost of service should provide an "overall cap"
14 on the amounts to be recovered under an incentive rate program, stating:

15

16 **"The projected cost-of-service rates will serve as an overall cap on**
17 **incentive rate increases to limit consumer risk. The cap must be**
18 **designed to ensure that the incentive rate is no higher than it**
19 **otherwise would have been under the projected traditional cost-of-**
20 **service ratemaking."**

21

22 **Q. Is the FERC Policy Statement on incentive ratemaking binding on the Kentucky**
23 **Commission?**

24

25 **A.** No. However, it does provide helpful insight from another ratemaking commission
26 that has considered the same issues raised in this case.

27

1 Q. The Company claims that its PBR provides customers a "number of benefits."
2 The first benefit cited by witness Mr. Willhite is that "the base rates as they
3 exist today for LG&E and KU customers will be restricted from increasing
4 through May 3, 2003. Does this base rate cap have anything to do with the
5 Company's proposed PBR?

6

7 A. No. The base rate cap was adopted by the Commission in its merger order in Case
8 97-300. Thus, the base rate cap exists independently of the Company's PBR
9 proposal. It is not a benefit attributable to the PBR proposal.

10

11 Q. The second benefit cited by witness Mr. Willhite is "the continuation of the
12 merger dispatch savings." Do the merger dispatch savings have anything to do
13 with the Company's proposed PBR?

14

15 A. No. The Commission approved the flow through to customers of the merger dispatch
16 savings in its merger order in Case 97-300. Thus, the benefit of the merger dispatch
17 savings exists independently of the Company's PBR proposal and it is not a benefit
18 attributable to the PBR proposal. In fact, the Commission only has to address the
19 merger dispatch savings as a component of the Company's PBR because the
20 Company has proposed the elimination of the existing fuel clause recovery

1 mechanism through which the merger dispatch savings currently are provided to
2 ratepayers.

3

4 **Q. The third and fourth benefits of the Company's PBR proposal cited by Mr.**
5 **Willhite are the "sharing of benefits from generation performance . . . and . .**
6 **. the sharing of fuel costs savings resulting from the incentive fuel portion of the**
7 **. . . EPBR." Please respond to this claim.**

8

9 A. These two "benefits" are the only means through which ratepayers will receive any
10 rate reductions under the Company's proposal unless its quality of service also
11 deteriorates and it is required to compensate ratepayers. However, these benefits are
12 illusory at best. First, there is no need to provide regulatory incentives for either
13 improved generation performance or fuel savings, assuming that either measure
14 proposed by the Company is an appropriate measure for assessing "performance."
15 The Company already has a self interest in improving generation and fuel cost
16 performance in both absolute and relative terms. The better its generation
17 performance and the lower its fuel costs, the higher margins the Company will earn
18 on its competitive off-system sales. These incremental margins currently are not
19 shared with the Company's ratepayers through the existing fuel clause recovery
20 mechanism. In periods between base rate cases, the Company retains the entirety of
21 the incremental margins from higher off-system sales.

1 Second, the Company's proposal will cost ratepayers, not provide them benefits,
2 compared to the existing rate of return regulation and fuel clause recovery
3 mechanism. To the extent that the Company fulfills its economic self-interest in
4 improving its generation and fuel cost performance under the existing form of rate
5 of return regulation, then the ratepayers also benefit through lower fuel costs in the
6 existing fuel clause recovery mechanism. The Company's PBR proposal will allow
7 it to retain a portion of the savings that otherwise would have been flowed through
8 in their entirety to the ratepayers through the fuel clause recovery mechanism. Thus,
9 this alleged "benefit" to ratepayers is actually a detriment. In addition, the detriment
10 contradicts one of the major premises underlying the Company's PBR filing: that its
11 proposal results in no additional risk to ratepayers. This premise simply is not true.

12
13 Third, the maximum value to the ratepayers of the Generation Performance ("GP")
14 element of the Company's proposal is only \$5 million annually. That amount is a
15 mere pittance compared to the Company's retained excessive earnings.

16
17 Fourth, the maximum value to the ratepayers of the Fuel Cost Recovery ("FCR")
18 replacement for the existing fuel clause recovery mechanism is zero, and in fact, may
19 be negative. If the Company is able to reduce its purchased fuel costs below current
20 levels, then it would be imprudent for it not to do so and there should be
21 disallowances through the existing fuel clause recovery mechanism. Ratepayers

1 historically have paid 100% of the Company's recoverable fuel costs, which was
2 particularly important to the Company when fuel costs were higher and more volatile
3 than they are today.

4
5 **Q. Please describe the Company's recent experience with fuel costs recoverable**
6 **through the existing fuel clause recovery mechanism.**

7
8 A. The Company's fuel costs have declined significantly from their peak levels in the
9 1980s, reaching their lowest levels in twenty years in 1997. I have attached a twenty
10 year history of the Company's fuel clause adjustment rates as my Exhibit___(LK-4).

11
12 The fact that the Company's fuel costs have been declining is a significant factor in
13 assessing whether the GP or FCR components of the Company's PBR proposal
14 provide benefits or detriments to ratepayers. If the Commission believes that the
15 Company's purchased fuel costs will continue to decline or increase at a rate less than
16 that of other comparable utilities, then the ratepayers will be worse off if the
17 Commission abolishes the existing fuel clause recovery mechanism and replaces it
18 with the Company's GP and FCR components. If the Commission believes that the
19 Company's fuel costs will increase at a rate greater than that of other utilities, then
20 ratepayers also will be worse off under the Company's proposal compared to

1 disallowances and limits on recovery through the existing fuel adjustment clause
2 recovery mechanism for imprudent and unreasonable costs.

3

4 **Q. Is the GP element of the Company's PBR proposal an appropriate measure of**
5 **performance?**

6

7 A. No. The GP element, computed as the simple average of the Company's equivalent
8 availability and capacity factors, is a very poor measure of performance for retail
9 ratepayers. Equivalent availability is a function of the Company's maintenance
10 activities, which are mostly fixed costs already fully paid for by full requirements
11 ratepayers through base rates. Capacity factor is a function of the Company's load,
12 whether for full-requirements customers or other off-system sales. Capacity factor
13 is a result of a combination of factors including economic activity, weather, and
14 relative pricing compared to competitors in the off-system sales markets, among other
15 factors. Thus, capacity factor inherently does not measure increased performance,
16 except perhaps in the off-system sales market. In any event, a higher capacity factor
17 is simply the result, and not the cause, of increased off-system sales or higher sales
18 to full requirement customers, which presumably all carry some level of enhanced
19 profitability as a more than sufficient incentive.

20

1 **Q. Is the FCR element of the Company's PBR proposal an appropriate replacement**
2 **for the existing fuel clause recovery mechanism?**

3
4 A. No. In addition to the flaws of the FCR element that I already have discussed, the
5 Company's proposal is flawed as a measure of performance. First, the Company has
6 failed to make any persuasive arguments that the FCR is an improvement over the
7 existing fuel clause recovery mechanism. If it is not better, then there is no reason
8 to replace the existing fuel clause recovery mechanism.

9
10 Second, the Company has failed to provide any persuasive arguments as to why or
11 how the FCR actually can or will result in lower fuel costs. Instead, the Company
12 simply has proposed a different means of measuring costs in order to enhance its
13 earnings further. Any "savings" are more a function of the index measurement than
14 a reality compared to prudent costs incurred and recovered through the existing fuel
15 clause recovery mechanism.

16
17 Third, the FCR represents a poor proxy for the existing fuel clause recovery
18 mechanism, which measures the actual cost of generation and allows the Company
19 recovery on a dollar for dollar basis. The FCR measures changes in the purchased
20 cost of fuel as opposed to the Company's actual generation fuel costs. Improvements
21 in the Company's generation performance, such as improvements in the generating

1 units' heat rates, capacity, capacity factor, or forced outage rates reduce the
2 Company's actual generation fuel costs, but not its purchased cost of fuel. Thus,
3 improvements in the Company's generation performance, for which ratepayers pay
4 through base rates, will not inure to the benefit of the ratepayers through the FCR as
5 they would have pursuant to the existing fuel clause recovery mechanism.

6
7 Fourth, the Company's FCR measures the Company's change in purchased fuel costs
8 compared to the indexed change in spot only fuel costs for a group of utilities
9 selected by the Company. The Company's FCR does not explicitly address the
10 greater volatility of the spot market compared to contract coal purchases nor does it
11 address the ability of the Company or other companies to engage in managing their
12 fuel costs through financial contracts such as hedging instruments.

13
14 **Q. The Company's PBR proposal assumes that it will be allowed to retain the ECR.
15 Could the Company game the ECR and the FCR in order to recover more from
16 ratepayers?**

17
18 **A.** Yes. The Company could partially reduce its fuel recovery through the FCR in order
19 to fully recover the costs of SO₂ or other emission allowances through the ECR. The
20 Company could begin purchasing coal bundled with SO₂ or other emission
21 allowances, thereby reducing any "savings" margin between the percentage growth

1 in its fuel costs compared to the percentage growth in the other utility fuel cost index.
2 Under the FCR, the Company would lose only one half of this margin. The
3 Company's proposed FCR is based upon reported FERC Form 423 fuel costs for the
4 Company and for the other utilities in its comparison group. Form 423 data does not
5 distinguish between coal costs, delivery costs, or other costs such as emission
6 allowances. Thus, the full cost of the Company's bundled coal purchases would be
7 utilized in the computation of the Company's actual fuel cost. However, under the
8 Commission's current practice, the Company then would split out the cost of its
9 emission allowances and recover 100% of those costs through the ECR. Thus, the
10 Company could game the FCR and the ECR in order to recover additional amounts
11 from ratepayers equivalent to one and a half times the cost of the bundled allowances.
12

13 **Q. Please comment on the quality of service measures included in the Company's**
14 **PBR proposal.**

15
16 **A.** In the service quality (SQ) component of the Company's PBR proposal, it has
17 included five measures. Two measures, SAIDI and SAIFI, relate to outage duration
18 and frequency, which are measured in minutes and number of occurrences,
19 respectively. Two measures, customer satisfaction and call handling customer
20 satisfaction, relate to residential and commercial customer satisfaction, which are

1 based on survey results. The final measure is safety performance, which is measured
2 by the Company's OSHA recordable incidence rate.

3
4 Only the SAIDI and SAIFI are potentially valid overall measures of the Company's
5 quality of service for all customers, although these measures do vary by circuit and
6 geographic location. Only the SAIDI and SAIFI have significant Company-specific
7 historical data upon which to rely for the establishment of targets and incentives. The
8 Company's OSHA recordable incidence rate is irrelevant from a quality of service
9 perspective. Presumably, the Company's safety record is adequately regulated
10 through OSHA. The safety measure is not appropriate for purposes of fashioning a
11 quality of service component in a PBR. In addition, the Company should not be
12 rewarded for maintaining safety in the workplace. Worker safety is a legal and
13 ongoing obligation of the Company's management for which ratepayers already pay
14 through base rates. Thus, the only valid measures of quality of service proposed by
15 the Company are the SAIDI and SAIFI.

16
17 **Q. Are there problems with the measurement of the Company's performance**
18 **regarding the customer satisfaction and the customer call handling satisfaction?**

19
20 **A.** Yes. The Company's proposed use of survey data is unacceptable. First, survey data
21 is subjective in nature. "Overall customer satisfaction" is very vague and does not

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1 lend itself to objective quantification and verification as do reliability measures such
2 as SAIDI and SAIFI. Second, the Company's proposed customer satisfaction survey
3 may lack objectivity. Apparently, the Company "sponsors" a survey of other utilities'
4 customers, in order to utilize the survey results as a basis for rewards. These surveys
5 are not "arms-length" or independent, and the Commission should reject the use of
6 this survey measure on that basis alone.

7
8 The Company's proposed call center satisfaction index is also based on customer
9 survey data. Again, survey data is subjective in nature. In addition, survey data is
10 unnecessary to measure call center performance. Instead, call center performance can
11 and should be based on objectively quantified measures. Examples of such
12 objectively quantified performance measures include the number of calls answered
13 within a certain time (e.g., 20 seconds), the number of lost calls, and the number of
14 customer complaints about calls that were handled.

15
16 **Q. Do you agree with the way the Company has proposed to quantify the rewards**
17 **and penalties associated with SAIDI and SAIFI?**

18
19 **A. No.** The Company proposed to use outage costs based on a 1990 EPRI study of 29
20 North American utilities that were inflated using the GDP-PI to reflect current outage
21 costs. It is inappropriate to use the estimate outage costs from this study. The costs

1 are both outdated and are not based on the Company's outage costs, which may be
2 different from the other utilities in the study.

3
4 Second, the Company should receive no reward for improving upon its current SAIDI
5 and SAIFI measures. All customers are entitled to adequate reliability and already
6 pay for this reliability through their base rates. However, customers should be
7 protected from a deterioration in the quality of service. Thus, only a penalty
8 mechanism should be implemented in order to provide a deterrent against reducing
9 costs by reducing quality of service.

10
11 **Q. Are there general rules that the Commission should apply if it entertains the**
12 **notion of rewards for increased quality of service?**

13
14 A. Yes. First, the reward for any improvement in customer service should not exceed
15 either the cost or the value of the improvement. In other words, if the cost to
16 improve the call handling response rate by adding another customer service
17 representative is \$0.035 million per year, then the reward should not be \$0.500
18 million.

19
20 Second, there is an asymmetrical relationship between penalties and rewards for
21 quality of service. Necessarily, the penalties must be greater than rewards for

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1 equivalent decrements or increments in service quality. If customer service is
2 excellent already, then ratepayers may not be willing to pay more for improvements.
3 However, if customer service is excellent now, but deteriorates badly, then the
4 customers will require a significant penalty commensurate with the value of their loss.

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V. CONCLUSION

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21

Q. Please summarize your testimony.

A. KIUC and the Company have set before the Commission two very clear and unambiguous choices. The KIUC offer is to first set base rates at fair, just, and reasonable levels, and then to provide balanced incentives to the Company to improve its performance and share the results of its improved performance on a timely basis with its ratepayers. The Company's offer is to retain every dollar of excess earnings for its investors and then to recover additional amounts from ratepayers for performance improvements that will mostly benefit its investors as well.

The KIUC proposal is comprehensive; the Company's proposal is limited. The KIUC proposal balances the interests of ratepayers and the Company; the Company's is one-sided and biased. The KIUC proposal provides a transitional regulatory approach; the Company's abuses the historical regulatory approach and does not replace it with a valid transitional regulatory approach. The KIUC proposal establishes base rate levels at fair, just, and reasonable levels pursuant to statutory requirements; the Company's proposal ignores the Commission's statutory obligation. The KIUC proposal provides legitimate and reasonable incentives to the Company that will benefit the Company and ratepayers; the Company's proposal provides excessive

1 incentives to the Company that will benefit the Company to the detriment of the
2 ratepayers.

3

4 **Q. Does this complete your testimony?**

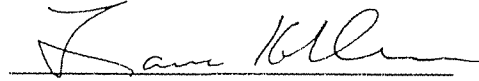
5

6 **A. Yes.**

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State of Georgia
County of Fulton

Subscribed and sworn to before me, a notary public in and for the State and County aforesaid.

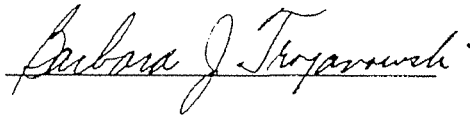


Lane Kollen

My commission expires:

[Faint, illegible text]

Date: March 16, 1999



BEFORE THE

PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY)
FOR APPROVAL OF AN ALTERNATIVE METHOD) CASE NO. 98-474
OF REGULATION OF ITS RATES AND SERVICE)

EXHIBITS
OF
LANE KOLLEN

ON BEHALF OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ATLANTA, GEORGIA

MARCH 1999

RESUME OF LANE KOLLEN, VICE PRESIDENT

EDUCATION

University of Toledo, BBA
Accounting

University of Toledo, MBA

PROFESSIONAL CERTIFICATIONS

Certified Public Accountant (CPA)

Certified Management Accountant (CMA)

PROFESSIONAL AFFILIATIONS

American Institute of Certified Public Accountants

Georgia Society of Certified Public Accountants

Institute of Certified Management Accountants

Institute of Management Accountants

Seventeen years utility industry experience in the financial, rate, and planning areas. Specialization in revenue requirements analyses, taxes, evaluation of rate and financial impacts of traditional and nontraditional ratemaking, utility mergers/acquisition diversification. Expertise in proprietary and nonproprietary software systems used by utilities for budgeting, rate case support and strategic and financial planning.

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF LANE KOLLEN, VICE PRESIDENT

EXPERIENCE

1986 to

Present:

Kennedy and Associates: Vice President and Principal. Responsible for utility revenue requirements analysis, cash flow projections and solvency, financial and cash effects of traditional and nontraditional ratemaking, and research, speaking and writing on the effects of tax law changes. Testimony before Connecticut, Florida, Georgia, Indiana, Louisiana, Kentucky, Minnesota, North Carolina, Ohio, Pennsylvania, Texas, and West Virginia Public Service Commissions and the Federal Energy Regulatory Commission.

1983 to

1986:

Energy Management Associates: Lead Consultant.

Consulting in the areas of strategic and financial planning, traditional and nontraditional ratemaking, rate case support and testimony, diversification and generation expansion planning. Directed consulting and software development projects utilizing PROSCREEN II and ACUMEN proprietary software products. Utilized ACUMEN detailed corporate simulation system, PROSCREEN II strategic planning system and other custom developed software to support utility rate case filings including test year revenue requirements, rate base, operating income and pro-forma adjustments. Also utilized these software products for revenue simulation, budget preparation and cost-of-service analyses.

1976 to

1983:

The Toledo Edison Company: Planning Supervisor.

Responsible for financial planning activities including generation expansion planning, capital and expense budgeting, evaluation of tax law changes, rate case strategy and support and computerized financial modeling using proprietary and nonproprietary software products. Directed the modeling and evaluation of planning alternatives including:

- Rate phase-ins.
- Construction project cancellations and write-offs.
- Construction project delays.
- Capacity swaps.
- Financing alternatives.
- Competitive pricing for off-system sales.
- Sale/leasebacks.

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF LANE KOLLEN, VICE PRESIDENT

CLIENTS SERVED

Industrial Companies and Groups

Air Products and Chemicals, Inc.	Lehigh Valley Power Committee
Airco Industrial Gases	Maryland Industrial Group
Alcan Aluminum	Multiple Intervenors (New York)
Armco Advanced Materials Co.	National Southwire
Armco Steel	North Carolina Industrial
Bethlehem Steel	Energy Consumers
Connecticut Industrial Energy Consumers	Occidental Chemical Corporation
ELCON	Ohio Industrial Energy Consumers
Enron Gas Pipeline Company	Ohio Manufacturers Association
Florida Industrial Power Users Group	Philadelphia Area Industrial Energy
General Electric Company	Users Group
GPU Industrial Intervenors	PSI Industrial Group
Indiana Industrial Group	Smith Cogeneration
Industrial Consumers for	Taconite Intervenors (Minnesota)
Fair Utility Rates - Indiana	West Penn Power Industrial Intervenors
Industrial Energy Consumers - Ohio	West Virginia Energy Users Group
Kentucky Industrial Utility Consumers	Westvaco Corporation

Regulatory Commissions and Government Agencies

Georgia Public Service Commission Staff
Kentucky Attorney General's Office, Division of Consumer Protection
Louisiana Public Service Commission Staff
New York State Energy Office
Office of Public Utility Counsel (Texas)

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF LANE KOLLEN, VICE PRESIDENT

Utilities

Allegheny Power System
Atlantic City Electric Company
Carolina Power & Light Company
Cleveland Electric Illuminating Company
Delmarva Power & Light Company
Duquesne Light Company
General Public Utilities
Georgia Power Company
Middle South Services
Nevada Power Company
Niagara Mohawk Power Corporation

Otter Tail Power Company
Pacific Gas & Electric Company
Public Service Electric & Gas
Public Service of Oklahoma
Rochester Gas and Electric
Savannah Electric & Power Company
Seminole Electric Cooperative
Southern California Edison
Talquin Electric Cooperative
Tampa Electric
Texas Utilities
Toledo Edison Company

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1999**

Date	Case	Jurisdic.	Party	Utility	Subject
10/86	U-17282 Interim	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
11/86	U-17282 Interim Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements financial solvency.
12/86	9613	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Revenue requirements accounting adjustments financial workout plan.
1/87	U-17282 Interim 19th Judicial District Ct.	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Cash revenue requirements, financial solvency.
3/87	General Order 236	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Tax Reform Act of 1986.
4/87	U-17282 Prudence	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
4/87	M-100 Sub 113	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Tax Reform Act of 1986.
5/87	86-524-E-	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements. Tax Reform Act of 1986.
5/87	U-17282 Case In Chief	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Case In Chief Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements River Bend 1 phase-in plan, financial solvency.
7/87	U-17282 Prudence Surrebut	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1, economic analyses, cancellation studies.
7/87	86-524 E-SC Rebuttal	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Revenue requirements, Tax Reform Act of 1986.
8/87	9885	KY	Attorney General Div. of Consumer Protection	Big Rivers Electric Corp.	Financial workout plan.
8/87	E-015/GR- 87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Revenue requirements, O&M expense, Tax Reform Act of 1986.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1999**

Date	Case	Jurisdct.	Party	Utility	Subject
10/87	870220-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, Tax Reform Act of 1986.
11/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Tax Reform Act of 1986.
1/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, River Bend 1 phase-in plan, rate of return.
2/88	9934	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Economics of Trimble County completion.
2/88	10064	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, O&M expense, capital structure, excess deferred income taxes.
5/88	10217	KY	Alcan Aluminum National Southwire	Big Rivers Electric Corp.	Financial workout plan.
5/88	M-87017-1C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery.
5/88	M-87017-2C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery.
6/88	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Prudence of River Bend 1 economic analyses, cancellation studies, financial modeling.
7/88	M-87017-1C001 Rebuttal	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Nonutility generator deferred cost recovery, SFAS No. 92
7/88	M-87017-2C005 Rebuttal	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Nonutility generator deferred cost recovery, SFAS No. 92
9/88	88-05-25	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Excess deferred taxes, O&M expenses.
9/88	10064 Rehearing	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Premature retirements, interest expense.
10/88	88-170-EL-AIR	OH	Ohio Industrial Energy Consumers	Cleveland Electric Illuminating Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Lane Kollen
As of March 1999**

Date	Case	Jurisdiction	Party	Utility	Subject
10/88	88-171-EL-AIR	OH	Ohio Industrial Energy Consumers	Toledo Edison Co.	Revenue requirements, phase-in, excess deferred taxes, O&M expenses, financial considerations, working capital.
10/88	8800 355-EI	FL	Florida Industrial Power Users' Group	Florida Power & Light Co.	Tax Reform Act of 1986, tax expenses, O&M expenses, pension expense (SFAS No. 87).
10/88	3780-U	GA	Georgia Public Service Commission Staff	Atlanta Gas Light Co.	Pension expense (SFAS No. 87).
11/88	U-17282 Remand	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Rate base exclusion plan (SFAS No. 71)
12/88	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87).
12/88	U-17949 Rebuttal	LA	Louisiana Public Service Commission Staff	South Central Bell	Compensated absences (SFAS No. 43), pension expense (SFAS No. 87), Part 32, income tax normalization.
2/89	U-17282 Phase II	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, phase-in of River Bend 1, recovery of canceled plant.
6/89	881602-EU 890326-EU	FL	Talquin Electric Cooperative	Talquin/City of Tallahassee	Economic analyses, incremental cost-of-service, average customer rates.
7/89	U-17970	LA	Louisiana Public Service Commission Staff	AT&T Communications of South Central States	Pension expense (SFAS No. 87), compensated absences (SFAS No. 43), Part 32.
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cancellation cost recovery, tax expense, revenue requirements.
8/89	3840-U	GA	Georgia Public Service Commission Staff	Georgia Power Co.	Promotional practices, advertising, economic development.
9/89	U-17282 Phase II Detailed	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
10/89	8880	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Deferred accounting treatment, sale/leaseback.
10/89	8928	TX	Enron Gas Pipeline	Texas-New Mexico Power Co.	Revenue requirements, imputed capital structure, cash working capital.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Lane Kollen
As of March 1999

Date	Case	Jurisdiction	Party	Utility	Subject
10/89	R-891364	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements.
11/89 12/89	R-891364 Surrebuttal (2 Filings)	PA	Philadelphia Area Industrial Energy Users Group	Philadelphia Electric Co.	Revenue requirements, sale/leaseback.
1/90	U-17282 Phase II Detailed Rebuttal	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, detailed investigation.
1/90	U-17282 Phase III	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in of River Bend 1, deregulated asset plan.
3/90	890319-EI	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	890319-EI Rebuttal	FL	Florida Industrial Power Users Group	Florida Power & Light Co.	O&M expenses, Tax Reform Act of 1986.
4/90	U-17282	LA 19th Judicial District Ct.	Louisiana Public Service Commission Staff	Gulf States Utilities	Fuel clause, gain on sale of utility assets.
9/90	90-158	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Revenue requirements, post-test year additions, forecasted test year.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements.
3/91	29327, et. al.	NY	Multiple Intervenors	Niagara Mohawk Power Corp.	Incentive regulation.
5/91	9945	TX	Office of Public Utility Counsel of Texas	El Paso Electric Co.	Financial modeling, economic analyses, prudence of Palo Verde 3.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Recovery of CAAA costs, least cost financing.
9/91	91-231 -E-NC	WV	West Virginia Energy Users Group	Monongahela Power Co.	Recovery of CAAA costs, least cost financing.
11/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Asset impairment, deregulated asset plan, revenue requirements.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Lane Kollen
As of March 1999

Date	Case	Jurisdict.	Party	Utility	Subject
12/91	91-410-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
12/91	10200	TX	Office of Public Utility Counsel of Texas	Texas-New Mexico Power Co.	Financial integrity, strategic planning, declined business affiliations.
5/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue requirements, O&M expense, pension expense, OPEB expense, fossil dismantling, nuclear decommissioning.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
9/92	92-043	KY	Kentucky Industrial Utility Consumers	Generic Proceeding	OPEB expense.
9/92	920324-EI	FL	Florida Industrial Power Users' Group	Tampa Electric Co.	OPEB expense.
9/92	39348	IN	Indiana Industrial Group	Generic Proceeding	OPEB expense.
9/92	910840-PU	FL	Florida Industrial Power Users' Group	Generic Proceeding	OPEB expense.
9/92	39314	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	OPEB expense.
11/92	U-19904	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
11/92	8649	MD	Westvaco Corp., Eastalco Aluminum Co.	Potomac Edison Co.	OPEB expense.
11/92	92-1715-AU-COI	OH	Ohio Manufacturers Association	Generic Proceeding	OPEB expense.
12/92	R-00922378	PA	Armco Advanced Materials Co., The WPP Industrial Intervenors	West Penn Power Co.	Incentive regulation, performance rewards, purchased power risk, OPEB expense.
12/92	U-19949	LA	Louisiana Public Service Commission Staff	South Central Bell	Affiliate transactions, cost allocations, merger.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Lane Kollen
As of March 1999

Date	Case	Jurisdic.	Party	Utility	Subject
12/92	R-00922479	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	OPEB expense.
1/93	8487	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Bethlehem Steel Corp.	OPEB expense, deferred fuel, CWIP in rate base
1/93	39498	IN	PSI Industrial Group	PSI Energy, Inc.	Refunds due to over-collection of taxes on Marble Hill cancellation.
3/93	92-11-11	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	OPEB expense.
3/93	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
3/93	93-01 EL-EFC	OH	Ohio Industrial Energy Consumers	Ohio Power Co.	Affiliate transactions, fuel.
3/93	EC92-21000 ER92-806-000	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
4/93	92-1464-EL-AIR	OH	Air Products Armco Steel Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Revenue requirements, phase-in plan.
4/93	EC92-21000 ER92-806-000 (Rebuttal)	FERC	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy Corp.	Merger.
9/93	93-113	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Fuel clause and coal contract refund.
9/93	92-490, 92-490A, 90-360-C	KY	Kentucky Industrial Utility Customers and Kentucky Attorney General	Big Rivers Electric Corp.	Disallowances and restitution for excessive fuel costs, illegal and improper payments, recovery of mine closure costs.
10/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Revenue requirements, debt restructuring agreement, River Bend cost recovery.
1/94	U-20647	LA	Louisiana Public Service Commission Staff	Gulf States Utilities Co.	Audit and investigation into fuel clause costs.

J. KENNEDY AND ASSOCIATES, INC.

of
Lane Kollen
As of March 1999

Date	Case	Jurisdct.	Party	Utility	Subject
4/94	U-20647 (Surrebuttal)	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Nuclear and fossil unit performance, fuel costs, fuel clause principles and guidelines.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Planning and quantification issues of least cost integrated resource plan.
9/94	U-19904 Initial Post- Merger Earnings Review	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policies, exclusion of River Bend, other revenue requirement issues.
10/94	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive rate plan, earnings review.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Alternative regulation, cost allocation.
11/94	U-19904 Initial Post- Merger Earnings Review (Rebuttal)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	River Bend phase-in plan, deregulated asset plan, capital structure, other revenue requirement issues.
11/94	U-17735 (Rebuttal)	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, exclusion of River Bend, other revenue requirement issues.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Revenue requirements. Fossil dismantling, nuclear decommissioning.
6/95	3905-U	GA	Georgia Public Service Commission	Southern Bell Telephone Co.	Incentive regulation, affiliate transactions, revenue requirements, rate refund.
6/95	U-19904 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
10/95	95-02614	TN	Tennessee Office of the Attorney General Consumer Advocate	BellSouth Telecommunications, Inc.	Affiliate transactions.
10/95	U-21485 (Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Lane Kollen
As of March 1999

Date	Case	Jurisdic.	Party	Utility	Subject
11/95	U-19904 (Surrebuttal)	LA	Louisiana Public Service Commission Division	Gulf States Utilities Co.	Gas, coal, nuclear fuel costs, contract prudence, base/fuel realignment.
11/95	U-21485 (Supplemental Direct)	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear O&M, River Bend phase-in plan, base/fuel realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues.
12/95	U-21485 (Surrebuttal)				
1/96	95-299- EL-AIR 95-300- EL-AIR	OH	Industrial Energy Consumers	The Toledo Edison Co. The Cleveland Electric Illuminating Co.	Competition, asset writeoffs and revaluation, O&M expense, other revenue requirement issues.
2/96	PUC No. 14967	TX	Office of Public Utility Counsel	Central Power & Light	Nuclear decommissioning.
5/96	95-485-LCS	NM	City of Las Cruces	El Paso Electric Co.	Stranded cost recovery, municipalization.
7/96	8725	MD	The Maryland Industrial Group and Redland Genstar, Inc.	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Merger savings, tracking mechanism, earnings sharing plan, revenue requirement issues.
9/96	U-22092	LA	Louisiana Public	Entergy Gulf	River Bend phase-in plan, base/fuel
11/96	U-22092 (Surrebuttal)		Service Commission	States, Inc.	realignment, NOL and AltMin asset deferred taxes, other revenue requirement issues, allocation of regulated/nonregulated costs.
10/96	96-327	KY	Kentucky Industrial Utility Customers, Inc.	Big Rivers Electric Corp.	Environmental surcharge recoverable costs.
2/97	R-00973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Stranded cost recovery, regulatory assets and liabilities, intangible transition charge, revenue requirements.
3/97	96-489	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Environmental surcharge recoverable costs, system agreements, allowance inventory, jurisdictional allocation.
6/97	TO-97-397	MO	MCI Telecommunications Corp., Inc., MCImetro Access Transmission Services, Inc.	Southwestern Bell Telephone Co.	Price cap regulation, revenue requirements, rate of return.

J. KENNEDY AND ASSOCIATES, INC.

of
Lane Kollen
As of March 1999

Date	Case	Jurisdct.	Party	Utility	Subject
6/97	R-00973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	R-00973954	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
7/97	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Depreciation rates and methodologies, River Bend phase-in plan.
8/97	97-300	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co. and Kentucky Utilities Co.	Merger policy, cost savings, surcredit sharing mechanism, revenue requirements, rate of return.
8/97	R-00973954 (Surrebuttal)	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates.
10/97	R-974008	PA	Metropolitan Edison Industrial Users Group	Metropolitan Edison Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
10/97	R-974009	PA	Penelec Industrial Customer Alliance	Pennsylvania Electric Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements.
11/97	97-204 (Rebuttal)	KY	Alcan Aluminum Corp. Southwire Co.	Big Rivers Electric Corp.	Restructuring, revenue requirements, reasonableness of rates, cost allocation.
11/97	U-22491	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
11/97	R-00973953 (Surrebuttal)	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning.

J. KENNEDY AND ASSOCIATES, INC.

of
Lane Kollen
As of March 1999

Date	Case	Jurisdic.	Party	Utility	Subject
11/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements, securitization.
11/97	R-9742104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
12/97	R-973981 (Surrebuttal)	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, fossil decommissioning, revenue requirements.
12/97	R-974104 (Surrebuttal)	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Restructuring, deregulation, stranded costs, regulatory assets, liabilities, nuclear and fossil decommissioning, revenue requirements, securitization.
1/98	U-22491 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, other revenue requirement issues.
2/98	8774	MD	Westvaco	Potomac Edison Co.	Merger of Duquesne, AE, customer safeguards, savings sharing.
3/98	U-22092 (Allocated Stranded Cost Issues)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
3/98	8390-U	GA	Georgia Natural Gas Group, Georgia Textile Manufacturers Assoc.	Atlanta Gas Light Co.	Restructuring, unbundling, stranded costs, incentive regulation, revenue requirements.
3/98	U-22092 (Allocated Stranded Cost Issues) (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Restructuring, stranded costs, regulatory assets, securitization, regulatory mitigation.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Restructuring, unbundling, stranded costs, T&D revenue requirements.
10/98	9355-U	GA	Georgia Public Service Commission Advocate Staff	Georgia Power Co.	Affiliate transactions.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Lane Kollen
As of March 1999

Date	Case	Jurisdict.	Party	Utility	Subject
10/98	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	G&T cooperative ratemaking policy, other revenue requirement issues.
11/98	U-23327	LA	Louisiana Public Service Commission Staff	SWEPSCO, CSW and AEP	Merger policy, savings sharing mechanism, affiliate transaction conditions.
12/98	U-23358 (Direct)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.
1/99	98-10-07	CT	Connecticut Industrial Energy Consumers	United Illuminating Co.	Stranded costs, investment tax credits, accumulated deferred income taxes, excess deferred income taxes.
3/99	U-23358 (Surrebuttal)	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Allocation of regulated and nonregulated costs, tax issues, and other revenue requirement issues.

J. KENNEDY AND ASSOCIATES, INC.

KENTUCKY UTILITIES COMPANY
 12 MONTHS ENDING SEPTEMBER 30, 1998
 SUMMARY OF REVENUE REQUIREMENT BASED ON KU FILING WITH KPSC
 (\$000)

	Unadjust Total KU	Unadjust "Other Juris"	Unadjust "KY Retail Juris"	Adjust to "KY Retail Juris"	Adjusted "KY Retail Juris"
Capitalization (1)	1,207,894	158,644	1,049,250	NA	1,049,250
Required Overall Rate of Return	8.02%	8.02%	8.02%	8.02%	8.02%
Required Operating Income	97,481	12,803	84,674	0	84,674
Per Books Operating Income	135,756	34,317	101,439	16,428	117,867
Operating Income Surplus	38,275	21,514	16,765	16,428	33,192
Revenue Surplus	64,192	36,081	28,116	27,551	55,667
Electric Revenues before Rate Reduction	804,968	194,188	610,780	92,548	703,328
Rate Reduction as % of Electric Revenues	7.97%	18.58%	4.60%		7.91%
Return on Common Equity before Rate Reduction	15.75%	36.24%	12.65%		15.74%
Effect of 1% Change in ROE	10,273	1,349	8,924		8,924

Note 1: Capitalization utilized by Kentucky PSC in lieu of rate base. Approximately equal.

KENTUCKY UTILITIES COMPANY
12 MONTHS ENDING SEPTEMBER 30, 1998
SUMMARY OF OPERATING INCOME BASED ON KU FILING WITH KPSC
(\$'000)

	Unadjust Total KU	Unadjust "Other Juris"	Unadjust "KY Retail Juris"	Adjust to "KY Retail Juris"	Adjusted "KY Retail Juris"
Operating Revenues					
Residential	244,800	18,848	225,952	1,356 (2),(3)	227,308
Commercial and Industrial	344,673	18,191	326,482	1,959 (2),(3)	328,441
Public Street and Highway Lighting	6,434	207	6,227	37 (2),(3)	6,264
Other Sales to Public Authorities	52,366	2,488	49,879	299 (2),(3)	50,178
Sales for Resale	146,556	146,556	0	81,576 (4)	81,576
Provision for Refund	(1,292)	(631)	(661)	661	0
Other Operating Revenues	11,431	8,529	2,901	6,660 (5)	9,561
Total Operating Revenues	804,968	194,188	610,780	92,548	703,328
Operating Expenses					
Fuel, Purchased Power, and Other Oper Exp	440,922	115,630	325,292	63,211 (6),(7)	388,503
Maintenance Expense	62,902	10,203	52,699	1,787 (8)	54,486
Depreciation	86,133	12,059	74,074		74,074
Other Taxes	15,987	2,780	13,206		13,206
Federal and State Income Taxes	63,268	19,199	44,070	11,123	55,193
Total Operating Expenses	669,212	159,871	509,341	76,121	585,462
Net Operating Income	135,756	34,317	101,439	16,428	117,867

Note 2: Annualization to year end customers/sales levels.

Note 3: No annualization of merger surcredit revenues because no annualization of customers' savings.

Note 4: KY retail 85.36% based upon 3/31/98 KU COS study for intersystem sales (primarily economy/other energy based).
Sales for resale to ultimate customers estimated at \$51 million based on 1997 and 12 mo. 3/31/98.

Note 5: KY retail 83.64% based upon 3/31/98 KU COS study.

Note 6: KY retail 86.53% based upon 3/31/98 KU COS study.

Note 7: First year annual amount of KU net retained savings (projected by KU in merger proceeding).

Note 8: KY retail 86.62% based upon 3/31/98 KU COS study.

ENT (UT ES C... ANY
 12 MONTHS ENDING SEPTEMBER 30, 1998
 SUMMARY OF COST OF CAPITAL BASED ON KU FILING WITH KPSC
 (\$000)

	Capital \$ without ITC	Capital % without ITC	COC without ITC	Wtd COC without ITC	Capital \$ with ITC	Capital % with ITC	COC with ITC	Wtd COC with ITC
Long and Short Term Debt	532,077	44.91%	6.84%	3.07%	532,077	44.05%	6.84%	3.01%
Preferred Equity	40,000	3.38%	5.64%	0.19%	40,000	3.31%	5.64%	0.19%
Common Equity	612,562	51.71%	9.50%	4.91%	612,562	50.71%	9.50%	4.82%
Total Capitalization	1,184,639			8.17%	1,184,639			
Investment Tax Credit					23,255	1.93%	0.00%	0.00%
Total Capitalization with ITC					1,207,894			8.02%

KENTUCKY UTILITIES COMPANY
 12 MONTHS ENDING SEPTEMBER 30, 1998
 SUMMARY OF RATE BASE BASED ON KU FILING WITH KPSC
 (\$000)

	Unadjust Total KU	Unadjust "Other Juris"	Unadjust "KY Retail Juris"	Adjust to "KY Retail Juris"	Adusted "KY Retail Juris"
Plant in Service	2,582,565	368,832	2,213,733	NA	2,213,733
CWIP	76,789	10,042	66,746	NA	66,746
Accumulated Depreciation	(1,189,929)	(176,339)	(1,013,590)	NA	(1,013,590)
Accumulated Deferred Inc Taxes (Net)	(245,353)	(40,591)	(204,762)	NA	(204,762)
Fuel Inventories	16,477	2,433	14,044	NA	14,044
M&S Inventories	24,841	3,658	21,186	NA	21,186
Net Misc Def Deblts/Credits	(14,453)	(3,710)	(10,741)	NA	(10,741)
Customer Deposits	(10,239)	(659)	(9,580)	NA	(9,580)
Customer Advances	(1,357)	(44)	(1,357)	NA	(1,357)
Investment Tax Credit	(23,255)	(3,902)	(19,353)	NA	(19,353)
Total Rate Base	1,216,086	159,720	1,056,326	NA	1,056,326

EXHIBIT ____ (LK-3)

~~Supersedes Form Schedule~~
**FORMULA RATE PLAN
RIDER SCHEDULE FRP**

APPLICATION

This Formula Rate Plan Rider Schedule FRP ("Rider" or "Rider FRP") defines the procedure by which the rates of Louisiana Power & Light Company ("LP&L" or "Company") set out in Attachment A to this Rider shall be periodically adjusted. Rider FRP is applicable to all electric service rendered under the Company's rate schedules designated in Attachment A to the Rider, whether metered or unmetered, and subject to the jurisdiction of the Louisiana Public Service Commission ("Commission").

BILLING PROVISIONS

1. RATE ADJUSTMENTS

The adjustments to the Company's rates as set forth in Attachment A to this Rider ("Rate Adjustments"), shall be added to the rates set out in the Net Monthly Bill section in the Company's currently effective rate schedules as set out in Attachment A. The Rate Adjustments shall be determined in accordance with the provisions of Sections 2 and 3 below.

2. ANNUAL FILING AND REVIEW

A. FILING DATE

On or before April 15 of each year, beginning in 1996, LP&L shall file a report with the Commission containing an evaluation of the current Rate Adjustments set forth in Attachment A to this Rider prepared in accordance with the provisions of Section 3 below ("Evaluation Report"). A revised Attachment A shall be included in each such filing and shall reflect such modified Rate Adjustments as may be required under the provisions of Section 3 below.

B. REVIEW PERIOD

The Commission and any other participants designated by the Commission, which together with LP&L shall be referred to hereinafter collectively as the "Parties," shall then have until June 15 of the filing year to review the Evaluation Report to ensure that it complies with the requirements of Section 3 below. At the time each such Evaluation Report is filed, LP&L shall provide the other Parties with workpapers supporting the data and calculations reflected in the Evaluation Report. The other Parties may request clarification and additional supporting data.

If any of the Parties should detect an error(s) in the application of the principles contained in Section 3 below, such error(s) shall be formally communicated in writing to the other Parties on or before June 15 of the filing year. All such indicated errors shall include documentation of the proposed correction. LP&L shall then have until June 25 of the filing year to file a corrected Attachment A containing corrected Rate Adjustments. The Company shall provide the other Parties with workpapers supporting any corrections made to the Rate Adjustments initially filed on April 15 of that year.

FRP

(Continued on reverse side)

corrected Rate Adjustments as may be determined pursuant to the terms of this Section 2.B, shall, after verification by the Commission, become effective for bills rendered on and after the first billing cycle of July of the filing year. Those Rate Adjustments shall then remain in effect until changed pursuant to the provisions of this Rider.

While the annual review process shall normally involve verification that the principles set out in Section 3 below have been properly applied, the Commission may address other issues in any annual review.

C. RESOLUTION OF DISPUTES

In the event there is an unresolved dispute regarding any Evaluation Report, the Parties shall work together in good faith to resolve such dispute. If the Parties are unable to resolve the dispute prior to the first billing cycle of July of the filing year, the undisputed portion of the revised Rate Adjustments, as filed by the Company, shall become effective as provided in Section 2.B above. Disputed issues shall be decided by the Commission, which shall render a ruling on such disputed issues on or before August 31 of the filing year.

If a dispute is resolved such that there are changes in the Rate Adjustments initially implemented that year pursuant to the above provisions, a revised Attachment A containing such further modified Rate Adjustments shall be submitted to the Commission by LP&L within five days of the Commission's order resolving the dispute. In addition to reflecting the Commission's ruling on the disputed issues, the final Rate Adjustments shall also reflect the adjustments necessary to recover or credit the estimated revenue increase or decrease, respectively, that would have resulted had the final Rate Adjustments been implemented initially. Such modified Rate Adjustments shall then become effective for bills rendered on and after the fifth day following the date on which the final rate adjustments are submitted, and shall remain in effect until superseded by Rate Adjustments established in the subsequent Evaluation Report filing.

D. GENERAL RATE PROCEEDINGS

In the event a general rate proceeding for LP&L is conducted by the Commission while this Rider FRP is in effect, the Rate Adjustments in the then currently effective Attachment A shall be revised to be zero. Such revised Rate Adjustments shall become effective on the effective date of the revised rates resulting from such a general rate proceeding. The Annual Filing and Review provisions in Sections 2.A - 2.C of this Rider FRP shall be followed without interruption unless an annual Evaluation Report would be filed less than 120 days after the date revised rates become effective pursuant to the general rate proceeding. In that event, the annual Evaluation Report filing that would otherwise be required in that year shall not be made, but all subsequent annual Evaluation Report filings shall then be made in accordance with the provisions of this Rider FRP.

E. PRELIMINARY EVALUATION PERIOD REPORTS

In addition to the annual Evaluation Report to be submitted on April 15 of each year, the Company shall also provide summary financial data to the Commission by November 1 of each year for the twelve month period ending on the immediately preceding September 30 and by March 15 of each year for the twelve month period ending on the immediately preceding December 31. The report for each September 30 period shall also include year-to-date data. The first of these reports shall be due on March 15, 1996 for the period ending December 31, 1995.

FRP

(Continued on next page)

A. EVALUATION PERIOD

Each annual evaluation of the Rate Adjustments shall be based on data for the twelve month period ended December 31 of the prior calendar year ("Evaluation Period"). All data utilized in each evaluation shall be based on actual results for the Evaluation Period as recorded on the books of LP&L in accordance with the Uniform System of Accounts or such other documentation as may be appropriate.

B. EARNED RATE ADJUSTMENT METHODOLOGY

1. DEFINITION OF TERMS

a. EARNED RATE OF RETURN ON COMMON EQUITY

The Earned Rate of Return on Common Equity ("EROE") for any Evaluation Period shall be determined in accordance with the formula set out in Attachment B. The EROE determination shall reflect the Evaluation Period Adjustments set out and described in Attachment C.

b. BENCHMARK RATE OF RETURN ON RATE BASE

The Benchmark Rate of Return on Rate Base ("BRORB") is the composite weighted embedded cost of capital reflecting the Company's annualized costs of debt and preferred stock at the end of the Evaluation Period together with the Evaluation Period Cost Rate for Common Equity, as defined in Section 3.B.1.c. below. The BRORB shall be determined in accordance with the formula set out in Attachment D.

c. EVALUATION PERIOD COST RATE FOR COMMON EQUITY

The Evaluation Period Cost Rate for Common Equity ("EPCOE") is the Company's cost rate for common equity at the end of the Evaluation Period and shall be determined for each Evaluation Period in accordance with the procedure set out in Attachment E.

d. PERFORMANCE ADJUSTED COST RATE FOR COMMON EQUITY

A Customer Satisfaction Rating Adjustment ("CSRA") shall be determined for each Evaluation Period and shall be calculated in accordance with the formula set out in Attachment F. The Performance Adjusted Cost Rate for Common Equity ("PACOE") is the EPCOE as increased or decreased by the CSRA.

e. RATE OF RETURN ON COMMON EQUITY BANDWIDTH

There shall be a Rate of Return on Common Equity Bandwidth ("Bandwidth") around the PACOE within which no change in the Rate Adjustments will be made. The upper limit of the Bandwidth ("Upper Band") shall be the PACOE plus 0.80%. The lower limit of the Bandwidth ("Lower Band") shall be the PACOE minus 0.80%.

In each annual Evaluation Report, the determination of the change in the currently effective Rate Adjustments shall be made in accordance with the following rules:

- a. If the EROE is less than the Lower Band, the then currently effective Rate Adjustments shall be increased in accordance with the provisions of Section 3.C below so that the resulting increase in revenue would increase the EROE for the Evaluation Period by 60% of the difference between the Lower Band and the initially determined EROE.
- b. No change shall be made to the Rate Adjustments if the EROE is less than or equal to the Upper Band and greater than or equal to the Lower Band.
- c. If the EROE exceeds the Upper Band, the then currently effective Rate Adjustments shall be reduced in accordance with the provisions of Section 3.C below so that the resulting reduction in revenue would reduce the EROE for the Evaluation Period by 60% of the difference between the Upper Band and the initially determined EROE.
- d. A change in the Rate Adjustments shall not be made unless it changes the EROE for the Evaluation Period by more than 0.05% (5 basis points).

C. CHANGE IN RATE ADJUSTMENTS

In each annual Evaluation Report, the Rider FRP revenue to be produced by the revised Rate Adjustments shall be determined using the Rider FRP Revenue Redetermination Formula set out in Attachment G.

PROVISIONS FOR OTHER RATE CHANGES

1. EXTRAORDINARY COST CHANGES

The Rate Adjustments determined pursuant to this Rider FRP shall be modified as set forth in LPSC Order No. U-_____ to reflect the effects of (1) the termination of the Waterford 3 property tax exemption, and (2) the termination of the Waterford 3 O&M expense deferral.

Additionally, it is recognized that from time to time LP&L may experience other extraordinary increases or decreases in costs that occur as a result of actions, events, or circumstances beyond the control of the Company. Such costs may significantly increase or decrease LP&L's revenue requirements and thereby require rate changes that this Rider FRP is not designed to address. Should LP&L experience such extraordinary cost increases or decreases having an annual revenue requirement impact exceeding \$10 million, then either LP&L or the Commission may institute a proceeding to consider a pass through of such extraordinary cost increases or decreases.

2. SPECIAL RATE FILINGS

The Company is experiencing a changing business environment and increasing competition. Experimental, developmental, and alternative rate schedules may be appropriate tools for the Company to use to address these conditions. Therefore, nothing in this Rider shall be interpreted as preventing the Company from proposing to revise existing rate schedules or implement new rate schedules as may be appropriate. Any such rate changes shall be filed with the Commission and evaluated in accordance with the rules and procedures then in effect.

FRP

(Continued on next page)

RIDER FRP shall continue in effect until June 30, 1998 at which time either the Commission or the Company may terminate this Rider FRP. If Rider FRP is so terminated, then the Rate Adjustments then in effect shall continue to be added to the Net Monthly Rates in LP&L's currently effective rate schedules until such time as new general rates become effective pursuant to a final Commission order in a general rate proceeding.

FRP

The following Rate Adjustments will be added to the rates set out in the Net Monthly Bill section of LP&L's currently effective rate schedules identified below, or such superseding rate schedules as may be ordered by the Commission, or such other rate schedules of LP&L subject to the Rider FRP that may become effective, whether or not such schedules supersede any of the rate schedules below, but not including special contracts that do not specifically and explicitly incorporate this Rider into the contract. The Rate Adjustments shall be effective for bills rendered on and after July 1, ____:

<u>Rate Schedules</u>	<u>Rate Adjustments</u>
Residential and Farm Service	RS-1R
Master-Metered Residential Apartment Service	MMRA-11
Small General Service	GS-1R
Water Heating and Space Heating Commercial and General Service	WHS-11
Master-Metered General Service	MMGS-10
Large General Service	LGS-16
Large Industrial Service	LIS-16
Interruptible Power Service Rider Schedule 2 to Rate Schedule	LIS-16 R2
Economic Expansion Service Rider Schedule R3 to Rate Schedule	LIS-16 R3
Large Industrial Power Service	LIPS-15
Interruptible Power Service Rider Schedule 2 to Rate Schedule	LIPS-15 R2
Large Economic Expansion Service Rider Schedule 3 to Rate Schedule LIPS-15	LIPS-15 R3
Large Annual Industrial Power Service	LAIPS-11
Curtailement Service	CS-3
Curtailement Service Rider Schedule 1 to Rate Schedule CS-3	CS-3 R1
Experimental Curtailement Service	ECS-7
Experimental Electrochemical Curtailement Service	EECS-3
Flexible Tariff Service	FTS
Qualified Facility Standby Service	QFSS-8
Municipal and Parish Pumping Service	MP-16
Street and Outdoor Lighting	Various

LOUISIANA POWER & LIGHT COMPANY
EARNED RATE OF RETURN ON RATE BASE
EVALUATION PERIOD ENDING DECEMBER 31, _____
(\$000'S OMITTED)

LINE NO	DESCRIPTION	ADJUSTED AMOUNT	SOURCE
TOTAL COMPANY			
1	RATE BASE		Page 2, Line 24
2	BENCHMARK RATE OF RETURN ON RATE BASE		Attachment D
3	REQUIRED OPERATING INCOME		Line 1 * Line 2
4	NET UTILITY OPERATING INCOME		Page 3, Line 33
5	OPERATING INCOME DEFICIENCY/(EXCESS)		Line 3 minus Line 4
6	REVENUE CONVERSION FACTOR		See Note A
7	REVENUE DEFICIENCY/(EXCESS)		Line 5 * Line 6
PRESENT RATE REVENUES			
8	ULTIMATE CUSTOMERS		Page 3, Line 3
9	SALES FOR RESALE		Page 3, Line 4
10	TOTAL		Line 8 plus Line 9
11	REVENUE REQUIREMENT		Line 10 plus Line 7
LPSC RETAIL			
12	REVENUE REQUIREMENT ALLOCATION FACTOR (%)		See Note B
13	REVENUE REQUIREMENT		Line 11 * Line 12
14	PRESENT RATE REVENUES		Page 3, Line 1
15	REVENUE DEFICIENCY/(EXCESS)		Line 13 minus Line 14
16	REVENUE CONVERSION FACTOR		See Note A
17	OPERATING INCOME DEFICIENCY/(EXCESS)		Line 15 / Line 16
18	RATE BASE ALLOCATION FACTOR (%)		See Note B
19	RATE BASE		Line 1 * Line 18
20	COMMON EQUITY DEFICIENCY/(EXCESS) (%)		Line 17 / Line 19
21	WEIGHTED EVALUATION PERIOD COST RATE FOR COMMON EQUITY (%)		Attachment D, Line 3, Column D
22	WEIGHTED EARNED COMMON EQUITY RATE (%)		Line 21 minus Line 20
23	COMMON EQUITY RATIO (%)		Attachment D, Line 3, Column B
24	EARNED RETURN ON EQUITY (%)		Line 22 / Line 23

NOTE:

(A) REVENUE CONVERSION FACTOR = 1 / [(1 - COMPOSITE TAX RATE) * (1 - BAD DEBT) * (1 - REGULATORY COMMISSION EXPENSE RATE) * (1 - FRANCHISE TAX RATE)]

(B) THE LPSC RETAIL RATIO MOST RECENTLY APPROVED FOR LP&L BY THE LPSC.

LOUISIANA POWER & LIGHT COMPANY
RATE BASE
EVALUATION PERIOD ENDING DECEMBER 31, _____
(\$000'S OMITTED)

LINE NO	DESCRIPTION	PER BOOKS	ADJUST- MENTS (A)	ADJUSTED AMOUNT	SOURCE FOR PER BOOKS
1	GROSS PLANT IN SERVICE				Acct. 101 (See Note G)
2	DEPRECIATION RESERVES				Acct. 108
3	NET UTILITY PLANT				Line 1 + Line 2
4	PROPERTY UNDER FINANCIAL LEASE - NET				Accts. 101.3, 111
5	PLANT HELD FOR FUTURE USE				Acct. 105
6	CONSTRUCTION WORK IN PROGRESS (B)				Acct. 107
7	MATERIALS & SUPPLIES (C)				Accts. 154, 163
8	PREPAYMENTS (C)				Acct. 165
9	CASH WORKING CAPITAL (D)				
10	OTHER WORKING CAPITAL (C)				See Note H
11	INVESTMENT IN SFI (C)				Acct. 123
12	ACCUM DEF W-3 MAINT/REFUEL (E)				Acct. 174
13	ACCUM DEF W-3 EXP (C)				Acct. 182.309
14	NUCLEAR FUEL IN REACTOR (C)				Acct. 120.3
15	DEFERRED CIS COST				Not Applicable for Per Book
16	W-3 DESIGN BASIS				Acct. 182.2
17	AMORT GAIN-BLDG SALE				Acct. 253.240
18	CUSTOMER ADVANCES				Acct. 252
19	CUSTOMER DEPOSITS				Acct. 235
20	PENSION LIABILITY				B/E Average LP&L portion in Acct. 253.312
21	DEFERRED ITC PRE-1971 (C)				Acct. 255.2
22	ACCUM DEFERRED INCOME TAXES				Accts. 190, 281, 282, 283
23	OTHER (F)				See Note I
24	RATE BASE				Sum of Lines 3 - 23

NOTES:

- (A) ADJUSTMENTS DEFINED IN ATTACHMENT C
- (B) AMOUNT NOT SUBJECT TO AFUDC ACCRUAL
- (C) 13 MONTH AVERAGE BALANCES
- (D) BASED ON LEAD/LAG STUDY
- (E) 50% OF REFUELING OUTAGE EXPENSE FOR THE EVALUATION PERIOD
- (F) OTHER ITEMS INCLUDED PURSUANT TO SECTION 7 OF ATTACHMENT C
- (G) INCLUDES ACCOUNT 101 EXCEPT FOR ACCOUNT 101.2 & 101.3
- (H) INCLUDES ACCOUNTS 144.001 & 144.002 RESERVE FOR UNCOLLECTIBLES, COMPENSATING BANK BALANCES, AND COLLECTION BANK MINIMUM BALANCES, ACCOUNT 135 WORKING FUNDS, ACCOUNT 228 PROPERTY AND INJURIES & DAMAGES RESERVE, AND ACCOUNT 242 UNCLAIMED FUNDS.
- (I) BEGINNING & ENDING OR 13 MONTH AVERAGE AS MORE APPROPRIATE

LOUISIANA POWER & LIGHT COMPANY
OPERATING INCOME STATEMENT
EVALUATION PERIOD ENDING DECEMBER 31, _____
(\$000'S OMITTED)

LINE NO	DESCRIPTION	PER BOOKS	ADJUST- MENTS (A)	ADJUSTED AMOUNT	SOURCE FOR PER BOOKS
	REVENUES				
	SALES TO ULTIMATE CUSTOMERS				
1	LPSC RETAIL				See Notes B & C
2	CNO RETAIL				See Notes B & C
3	TOTAL				Sum of Lines 1 - 2
4	SALES FOR RESALE				Acct. 447 (See Note C)
5	EPP & SYSTEM SALES				Acct. 447
6	OTHER ELECTRIC REVENUE				Accts. 450, 451, 453, 454, 456 (See Note C)
7	TOTAL OPERATING REVENUES				Sum of Lines 3 - 6
	EXPENSES				
	OPERATION & MAINTENANCE				
	PRODUCTION				
8	OPERATION				See Note D
9	MAINTENANCE				See Note E
10	FUEL				Acct. 501, 518, 547
11	PURCHASED POWER				Acct. 555
12	SYSTEM CONTROL				Acct. 556
13	OTHER PROD EXP & CREDITS				Acct. 557
14	TOTAL PRODUCTION				Sum of Lines 8 - 13
15	TRANSMISSION				Accts. 560 - 573
16	DISTRIBUTION				Accts. 580 - 598
17	CUSTOMER ACCOUNTS				Accts. 901 - 905
18	CUSTOMER SERVICE & INFORMATION				Accts. 907 - 910
19	SALES				Accts. 911 - 916
20	ADMIN & GENERAL				Accts. 920 - 935
21	TOTAL O & M EXPENSE				Sum of Lines 14 - 20
22	GAIN FROM DISPOSITION OF ALLOWANCES				Acct. 411.8
23	REGULATORY DEBITS AND CREDITS				Acct. 407.309
24	TOTAL DEPRECIATION & AMORTIZATION EXP				Accts. 403, 404, 407
25	INTEREST ON CUSTOMER DEPOSITS				Not Applicable for Per Book
26	TAXES OTHER THAN INCOME				Acct. 408
27	STATE INCOME TAX				Page 4, Line 14
28	FEDERAL INCOME TAX				Page 4, Line 21
29	PROV DEF INC TAX - STATE - NET				Accts. 410, 411
30	PROV DEF INC TAX - FED - NET				Accts. 410, 411
31	INVESTMENT TAX CREDIT - NET				Acct. 411
32	TOTAL UTILITY OPERATING EXP				Sum of Lines 21 - 31
33	NET UTILITY OPERATING INCOME				Line 7 minus Line 32

NOTES:

- (A) ADJUSTMENTS DEFINED IN ATTACHMENT C
- (B) REVENUES IN ACCTS. 440, 442, 444 & 445 WILL BE IDENTIFIED BY JURISDICTION
- (C) REVENUES IN ACCT. 456 ASSOCIATED WITH RETAIL & SALES FOR RESALE RATES WILL BE RECLASSIFIED TO LPSC RETAIL CNO RETAIL OR SALES FOR RESALE REVENUE.
- (D) EXPENSES IN ACCTS. 500 - 507, 517 - 525, 546 - 550 EX. FUEL
- (E) EXPENSES IN ACCTS. 510 - 514, 528 - 532 & 552 - 554

LOUISIANA POWER & LIGHT COMPANY
INCOME TAX
EVALUATION PERIOD ENDING DECEMBER 31, _____
(\$000'S OMITTED)

LINE NO	DESCRIPTION	PER BOOKS	ADJUST- MENTS (A)	ADJUSTED AMOUNT	SOURCE FOR PER BOOKS
1	TOTAL OPERATING REVENUES				Page 3, Line 7
2	TOTAL O&M EXPENSE				Page 3, Line 21
3	GAIN FROM DISPOSITION OF ALLOWANCES				Page 3, Line 22
4	REGULATORY DEBITS AND CREDITS				Page 3, Line 23
5	DEPRECIATION & AMORTIZATION EXPENSE				Page 3, Line 24
6	INTEREST ON CUSTOMER DEPOSITS				Page 3, Line 25
7	TAXES OTHER THAN INCOME				Page 3, Line 26
8	NET INCOME BEFORE INCOME TAXES				Line 1 minus sum of Lines 2 - 7
9	ADJUSTMENTS TO NET INCOME BEFORE TAXES				Calculated by Tax Department
10	TAXABLE INCOME				Line 8 + Line 9
COMPUTATION OF STATE INC TAX					
11	STATE TAXABLE INCOME				Line 10
12	STATE INCOME TAX BEFORE ADJUSTMENTS				Line 11 * Effective State Tax Rate (See Note B)
13	ADJUSTMENTS TO STATE TAX				Calculated by Tax Department
14	STATE INCOME TAX				Line 12 + Line 13
COMPUTATION OF FED INC TAX					
15	TAXABLE INCOME				Line 10
16	STATE INCOME TAX				Line 12 (shown as deduction)
17	FEDERAL ADJUSTMENTS				Calculated by Tax Department
18	TOTAL FEDERAL TAXABLE INCOME				Line 16 + Line 17
19	FEDERAL INCOME TAX BEFORE ADJUSTMENTS				Line 18 * Federal Tax Rate (See Note B)
20	ADJUSTMENTS TO FEDERAL TAX				Calculated by Tax Department
21	FEDERAL INCOME TAX				Line 19 + Line 20

NOTE:

(A) ADJUSTMENTS DEFINED IN ATTACHMENT C

(B) THE TAX RATE IN EFFECT AT THE TIME THE EVALUATION REPORT IS FILED SHALL BE UTILIZED.

EVALUATION PERIOD ADJUSTMENTS

Actual data for each Evaluation Period, as reflected in Attachment B, shall be adjusted to reflect the following:

1. Special Rates

- A) Present rate revenue shall be adjusted to reflect, on an annualized basis, the Rate Adjustments in effect at the end of the Evaluation Period under this Rider FRP.
- B) The rate base, revenue and expense effects associated with any riders that LP&L may have in effect during the Evaluation Period which recover specific costs, are to be eliminated. The only exception shall be effects associated with the Fuel Cost Adjustment, which shall not be eliminated.

2. Interest Synchronization

All Evaluation Period interest expenses are to be eliminated and replaced with an imputed interest expense amount equal to the Evaluation Period rate base multiplied by the weighted embedded cost of debt for the Evaluation Period determined in accordance with Attachment D.

3. Income Taxes

All state and federal income tax effects including 1) adjustments to taxable income, 2) adjustments to current taxes, 3) provisions for deferred income tax (debit and credit), and 4) accumulated provision for deferred income tax (debit and credit) shall be adjusted or eliminated, as appropriate, to comport with the following principles:

- A) Effects associated with other adjustments set out in this Attachment C shall similarly and consistently be adjusted.
- B) All effects associated with the difference in the timing of transactions, where the underlying timing difference is eliminated, shall also be eliminated.
- C) The corporate state and federal income tax laws legally in effect on the date an Evaluation Report is filed under this Rider FRP shall be reflected in the calculation of all income tax amounts.
- D) Tax effects normally excluded for ratemaking purposes shall be eliminated.

4. Specific Ratemaking Adjustments

The following adjustments shall be made for each Evaluation Period to the extent they remain applicable:

- A) All capital, rate base and expense effects associated with the sale/leaseback of a portion of Waterford 3 shall be reversed in accordance with the LPSC's decision issued at its August 29, 1989 Business and Executive Session, including treating pro forma call premiums as a component of the capital structure.
- B) Fuel Adjustment revenues and purchased power expense shall be adjusted in accordance with LPSC Order No. U-16945 related to LP&L's Grand Gulf allocation.

5. Reclassifications

- A) Revenues associated with LP&L's rates in the LPSC Retail, CNO Retail, or FERC (Sales for Resale) jurisdictions, but included in Other Electric Revenue (Account 456), shall be reclassified to the appropriate rate schedule revenue category.
- B) Costs not allowable for ratemaking purposes shall be removed by adjustment from the Evaluation Period cost data. Likewise, costs that are allowed, but recorded below the utility operating income line, shall be included in the Evaluation Period cost data through appropriate reclassification adjustments. These adjustments shall include, but are not limited to: 1) the reclassification of below-the-line interest expense associated with customer deposits as administrative and general O&M expense and 2) SFI interest income.

6. Out of Period Items

Expenses and revenues recorded in any Evaluation Period that are related to transactions occurring prior to the initial Evaluation Period utilized under Rider FRP (1995) shall be eliminated by adjustment from the Evaluation Period cost data. This shall include any associated tax adjustments.

7. Other

In addition to Adjustments 1-6 above, there may from time to time be special cost or rate effects that occur during an Evaluation Period that require adjustment of the Evaluation Period cost data. Nothing in the Rider shall preclude any Party from proposing additional adjustment(s) beyond those described in Adjustments 1-6. However, if such adjustments are proposed, they shall be consistent with the general philosophy and structure of this Rider FRP.

BENCHMARK RATE OF RETURN ON RATE BASE
FOR THE TWELVE MONTHS ENDED DECEMBER 31, _____

<u>DESCRIPTION</u>	<u>(A) CAPITAL AMOUNT (1) (\$)</u>	<u>(B) CAPITAL RATIO (2)</u>	<u>(C) COST RATE (3)</u>	<u>(D) BENCHMARK RATE OF RETURN ON RATE BASE (4)</u>
1 LONG TERM BOND DEBT				
2 PREFERRED EQUITY				
3 COMMON EQUITY			EPCOE	
4 TOTAL		100.00%		BRORB

NOTES:

- 1) Amounts at the end of the Evaluation Period. All Long Term Debt issues shall reflect the balance net of unamortized debt discount, premium and expense. All Preferred Stock issues shall reflect the balance net of discount, premium and capital stock expense.
- 2) Each Capital Amount divided by the Total Capital Amount. However, if the common equity ratio exceeds 43%, the common equity capital amount shall be reduced so that the ratio is 43%. The reduction in the common equity ratio (%) shall then be allocated to long term debt and preferred equity on a pro rata basis based on the corresponding Capital Amounts..
- 3) Annualized cost of capital component at end of the Evaluation Period divided by corresponding Capital Amount.
Long Term Bond Debt cost shall include annualized amortization of debt discount, premium expense and gain or loss on reacquired debt. The Cost Rate for common equity shall be the Evaluation Period Cost Rate for Common Equity (EPCOE),
- 4) The components of the Benchmark Rate of Return on Rate Base (BRORB) column are the corresponding Cost Rates multiplied by the associated Capital Ratio. The BRORB is the sum of the components so determined.

EVALUATION PERIOD COST RATE FOR COMMON EQUITY

EPCOE = Evaluation Period Cost Rate for Common Equity

Procedure for Determination of the EPCOE

- A. The initial value of the EPCOE shall be 11.20%, which value shall remain in effect until the EPCOE is reset by formal finding of the Commission in accordance with Section B below.
- B. Any Party may propose to modify the EPCOE for application to any Evaluation Period by filing such proposal with the Commission on or before October 1 prior to the end of that Evaluation Period. Such filing shall include sufficient information and analysis to support the proposed modification to the EPCOE. In such event, the Commission shall publish notice of the proposed modification to the EPCOE, and, in the event of opposition thereto, the Commission shall schedule a hearing thereon. The Commission shall issue its finding regarding the appropriate EPCOE value by April 1 of the subsequent year.
- C. The EPCOE determined in accordance with Sections A and B above shall be utilized for purposes of the Evaluation Report to be submitted on or before April 15 of each year for the just completed Evaluation Period.

CUSTOMER SATISFACTION RATING ADJUSTMENT

CSRA = Customer Satisfaction Rating Adjustment for the current Evaluation Period

$$CSRA = 0.0001 * CSR^3 \quad (1)$$

Where,

CSR = Customer Satisfaction Rating for the current Evaluation Period

$$CSR = 100 * \frac{CSI - CSI_{95}}{CSI_{95}}$$

Where:

CSI = Customer Satisfaction Index for the current Evaluation Period (2)

CSI₉₅ = Customer Satisfaction Index for the initial Evaluation Period of 1995

Where:

$$CSI = \sum_{j=1}^n CW_j * AR_j \quad \text{for the current Evaluation Period}$$

Where:

n = The number of customer classes surveyed

CW_j = Class weighting factor for customer class j determined as the ratio of the number of customers in class j to the total number of customers in all n classes surveyed during the current Evaluation Period

AR_j = Percentage of responses to the Customer Satisfaction Survey described herein for customer class j that indicated Excellent (5) or Very Good (4) in the survey conducted during the current Evaluation Period

NOTE:

- 1) The value of CSRA as calculated under the above formula is a percentage.
- 2) The value of CSI for any Evaluation Period subsequent to 1995 shall be restricted to a range from 0.9 CSI₉₅ to 1.1 CSI₉₅. Should the calculated value of CSI for any such Evaluation Period be less than 0.9 CSI₉₅, then the value of CSI for that Evaluation Period shall be set at 0.9 CSI₉₅. Similarly, should the value of CSI for any Evaluation Period exceed 1.1 CSI₉₅, then the value of CSI for that Evaluation Period shall be set at 1.1 CSI₉₅.

CUSTOMER SATISFACTION RATING ADJUSTMENT (Continued)

CUSTOMER SATISFACTION SURVEY

A survey firm will conduct a customer opinion survey each year. The survey questionnaire will obtain information from a sample of the Company's residential, commercial and industrial customers regarding the customers' level of satisfaction with the Company's service in the following categories:

1. Overall quality of LP&L's services
2. Being a company that is easy to do business with
3. Overall quality of the electric power
4. Overall quality of billing service
5. Overall quality of customer service
6. Overall quality of preventive maintenance
7. Overall quality of meter reading
8. Overall quality of emergency service
9. Ability to solve problems
10. Being courteous/helpful

Survey respondents shall score question(s) in each category on the following rating scale:

<u>5</u>	<u>4</u>	<u>3</u>	<u>2</u>	<u>1</u>
Excellent	Very Good	Good	Fair	Poor

The survey firm shall be selected by the Company and shall be competent, professional, and nationally recognized. The Company may change such survey company from time-to-time as may be appropriate for economic or accuracy purposes. LP&L shall notify the Commission of the survey firm initially selected and any subsequent replacements.

The Company may modify the Customer Satisfaction Survey by notifying the Commission of its intent to make such modifications by November 1 of the calendar year preceding the Evaluation Period in which the modified survey will first be utilized.

RIDER FRP REVENUE REDETERMINATION FORMULA
(\$000 OMITTED)

SECTION 1

BANDWIDTH CHECK FOR RATE SCHEDULE FRP

LINE NO	DESCRIPTION	REFERENCE	
1	Earned Rate of Return on Common Equity	Attachment B, Page 1, Line 24	%
2	Evaluation Period Cost Rate for Common Equity	Developed per Attachment E	%
3	Customer Satisfaction Rating Adjustment	Developed per Attachment F	%
4	Performance Adjusted Cost for Common Equity	Line 2 + Line 3	%
5	If Line 4 + 0.8% < Line 1		GO TO Section 2
6	If Line 4 - 0.8% > Line 1		GO TO Section 3
7	Otherwise		No Rate Change

SECTION 2

UPPER BAND RATE ADJUSTMENT

	DESCRIPTION	REFERENCE	
8	Earned Rate of Return on Common Equity	Line 1	%
9	Upper Band	Line 4 + 0.8%	%
10	Reduction to Upper Band	Line 8 - Line 9	%
11	Reduction in Earned Rate of Return on Common Equity	60% of Line 10	%
12	If Line 11 ≤ 0.05%		No Rate Change
13	If Line 11 > 0.05%		
14	Reduction in Earned Rate of Return on Common Equity	Line 11	%
15	Common Equity Capital Ratio	Attachment D, Line 3, Column B	%
16	LPSC Retail Rate Base	Attachment B, Page 1, Line 19	\$
17	Revenue Conversion Factor	Attachment B, Pg 1, Line 16	\$
18	Reduction in Rider FRP Revenues	Line 14 * Line 15 * Line 16 * Line 17	\$

SECTION 3

LOWER BAND RATE ADJUSTMENT

	DESCRIPTION	REFERENCE	
19	Lower Band	Line 4 - 0.8%	%
20	Earned Rate of Return on Common Equity	Line 1	%
21	Increase to Lower Band	Line 22 - Line 23	%
22	Increase in Earned Rate of Return on Common Equity	60% of Line 24	%
23	If Line 25 ≤ 0.05%		No Rate Change
24	If Line 25 > 0.05%		
25	Increase in Earned Rate of Return on Common Equity	Line 22	%
26	Common Equity Capital Ratio	Attachment D, Line 3, Column B	%
27	LPSC Retail Rate Base	Attachment B, Page 1, Line 19	\$
28	Revenue Conversion Factor	Attachment B, Pg 1, Line 16	\$
29	Increase in Rider FRP Revenues (1)	Line 25 * Line 26 * Line 27 * Line 28	\$

SECTION 4

TOTAL RIDER FRP REVENUE

	DESCRIPTION	REFERENCE	
30	Annualized Evaluation Period FRP Revenue (2)		\$
31	Reduction/Increase in Rider FRP Revenues	Line 18 or Line 29	\$
32	Total Rider FRP Revenue	Line 30 + Line 31	\$

Note:

- (1) In no event shall an increase in rates under this Rider FRP cause LP&L's annualized revenues to exceed those that would be produced by LP&L's rates that were in effect on December 31, 1994.
- (2) FRP rate adjustments in effect at end of the Evaluation Period multiplied by the Evaluation Period billing units.

KU Fuel Adjustment Clause January 1978-1997

