Kent W. Blake
Director
State Regulation and Rates

LG&E Energy LLC
220 West Main Street
Louisville, Kentucky 40202
502-627-2573
502-217-2442 FAX
kent.blake@lgeenergy.com

November 2, 2005

RECEIVED
NOV 02 2005
PUBLIC SERVICE COMMISSION

Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: ***The Plan of Louisville Gas and Electric Company for the Value Delivery Surcredit Mechanisms***
Case No. 2005-00352

Dear Ms. O'Donnell:

Enclosed please find an original and seven (7) copies of Louisville Gas and Electric Company's ("LG&E") response to the Attorney General's First Request for Information dated October 21, 2005, in the above-referenced docket.

Should you have any questions concerning the enclosed, please do not hesitate to contact me.

Sincerely,

Kent W. Blake

Kent W. Blake

cc: Elizabeth E. Blackford
Michael L. Kurtz

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PLAN OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR THE VALUE DELIVERY SURCREDIT MECHANISMS	)))	CASE NO. 2005-00352

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE
ATTORNEY GENERAL'S ("AG's")
FIRST REQUEST FOR INFORMATION
DATED OCTOBER 21, 2005

FILED: NOVEMBER 2, 2005

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2005-00352

Response to the AG's First Request for Information Dated October 21, 2005

Question No. 1

Responding Witness: Kent W. Blake

Q-1. With regard to the table shown at the bottom of page 5 of the LG&E testimony of Mr. Blake, please provide the following information:

a. Should the dollar amount for the 9/30/03 test year CTA Amortization for LG&E-Electric be $23.9 million rather than the amount of $29.9 million currently shown? If not, reconcile the $29.9 million to the 2003 LG&E Electric CTA amortization of approximately $24 million shown on Exhibit B attached to the Case No. 2001-169 Stipulation and explain how this CTA amount has resulted in net VDT savings of $9.4 million.

b. Provide the exact dollar amounts for all of the line items in this table that were reflected in the pro forma test year results in the prior LGE&E Electric and Gas rate case, Case No. 2003-00433.

A-1. a. Please see the attached correction to page 5 of Mr. Blake's testimony.

b. Please see the table below.

Louisville Gas and Electric Company
Test Year Ended September 30, 2003

	Electric	**Gas**
Gross Savings from VDT Initiative:		
Test Year Savings:	$33,300,000	$8,625,000
Less: Amortization of Costs to Achieve:	(23,900,000)	(6,100,000)
Net VDT Savings	**9,400,000**	**2,525,000**
Less: Revenue Reduction for Value Delivery Surcredit (customer's 40% share of net savings)	(3,760,000)	(1,010,000)
Impact on Net Operating Income	**5,640,000**	**1,515,000**
Less: Pro-forma Adjustment for Shareholder Savings (made in order for LG&E to retain its 60% share of net savings)	(5,640,000)	(1,515,000)
Net Impact on Base Rates:	**$ 0**	**$ 0**
Customers' 40% share of Net Savings provided via Value Delivery Surcredit	**$ 3.760,000**	**$ 1,010,000**

The Commission approved the 2001 Settlement Agreement in its Order dated December 3, 2001 in Case No. 2001-00169.

Q. Please describe the ratemaking treatment associated with the Value Delivery Surcredit in LG&E's last base rate case.

A. The shareholder's portion of the net savings allocated to electric operations was included as an adjustment to operating expenses in the calculation of the Earnings Sharing Mechanism filings for 2001, 2002 and 2003. With the termination of the Earnings Sharing Mechanism in Case No. 2003-00433, the shareholder adjustment was similarly included in the calculation of the revenue requirement for LG&E's base electric and gas rates by separate adjustments to operating expenses. The rate case test year used to calculate the gas and electric revenue requirements also included 12 months amortization of the costs to achieve and the Value Delivery Surcredit for gas operations and electric operations.

The table below is used to clarify how base rates in Case No. 2003-00433 were impacted by the 2001 Settlement Agreement.

	$ millions	
Test Year Ended September 30, 2003	Electric	Gas
Gross Savings from VDT initiative	$ 33.3	$ 8.6
Less: Amortization of Costs to Achieve	(23.9)	(6.1)
Net VDT Savings	**9.4**	**2.5**
Less: Revenue Reduction for Value Delivery Surcredit (customer's 40% share of net savings)	(3.8)	(1.0)
Impact on Net Operating Income	**5.6**	**1.5**
Less: Pro-forma Adjustment for Shareholder Savings (made in order for LG&E to retain its 60% share of net savings)	(5.6)	(1.5)
Net Impact on Base Rates	**0**	**0**
Customers' 40% share of Net Savings provided via Value Delivery Surcredit	**$ 3.8**	**$ 1.0**

Attachment to AG Question No. 1(a)
Page 1 of 1
Blake

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2005-00352

Response to the AG's First Request for Information Dated October 21, 2005

Question No. 2

Responding Witness: Kent W. Blake

Q-2. Using the 9/30/03 test year data included in the table at the bottom of page 5 of the LG&E testimony of Mr. Blake, please confirm that the Electric and Gas test year revenue requirements would be lower by $33.3 million and $8.6 million, respectively, under the assumption that (1) the test year would include no CTA amortization expenses, (2) the test year would include no pro forma adjustment for the 60% shareholder portion of any net VDT savings and (3) there would be no VDT Surcredit for the 40% ratepayer share of any net VDT savings. If you cannot confirm or do not agree with this statement, explain your disagreement in detail.

A-2. With the exception of the impact of tax effecting the changes and the application of the revenue gross-up factor, the math used above is accurate under these assumptions. However, the CTA (Cost to Achieve) amortization expenses were incurred during the test year; the AG had agreed to the 60% shareholder portion of the savings during the 60-month term of the settlement agreement; and the Company did provide customers with their 40% share of the savings during the 60-month period. Thus, the assumptions in the question are not reasonable. Many expense, revenue and capitalization components are likely to be different when these three items no longer exist. It is the impact of all such items in totality that will determine the appropriate revenue requirement for the Company in the future.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2005-00352

Response to the AG's First Request for Information Dated October 21, 2005

Question No. 3

Responding Witness: Kent W. Blake

Q-3. With regard to the table shown on page 5 of Mr. Blake's KU testimony, please provide the exact dollar amounts for all of the line items in this table that were reflected in the pro forma test year results in the prior KU rate case, Case No. 2003-00434.

A-3. Not applicable for LG&E.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2005-00352

Response to the AG's First Request for Information Dated October 21, 2005

Question No. 4

Responding Witness: Kent W. Blake

Q-4. Using the 9/30/03 test year data included in the table on page 5 of Mr. Blake's KU testimony, please confirm that the Electric test year revenue requirement would be lower by $16.3 million, under the assumption that (1) the test year would include no CTA amortization expenses, (2) the test year would include no pro forma adjustment for the 60% shareholder portion of any net VDT savings and (3) there would be no VDT Surcredit for the 40% ratepayer share of any net VDT savings. If you cannot confirm or do not agree with this statement, explain your disagreement in detail.

A-4. Not applicable for LG&E.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2005-00352

Response to the AG's First Request for Information Dated October 21, 2005

Question No. 5

Responding Witness: Kent W. Blake

Q-5. Mr. Blake's Exhibit 1, page 3, line 35 shows that, based on a test year ended June 30, 2005, LG&E's test year electric and gas revenue requirements and KU's test year revenue requirement are reduced by $39.160 million, $10.510 million, and $19.661 million, respectively, based on the assumptions that the Value Delivery Surcredit mechanism and the CTA cost amortizations have expired.

a. Confirm the above statement. If you do not agree with the statement, explain your disagreement.

b. Confirm that if the same assumptions are applied to the 9/30/03 pro forma test year data used to set the current base rates, the equivalent test year revenue requirement reductions for LG&E electric and gas and KU would be $33.3 million, $8.6 million, and $16.3 million, respectively.

A-5. a. The AG's statement is not complete. Blake Exhibit 1, page 2, line 31 (line 30 for KU), shows the Company's adjusted net operating income for the year ended June 30, 2005 with the Value Delivery Surcredit in effect.

Blake Exhibit 1, page 3 line 38 (line 37 for KU), shows the adjusted net operating income for this same period after making adjustments to reflect the expiration of the Value Delivery Surcredit, the expiration of the CTA cost amortization and the Company relinquishing its shareholder savings as if those adjustments were made at that time. The amounts reflected in the AG's question represent the pre-tax impact on net operating income from these adjustments.

Furthermore, as illustrated in Blake Exhibit 4, after making these adjustments and assuming a 10.5% return on equity, the earnings for LG&E Electric operations would be deficient by $3.1 million; earnings for LG&E Gas would be deficient by $9.0 million, and earnings for KU would be deficient by $5.5 million in such a hypothetical situation.

Many expense, revenue and capitalization components are likely to be different when the VDT surcredit expires. It is the impact of all such items in totality that will determine the appropriate revenue requirement for the Company in the future.

b. Please see response to Question No. 2.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2005-00352

Response to the AG's First Request for Information Dated October 21, 2005

Question No. 6

Responding Witness: Kent W. Blake

Q-6. Please confirm that the Companies responded to Question 6 of Commission Staff's first Request for Information Dated August 29, 2001, in Case No. 2001-169, *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed deferred Debits and Declaring the Amortization of the Deferred Debits to be included in Earnings Sharing Mechanism Calculations* as follows:

"The proposed amortization period results in appropriate recognition of the costs and savings form the WTSP through the Earnings Sharing Mechanism and avoids an otherwise one-time increase in rates to customers caused by the companies' earnings falling below the ESM dead band.

A-6. The referenced question and the Companies' full response is reprinted below:

> Q-6. Refer to the Application, page 7, paragraph 11. Provide a detailed explanation of how the 4-year amortization period was determined and why this period of time is reasonable.
>
> A-6. The 4-year amortization period is the timeframe over which the estimated accumulated savings equal the WTSP costs. A 4-year amortization period appropriately synchronizes the incurrence of savings and costs consistent with prior Commission Orders in Case Nos. 97-300 and 200[0]-080. The proposed amortization period results in appropriate recognition of the costs and savings from the WTSP through the Earnings Sharing Mechanism and avoids an otherwise one-time increase in rates to customers caused by the companies' earnings falling below the ESM dead band.
>
> LG&E and KU also believe this amortization period is reasonable and consistent based on Commission treatment of similar costs in LG&E's last gas base rate case (Case No. 2000-080) which used a three year amortization and Case No. 97-300 pertaining to the merger of LG&E and KU which used a five year amortization period.