COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ELECTRIC AND GAS BASE RATES	)))	CASE NO. 2009-00549

FIRST DATA REQUEST OF COMMISSION STAFF TO THE ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

The Attorney General of the Commonwealth of Kentucky ("AG"), pursuant to 807 KAR 5:001, is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than May 19, 2010. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

The AG shall make timely amendment to any prior response if he obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which the AG fails or refuses to furnish all or part of the requested information, he shall provide a written explanation of the specific grounds for his failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to pages 1 – 5 of the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony") and Exhibit MJM-1, Schedules 1.3.1. and 1.3.2. Refer also to pages 8 – 9 of the Majoros Testimony and Exhibit MJM-3, Schedule 3.2.1. On page 1, Mr. Majoros states that his firm, Snavely King Majoros O'Connor & Bedell, Inc. ("Snavely King") has participated in more than 1,000 proceedings before almost all of the state commissions. On page 2, he states that he and other members of his firm specialize in "public utility depreciation." On pages 4 and 5, Mr. Majoros states that Louisville Gas and Electric Company's ("LG&E") 2008 and 2009 deferred storm damage costs of $27.6 and $8.7 million, respectively, related to its electric operations should be applied against the asset removal costs recovered in prior years through depreciation rates. On pages 8 – 9, Mr. Majoros states that LG&E's 2009 deferred storm damage costs of $33,500 related to its gas operations should be treated in the same manner.

a. Provide all testimony prepared by a Snavely King member wherein a recommendation was made to apply deferred storm damage costs, or any other type of regulatory asset, to the asset removal costs accumulated by a utility through its depreciation rates (as suggested by Mr. Majoros in this case) in those cases in which the regulatory commission agreed to and accepted this position. In all such instances, provide the pertinent parts of the commission orders approving this rate treatment.

b. Provide a reference to the International Financial Accounting Standards ("IFRS") upon which Mr. Majoros bases the statement shown on page 5 that "LG&E's Cost of Removal Regulatory Liability is likely to disappear when LG&E begins accounting under the new IFRS. That is because, when KU adopts IFRS, it will reduce the huge regulatory liability to its present value. It will transfer the entire excess to its equity account."

(1) Explain whether Mr. Majoros is aware that the regulatory liability to which he refers is recorded only for Generally Accepted Accounting Practices ("GAAP") and that for regulatory accounting purposes this amount is recorded as accumulated depreciation.

(2) If current IFRS replaces GAAP in the United States, explain whether Mr. Majoros agrees that asset removal costs will continue to be reported as a component of accumulated depreciation for regulatory purposes.

(3) Explain whether Mr. Majoros is aware that the International Accounting Standards Board ("IASB") issued an Exposure Draft in August 2009 seeking comment to its proposed IFRS standard defining regulatory assets and regulatory liabilities.

(4) If the IASB's Exposure Draft becomes a part of IFRS, would Mr. Majoros change his opinion regarding LG&E's restatement of its regulatory liability to a discounted present value amount and roll-in to equity? Explain.

c. Would Mr. Majoros agree that the deferred storm restoration costs represent the cost, which would have otherwise been expensed, of repairing existing facilities and that the deferred amounts do not include the cost of removing or replacing assets that were destroyed beyond repair? If no, explain why. If yes, state why Mr. Majoros is of the opinion that it is appropriate to pay for these deferred repair costs with funds that have been collected to remove assets from service when necessary.

d. Would Mr. Majoros agree that the rate treatment he suggests here would impact the depreciation rates of LG&E in a future depreciation study?

(1) If no, explain why.

(2) If yes, quantify this impact using LG&E's depreciation rates as approved by the Commission and attached to the Commission's final Order in Case No. 2008-00252.[1]

2. Refer to page 6 of the Majoros Testimony where he recommends, with no explanation, that LG&E's regulatory assets for its investments in the Kentucky Consortium for Carbon Storage and the Carbon Management Resources Group be applied to LG&E's Cost of Removal Regulatory Liability. Given that these two regulatory assets have no relation to the removal of assets or amounts collected through depreciation expense to cover the cost of asset removal, explain Mr. Majoros' recommendation.

3. Refer to the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), pages 12 and 13 and Exhibit JRW-4.

---

[1] Case No. 2008-00252, Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Base Rates (Ky. PSC Feb. 5, 2009).

a. Provide a copy of the most recently published company analysis from Value Line for each of the companies in the electric and gas proxy groups.

b. Show how the regulated revenues from LG&E's gas operations compare, in percentage terms, to each of the companies in the gas proxy group.

c. Explain whether the gas revenue percentages in column 3 of Panel B are only for regulated gas distribution operations. If not, provide a breakout of the regulated revenues between distribution activities and all other regulated operations activities.

4. Several of the electric companies in the proxy group shown in Exhibit JRW-10, page 3, have negative growth rates. Explain why it is valid to have these companies included in the analysis.

5. To the extent possible, provide LG&E's Earnings Per Share ("EPS"), Dividends Per Share ("DPS"), and Book Value Per Share 5-year and 10-year growth rates and describe how they compare to those of the companies in the proxy group.

6. Refer to the Woolridge Testimony at page 4. LG&E filed its application on a combined electric and gas company basis. Provide an explanation for and the validity of separating the operations and calculating separate electric and gas Return on Equity ("ROE") estimates.

7. Refer to the Woolridge Testimony at pages 29 - 30 and Exhibit JRW-10. Explain why using internal growth and return calculations, which are derived in part through rates determined by ROEs awarded in other jurisdictions, as a proxy for dividend growth does not introduce a degree of circularity into the calculation that could make it unacceptable.

8. Refer to the Woolridge Testimony at page 42. Provide legible copies of the referenced Derrig and Orr (2003), Fernandez (2007) and Song (2007) articles.

9. Refer to the Woolridge Testimony at pages 42 - 51 and Exhibit JRW-11, page 6 of 11. It is not clear whether the underlying assumptions, definitions of risk and return, and estimates in each of the studies are consistent and the results appropriate for use in determining an estimated ROE in a regulated utility rate case.

a. Provide a copy of each article or report listed in the exhibit on page 6 of 11.

b. For each article listed in the chart for which a low and high range is provided, explain whether EPS or DPS measures serve as the basis for the listed equity risk premium.

c. Explain why it is valid to use a geometric mean to calculate the equity risk premium and, if it is valid, why it is reasonable to average those projections with those calculated using an arithmetic mean.

d. Some equity risk premium estimates appear low and, therefore, may not be valid for the stated purpose. Two studies have estimates below 3.0 percent and two additional studies have estimates below 4.0 percent. Explain why an investor would undertake investing in stocks with risk premiums this low.

10. Refer to page 8 of the Prepared Direct Testimony and Exhibits of Glenn A. Watkins ("Watkins Testimony"). Explain why the results of Mr. Watkins' cost-of-service study and the results of Mr. Seelye's study for LG&E are similar other than the results for Lighting-LE and Lighting-Traffic.

11. Refer to page 47 of the Watkins Testimony. Explain why the customer charge calculated by Mr. Watkins is considerably lower than the customer charges authorized by the Commission for other utilities in recent years. Include in the explanation whether Mr. Watkins believes there are specific reasons for LG&E that would cause the customer charge to be lower than those of other utilities.

12. Refer to pages 15 – 20 of the Watkins Testimony. Is Mr. Watkins aware that the modified Base Intermediate Peak methodology employed by LG&E in this case has been utilized in prior LG&E rate cases? If yes, explain whether Mr. Watkins has identified differences in the methodology proposed in this case and the methodology used in the prior cases.

13. Explain whether Mr. Watkins agrees with Kentucky Industrial Utility Customers, Inc. witness Stephen J. Baron that, due to a shift in cost responsibility to the winter peak during the test year, reliance should be placed upon the results of the cost-of-service study proposed in LG&E's 2008 rate case.

14. Explain whether Mr. Watkins supports LG&E's proposed revision to its large commercial and industrial rate design that converts it to a kVa billing demand basis rather than a kW billing demand basis.

Jeff Derouen
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, Kentucky 40602

DATED: MAY - 6 2010

cc: Parties of Record

Lonnie E Bellar
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Honorable Dennis G Howard II
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

David Brown
Stites & Harbison, PLLC
1800 Providian Center
400 West Market Street
Louisville, KY 40202

Honorable Lisa Kilkelly
Attorney at Law
Legal Aid Society
416 West Muhammad Ali Boulevard
Suite 300
Louisville, KY 40202

Honorable Frank F Chuppe
Attorney
Wyatt, Tarrant & Combs, LLP
500 West Jefferson Street
Suite 2800
Louisville, KY 40202-2898

Honorable Michael L Kurtz
Attorney at Law
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202

Steven A Edwards
Office of the Staff Judge Advocate
1320 Third Avenue, Room 215
Fort Knox, KY 40121-5000

Honorable Matthew R Malone
Attorney at Law
Hurt, Crosbie & May PLLC The Equus Building
127 West Main Street
Lexington, KY 40507

Hon. Tom Fitzgerald
Kentucky Resources Council, Inc.
PO Box 1070
Frankfort, KY 40602

Honorable Kendrick R Riggs
Attorney at Law
Stoll Keenon Ogden, PLLC
2000 PNC Plaza
500 W Jefferson Street
Louisville, KY 40202-2828

Robert A Ganton, Esq
U.S. Army Legal Services Agency
Regulatory Law Office
901 North Sturart Street, Suite 525
Arlington, VA 22203

Honorable Allyson K Sturgeon
Senior Corporate Attorney
E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202

Honorable Gardner F Gillespie
Attorney at Law
Hogan & Hartson, L.L.P.
555 Thirteenth Street, N.W.
Washington, DC 20004-1109

Honorable Robert M Watt, III
Attorney At Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801