Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

58. Please reference page 5, line 8 of Mr. Majoros' testimony. Please identify the method and criteria that you have used to determine that Mr. Spanos has used artificially short lives for certain major accounts.

Response:

See pages 16 – 17 of Mr. Majoros's testimony, and Exhibit___(MJM-7).

Witness Responding:
Michael J. Majoros Jr.

59. Please reference page 5, line 9 of Mr. Majoros' testimony. Please explain why you have identified the ELG method as "unjustified" for DEK to use.

Response:

See pages 11 – 16 of Mr. Majoros's testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

60. Please reference page 6, line 17 of Mr. Majoros' testimony. Based upon your judgment only, please indicate on a composite depreciation bar chart by functional group, what you consider the low end of the bar chart to start at and the high end of the bar chart to end. Please indicate where your proposed rates for DEK would be marked.

Response:

Mr. Majoros is unable to respond to this question as it is not clear how the request relates to the statement made on page 6, line 17.

Witness Responding:
Michael J. Majoros Jr.

61. Please reference page 8, lines 14-17 of Mr. Majoros' testimony. Please specifically identify any accounting error made by the parent company in the adoption of FAS 143, based upon the plants being deregulated, for the recording of the accrued cost of removal.

Response:

Mr. Majoros is not aware of all the entries the company has made.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

62. Please reference page 8, lines 17-21 of Mr. Majoros' testimony. Please indicate what the industry trend is for accounting for cost of removal if plants are regulated based upon the adoption of FAS 143.

Response:

Mr. Majoros has not conducted the study that would be required to respond to this question. Furthermore, FAS 143 is not a regulatory accounting order.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

63. Please reference page 8, lines 17-21 of Mr. Majoros' testimony. Identify if the DEK statement per your testimony "the company acknowledges internally that if the plants were still deregulated, they would not be allowed to charge additional terminal cost of removal to depreciation" would indicate an error in the accounting under FAS 143. Please explain the basis for your answer.

Response:

Non-legal terminal cost of removal is not allowed to be included in depreciation rates under GAAP.

Witness Responding:
Michael J. Majoros Jr.

64. For the Kentucky state commission proceedings in which Mr. Majoros has testified, please indicate what proposals Mr. Majoros has made in each case, and indicate which proposals were accepted by the Commission and which proposals were rejected by the Commission.

Response:

Mr. Majoros's depreciation related testimony in Kentucky is provided on CD in Attachment to DEK 64. Orders are available at the Commission's website.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

65. Please reference page 15, lines 15-17 of Mr. Majoros' testimony. In Case No. 2005-00242, you testified at page 12, line 12 that you do not accept the ELG procedure. Based upon your experience do you believe that the FCC's and the Kentucky Commission's adoption and use of the ELG method is unwarranted? Please provide that basis for your answer.

Response:

Mr. Majoros is not sure the Kentucky Commission was aware of ELG when those prior rates were implemented without the sort of scrutiny that opposition that would have caused.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

66. Please reference page 17, lines 7-11 of Mr. Majoros' testimony. Please explain the contradiction between the following statements in your testimony (pg17 line7-8) "It is clear that **many** of Mr. Spanos' selections were not the best fit" and (pg 17 line 9-10) "I recommend different parameters for **three** accounts".

Response:

Mr. Spanos did not conduct statistical fitting analysis. Consequently, it would only be a fortuitous coincidence if his "eyeball" approach resulted in the selection of the best fit.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

67. Please reference page 17, line 18 of Mr. Majoros' testimony. Per your testimony (pg 17 line 18) "I disagree with charging ratepayers for estimated future cost of removal." Please explain your position concerning the inclusion of future cost of removal and why this cost should be paid by the future customers even though they do not receive benefit from the plant retired.

Response:

See Mr. Majoros's next statement on the very same page. "I am opposed because I believe, and recent accounting pronouncements have proven, that the Companies are charging ratepayers far more for cost of removal than they will ever spend." Because the newly deregulated company, upon deregulation, actually transferred money collected from ratepayers for future cost of removal into its corporate income account, that is clear here.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

68. Please reference page 17, line 21 through p. 18, line 1 of Mr. Majoros' testimony. Provide support for your opinion that: "...Companies are charging ratepayers far more for cost of removal than they will ever spend."

Response:

Mr. Majoros's entire testimony demonstrates that fact.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

69. You were a witness in Case # 2005-00042. Were you a witness in the same capacity as the current case? Please identify the specific areas of your testimony that was adopted by the commission. Please quantify the impact of your testimony upon the final gas depreciation rates approved by the commission in relationship to the company proposed rates.

Response:

See pages 30-36 of the December 22, 2005 Order of the Commission in Case No. 2005-00042 discussing depreciation recommendations and reducing ULH&P's depreciation expense by $2.1 million, $1.6 million more than ULH&P's proposed expense reduction of $545,000..

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

70. Please reference page 34, lines 3-6 of Mr. Majoros' testimony. Identify specific DEK accounting that indicates that DEK accounting practices are in error to support the following, per your testimony at page 34 lines 3-6: "... ULH&P's approach is not in harmony with generally accepted accounting principles and never has been, as implicitly reaffirmed in SFAF No. 143."

Response:

GAAP depreciation rates do not include future cost of removal estimates.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Michael J. Majoros Jr.

71. Please reference Exhibit MJM-5, page 4 of Mr. Majoros' testimony. Provide additional support for the following accounts 3640, 3650 and 3680 for the following:

    a. change to remaining life; and

    b. calculated reserve.

Response:

Mr. Majoros does not understand this question. The purpose of Exhibit___(MJM-5) was to demonstrate how the use of ELG decreased the reserve excess when compared to rates calculated using VG. The remaining lives changed because on pages 3 and 4 of that exhibit, VG was used to calculate the remaining lives. Pages 1 and 2 reflect Mr. Spanos's ELG remaining lives.

Please see Exhibit___(MJM-7), pages 30-32 for the calculation of the remaining life for account 3640, pages 42-44 for account 3650 and pages 50-51 for account 3680. The Excel version of Exhibit___(MJM-7) has been provided in response to DEK Q. 49. See the attached Excel version of Exhibit___(MJM-5), provided on CD, for the calculation of the theoretical reserves.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

Requests for Information Directed to Dr. Woolridge

72. Please provide the currently authorized return on equity for the each of the 13 and 27 electric utilities in your two samples of comparable companies shown on Exhibits JRW-3.

Response:

See attachments DEK-72 - AUS Electric 1.pdf and DEK-72 AUS Electric & Gas 1.pdf (provided on CD) for the allowed returns. Please note that Dr. Woolridge did not use this data in preparing his testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

73. Are there any investor-owned electric utilities with an allowed rate of return on common equity that is equal to, or less than, what Dr. Woolridge recommends in this proceeding? If so, provide a list of such utilities, and the case number and date of order of the applicable state utility commission decision.

Response:

Based on the data provided in DEK-73, no there are not. However, Dr. Woolridge is not aware of the allowed returns in all proceedings.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

74. Please provide your return on equity recommendation and the return on equity authorized for each electric and/or gas case in which you have testified in the last five years. Please also provide the prevailing yield on long-term Treasury bonds at the time of filing these testimonies, and your source for these yields.

Response:

Dr. Woolridge does not keep records of the requested data and did not use it in preparing his testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

75. Please provide a copy of the documents cited in footnotes 2, 3, 15, and 17 of Dr. Woolridge's testimony and a copy of the current edition of the same publication, if applicable.

Response:

The documents are attached (provided on CD) as "DEK-75 - <authors name>.pdf."

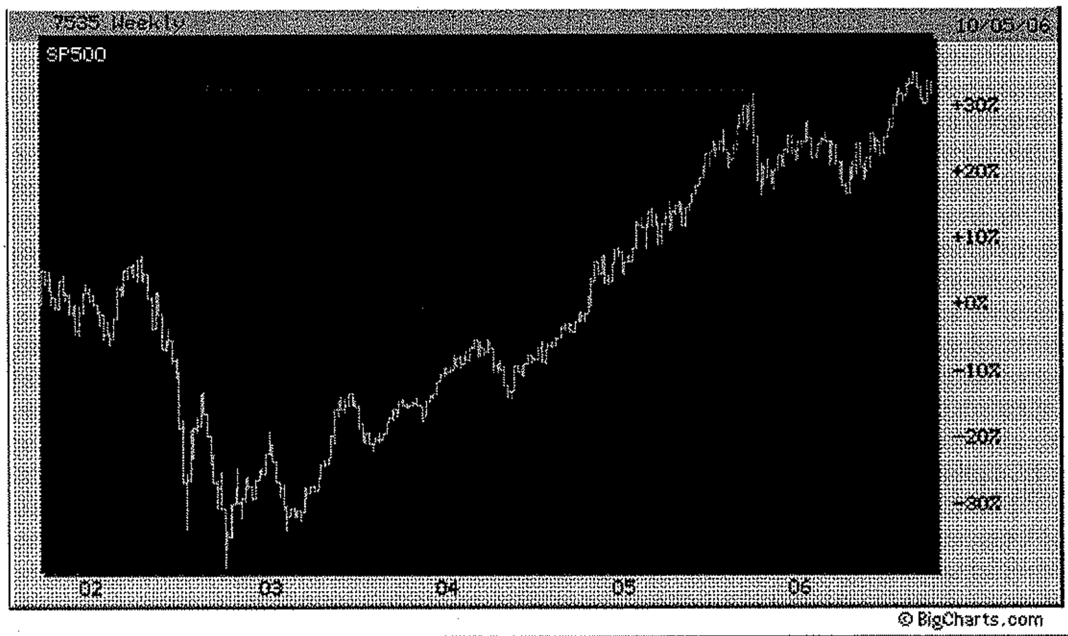
Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

76. Is it Dr. Woolridge's opinion that electric utility stocks have outperformed or underperformed the overall equity market during the last five years? Please provide any supporting evidence.

<u>Response:</u>

Based on the chart below, the Dow Jones Electrics have slightly outperformed the S&P 500 over the past five years. Please note that Dr. Woolridge did not use this data in preparing his testimony.



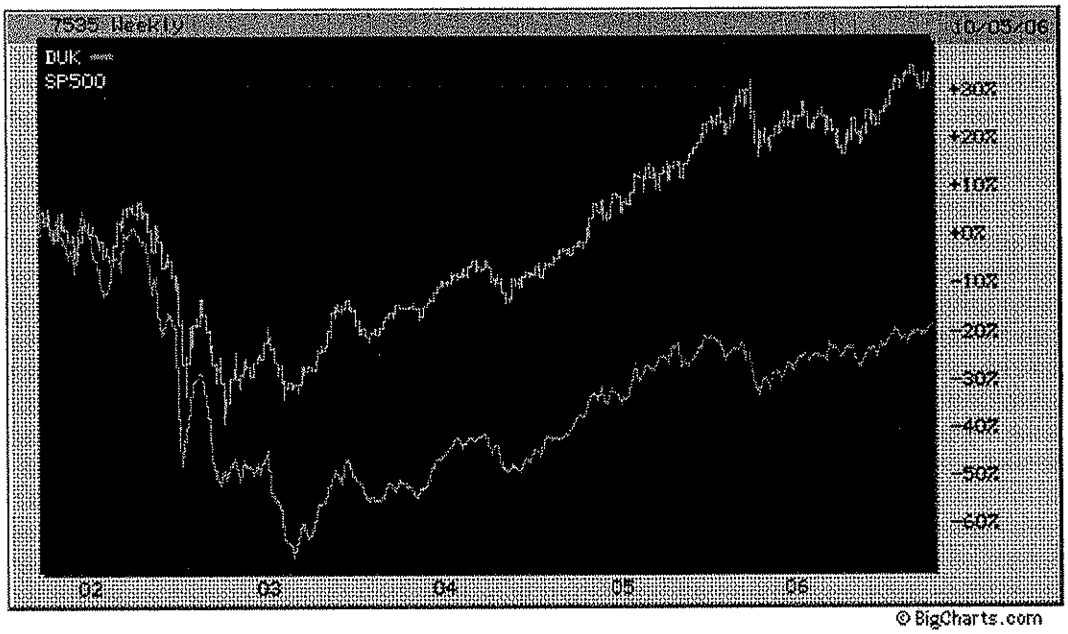
Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

77. Is it Dr. Woolridge's opinion that DEK's parent company, Duke Energy Corporation, has outperformed or underperformed utility stocks in the last five years? Please provide any supporting evidence.

<u>Response:</u>

Based on the chart below, Duke Energy underperformed the Dow Jones Electrics and the S&P 500 over the past five years. Please note that Dr. Woolridge did not use this data in preparing his testimony.



Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

78. In light of his discussion of market-to-book ratios contained on pages 11-13, does Dr. Woolridge advocate a regulatory process which produces a market-to-book ratio of 1.00? If so, please reconcile this statement with the statement on page 13 lines 1-5 that "*market-to-book ratios for this group have increased gradually.....and increased to 1.95 as of 2005..*"

<u>Response:</u>

No. Dr. Woolridge uses market-to-book ratios to evaluate whether earned returns are adequate to meet investors required rates of return.

Witness Responding:
Dr. J. Randall Woolridge

79. Does Dr. Woolridge believe that his cost of equity recommendation will maintain, increase, or decrease DEK's parent company's market-to-book ratio? Please explain the basis for your answer.

<u>Response:</u>

Dr. Woolridge does not believe that his cost of equity recommendation would have a significant effect on DEK's market-to-book ratio.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

Response:

80. Please provide the market-to-book ratios of each company in Dr. Woolridge's two samples of utility companies for the past ten years.

Response:

Dr. Woolridge does not have access to that data and did not use it in preparing his testimony.

Witness Responding:
Dr. J. Randall Woolridge

81. Does Dr. Woolridge subscribe to the assumption in the standard DCF model that the price/earnings and price/book ratios remain constant?

<u>Response:</u>

On a theoretical basis, Dr. Woolridge agrees that these are assumptions of the DCF model.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

82. Please provide the source document and data for the ROE and market-to-book ratio data shown on Exhibit JRW-5 Page3.

Response:

The data are attached (provided on CD) as "DEK-82 – JRW-5.3.xls."

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

83. Please provide a list of college-level finance (corporate finance, investments, banking, *etc.*) courses Dr. Woolridge has taught, singly or jointly, since January 1, 2000 or is currently teaching, the syllabus for these courses, and a list of textbooks/readings used in these courses.

Response:

Dr. Woolridge has taught the following courses:

BA 301	Finance
FIN 550	Financial Analysis and Valuation
FIN 497/597	Nittany Lion Fund
Finance 587-588	Investment Management

The textbooks and readings are provided in the syllabus for each course. These are attached (provided CD). The courses have changed very little, and therefore I have only provided the most recent syllabus. FIN 497/597 does not have a syllabus.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

84. Does Dr. Woolridge's recommended cost of common equity assume the maintenance of the company's existing capital structure or does it assume some other capital structure. If so, please state Dr. Woolridge's recommended ROE under both the company's existing capital structure and his recommended capital structure.

Response:

See page 47 of Dr. Woolridge's testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

85. Is it Dr. Woolridge's contention that electric utility stocks have become more risky, less risky, or as risky as in the past?

Response:

It is Dr. Woolridge's contention that the riskiness of electric utility stocks has not changed significantly from the past.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

86. Please provide copies of any monograph, or article and summaries of any book published in academic journals and subject to peer review in the last five years dealing with the subject of finance and/or regulation.

Response:

Dr. Woolridge has published two articles in academic journals in the last five years. They are attached (provided on CD).

"The Performance of the Recommended Stocks of Brokerage Firms," *Journal of Investing* (Summer 2004).

"Value Creation Through Equity Carve-Outs," (with Heather Hulbert and James A. Miles, *Financial Management*, 2002.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

87. Please restate the common equity ratios cited on Page 9 and Exhibit JRW-4 of Dr. Woolridge's testimony excluding short-term debt.

Response:

Long-Term Debt	52.84%
Preferred Equity	1.50%
Common Equity	45.66%

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

88. Given his discussion on the widespread application of multi-stage DCF models on pages 17-18 of his testimony, on what basis did Dr. Woolridge decide not to apply the multi-stage version of the DCF model to his sample comparable companies?

Response:

See discussion in testimony at page 18 and 19 for the reasons Dr. Woolridge used a single-stage DCF model.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

89. Please quantify the overstatement of the equity cost rate estimate derived from the DCF model discussed on page 21 lines 19-20 of Dr. Woolridge's testimony.

a. Did Dr. Woolridge's adjust his recommended ROE downward in light of this overstatement? If so, by how much?

Response:
No.

b. Is the converse proposition true as well, that is, does the DCF model understate the cost of equity when the overall cost of capital is applied to a historical rate base?

Response:
No.

c. If the answer to the preceding data request is in the affirmative, provide a list of all cases during the past five years involving an historical rate base where Dr. Woolridge has recommended an upward adjustment to the ROE to reflect this fact.

Response:

The answer to 89 b. was not in the affirmative.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

90. In light of Dr. Woolridge's discussion of income taxes on pages 5-6 of his testimony, to what extent does Dr. Woolridge believe that non-taxable investors (pension funds, mutual funds, *etc.*) dominate stock trading? What is the relative importance of common stock trading conducted by taxable vs. non-taxable investors in Dr. Woolridge's opinion?

Response:

Whereas Dr. Woolridge agrees that institutional investors dominate equity trading and ownership, he disagrees that these institutions are all non-taxable investors. Ultimately, taxes on dividend income and capital gains must be paid by the individuals who have money managed by these institutions.

Witness Responding:
Dr. J. Randall Woolridge

91. To what extent, if any, does Dr. Woolridge believe that non-taxable investors (pension funds, mutual funds, *etc.*) dominate common stock ownership? What is the relative importance of common stock ownership held by taxable vs. non-taxable investors in Dr. Woolridge's opinion?

Response:

See response to DEK-90.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

92. Are the analysts' growth forecasts by Zacks, First Call, and Reuters discussed on page 22, lines 19-20 upwardly biased in light of Dr. Woolridge's severe criticisms of such forecasts on pages 70-73 of his testimony?

<u>Response:</u>

Yes.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

93. Are Dr. Woolridge's estimate of the market risk premium of 5%-7% cited on page 32, line 16 of his testimony based on arithmetic or geometric mean returns? If based on the latter, please restate these estimates on the basis of arithmetic mean returns.

Response:

The 5%-7% range is based on both mean measures.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

94. Is Dr. Woolridge's estimate of the market risk premium of 3% - 4% cited on page 35 line 2 and line 8 of his testimony based on arithmetic or geometric mean returns? If based on the latter, please restate these estimates on the basis of arithmetic mean returns.

Response:

Arithmetic or geometric mean returns are computed using historical returns. The 3-4 percent range is a forward looking return measure.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

95. Is Dr. Woolridge's estimate of the market risk premium of 4.13% cited on page 44, line 16 of his testimony based on arithmetic or geometric mean returns? If based on the latter, please restate these estimates on the basis of arithmetic mean returns.

Response:

Arithmetic or geometric mean returns are computed using historical returns. The 4.13 percent figure is a forward looking return measure.

Witness Responding:
Dr. J. Randall Woolridge

96. Given the statement on page 56 lines 11-12 that bond returns are biased downward because of capital losses suffered by bondholders in the past, does Dr. Woolridge believe that stock returns are also downward biased because of similar unexpected capital losses? If not, why not?

Response:

No. Investors recognize that stock prices go up and down, and these increases and decreases produce positive and negative stock returns for different periods of time. As a result, the negative portion of the distribution of annual returns is something that investors expect.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

97. Please provide the complete study of analyst's growth forecasts discussed on pages 70-73 of Dr. Woolridge's testimony.

Response:

See the attached (provided on CD) file entitled "DEK-97 - Earnings Forecast Study - Oct 15.xls."

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

98. Can Dr. Woolridge explain how his cost of equity recommendation can differ from the long-term expected return (ROE) forecast in Value Line for each company in Exhibit JRW-7 Page 4 Panel B for his two samples of electric utilities?

Response:

This may be due to a number of reasons, including high ROEs authorized in the past, the performance of unregulated businesses, excessive ROEs granted by regulatory commissions, and the Value Line upward bias in earnings forecasts as discussed in on pages 73 and 74 of Dr. Woolridge's testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

99. On page 8 of his testimony, Dr. Woolridge discusses his proposed capital structure for use in this proceeding. Please provide the following information:

    a. To Dr. Woolridge knowledge, have any regulatory commissions approved the methodology whereby the average equity ratio for a proxy group is averaged with the company's actual/projected equity ratio to develop a capital structure for a utility seeking rate relief? If so, please list the jurisdiction, utility involved, case numbers and date of orders.

Response:

Dr. Woolridge is not aware of cases in which a regulatory commission has employed this exact methodology to develop a capital structure for a public utility in a rate proceeding.

    b. Has Dr. Woolridge ever proposed this methodology in any of his previously filed testimony in other cases listed in Appendix A of his testimony? If so, please list the jurisdiction, utility involved, case numbers and date of orders, and whether or not such proposal was approved by the commission.

Response:

Dr. Woolridge does not believe that he has used this exact methodology in the past. The reasons for using this approach in this proceeding are discussed on pages 7-8 of his testimony.

    c. To Dr. Woolridge's knowledge, do the capital structures for the companies in his Group A reflect "per books" capital structure or the latest capital structure approved by the state regulatory commission?

Response:

The book value capital structures.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

100. On page 8 of his testimony, Dr. Woolridge indicates that the average equity capitalization for his proxy group is 43.00%.

a. Please confirm whether Dr. Woolridge's calculated 43.00% shareholders' equity calculated in Exhibit_(JRW-4) includes or excludes preferred equity.

<u>Response:</u>

It includes 1.40% of preferred equity which has been included as common equity. As such, the actual common equity ratio is 41.61%.

b. Is Dr. Woolridge aware that Duke Energy Kentucky has no preferred equity? Please state whether this causes you to change his recommended capital structure, and explain the basis for your answer.

<u>Response:</u>

Yes Dr. Woolridge is aware of the fact that DEK does not have preferred equity, but this does not change my recommended capital structure. As noted in response to DEK 100 (a), the actual average common equity for the group is only 41.61%.

c. To Dr. Woolridge's knowledge do any short-term debt ratios for the Group A companies in Exhibit_(JRW-3) include amounts related to facilities for accounts receivable that these companies may employ?

<u>Response:</u>

Dr. Woolridge is not aware if any of the short-term debt amounts are related to facilities for accounts receivable.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

100 continued:

d. To Dr. Woolridge's knowledge have capital leases been included or excluded from the debt ratios for each of the Group A companies in Exhibit_(JRW-3)?

Response:

Dr. Woolridge is not aware if capital leases have been included or excluded in the debt ratios.

e. Please indicate which of the Group A companies listed on Exhibit_(JRW-3) are holding companies and which companies are single-state fully regulated utilities with one service territory.

Response:

Almost (if not) all of the utilities are set up as holding companies. Their state territories are listed in Exhibit_(JRW-3).

Witness Responding:
Dr. J. Randall Woolridge

101. In Dr. Woolridge's opinion, should the Commission establish customer rates based on the capital structure at the holding company level, the operating company level, or on some other basis?

<u>Response:</u>

Dr. Woolridge believes that the appropriate capital structure for a utility is the capitalization that forms the basis upon which the company attracts capital. In some cases, that may be at the holding company level, and in others that may be at the operating company level.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

102. Referring to Exhibits_(JRW-4) and (JRW-3):

a. Please provide a reconciliation between the 43.6% common equity ratio for Proxy Group A on Exhibit_(JRW-3) and any of the quarterly ratios reflected on Exhibit_(JRW-4); and

Response:

The 43.6% common equity ratio reflects the capitalization as of the most recent quarter as reported by AUS Utility Reports. The ratios in Exhibit_(JRW-4) are an average for the four quarters ending with the 1st quarter of 2006.

b. Regarding Exhibit_(JRW-4), please provide a detailed explanation of the calculations used to compute the "Average Ratios – Last Four Quarters" shown on Exhibit_(JRW-4) based on the four quarters' information provided on the same exhibit.

Response:

The Average Ratios – Last Four Quarters is simply the average of the ratios in the box entitled "Capital Structure – Electric Utility Proxy Group A" for the different capital sources over the past four quarters.

Witness Responding:
Dr. J. Randall Woolridge

103. Regarding Dr. Woolridge's testimony at page 8, line 12, please define the range of common equity ratios that he would conclude are "entirely consistent with the common equity ratio of my proxy Group B."

Response:

As shown in Exhibit_(JRW-3), the average common equity ratio for Group B is 45.5%. Dr. Woolridge's recommended common equity ratio is 46.94%. In Dr. Woollridge's opinion, these ratios are sufficiently close to one another to indicate that they are consistent with each other.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Dr. J. Randall Woolridge

104. What are the lowest five ROE allowed for an electric utility in 2005 and 2006 that Dr. Woolridge is aware of? Please identify the state and utility that received such order, and the case number and date of order.

Response:

Dr. Woolridge does not have access to that data and did not use such data in the preparation of his testimony.

Witness Responding:
Steven W. Ruback

105. Please provide copy of a commission order where the Kentucky Public Service Commission has previously approved the method to allocate the fixed costs associated with the production and transmission of electric energy as proposed by Mr. Ruback for this proceeding.

Response:

Mr. Ruback is unaware of a commission order that explicitly endorses the peak and average method weighted by load factor.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

106. Please provide copy of other state jurisdiction commission orders where the State utility commission has previously approved Mr. Ruback's proposed fixed costs allocation method for production and transmission plant.

Response:

Mr. Ruback has proposed the peak and average method in a series of Savannah Electric and Georgia Power base rate cases since 2000. The final orders are provided as Attachment 1a DR 106, Attachment 1b DR 106, Attachment 1c DR 106, and Attachment 1d DR 106. In Attachment 1c DR 106, the Commission ordered the Company to use the peak and average methodology, see page 7 of 9.

Attachment 2 DR 106 is a list of Mr. Ruback's testimonies from 1981. Mr. Ruback does not have copies of the rate design orders prior to 2000, but such orders are in the public domain.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

107. Mr. Ruback uses the term capitalized energy in his testimony as being the significant extra investment utilities make for non-peaking generating facilities. Please define what is meant by "significant extra investment." Please identify the significant number of extra megawatts and the associated amount of significant extra dollars of investment associated with the Duke Energy Kentucky production and transmission facilities.

Response:

Mr. Ruback defines "significant extra investment" as the extra capital investment made for the purpose of lowering unit energy costs to provide the lowest power supply revenue requirement.

There are no extra megawatts. The megawatts are the same for a system served by peakers only or a mix of generating unit types.

Mr. Ruback has estimated the extra dollars invested as 56% of total power supply costs.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

108. Please explain how capitalized demand related production and transmission fixed costs differ from capitalized energy fixed costs.

Response:

Capitalized demand related production and transmission fixed costs represents investment made in facilities to meet system peak demands. Capitalized energy fixed costs represents investment made in facilities to provide lower unit energy costs and the lowest power supply revenue requirement.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

109. Please provide, in electronic format excel spreadsheets with the formulas intact, the work papers that support the development of allocation factor used to allocate *capitalized demand* related production and transmission costs. If such an effort was not undertaken, please explain why not.

Response:

See exhibits SWR-1 and SWR-2 filed with my testimony. Electronic versions attached.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

110. Please provide, in electronic format excel spreadsheets with the formulas intact, copies of Exhibits SWR-2 and 3 and the work papers used to support the information reported on these exhibits.

Response:

See exhibits SWR-1, SWR-2, and SWR-3 filed with my testimony. Electronic versions attached.

Also provided is the Company's cost of service model updated using the 12CP & Average instead of the 12CP and Workpaper Data Response 110 which calculates the rates of return at current rates using the information provided from the revised cost of service study at proposed rates. Electronic versions attached.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

111. Please provide, in electronic format excel spreadsheets with the formulas intact, a copy of the entire class Cost of Service Study ("COSS") , allocation factors and supporting work papers utilized by Mr. Ruback's to support the information reported on Exhibits 6, 7, 8 and 9. Please identify all adjustments made to this study that are not reflected in company's FR 10(9) v-1. If a COSS was not prepared, please provide all supporting schedules that do support Exhibits 6, 7, 8 and 9.

Response:

See Data Response 110. The only change made to the cost of service model is the 12CP allocation factor (K201) was replaced with the 12CP & Average allocation factors developed and shown in exhibit SWR-2 filed with my testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

112. The January 1992 NARUC Cost Allocation manual provides a sample calculation of the 12 CP and Average demand allocation method for production plant, please explain why this method for calculation was not used by Mr. Ruback?

Response:

Mr. Ruback did not use the 50%/50% method in the NARUC Cost Allocation manual because the lowest power supply revenue requirement for a system with a 100% load factor would come from base load units.

Response of the Attorney General to
***Initial* Data Request of Duke Energy Kentucky to the Attorney General**
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

113. Please provide an explanation and goals of the method Mr. Ruback used to allocate the proposed increase requested by the company?

Response:

Mr. Ruback's rate design goals were to move the class indexed rate of return closer to the system average rate of return and to do so gradually.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

114. Please provide, in electronic format the excel spreadsheet with the formulas intact, a schedule that provides the calculation of Mr. Ruback's proposed revenue distribution of the increase for all rate groups in a format that was proposed by the Company.

Response:

Pre-filed testimony recommended that the rate reductions to RS and DT-Sec be absorbed by the smaller classes, which are about 5% of the system. The rate bases for these classes are so small that the small class rate of returns and percentage increases swell to unacceptable levels. For that reason, Mr. Ruback accepts the Company's recommendations for the small customer classes.

The RS recommendation remains at a reduction of $9.4 million (see Workpaper Data Response 114, page 1 of 2).

In order to make up the revenue deficiency we propose:

A) That rate DS be increased by $23 million instead of the Company's proposed $16 million. Pursuant to the 12CP and Average cost of service study the indexed rate of return goes from 2.85 to 1.58, an acceptable movement of the indexed rates of return (see Workpaper Data Responses 114, page 2 of 2).

B) That DT-Sec no increase instead of a $1.7 million reduction. The indexed rate of return goes from .47 to .89, which is acceptable movement and is what the Company originally proposed (see Workpaper Data Responses 114, page 2 of 2).

C) That DT-Primary be increased by $2.5 million. The movement of the indexed rate of return goes from -1.71 to .85 or 2.57 instead of the Company proposed movement of 2.20 (see Workpaper Data Responses 114, page 2 of 2).

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

115. Please explain how the Company's proposed method to distribute the requested increase is not a good example of utilizing the principles of equity, fairness and gradualism for all classes of rate payers?

Response:

The Company's method is based on a cost of service study that fails to reflect capitalized energy and therefore fails to meet the rate design principles of fairness and equity. Also, for some classes, the indexed rate of return, from present to proposed rates move too quickly towards the system average rate of return.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

116. Please explain why the Company's proposed method to distribute the requested increase should not be used if the proposed increase is less than 100% of the amount requested?

Response:

A lower than requested increase does not nullify the rate design concerns addressed in Mr. Ruback's testimony.

Response of the Attorney General to
Initial Data Request of Duke Energy Kentucky to the Attorney General
Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

117. If the Company should receive less than 100% of the requested increase, should the company request the commission to order an increase in the percentage proposed to reduce the current revenue subsidy/excess positions? Please provide explanation to response.

Response:

No. If the commission accepts the Company's proposed method of determining class revenue requirements, a greater reduction of the cost of service subsidies would exacerbate the movement of class rates of return.

Response of the Attorney General to
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Duke Energy Kentucky
Case No. 2006-00172

Witness Responding:
Steven W. Ruback

118. Mr. Ruback's indicates that his demand allocation method for allocating production and transmission plant provides a better reflection of system utilization by factoring in the annual system load factor into method. In the interest of fairness and equity to all rate classes why did Mr. Ruback not use each rate group's annual system load factor into his method?

Response:

See Workpapers Data Response 118 pages 1 thru 6, which calculates the production allocation factor based on the 4 major classes of service. As may be seen from the workpapers, the production allocation factors, based on a system load factor and each of the 4 major classes individual load factors, are nearly the same.