



1700 PNC PLAZA  
500 WEST JEFFERSON STREET  
LOUISVILLE, KENTUCKY 40202-2874  
(502) 582-1601  
FAX (502) 581-9564  
www.ogdenlaw.com

April 26, 2004

KENDRICK R. RIGGS

DIRECT DIAL 502-560-4222  
DIRECT FAX 502-627-8722

kriggs@ogdenlaw.com

**VIA HAND DELIVERY**

Thomas M. Dorman  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

RECEIVED

APR 26 2004

PUBLIC SERVICE  
COMMISSION

**RE: Application of Louisville Gas and Electric Company for an Adjustment of its Gas and Electric Rates, Terms and Conditions**  
**Case No. 2003-00433**

Dear Mr. Dorman:

Enclosed please find for filing the original and eleven (11) copies each of the following testimonies in the above-referenced matter:

1. Rebuttal Testimony of S. Bradford Rives;
2. Rebuttal Testimony of Valerie L. Scott;
3. Rebuttal Testimony of Earl M. Robinson;
4. Rebuttal Testimony of Robert G. Rosenberg;
5. Rebuttal Testimony of Michael S. Beer;
6. Rebuttal Testimony of William Steven Seelye; and
7. Rebuttal Testimony of Clay Murphy\*.

\*A portion of the Rebuttal Testimony of Clay Murphy, specifically language highlighted on page 18 of the original only, has been redacted on all copies pursuant to 807 KAR 5:001(7). Confidential protection was afforded by the Commission pursuant to a letter from the Executive Director dated March 28, 2000 in Case No. 2000-00071.

Thomas M. Dorman  
April 26, 2004  
Page 2

Please confirm your receipt of these filings by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope or via our courier.

Should you have any questions or need any additional information, please contact me at your convenience.

Very truly yours,

A handwritten signature in black ink, appearing to read "Kendrick R. Riggs". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Kendrick R. Riggs

KRR/ec

Enclosures

cc: Parties of Record  
Dorothy E. O'Brien  
Robert M. Watt, III

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**RECEIVED**

APR 26 2004  
PUBLIC SERVICE  
COMMISSION

**In the Matter of:**

APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR AN ADJUSTMENT ) CASE NO. 2003-00433  
OF THE GAS AND ELECTRIC RATES, )  
TERMS AND CONDITIONS )

**In the Matter of:**

APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR AN ADJUSTMENT ) CASE NO. 2003-00434  
OF THE ELECTRIC RATES, TERMS AND )  
CONDITIONS )

**REBUTTAL TESTIMONY**

**OF**

**S. BRADFORD RIVES**

**CHIEF FINANCIAL OFFICER  
LOUISVILLE GAS AND ELECTRIC COMPANY  
KENTUCKY UTILITIES COMPANY**

**Filed: April 26, 2004**

1 **Q. Please state your name, position and business address.**

2 A. My name is S. Bradford Rives. I am the Chief Financial Officer for Louisville Gas and  
3 Electric Company (“LG&E”) and Kentucky Utilities Company (“KU”). My business  
4 address is 220 West Main Street, Louisville, Kentucky.

5 **Q. Have you previously testified in these proceeding?**

6 A. Yes. I filed direct testimony on December 29, 2003 on behalf of LG&E and KU  
7 (collectively “the Companies”). A statement of my qualifications is attached as  
8 Appendix A to that testimony.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of my testimony is to rebut certain contentions concerning the calculation of  
11 LG&E’s and KU’s revenue requirements raised by: (1) Robert Henkes, Michael Majoros  
12 and Carl Weaver for the Office of the Attorney General (“AG”); (2) Lane Kollen for the  
13 Kentucky Industrial Utility Customers, Inc. (“KIUC”); and (3) Kevin Higgins on behalf  
14 of The Kroger Co. (“Kroger”). (The AG, KIUC and Kroger are hereafter collectively  
15 referred to as “Intervenors.”)

16 **Initial Comments**

17 **Q. In their fourth set of data requests in these proceedings, Commission Staff inquired**  
18 **about E.ON’s intentions for its investment in LG&E and KU, and about a Dow**  
19 **Jones report that E.ON was considering possible withdrawal from the U.S. market**  
20 **in connection with investment in Russia. Please comment on that inquiry.**

21 A. In responding to those requests, the Companies have provided information about E.ON’s  
22 intentions for its investment in the Companies, and have disputed the accuracy of the  
23 Dow Jones report. Beyond that, however, I think it is important to recognize that the

1 issue in these proceedings is not the identity of the Companies' shareholder. Instead, the  
2 issue here is whether the Companies are earning a reasonable return on their investments  
3 to serve their ratepayers. As discussed in detail in my direct testimony, the Companies  
4 are not presently earning a reasonable return, and should be allowed the rate increases  
5 being sought so that they can continue to effectively meet their service obligations both  
6 now and in the future. It is not in the interests of the Companies, their ratepayers, or this  
7 Commission for KU and LG&E to remain in the financially-weakened conditions which  
8 presently exist. Kentucky benefits, the ratepayers benefit, and the Companies benefit if  
9 rates are set at a level which is fair, just and reasonable, regardless of the identity or  
10 intentions of the Companies' owner.

11 **Q. Do you have any overall comments regarding the positions taken by the**  
12 **Intervenors?**

13 A. Yes. I find the attacks on existing settlement agreements which we have seen in these  
14 proceedings to be very troubling. The evidence is clear that the Companies have  
15 achieved significant savings over the years, which savings have been shared with  
16 customers through mechanisms such as the merger and VDT surcredit mechanisms. The  
17 handling of those surcredits were resolved by settlements through cooperation with  
18 ratepayers and ratepayer advocacy groups such as Lexington-Fayette Urban County  
19 Government, the AG (the representative designated to represent the interests of all  
20 ratepayers), and Kentucky Industrial Utility Customers, Inc. However, now that the  
21 Companies are seeking base rate increases, claims are being made that those settlements,  
22 which were negotiated to benefit both the Companies and their ratepayers and were  
23 unanimously entered into and approved by the Commission, should simply be

1           disregarded. Such claims threaten the sound, consistent regulatory environment in  
2           Kentucky. The Commission has long recognized that settlement of matters pending  
3           before it can serve the public interest and conserve resources. Additionally, both the  
4           KIUC and the AG have asserted in their data responses continued support for adherence  
5           to all of the provisions contained in the settlement agreements. If settlement agreements,  
6           entered into unanimously and approved by the Commission, may simply be set aside  
7           before the end of their term, there will be no regulatory certainty derived from settlement  
8           and thus no rational reason for any party to enter into such agreements in the future.

9       **Q. Have the Companies complied with the terms of the merger surcredit and VDT**  
10       **settlements?**

11      A. Yes. The Companies have complied with the terms of those settlement agreements, and  
12       no party to those agreements has claimed otherwise.

13      **Q. How should the Commission resolve the issues regarding the merger surcredit and**  
14       **VDT settlements?**

15      A. The Commission should leave the settlement agreements in place as entered into by the  
16       parties and approved by the Commission.

17      **Q. Do you have any other concerns regarding the positions taken by some of the**  
18       **Intervenors?**

19      A. Yes, I do. Many of the Intervenors, unfortunately, have taken a results-oriented approach  
20       motivated by their objective to reduce the Companies revenue requirements to suit their  
21       own interests or the interests of their constituents. And, as discussed more fully in the  
22       Rebuttal Testimony of W. Steven Seelye, the Intervenors have in many instances  
23       disregarded prior Commission precedent and practice in their quest to achieve that result.



1 **Q. Mr. Henkes' testimony also states that the Companies have not presented an**  
2 **adjusted original cost rate base for the purpose of determining the appropriate**  
3 **return on rate base as compared to the appropriate return on capitalization. Is that**  
4 **accurate?**

5 A. No. In their Application, the Companies presented a reconciliation of their respective  
6 rate bases and capitalization, as required by 807 KAR 5:001, Section 10(6)(i). There is  
7 no requirement that a utility seeking an adjustment to rates based on capitalization  
8 present an adjusted original cost rate base. Nonetheless, when the information was  
9 sought in discovery, KU presented its adjusted original cost rate base in response to PSC  
10 3-38, and LG&E presented its adjusted original cost rate base in response to PSC 3-39.

11 **Q. Is such a detailed inquiry into rate base even necessary in this case?**

12 A. No. The Companies are seeking a return on capitalization, not on rate base, which is in  
13 keeping with legal precedent in the Commonwealth. In the words of the Kentucky  
14 Supreme Court, a calculation based on rate base, therefore, is simply "an after the fact  
15 unnecessary exercise in arithmetic." Public Service Commission v. Continental  
16 Telephone Co., Ky., 692 S.W.2d 794, 798 (1985).

17 **Capital Cost Rates and Capital Structure Ratios**

18 **Q. Dr. Weaver stated in his testimony that the Companies' capital cost rates should be**  
19 **updated beyond the test year and before a final decision in these cases, and that**  
20 **capital structure ratios should also be updated but only if the changes are minor.**  
21 **Do you agree?**

22 A. I agree that the Companies' cost rates and capital structure ratios should be updated  
23 beyond the test year and before a final decision in these proceedings, consistent with past



1 Commission practice. However, I do not agree that capital structure ratios should be  
2 updated only if the changes are minor. If cost rates are updated, as the Companies and  
3 Dr. Weaver agree should be done, then it is only reasonable to also update capital  
4 structure ratios, regardless of whether the changes are minor in nature or not.

5 **Q. Mr. Kollen has stated in response to Commission Staff's First Data Request to**  
6 **KIUC, in Case Nos. 2003-00433 and 2003-00434, Item Nos. 3(a) and 5(a),**  
7 **respectively, that the Companies' capital cost rates should not be updated unless**  
8 **they can justify the increased costs resulting from the replacement of accounts**  
9 **receivable securitization program with higher rate long-term debt costs. Please**  
10 **comment on that position.**

11 A. The capital provided by the accounts receivable securitization program was used to fund  
12 the cash needs of the Companies, and cannot be ignored in ratemaking. The program was  
13 terminated consistent with the January 16, 2001 Order in Case No. 2000-00490. The  
14 Companies' debt refinancing secured the debt at low-cost long-term rates, thereby  
15 gaining protection against interest rate fluctuations. Accordingly, there is no basis for the  
16 Commission to disallow a post-test year update for the change in capital cost rates.

17 **Minimum Pension Liability**

18 **Q. Mr. Henkes and Michael Majoros both argue that the Companies' adjustments for**  
19 **minimum pension liability ("MPL") should be rejected. Do you agree?**

20 A. No. As explained in detail in my direct testimony, the Companies' MPL adjustment is  
21 necessary to avoid unfair regulatory policy by reducing equity today for a loss not yet  
22 recorded on the income statement. Such treatment of MPL has been expressly  
23 recognized by the FERC. Specifically, on March 29, 2004, the FERC issued an opinion

1 letter in Docket No. AI04-2-000 providing that jurisdictional public utilities shall  
2 recognize a regulatory asset for their minimum pension liability otherwise chargeable to  
3 accumulated other comprehensive income related to its costs-based rate regulated  
4 business segments. A copy of that opinion letter was filed in these proceedings on April  
5 15, 2004 in the Companies' Supplemental Response to data request PSC 3-9(b), and is  
6 also attached as SBR Rebuttal Exhibit 1. The Companies have made an adjustment in  
7 their accounting records consistent with the FERC mandate effective March 2004, and  
8 will reflect that adjustment in their next quarterly filings with the Commission and FERC.

9 **Q. Mr. Majoros contends that the MPL adjustment should be rejected because the**  
10 **Companies have already made write-downs to their common equity balance, and**  
11 **proposed reversals of equity write-downs were rejected in Case Nos. 98-426 and 98-**  
12 **474. Do you agree?**

13 A. No. In the test periods in Case Nos. 98-426 and 98-474, LG&E and KU wrote-off the  
14 shareholder portion of costs associated with the merger of KU Energy Corporation and  
15 LG&E Energy Corp. As a result, LG&E's and KU's retained earnings were  
16 correspondingly reduced, which in turn lowered LG&E's and KU's common equity  
17 component of their capitalizations. LG&E and KU proposed to reverse this write-off by  
18 adjustments to their common equity components of their capitalizations on the grounds  
19 that it was a non-recurring item and for reasons related to the regulatory recognition of  
20 the merger. The Commission's rejection of the proposed write-down reversals was  
21 based on its determination that write-offs were permanent and continuous in nature and  
22 thus would have a recurring impact on LG&E's and KU's equity components in the  
23 future, and for other ratemaking reasons related to the ratemaking recognition of the

1 shareholders' portion of the merger savings. The Commission's concerns with, and  
2 analysis of, the adjustments to capital structure in Case Nos. 98-426 and 98-474 thus have  
3 no bearing on the need for and analysis of the MPL adjustments in these proceedings.  
4 For all of the reasons explained in my direct testimony, the write-downs need to be  
5 reversed so that there is equitable treatment under SFAS No. 130.

6 **Q. Mr. Majoros also argues that the Companies' proposed MPL adjustment is**  
7 **inconsistent with SFAS No. 71. Is there an inconsistency?**

8 A. No. Indeed, as noted earlier, the FERC has resolved this issue in its March 29, 2004  
9 opinion letter. Specifically, at page 3 of that letter, the FERC stated: "Further, the  
10 minimum pension liability, as well as, [sic] any related regulatory asset is not amortized  
11 over future periods. At each measurement date, the entry recorded for the previous  
12 measurement date is reversed and the computation redone. A new minimum pension  
13 liability and related regulatory asset would be recognized, if required, at the new  
14 measurement date."

15 **Q. Finally, Mr. Majoros contends that "it is possible the establishment of a regulatory**  
16 **asset pursuant to SFAS No. 71 may give rise to a presumption that the underlying**  
17 **costs are recoverable from ratepayers without a prudence [sic] review of these costs**  
18 **in the future." Please comment on that argument.**

19 A. That contention has no merit. The Companies have made no claim for such treatment,  
20 and Mr. Majoros is merely speculating. And, as noted above, the FERC opinion letter of  
21 March 29, 2004, which the Companies seek to have implemented here, expressly  
22 provides that minimum pension liability and the related regulatory asset are not amortized  
23 over future periods, but are adjusted at each subsequent measurement date.

1 **Q. In response to Commission Staff's First Data Request to KIUC, in Case Nos. 2003-**  
2 **00433 and 2003-00434, Item Nos. 3(b) and 5(b), respectively, Mr. Kollen states that**  
3 **he does not agree with the Company's MPL adjustment. Please comment on that**  
4 **response.**

5 A. Mr. Kollen states that he does not agree with the adjustment because it creates a  
6 mismatch between common equity and capitalization. However, Mr. Kollen then  
7 acknowledges that the mismatch would be corrected if the Companies were allowed to  
8 create a regulatory asset and thereby increase their per books common equity. Such a  
9 correction of the mismatch is exactly what the FERC has stated should be done, and  
10 exactly what the Companies are proposing in this proceeding. Mr. Kollen goes on to  
11 state that if a regulatory asset is created, it should not be amortized. The Companies  
12 agree, consistent with the FERC opinion letter of March 29, 2004, that the asset would  
13 not be amortized but would be adjusted at each subsequent measurement date.

14 **Income Tax Rate**

15 **Q. Mr. Henkes and Mr. Majoros have recommended that the Companies' proposed**  
16 **state income tax rate of 8.25% be replaced with the effective state income tax rate**  
17 **from the Companies' most recent 2002 consolidated Kentucky corporation income**  
18 **tax return. Please comment on that recommendation.**

19 A. The recommendation should be rejected. The Commission has used the state statutory  
20 tax rate in the Companies' past rate cases, and it is important that consistent treatment be  
21 afforded. Furthermore, the Companies' respective effective state income tax rates in  
22 2002 were less than the statutory rate because of credits and apportionment adjustments  
23 from out-of-state activities, which may not be present at all or to the same extent in the

1 future. The Kentucky statutory income tax rate of 8.25% is objective, known and  
2 measurable, easily understood and verified, and not distorted by non-recurring items or  
3 apportionment adjustments from out-of-state activities.

4 In the event the PSC nonetheless determines to use an effective income tax rate  
5 for the Companies, it is critical that an all-inclusive effective rate be used. LG&E is  
6 required to pay Indiana tax on a portion of its off-system sales, all of which benefit  
7 Kentucky customers. At a minimum, the Commission should allow the recovery of these  
8 Indiana taxes which result in an effective tax rate of 8.07% for LG&E. Similarly, KU  
9 presently pays tax in Virginia and Tennessee in addition to Kentucky. KU's total taxable  
10 income is apportioned for Kentucky and non-Kentucky payroll, property and receipts  
11 factors. The Company believes that the effective state income tax rate referenced in PSC  
12 2-15(e)(3) is distorted because it compares the total Kentucky taxes to all of KU's taxable  
13 income. In fact, the 2002 effective state income tax rate computed by excluding the  
14 Virginia property, payroll, and receipts is 7.98%.

15 **Q. Please comment on Mr. Henkes' position concerning the use of the calculation of the**  
16 **income tax liability based on the adjusted operating statement, before consideration**  
17 **of taxes, and reflecting the effective tax rate.**

18 A. For all of the reasons discussed above, the statutory tax rate should be used.

19 **Revenue Conversion Factor**

20 **Q. Please comment on Mr. Henkes' calculation of the revenue conversion factor.**

21 A. The difference between the Companies' proposed revenue conversion factor and the AG's  
22 recommended revenue conversion factor is that the Companies' proposed factor  
23 incorporates the Kentucky state income tax rate of 8.25%, while the AG's recommended

1 factor incorporates the Companies' effective tax rates. For the reasons discussed above,  
2 LG&E and KU believe that the Kentucky state income tax rate of 8.25% should be used  
3 and that the AG's recommendation to use the effective Kentucky state income tax rate  
4 should be rejected.

### 5 **Interest Synchronization**

6 **Q. Mr. Henkes criticizes LG&E's interest synchronization adjustment as having been**  
7 **calculated improperly. Was there an error in the calculation?**

8 A. Yes. As LG&E stated in its response to data request AG 2-42, the Company  
9 inadvertently failed to include interest expense on debt to associated companies and  
10 interest costs related to the accounts receivable securitization when calculating its electric  
11 and gas operating tax provision for the rate case test year. The Company also overstated  
12 interest expense charged to electric and gas operations for the test year as a result of an  
13 incorrect interest expense allocation between electric and gas. Corrected information was  
14 provided in response to AG 2-42. As a result, the interest synchronization adjustment  
15 should be an expense of \$406,954 for LG&E's electric operations, and an expense of  
16 \$1,027,535 for LG&E's gas operations, as shown on SBR Rebuttal Exhibit 2.

### 17 **VDT Surcredit and Shareholders' Savings**

18 **Q. Please describe the Value Delivery Team ("VDT") initiative.**

19 A. Following the acquisition by Powergen, LG&E and KU undertook a Best Practices  
20 review of their entire operations to determine whether further efficiencies or cost savings  
21 could be achieved. On June 1, 2001, LG&E and KU filed a joint application requesting  
22 an order approving certain proposed deferred debits and declaring the amortization of the  
23 deferred debits to be included in the ESM calculations.

1           After extensive negotiations, which included the participation of the Commission  
2 Staff, on August 31, 2001, LG&E, KU, the AG, and KIUC filed a written unanimous  
3 Settlement Agreement along with a motion requesting the approval of the same with the  
4 Commission in Case No. 2001-169 and in four other proceedings.<sup>1</sup>

5           On December 3, 2001, the Commission issued an order approving the Settlement  
6 Agreement in its entirety. Pursuant to the Commission's approval of the Settlement  
7 Agreement, LG&E and KU were allowed to defer their costs to achieve the savings and  
8 amortize them over a five-year period ending March 31, 2006. LG&E and KU also  
9 provided to their customers forty percent of the projected savings through a VDT  
10 surcredit rate mechanism. The VDT surcredit mechanism will continue through March  
11 31, 2006, and then will be withdrawn from service. Sixty percent of the net savings were  
12 allocated to LG&E's and KU's shareholders through an adjustment in the calculation of  
13 their annual ESM filings. SBR Rebuttal Exhibit 3 is an accurate and complete copy of  
14 the Settlement Agreement.

15 **Q. How have LG&E and KU reflected the ratemaking treatment in their filings in this**  
16 **proceeding?**

17 **A.** The following shows the test year VDT savings and costs:  
18  
19  
20

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<sup>1</sup> *In the Matter of: The Annual Earnings Sharing Mechanism Filing of Louisville Gas and Electric Company, Case No. 2001-054; In the Matter of: The Annual Earnings Sharing Mechanism Filing of Kentucky Utilities Company, Case No. 2001-055; In the Matter of: Application of Kentucky Utilities Company for an Order Approving Revised Depreciation Rates, Case No. 2001-140; In the Matter of: Application of Louisville Gas and Electric Company for an Order Approving Revised Depreciation Rates, Case No. 2001-141; and In the Matter of: 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, Case No. 2001-169.*

	<u>KU</u>	<u>LG&amp;E</u>		
		<u>Electric</u>	<u>Gas</u>	<u>Total</u>
Estimated Gross Savings	16,325	33,300	8,625	41,925
Cost (Exhibit 1, Reference Schedule 1.21, Line 5)	<u>11,500</u>	<u>23,900</u>	<u>6,100</u>	<u>30,000</u>
Estimated Net Savings	4,825	9,400	2,525	11,925
Customer Share 40% (Exhibit 1, Reference Schedule 1.21, Line 2)	1,930	3,760	1,010	4,770
Company Share 60%(Exhibit 1, Reference Schedule 1.20, Line 1)	2,895	5,640	1,515	7,155

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**Q. In his testimony on behalf of The Kroger Company, Mr. Higgins argues that the Commission should deny the Companies' proposed adjustment for VDT net savings to shareholders. Do you agree?**

10

**A.** I certainly do not. As an initial matter, the recommendation is procedurally out of order. These proceedings are not a reopening of the VDT matter, which was the subject of an earlier proceeding resulting in a unanimous settlement approved by the Commission. Kroger chose not to intervene in the VDT proceeding and should not now be permitted to renegotiate the settlement.

15

16

17

The Companies' proposed adjustment (Reference Schedule 1.20 to Rives Exhibit 1) is necessary for the shareholders to retain its 60% share of the net savings from the VDT initiative, and is entirely consistent with the ratemaking treatment of the



1           shareholders' portion of the merger surcredit savings in Case No. 98-426 and 98-474.  
2           And, as discussed earlier and referenced in the data responses of the KIUC and the AG,  
3           there are severe regulatory implications in setting aside settlement agreements  
4           unanimously entered into by the parties and approved by the Commission.

5   **Q.   Please discuss Mr. Higgins' proposal to discontinue the VDT surcredit.**

6   A.   Mr. Higgins asserts that discontinuation of the surcredit would be "revenue neutral" to  
7           both the Companies and their ratepayers, as long as a corresponding adjustment is made  
8           to the Companies' revenues. While it is true that discontinuation of the surcredit with a  
9           corresponding pro-forma increase to test year revenues would generally have no impact  
10          on the revenues of the Company, removal of this line item credit from customer bills will  
11          confuse customers who will likely believe that value has been taken from them.

12                 It is important to distinguish this recommendation to discontinue the VDT  
13                 surcredit from Mr. Higgins' recommendation that the Companies' pro-forma adjustments  
14                 for the shareholders' portion of the VDT savings be denied. The latter recommendation  
15                 is in direct conflict with the unanimous settlement agreement on this matter that provided  
16                 for a 60/40 sharing between shareholders and customers of the net VDT savings. Rather,  
17                 it would provide customers with 100 percent of the VDT savings after the Companies had  
18                 made a \$196 million investment to reduce costs, reached a written unanimous settlement  
19                 agreement with the principal consumer groups, including the AG and, applied for and  
20                 obtained the approval of the Settlement Agreement from the Commission through a  
21                 written order for a term of 60 months. Mr. Higgins' proposal is a punitive form of  
22                 regulation. The Commission should reject Mr. Higgins' recommendation.

1 **Q. Please comment on KIUC's recommendation for an adjustment to reflect the**  
2 **"failure to achieve labor savings from VDT."**

3 A. KIUC's witness, Mr. Kollen, has recommended the Commission disallow at least fifty  
4 percent of what he calls the "net harm" to ratepayers based on his contention that LG&E  
5 and KU failed to achieve the labor savings from the VDT management initiative. The  
6 Companies dispute his assertion that the VDT initiative has failed to achieve the  
7 estimated savings and ask the Commission to reject his recommendation.

8 **Q. Please comment on Mr. Kollen's analysis of the labor savings reflected in the**  
9 **Companies' filings compared to costs incurred in 2000, the year prior to the**  
10 **implementation of the VDT.**

11 A. First, the Companies stated in discovery requests that they were not specifically tracking  
12 savings. See LG&E and KU Response to KIUC's First Data Request dated August 31,  
13 2001, Case No. 2001-169, Question No. 11. Second, Mr. Kollen's analysis is restricted  
14 only to labor expenses. The VDT initiative, however, was not so limited and also  
15 included other operation and maintenance savings and fixed charge savings. This is  
16 documented in the discovery responses in Case No. 2001-169. By limiting his analysis to  
17 include only labor savings, Mr. Kollen has biased the result he intended to achieve.  
18 Third, Mr. Kollen's analysis gives no consideration to increases in labor and benefit rates  
19 and other costs since 2000. Such increases have partially masked the VDT savings when  
20 reviewing total expenses but do not mean that the anticipated savings were not achieved.

21

22 **Q. Have the Companies prepared an analysis which adjusts for these noted limitations**  
23 **in Mr. Kollen's analysis?**

1 **Q. Have the Companies prepared an analysis which adjusts for these noted limitations**  
2 **in Mr. Kollen's analysis?**

3 A. Yes. SBR Rebuttal Exhibit 4 contains such an analysis. This analysis begins with  
4 operations and maintenance expenses of the Companies in 2000, the year prior to  
5 implementation of the VDT initiative. The use of total operations and maintenance  
6 expenses, rather than simply using labor, is not only consistent with the intended VDT  
7 savings, it also removes the shortcoming in Mr. Kollen's analysis because it considers all  
8 related employee costs as well as other operating costs including the use of contractors.

9 Operations and maintenance expenses for 2000 were then escalated by the  
10 appropriate escalation factors to derive projected operations and maintenance expenses as  
11 if the VDT initiative had not been undertaken – see line item “Projected O&M Without  
12 VDT Initiative”. This amount was reduced by the estimated VDT savings. The  
13 amortization of the costs to achieve these savings was added back to derive the “Target  
14 O&M” result for the test year. In addition, the components of VDT savings which are  
15 reflected in line items other than operation and maintenance expenses in the Companies’  
16 income statements were added back to derive a true Target O&M.

17 Other significant incremental expenses that occurred subsequent to the VDT  
18 initiative and which have served to offset some of the VDT savings in the Companies’  
19 net operating income results were then added in order to reconcile Target O&M to  
20 “Actual O&M” as recorded by the Companies. There are many other such items that  
21 could have been considered here; however, I wanted to keep the analysis as simple as  
22 possible to illustrate the point that the VDT savings have been achieved.

23

1 **Q. What did the results of your analysis indicate?**

2 A. The fact that “Other (net incremental savings)” is a negative number for both of the  
3 Companies for the test year demonstrates that, absent these incremental expenses, the  
4 targeted VDT savings were achieved. As a result, Mr. Kollen’s claims are not accurate  
5 and his recommended adjustment in this proceeding should be denied.

6 **Q. Does this conclude your testimony?**

7 A. Yes.



106 FERC ¶ 62,230

In Reply Refer To:  
OED-DRAP  
Docket No. AI04-2-000

March 29, 2004

## Recognition of a Regulatory Asset for Minimum Pension Liability

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL  
GAS COMPANIES, AND OIL PIPELINE COMPANIES

The generally lower interest rate environment of recent years and decline in value of assets set aside to meet pension obligations has resulted in many FERC jurisdictional entities recognizing a minimum liability for employee pension obligations. The Commission has received a number of requests for guidance on whether a regulatory asset should be recognized for some or all of the charge to other comprehensive income that is made at the time the minimum pension obligation is recognized. The following discussion responds to these requests.

**Facts:** An entity provides pension benefits to its employees under a defined pension benefit plan and recognizes pension expense (i.e. net periodic pension cost) for financial accounting and reporting purposes in accordance with Statement of Financial Accounting Standards No 87. (SFAS No. 87).<sup>1</sup> The rates the entity charges for services provided by a segment of its business are regulated by a third party regulator and are determined on the basis of the entity's costs. Development of the rates to be charged for services provided by this business segment include an allowance for employee pension benefits and the amount of that allowance is based on net periodic pension cost determined in accordance with SFAS No. 87. As a result of a decline in the value of its pension fund assets and an increase in the accumulated pension benefit obligation due to lower interest rates used to estimate that obligation on a present value basis, the entity determines that its accumulated pension benefit obligation exceeds the fair value of the assets set aside to meet that obligation. Consistent with the requirements of SFAS No. 87, the entity records a minimum pension liability for the amount of such excess.

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<sup>1</sup> Financial Accounting Standards Board Statement of Financial Accounting Standards No 87, Employer's Accounting for Pensions

**Question:** At the time the entity recognizes its minimum pension liability in accordance with SFAS No. 87, should it recognize a regulatory asset for the amount of the liability otherwise chargeable to accumulated other comprehensive income that relates to its cost based rate-regulated business segment?

**Response:** The cost of pension benefits provided to employees under a defined pension benefit plan are recognized as an expense at the time the employee provides related employment services. SFAS No. 87 contains a delayed recognition feature. This means that changes in the pension obligation and the value of assets set aside to meet these obligations are not recognized when they occur but are recognized systematically and gradually over subsequent periods.<sup>2</sup> An entity that determines its pension allowance included in its costs based regulated rates on the basis of SFAS No. 87 adopts that same delayed recognition feature for ratemaking purposes. That is, changes in the pension obligation and assets set aside to meet those obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods. The recognition of a minimum pension liability which would otherwise be charged to accumulate other comprehensive income therefore constitutes a measurement of the changes in pension obligations and the value of plan assets that are to be included in the determination of rates in subsequent periods in so far as they relate to the cost based rate regulated segment of the entity.

Under the Commission's accounting requirements regulatory assets are to be established for those charges that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.

Therefore, in the circumstances described above and provided that it is probable that the pension allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87, entities shall recognize a regulatory asset for the minimum pension liability otherwise chargeable to accumulated other comprehensive income related to its cost based rate regulated business segments.

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<sup>2</sup> Ibid. (See: Summary - Fundamentals of Pension Accounting)

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Further, the minimum pension liability, as well as, any related regulatory asset is not amortized over future periods. At each measurement date, the entry recorded for the previous measurement date is reversed and the computation redone. A new minimum liability and related regulatory asset would be recognized, if required, at the new measurement date.

This guidance is for accounting purposes only and does not limit the Commission from reviewing the reasonableness of the elements of pension expense included in future rate proceedings before the Commission.

John M. Delaware  
Deputy Executive Director  
And Chief Accountant



**LOUISVILLE GAS AND ELECTRIC COMPANY**

**Calculation of Current Tax Adjustment Resulting  
From "Interest Synchronization"**

	<u>Revised Electric</u>	<u>Revised Gas</u>
1. Adjusted Capitalization - Exhibit 2	\$ 1,485,701,357	\$ 312,142,752
2. Weighted Cost of Debt	<u>1.63%</u>	<u>1.63%</u>
3. "Interest Synchronization"	24,216,932	5,087,927
4. Interest per books (excluding other interest)	<u>23,208,685</u>	<u>2,542,160</u>
5. "Interest Synchronization" adjustment	(1,008,247)	(2,545,767)
6. Composite Federal and State tax rate	<u>40.3625%</u>	<u>40.3625%</u>
7. Current tax adjustment from "Interest Synchronization"	<u>\$ (406,954)</u>	<u>\$ (1,027,535)</u>

**Louisville Gas & Electric Company**  
**VDT Savings Analysis**  
\$ Millions

	2000 Actual	Test Year Ended 9/30/03 Escalated
	(per PSC1-23 (b) and (c))	
<b>O&amp;M Expense Analysis:</b>		
Power Production - Labor	36.3	40.5
Power Production - Non Labor	45.0	48.5
<b>Power Production<sup>1</sup></b>	<b>81.3</b>	<b>88.9</b>
Distribution - Labor	13.4	14.9
Distribution - Non Labor	10.5	11.3
<b>Distribution</b>	<b>23.9</b>	<b>26.3</b>
Transmission - Labor	1.8	2.0
Transmission - Non Labor	6.5	7.0
<b>Transmission</b>	<b>8.3</b>	<b>9.1</b>
Customer Accounts and Sales - Labor	9.0	10.0
Customer Accounts and Sales - Non Labor	5.5	5.9
<b>Customer Accounts and Sales</b>	<b>14.5</b>	<b>15.9</b>
Gas Business - Labor	10.7	11.9
Gas Business - Non Labor	13.5	14.6
<b>Gas Operations<sup>2</sup></b>	<b>24.2</b>	<b>26.5</b>
Admin and General - Labor	15.1	16.8
Admin and General - Non Labor (excludes Labor and Benefits)	25.3	27.3
<b>Administrative and General<sup>3</sup> (excludes Benefits)</b>	<b>40.4</b>	<b>44.1</b>
<b>Benefits</b> (FERC account 926 - see attached page 5 of Rives Exhibit 4 for calculation of test year)	<b>7.3</b>	<b>36.6</b>
<b>Projected O&amp;M Without VDT Initiative</b>	<b>199.8</b>	<b>247.4</b>
Less Gross VDT Savings (per Settlement Agreement)		(41.9)
Add Payroll Tax Component of VDT Savings <sup>4</sup>		1.6
Add Fixed Charge Component of VDT Savings (per Joint Application) <sup>5</sup>		2.4
Add VDT Cost Amortization (per Settlement Agreement)		30.0
<b>Target O&amp;M</b>		<b>239.5</b>
 Significant Expense Additions Post-VDT:		
MISO Expenses (attached page 3 of Rives Exhibit 4)		18.6
Expanded DSM Program (attached page 3 of Rives Exhibit 4)		3.3
Incremental (> CPI) Property Insurance Increase (attached page 3 of Rives Exhibit 4)		3.4
E.W. Brown Legal Expenses (per direct testimony Rives Exhibit 1 Reference Schedule 1.27)		2.2
Increase in Uncollectible Accounts (attached page 3 of Rives Exhibit 4)		1.3
Incremental (> CPI) Lime Cost Increase (attached page 3 of Rives Exhibit 4)		1.3
<b>Other (Net Incremental Savings)</b>		<b>(0.9)</b>
 <b>Actual O&amp;M</b>	<b>199.8</b>	<b>268.7</b>

<b>Escalation Notes:</b>				
Labor expenses were escalated by the average salary increases shown in PSC1-23d as follows:				
	<u>12/31/03 Employees</u>			
	<u>Per 2000 Form 10-K</u>	<u>2001</u>	<u>2002</u>	<u>Test Year</u>
Union (60%)	1,192	4.7%	4.7%	3.0%
Non-Union (40%)	811	3.5%	4.1%	3.6%
Weighted Average Salary Increase	<u>2,003</u>	<u>4.2%</u>	<u>4.5%</u>	<u>3.2%</u>
Non-Labor expenses were escalated at the CPI-All Urban Consumers Index (see direct testimony Rives Exhibit 1 Reference Schedule 1.14 for CPI factor).				
Benefit Expenses were escalated based on the product of straight time labor (escalated from 2000) and the annual benefit rate shown below:				
	<u>2000</u>	<u>Test Year</u>		
Actual Benefits (FERC Account 926 - per PSC1-23b)	7.3	21.9		
/ Actual Straight Time Labor (see attached page 4 of Rives Exhibit 4)	68.2	45.8		
Benefit Rate	<u>10.65%</u>	<u>47.76%</u>		

<sup>1</sup>Excludes Fuel and Purchased Power.

<sup>2</sup>Excludes Gas Supply Expenses.

<sup>3</sup>Reflects Administrative and General expenses for both electric and gas operations.

<sup>4</sup>Must add back to derive targeted O&M as payroll taxes are included in Property and Other Taxes on the income statement.

Amount computed as 7.65% x (escalated test year labor above - actual test year labor per PSC1-23c).

<sup>5</sup>A small portion of the projected savings were to be achieved through fixed charge savings rather than O&M.

Fixed Charge Savings per Joint Application - 2003	4.0	x 9/12	3.0
Fixed Charge Savings per Joint Application - 2002	1.7	x 3/12	0.4
Test Year			<u>3.4</u>
LG&E Percentage Per Joint Application		x	<u>68.87%</u>
			<u>2.4</u>

**Kentucky Utilities**  
**Jurisdictional VDT Savings Analysis**  
\$ Millions

	2000 Actual <small>(per PSC1-23 (b) and (c))</small>	Test Year Ended 9/30/03 Escalated
<b>O&amp;M Expense Analysis:</b>		
Power Production - Labor	26.2	29.1
Power Production - Non Labor	25.4	27.3
<b>Power Production<sup>1</sup></b>	<b>51.5</b>	<b>56.4</b>
Distribution - Labor	14.8	16.5
Distribution - Non Labor	11.3	12.2
<b>Distribution</b>	<b>26.1</b>	<b>28.7</b>
Transmission - Labor	2.3	2.5
Transmission - Non Labor	5.4	5.8
<b>Transmission</b>	<b>7.7</b>	<b>8.4</b>
Customer Accounts and Sales - Labor	11.3	12.6
Customer Accounts and Sales - Non Labor	9.9	10.7
<b>Customer Accounts and Sales</b>	<b>21.2</b>	<b>23.3</b>
Admin and General - Labor	11.3	12.6
Admin and General - Non Labor	23.2	25.0
<b>Administrative and General</b>	<b>34.5</b>	<b>37.6</b>
<b>Benefits</b> (FERC account 926 - see attached page 5 of Rives Exhibit 4 for calculation of test year)	<b>8.0</b>	<b>22.6</b>
<b>Projected O&amp;M Without VDT Initiative</b>	<b>149.0</b>	<b>176.9</b>
Less Gross VDT Savings (per Settlement Agreement)		(16.3)
Add Payroll Tax Component of VDT Savings <sup>2</sup>		0.8
Add Fixed Charge Component of VDT Savings (per Joint Application) <sup>3</sup>		0.9
Add VDT Cost Amortization (per Settlement Agreement)		11.5
<b>Target O&amp;M</b>		<b>173.8</b>
<b>Significant Expense Additions Post-VDT:</b>		
MISO Expenses (attached page 3 of Rives Exhibit 4)		6.5
Expanded DSM Program (attached page 3 of Rives Exhibit 4)		2.9
Incremental (> CPI) Property Insurance Increase (attached page 3 of Rives Exhibit 4)		4.2
E.W. Brown Legal Expenses (per direct testimony Rives Exhibit 1 Reference Schedule 1.27)		3.1
Increase in Uncollectible Accounts (attached page 3 of Rives Exhibit 4)		0.7
Ice Storm Expenses (per direct testimony Rives Exhibit 1 Reference Schedule 1.31)		6.6
<b>Other (Net Incremental Savings)</b>		<b>(1.2)</b>
<b>Actual O&amp;M</b>		<b>196.6</b>

**Escalation Notes:**

Labor expenses were escalated by the average salary increases shown in PSC1-23d as follows:

	12/31/03 Employees		Test Year	
	Per 2000 Form 10-K	2001	2002	Test Year
Union (15%)	221	3.5%	3.5%	3.0%
Non-Union (85%)	1,254	3.0%	4.0%	4.0%
Weighted Average Salary Increase	1,475	3.1%	3.9%	3.9%

Non-Labor expenses were escalated at the CPI-All Urban Consumers Index (see direct testimony Rives Exhibit 1 Reference Schedule 1.14 for CPI factor).

Benefit Expenses were escalated based on the product of straight time labor (escalated from 2000) and the annual benefit rate shown below:

	2000	Test Year
Actual Benefits (FERC Account 926 - per PSC1-23b)	8.0	17.5
/ Actual Straight Time Labor (see attached page 4 of Rives Exhibit 4)	43.2	37.3
Benefit Rate	18.49%	46.97%

<sup>1</sup>Excludes Fuel and Purchased Power.

<sup>2</sup>Must add back to derive targeted O&M as payroll taxes are included in Property and Other Taxes on the income statement.  
Amount computed as 7.65% x (escalated test year labor above - actual test year labor per PSC1-23c).

<sup>3</sup>A small portion of the projected savings were to be achieved through fixed charge savings rather than O&M.

Fixed Charge Savings per Joint Application - 2003	4.0	x 9/12	3.0
Fixed Charge Savings per Joint Application - 2002	1.7	x 3/12	0.4
<b>Test Year</b>			<b>3.4</b>
KU Percentage Per Joint Application		x	30.43%
Jurisdictional Percentage Per Joint Application		x	88.21%
			<b>0.9</b>

**VDT Savings Analysis**  
**Supporting Calculations**  
**Significant Expense Additions Post-VDT**  
**\$ Millions**

<u>MISO EXPENSES</u>	<u>KU</u>	<u>LG&amp;E</u>
MISO Expenses per PSC2-16(j)(1)	7.3	19.7
Reconcile Payments to Booked Expense (see footnote to PSC2-16(j)(1))		
Less Amount Paid under Schedules 1, 2, 7, 8 and 11	(3.7)	(17.0)
Add Amount Booked in FERC Account No. 565	4.6	15.9
Total Company	8.2	18.6
x Jurisdictional Percentage	79.47%	N/A
Jurisdictional MISO Expenses	6.5	18.6

<u>EXPANDED DSM PROGRAM</u>	<u>KU</u>	<u>LG&amp;E</u>
DSM Expenses Per Rives Exhibit 1 Reference Schedule 1.09	2.9	4.8
DSM Expenses in 2000:		
Account No. 908002	0.0	0.6
Account No. 908005	0.0	0.8
Total	0.0	1.4
x CPI Escalation Factor	1.078	1.078
DSM Expenses 2000 Escalated	0.0	1.5
Test Year vs. 2000 Escalated	2.9	3.3

<u>INCREMENTAL PROPERTY INSURANCE INCREASE</u>	<u>KU</u>	<u>LG&amp;E</u>
Test Year Property Insurance Per PSC1-23(b):		
Electric (page 3 of 6)	5.2	4.4
Gas (page 6 of 6)	N/A	0.1
Total Test Year	5.2	4.5
Year 2000 Property Insurance Per PSC1-23(b):		
Electric (page 3 of 6)	1.0	1.0
Gas (page 6 of 6)	N/A	0.1
Total Test Year	1.0	1.0
x CPI Escalation Factor	1.078	1.078
Year 2000 Escalated	1.1	1.1
Test Year vs. 2000 Escalated	4.2	3.4

<u>INCREASE IN UNCOLLECTIBLE ACCOUNTS</u>	<u>KU</u>	<u>LG&amp;E</u>
Test Year Actuals (per PSC1-23b):		
Electric (FERC Account 904, per PSC1-23b p. 3 of 6)	1.8	3.1
Gas (FERC Account 904, per PSC1-23b, p. 5 of 6)	N/A	1.2
Total	1.8	4.3
Year 2000 Actuals (per PSC1-23(b)):		
Electric (FERC Account 904, per PSC1-23b p. 3 of 6)	1.0	2.2
Gas (FERC Account 904, per PSC1-23b, p. 5 of 6)		0.6
Total	1.0	2.8
x CPI Escalation Factor	1.078	1.078
Year 2000 Escalated	1.1	3.0
Test Year vs. 2000 Escalated	0.7	1.3

<u>INCREMENTAL LIME COSTS</u>	<u>LG&amp;E</u>
Test Year Actuals	8.4
2000 Actuals	6.6
x CPI Escalation Factor	1.078
2000 Escalated	7.1
Incremental Lime Costs	1.3

**VDT Savings Analysis**  
**Breakdown of Labor Per PSC1-23(c)**  
*\$ Millions*

ACCOUNT TYPE	EXPENDITURE TYPE	KU		LG&E	
		2000	TEST YEAR	2000	TEST YEAR
Power Production	Straight Time	20.0	18.4	25.7	19.5
Power Production	Over Time	3.2	3.0	5.9	3.7
Power Production	Overheads	7.5	5.7	4.8	5.2
Distribution	Straight Time	10.1	7.3	9.5	6.3
Distribution	Over Time	2.4	4.7	2.3	1.5
Distribution	Overheads	3.4	2.6	1.6	1.7
Transmission	Straight Time	1.9	2.4	1.9	1.1
Transmission	Over Time	0.1	0.1	0.1	0.1
Transmission	Overheads	0.8	0.7	-0.1	0.3
Gas Operations	Straight Time	N/A	N/A	8.2	6.5
Gas Operations	Over Time	N/A	N/A	0.8	0.9
Gas Operations	Overheads	N/A	N/A	1.7	1.7
Customer Accounts and Sales	Straight Time	9.0	6.5	6.7	4.3
Customer Accounts and Sales	Over Time	0.3	0.2	0.3	0.2
Customer Accounts and Sales	Overheads	2.8	1.9	1.9	1.2
Admin and General	Straight Time	8.1	7.1	16.2	8.1
Admin and General	Over Time	0.2	0.1	0.3	0.1
Admin and General	Overheads	4.8	10.7	-1.4	12.3
<b>Total Company Labor Expense Per PSC1-23(c)</b>		<b>74.6</b>	<b>71.4</b>	<b>86.2</b>	<b>74.7</b>
Straight Time Component		49.1	41.7	68.2	45.8
Jurisdictional %		88.06%	89.51%	100.00%	100.00%
Jurisdictional Straight Time		43.2	37.3	68.2	45.8

**VDT Savings Analysis**  
**Escalation of Benefits**  
*\$ Millions*

		<u>KU</u>	<u>LG&amp;E</u>
Straight Time Labor in 2000		43.2	68.2
Escalation Factors:			
	2001	x 1.031	1.042
	2002	x 1.039	1.045
	Test Year	x 1.039	1.032
Escalated Straight Time Labor		48.1	76.6
Actual Benefit Rate		46.97%	47.76%
Escalated Benefits		<u>22.6</u>	<u>36.6</u>

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**RECEIVED**

APR 26 2004

PUBLIC SERVICE  
COMMISSION

**In the Matter of:**

APPLICATION OF LOUISVILLE GAS AND )  
ELECTRIC COMPANY FOR AN ADJUSTMENT ) CASE NO. 2003-00433  
OF THE GAS AND ELECTRIC RATES, )  
TERMS AND CONDITIONS )

**In the Matter of:**

APPLICATION OF KENTUCKY UTILITIES )  
COMPANY FOR AN ADJUSTMENT ) CASE NO. 2003-00434  
OF THE ELECTRIC RATES, TERMS AND )  
CONDITIONS )

**REBUTTAL TESTIMONY**

**OF**

**VALERIE L. SCOTT**

**DIRECTOR, FINANCIAL PLANNING AND ACCOUNTING – UTILITY OPERATIONS  
LOUISVILLE GAS AND ELECTRIC COMPANY  
KENTUCKY UTILITIES COMPANY**

**Filed: April 26, 2004**

1 **Q. Please state your name, position and business address.**

2 A. My name is Valerie L. Scott. I am the Director, Financial Planning and Accounting -  
3 Utility Operations for Louisville Gas and Electric Company ("LG&E") and Kentucky  
4 Utilities Company ("KU") (collectively "the Companies"). My business address is 220  
5 West Main Street, Louisville, Kentucky.

6 **Q. Have you previously testified in this proceeding?**

7 A. Yes. I filed direct testimony in this case on December 29, 2003 on behalf of LG&E and  
8 KU. A statement of my professional history and education was attached as Appendix A  
9 to that testimony, as well as to KU's response to PSC 2-16(m) and LG&E's response to  
10 PSC 2-16(o).

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

12 A. The purpose of my testimony is to rebut certain contentions concerning the calculation of  
13 LG&E's and KU's revenue requirements raised by: (1) Robert Henkes and Michael  
14 Majoros for the Office of the Attorney General ("AG"); (2) Lane Kollen for the Kentucky  
15 Industrial Utility Customers, Inc. ("KIUC"); (3) Thomas Prisco for the United States  
16 Department of Defense ("DOD"); and (4) Kevin Higgins on behalf of The Kroger Co.  
17 ("Kroger").

18 **Annualized Depreciation Expense**

19 **Q. Does LG&E object to the annualized depreciation expense proposed by Mr. Henkes**  
20 **as shown on Schedule RJH-8 for LG&E's electric operations, and Schedule RJH-8**  
21 **for LG&E's gas operations?**

22 A. Yes. Both schedules, according to Mr. Henkes, reflect the difference between the new  
23 depreciation rates proposed in this case by LG&E and those recommended by Mr.  
24 Majoros, as applied to the depreciable plant in-service balances at the end of the test year.



1 For the reasons stated in Mr. Robinson's Rebuttal Testimony, the depreciation rates  
2 recommended by Mr. Majoros are not reasonable and should be rejected.

3 **Q. Does KU object to the annualized depreciation expense proposed by Mr. Majoros as**  
4 **shown on Exhibit \_\_\_ (MJM-7) for KU's electric operation?**

5 A. Yes. The schedule, like the schedule presented by Mr. Henkes, reflects the difference  
6 between the new depreciation rates proposed in this case by KU and those recommended  
7 by Mr. Majoros, as applied to the depreciable plant in-service balances at the end of the  
8 test year. For the reasons stated in Mr. Robinson's Rebuttal Testimony, the depreciation  
9 rates recommended by Mr. Majoros are not reasonable and should be rejected.

10 **Q. Do you agree with Mr. Prisco's recommendation that the Commission reject**  
11 **LG&E's current depreciation study on the grounds that it is premature under the**  
12 **terms of the Value Delivery Team ("VDT") Settlement Agreement approved in Case**  
13 **No. 2001-00141 ("VDT Settlement Agreement")?**

14 A. No. The Department of Defense elected not to intervene in, and therefore was not a party  
15 to the VDT Settlement Agreement, and thus should not now be allowed to renegotiate  
16 that settlement. Importantly, no party to the VDT Settlement Agreement has argued that  
17 LG&E's current depreciation study is inconsistent with that agreement. Indeed, the AG  
18 has offered a new depreciation study in this proceeding as well.

19 In any event, LG&E's submission of a depreciation study in this proceeding is  
20 consistent with the terms of the VDT Settlement Agreement, which provided for a new  
21 study of its depreciation rates to be completed no later than calendar year 2004 based on  
22 its plant-in-service as of December 31, 2003. The defining limit on the commitment in  
23 the VDT Settlement Agreement was the timing of another study (e.g., "no later than

1 calendar year 2004”), and not the timing of the plant-in-service date. Thus, the  
2 depreciation studies offered by the Companies in these proceedings are timely and  
3 comport with the requirements contained in the VDT Settlement Agreement.

4 **Q. Mr. Prisco has also testified that depreciation issues should generally be excluded**  
5 **from base rate proceedings. Please comment on that position.**

6 A. A rate proceeding is certainly the appropriate forum for the Commission to consider a  
7 change in depreciation rates, because the proceeding involves the review of all significant  
8 components of net operating income. Indeed, the Commission has considered  
9 depreciation issues in the context of base rate proceedings in the past. See e.g., In the  
10 Matter of: Adjustment of Gas Rates of The Union Light, Heat and Power Company, Case  
11 No. 2001-00092, Order of January 31, 2002. And, as a matter of economy for the  
12 Commission, its Staff, the Companies’ ratepayers, and the Intervenors, the Companies’  
13 depreciation rates should be considered in these proceedings rather than being deferred  
14 for consideration in later, separate proceedings.

15 **Promotional Expenses**

16 **Q. Please comment on the promotional expense adjustments proposed by Mr. Henkes**  
17 **for LG&E’s electric and gas operations.**

18 A. LG&E does not object to Mr. Henkes’ recommendation that \$22,699.00 in Account  
19 #909001 and \$3,119.00 in Account #909002 be disallowed from LG&E’s calculation of  
20 the revenue requirement for its electric operations or \$9,272.00 in Account No. 909001  
21 and \$1,274.00 in Account No. 909002 be disallowed from the calculation of LG&E’s  
22 revenue requirement for its gas operations. However, LG&E does object to Mr. Henkes’  
23 recommendation to disallow the following expenses from the calculation of its electric  
24 and gas revenue requirements:

1		<u>Electric</u>	<u>Gas</u>
2	Account #912001	\$13,177.00	\$5,382.00
3	Account #912005	\$51,455.00	\$21,017.00
4			

5           The expenses in account 912001 are related to economic development and  
6 produce a “material benefit” as envisioned under 807 KAR 5:016. These expenses are  
7 incurred in assisting and attracting employers to the Commonwealth who are “selecting”  
8 the location of their facility, not their electric supplier. The Companies work closely with  
9 state and local governments to encourage the relocation of businesses and expansion of  
10 existing businesses.

11           These expenses should not be at issue as they are reasonable and typical of the  
12 type of expenses incurred for economic development activities and produce a material  
13 benefit to the Commonwealth and its citizens. Expansion of existing manufacturing  
14 facilities and the attraction of new businesses increase the number of jobs and the amount  
15 of potential taxes available for state government. Furthermore, in approving the  
16 Powergen and E.ON transactions, the Commission required the following commitment:

17           E.ON and Powergen commit to maintaining LG&E’s and KU’s  
18 proactive stance on developing economic opportunities in  
19 Kentucky and supporting economic development ... throughout  
20 LG&E’s and KU’s service territories.

21           *In the Matter of: Joint Application for Transfer of Louisville Gas and Electric Company*  
22 *and Kentucky Utilities Company in Accordance with E.ON AG’s Planned Acquisition of*  
23 *Powergen plc, Case No. 2001-104 (Order of August 6, 2001); In the Matter of: Joint*  
24 *Application of Powergen plc, LG&E Energy Corp., Louisville Gas and Electric*  
25 *Company, and Kentucky Utilities Company for Approval of a Merger, Case No. 2000-*  
26 *095 (Order of May 15, 2000). Economic development expenses are an appropriate part*

1 of the Companies' cost of providing service to their customers, and inclusion of their  
2 expenses as part of their cost of service for ratemaking purposes is consistent with the  
3 fulfillment of this commitment.

4 Economic development expenses were not removed in LG&E's Case No. 98-426  
5 or KU's Case No. 98-474, and although such expenses were disallowed in LG&E's last  
6 gas base rate case, Case No. 2000-080, the Companies recommend the Commission  
7 include the economic development expenses here as a matter of sound regulatory policy  
8 consistent with 807 KAR 5:016 and its requirement for the Companies to support  
9 economic development.

10 The expenses charged to account 912005 are for customer satisfaction surveys  
11 and utility industry research which help the Companies provide better service to their  
12 customers. These expenses should be allowable in determining base rates since they  
13 benefit the Companies' ratepayers as evidenced by the Companies' multiple J. D. Power  
14 awards.

#### 15 Rate Case Expenses

16 **Q. Please comment on Mr. Henkes' contention that the Commission should not rely on**  
17 **the rate case expense estimates that have been presented by LG&E in its electric**  
18 **and gas rate cases.**

19 A. First of all, Mr. Henkes concurs that there should be an adjustment to recognize rate case  
20 expenses in the Companies' revenue requirements. Contrary to Mr. Henkes' contention,  
21 LG&E and KU are not requesting the recovery of the estimated cost of the rate case  
22 expenses. As explained in my direct testimony, LG&E and KU used the estimate only  
23 for the purpose of calculating the revenue requirement at the time of filing their  
24 applications. Pursuant to established Commission policy, LG&E and KU are requesting

1 recovery of their actual rate case expenses in these cases. Therefore, Mr. Henkes'  
2 concern is misplaced. Since filing their applications, LG&E and KU have provided the  
3 Commission, in response to PSC 1-57 and the monthly updates thereto, their actual rate  
4 case expenses. It is well established under Commission policy<sup>1</sup> that rate case expenses  
5 are to be included as part of a utility's cost of service. VLS Rebuttal Exhibit 1 shows the  
6 actual rate case expenses incurred by LG&E and KU to date.

### 7 Normalization of Expenses

8 **Q. Please comment on the recommendations of Mr. Henkes and Mr. Prisco concerning**  
9 **normalization of injuries and damages expense.**

10 A. Mr. Henkes agrees with LG&E's proposed injuries and damages expense normalization  
11 adjustments for electric and gas revenue requirements with one exception. Mr. Henkes  
12 recommends that the five-year CPI-adjusted average should be moved forward by  
13 approximately one year, so that the five-year period begins with 1999 and ends with the  
14 test year. Mr. Prisco, for the DOD, appears to concur with Mr. Henkes and further  
15 recommends that the inflation adjustment not be used.

16 The methodology used by the Companies to compute the average injuries and  
17 damages expenses is similar to the AG's approach in LG&E's last gas rate case. The  
18 Companies excluded the test year expense in order to avoid over-weighting the three-  
19 month period ending December 31, 2002. By including the test year in the five-year  
20 average, this three-month period would have been included in both the 2002 and the test  
21 year results. While the Commission has approved the inclusion of the test year amounts

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<sup>1</sup> *In the Matter of: An Adjustment of the Rates of Delta Natural Gas Company, Inc.*, Case No. 99-176, Order, pp. 18-21 (December 27, 1999).

1 as part of the calculation of the normalization of the storm damage expense in Case No.  
2 98-426, that calculation uses a ten-year average, adjusted for inflation.

3 LG&E and KU believe that the use of a multi-year normalization of expenses is  
4 appropriate. The use of a longer historical period in the normalization of expenses such as  
5 injuries and damages, as adjusted for inflation, results in a better representation of normal  
6 expenses. To resolve this dispute, the Companies recommend the pro forma adjustment  
7 for Account No. 925, Injuries and Damages, be calculated consistently with the  
8 methodology used to calculate their storm damages adjustment. VLS Rebuttal Exhibit 2  
9 shows the injuries and damages expense normalization adjustment calculated using a ten-  
10 year average, including the test period, adjusted for inflation. These amounts are taken  
11 from KU's and LG&E's Data Responses to PSC 2-16(g)(4). The methodology used for  
12 calculating the normalization adjustment for injuries and damages expense should be  
13 consistent with the calculation of storm damages. Thus, LG&E and KU recommend the  
14 normalization of injuries and damages be based on a ten-year average, adjusted for  
15 inflation.

16 **Q. Do you agree with Mr. Prisco's recommendation concerning the pro forma**  
17 **adjustment for storm damage?**

18 **A.** No. The Commission has authorized the normalization of a ten-year period in the past.  
19 Commission's Order of December 21, 1990, Case No. 90-158, p. 30. Mr. Prisco has not  
20 presented any justification for departing from this established policy of the Commission  
21 and has not shown how technology and enhanced productivity eliminate the need to  
22 adjust for inflation.

1                The merger of LG&E Energy Corp. and KU Energy Corporation did not diminish  
2                the geographical service territories of LG&E and KU. In fact, the service territories  
3                remain essentially the same after the merger, but contain a greater number of customers.  
4                Although the merger allowed either utility to draw more readily on assistance from the  
5                other in terms of access to a trained workforce to respond to storms, the merger did not  
6                diminish the frequency of storms or the nature, type and volume of resources which must  
7                be devoted to restoration efforts following a storm. Specifically, the merger had no  
8                impact on the number of line crews it takes to restore power lines after a storm. The cost  
9                of repairing the damage from storms is still incurred, just as it was before the merger.

10    **Miscellaneous Expenses Adjustments**

11      **Q. Please comment on the recommendation of Mr. Henkes concerning LG&E's**  
12      **adjustments to miscellaneous expenses.**

13      A. Mr. Henkes has recommended several minor adjustments to test year expense in his  
14      Miscellaneous Expenses Adjustment to the calculation of the revenue requirement for  
15      LG&E's electric and gas operations. LG&E objects only to Mr. Henkes' adjustment  
16      relating to expenses associated with employee gifts, award banquets and social expenses.  
17      These expenses should be charged to ratepayers because they are prudent and reasonable  
18      expenses associated with rewarding employees in connection with the Companies' safety  
19      programs and professional achievements or accomplishments. They contribute to the  
20      morale of employees and provide incentives for high levels of performance. Customers  
21      benefit from an efficient, motivated workforce. Such expenses are typically incurred by  
22      other companies and are not unusual or unreasonable in any way.

1 Pension and Post-retirement Benefit Expenses

2 **Q. Please comment on the recommendations concerning the Companies' pension and**  
3 **post-retirement benefit expenses adjustments.**

4 A. Mr. Kollen, Mr. Prisco and Mr. Majoros have each recommended the Companies'  
5 adjustments be rejected. As explained in my direct testimony, the adjustment for pension  
6 and post-retirement expenses is necessary to annualize the test period ended September  
7 30, 2003 to reflect the 2003 known and measurable pension and post-retirement expenses  
8 calculated by Mercer. The adjustment is no different in concept or purpose than the labor  
9 adjustment proposed by LG&E and KU in these cases.

10 **Q. Do LG&E and KU agree with the recommendation of Mr. Kollen regarding the**  
11 **annualization adjustment to pension and post-retirement benefit expenses?**

12 A. No. Mr. Kollen recommends the Commission not allow the annualization adjustment to  
13 increase pension and post-retirement benefit expenses on the grounds that it is a selective  
14 post-test year adjustment, that the actuarial calculations relied upon by the Companies are  
15 not known and measurable, and that the actuarial calculations cannot be verified based on  
16 the schedules provided in response to discovery. His contentions are without merit.

17 Mr. Kollen misinterprets the Companies' pension and post-retirement benefit  
18 expense adjustment. His contention that "[t]he Company proposes a selective post test  
19 year adjustment to increase its pension and post-retirement benefit expense to projected  
20 2004 levels" at page 16, line 1-2 of his testimony is simply wrong. This adjustment is not  
21 an out of period adjustment. Specifically, LG&E and KU are not proposing an adjustment  
22 of their pension and post-retirement benefit expense to projected 2004 levels. The  
23 adjustment merely annualizes pension expense based on 2003 levels for the test period.



1 In other words, the adjustment is annualizing the test year amounts to reflect the 2003  
2 actuarial calculations of pension expense. Therefore, the adjustment is not, as KIUC  
3 contends, a selective post-test year adjustment.

4 Furthermore, the actuarial calculations relied upon by the Companies are known  
5 and measurable because they reflect the recorded pension and post-retirement benefit  
6 expenses for the nine months of 2003 that is in the test period. Mercer, a firm of long-  
7 standing, professional competence and reputation in the field of actuarial analysis and  
8 evaluation, prepared the actuarial calculations. Mercer's actuarial calculations have been  
9 used by LG&E and KU and many other utilities for years in booking pension and post-  
10 retirement benefit expenses. The Commission has approved LG&E's pension and post-  
11 retirement benefit expenses in the last three rate cases based upon the actuarial  
12 calculations provided by Mercer.

13 Because the actuarial calculations are shown in the schedules provided in  
14 response to discovery, in both in the disclosure statements and the actuarial studies, the  
15 adjustment can be verified to the actuarial calculations. The Companies have filed the  
16 2003 and 2002 studies prepared by Mercer in their responses to PSC 2-16, KIUC 2-6  
17 (LG&E), and KIUC 2-18 (KU).

18 Finally, Mr. Kollen, at page 17, lines 10-14, asserts that the Companies were  
19 incorrect in stating, in response to PSC 2-16(e), that "actuarial reports from Mercer for  
20 the fiscal year ending December 31, 2003 are not yet available." Again, Mr. Kollen is  
21 incorrect. The Companies' statement in the data response is accurate. The reports  
22 presented in response to PSC 2-16(e) are the reports for the 2003 expense, calculated as  
23 of a valuation date of January 1, 2003, in accordance with standard actuarial practice.

1           These reports were issued in 2003 and were provided in response to PSC 2-16(e). The  
2           actuarial valuation reports calculated as of a valuation date of December 31,  
3           2003/January 1, 2004, will not be issued by Mercer until later this year and are not  
4           currently available.

5   **Q.   Please comment on the recommendation by Mr. Prisco concerning this adjustment.**

6   A.   Mr. Prisco has recommended that the Commission reject LG&E's pro forma adjustment  
7           for pension and post-retirement expenses and establish a "regulatory asset and/or credit as  
8           balancing accounts for pensions and other post-retirement expenses." The mechanism he  
9           recommends is vague in concept. The details of its operation and implementation are not  
10          discussed in his testimony. Mr. Prisco further contends, with no analytical support, a  
11          fifteen percent band should be established that would require a refund or recovery if or  
12          when the account reaches the specific threshold of fifteen percent of the plan assets. This  
13          recommendation is not adequately supported by his testimony, is not supported by prior  
14          Commission decisions, and should be rejected.

15   **Q.   Do you agree with the recommendation of Mr. Majoros that the Commission should**  
16          **allow only the test year expense?**

17   A.   No. Mr. Majoros has made three assumptions in his testimony that are incorrect and has  
18          not presented any support for his speculative contentions about the Companies' pension  
19          and post-retirement benefit costs in the future.

20                   First, with respect to his erroneous assumptions, at page 11, lines 14-16 of his  
21          testimony, Mr. Majoros states:

22                           Amortization of actuarial (gain) or loss, which I assume to be  
23                           changes in the ABO due to revisions in predicted retirement  
24                           periods of the Companies' employees.

1 His reference to “the ABO” appears to be a typographical error that should be “PBO”.  
2 An “Accumulated Benefit Obligation” (“ABO”) represents the present value of the  
3 benefit to date. In contrast, a Projected Benefit Obligation (“PBO”) is the benefit of  
4 future salaries based on the participants’ years of service to date. Actuarial gains or  
5 losses are changes either in the PBO due to changes in assumptions (i.e., discount rates,  
6 retirement rates, turnover rates, mortality rates, salary increase rates) or in the plan assets  
7 due to changes in actual gains or losses experienced. This definitional error impacts Mr.  
8 Majoros’ assumptions about the ABO discussed below.

9 Secondly, Mr. Majoros, at page 12, lines 19- 22, in support of his argument that  
10 the interest rate chosen for the actuarial calculation “creates volatility in pension costs”  
11 makes the following contention:

12 [A] lower interest rate has the counter-intuitive effect of increasing the  
13 interest costs on the ABO. That is because as the present value of the  
14 ABO increases, the annual accretion in that value is correspondingly  
15 larger, even at the lower interest rate.  
16

17 However, depending on the plan demographics, a lower interest rate may not  
18 always increase the interest cost on the PBO.

19 Third, Mr. Majoros asserts at page 14 that the value of KU’s pension and post-  
20 retirement benefit fund assets “will probably increase” because:

21 [M]ost companies do not fully revalue their pension assets each  
22 year. Rather, they use a “smoothing” technique in which only a  
23 one-third of each year’s gain or loss is recognized in calculating  
24 the capital gains or losses in the funds’ asset values. The  
25 remaining two-thirds are amortized into the re-evaluation over the  
26 next two years.

27 Mr. Majoros’ assumption that the Companies use such a “smoothing” technique in the  
28 calculation of the value of the pension and post-retirement benefit fund assets is incorrect.  
29 LG&E Energy LLC’s external auditor, PricewaterhouseCoopers LLP, does not allow

1 LG&E or KU to use the smoothing technique and instead requires the use of the fair  
2 market value methodology. The Companies do not use the smoothing technique to value  
3 assets for SFAS No. 87 purposes.

4 In addition to these erroneous assumptions, Mr. Majoros' testimony makes a  
5 number of unsupported and speculative assertions about the possible changes in the  
6 Companies' pension and post-retirement benefit costs in the future. For example, at page  
7 14, lines 16-18, of his testimony, he contends that because interest rates are likely to  
8 increase through the next several years, during that same time, the value of KU's pension  
9 and post-retirement benefit fund assets "will probably increase." However, Mr. Majoros  
10 does not provide any quantitative analysis that supports his speculation that the value of  
11 KU's pension and post-retirement benefit fund assets is likely to increase as a  
12 consequence of a possible increase in interest rates. Further, he has offered no  
13 quantitative support for his speculative conclusion at page 15, lines 9-12, that "the  
14 present value of KU's Projected Benefit Obligation and Accumulated Benefit Obligation  
15 will decline" if interest rates rise. He also has offered no independent analysis to support  
16 his conjecture at page 15, lines 15 -17, that the pension and post-retirement benefit costs  
17 computed for 2003 "may be the peak costs that KU has experienced and that it will  
18 experience in the immediate future." These unsupported assertions fail to meet the  
19 known and measurable standard.

20 Notwithstanding the lack of support for his speculative assertions, the AG's  
21 contention that the Companies' pension and post-retirement benefit expense "will very  
22 probably decline in the immediately following years" completely overlooks the  
23 fundamental reason for the adjustment. The pension and post-retirement benefit

1 adjustment, as previously discussed, is an annualization adjustment based on the known  
2 and measurable change in pension and post-retirement benefit expense occurring in the  
3 test year. The unsupported speculation about possible changes in the future is well  
4 beyond the test year, has absolutely no bearing on the need to annualize the pension and  
5 post-retirement benefit expense for the full 12-month period ending September 30, 2003  
6 and does satisfy the known and measurable standard. The only known and measurable  
7 adjustments before the Commission are the Companies' proposed adjustments based on  
8 Mercer's actuarial study. The Commission should adopt the Companies' adjustments.

9 **SFAS No. 143 (Asset Retirement Obligation Adjustment)**

10 **Q. Please comment on the findings and conclusions of the witnesses for some of the**  
11 **Intervenors concerning the Companies' adjustments to reflect SFAS No. 143.**

12 A. The Attorney General's witnesses, Mr. Majoros and Mr. Henkes, recommend that the  
13 adjustments be rejected. KIUC's witness, Mr. Kollen, however, believes the Companies  
14 properly reflected the impact of SFAS No. 143 in its filings consistent with the December  
15 19, 2003 stipulation KIUC and the Companies signed in Case Nos. 2003-00426 and  
16 2003-00427. Mr. Kollen participated in the accounting discussions with others and me in  
17 the course of those proceedings, which ultimately produced the Stipulation on the  
18 accounting treatment for SFAS No. 143. The Commission approved the Stipulation and  
19 resulting accounting treatment in its Order of December 23, 2003. A complete and  
20 accurate copy of the December 23, 2003 Order and Stipulation attached thereto is  
21 attached as VLS Rebuttal Exhibit 3. Simply stated, the pro forma adjustments remove  
22 non-recurring regulatory credits recorded above the net operating income line in account  
23 407. The Companies recorded these regulatory credits to offset the non-recurring  
24 cumulative effect of adopting SFAS No. 143 during the test year. The cumulative effect

1 of adoption was recorded in account 435, an account reported below the net operating  
2 income line in conformity with the FERC USofA.

3 **Q. Do you agree with Mr. Majoros' criticism of the adjustment?**

4 A. No. Mr. Majoros contends that the Companies' accounting adjustments were contrived  
5 to create incremental revenue requirements because the credit booked to account 407 was  
6 a result of "an unnecessary charge to below-the line net income" (pages 12-13).

7 The Companies were required to record a cumulative effect adjustment when  
8 adopting SFAS No. 143 and FERC Order No. 631. As prescribed by the FERC USofA,  
9 this cumulative effect was recorded in account 435, Extraordinary Deductions, which is  
10 to "be debited with losses of unusual nature and infrequent occurrence". The one-time  
11 occurrence of adopting this pronouncement met the definition of this account, a below-  
12 the-line account.

13 **Q. Do you agree with Mr. Majoros' interpretation of FERC Order No. 631?**

14 A. No. FERC Order No. 631 generally adopts the requirements of SFAS No. 143.  
15 Unfortunately, it did not recognize the ratemaking implications of recording a cumulative  
16 effect adjustment in the FERC-prescribed account 435, which is below-the-line, versus  
17 the FERC-prescribed regulatory credit account 407, which is above-the-line. VLS  
18 Rebuttal Exhibit 4 shows an example of the mismatch between LG&E's and KU's net  
19 operating income that was created by the implementation of SFAS No. 143. The  
20 Commission recognized the implications of recording a cumulative effect adjustment in  
21 the FERC-prescribed account created by FERC Order No. 631 when it stated "[t]he  
22 cumulative effect impact reflects the restatement of account balances in accordance with  
23 the requirements of SFAS No. 143." Order, p. 4.

1           Reference Schedule 1.25 of Rives Exhibit 1 as referenced in my direct testimony  
2 shows the adjustment necessary to net the cumulative affect of this accounting change  
3 against the corresponding regulatory credit in the test year. The adjustment proposed by  
4 the Companies simply reverses the non-recurring “above-the-line” regulatory credit  
5 recorded during the test year to achieve the “revenue neutral” result desired by both the  
6 Companies and Mr. Majoros.

7 **Q. What is the position of the Companies with respect to Mr. Majoros’ contention that**  
8 **the accounting entries are incomplete?**

9 A. The entries presented by the Companies represent the impact of adopting SFAS No. 143  
10 for Asset Retirement Obligations. Mr. Majoros refers to paragraph B73 of SFAS No. 143  
11 which indicates that costs of removal related to assets without a legal liability should be  
12 recognized as regulatory liabilities if the requirements of SFAS No. 71, *Accounting for*  
13 *the Effects of Certain Types of Regulation*, are met. However, FERC Order 631 indicated  
14 that these same amounts, currently recorded in account 108, should merely be maintained  
15 in separate subsidiary records supporting account 108 (paragraph 38). The Companies  
16 have separated these costs of removal for assets with no legal liability through  
17 reclassification of the amounts to account 108 sub-accounts. In its order, FERC  
18 recognized that the calculation of these amounts would be difficult, or perhaps impossible  
19 for some companies and that if the amounts previously recorded could not be identified  
20 that this provision of the order could be prospectively adopted (paragraph 39). The  
21 Companies calculated these amounts between the date the FERC order was issued in  
22 April 2003 and its calendar year end and made the reclassifications required by FERC  
23 Order 631 in December 2003. Since the reclassifications were merely among accounts

1 within the 108 series of accounts there was no net impact of adopting this portion of  
2 FERC Order 631 and these entries had no bearing on the adoption of SFAS No. 143.

3 **Q. What is the position of the Companies with respect to Mr. Majoros' contention**  
4 **concerning excessive accumulated depreciation?**

5 A. Mr. Majoros states that, if the Companies have no legal obligations, then no future cost of  
6 removal is capitalized. While no accrual is established for the cost of removal for assets  
7 without a legal obligation similar to the accrual established under SFAS No. 143, long-  
8 standing utility practice has been to recognize the cost of removing all assets through  
9 depreciation expense and accumulated depreciation. The Companies continue to support  
10 this practice since it charges the costs of ultimately replacing or removing assets to the  
11 ratepayers benefiting from their use.

12 The Stipulation approved by the Commission on December 19, 2003 clearly  
13 indicates that the Companies will remove all effects of adopting SFAS No. 143 for  
14 ratemaking purposes. As recognized in the Stipulation, the Companies have recorded all  
15 expense impacts of SFAS No. 143 as either regulatory assets or regulatory liabilities and  
16 continued depreciating all assets using the depreciation rates approved by the  
17 Commission. Continued use of the approved depreciation rates, which include a cost of  
18 removal component, while removing the effects of SFAS No. 143, ensures that the  
19 Companies do not charge excessive depreciation.

20 The Stipulation was made recognizing that the accounting under SFAS No. 143  
21 did not dictate the regulatory treatment of depreciation. In fact, SFAS No. 143  
22 recognized that regulated entities use depreciation rates that include a cost of removal



1 component and might be subject to different depreciation accounting for financial and  
2 regulatory accounting purposes. Paragraph 20 of SFAS No. 143 states:

3 Many rate-regulated entities currently provide for the costs related  
4 to the retirement of certain long-lived assets in their financial  
5 statements and recover those amounts in rates charged to their  
6 customers. Some of those costs result from asset retirement  
7 obligations within the scope of this Statement; others result from  
8 costs that are not within the scope of this Statement. The amounts  
9 charged to customers for the costs related to the retirement of long-  
10 lived assets may differ from the period costs recognized in  
11 accordance with the Statement and, therefore, may result in a  
12 difference in the timing of recognition of period costs for financial  
13 reporting and rate-making purposes. An additional recognition  
14 timing difference may exist when the costs related to the retirement  
15 of long-lived assets are included in amounts charged to customers  
16 but liabilities are not recognized in the financial statements. If the  
17 requirements of Statement 71 are met, a regulated entity also shall  
18 recognize a regulatory asset or liability for differences in the  
19 timing of recognition of the period costs associated with asset  
20 retirement obligations for financial reporting pursuant to this  
21 Statement and rate-making purposes.  
22

23 The FERC, in Order 631, similarly recognized the differences in financial and  
24 regulatory accounting practices for assets without a legal liability in paragraph 38 of the  
25 order, as follows:

26 Instead we will require jurisdictional entities to maintain separate  
27 subsidiary records for cost of removal for non-legal retirement  
28 obligations that are included as specific identifiable allowances  
29 recorded in accumulated depreciation in order to separately  
30 identify such information to facilitate external reporting and for  
31 regulatory analysis, and rate setting purposes.  
32

33 Paragraph 38 specifically addresses the FERC's requirements related to the \$456  
34 million Mr. Majoros refers to on lines 17 to 22 and lines 1 to 7 of pages 22 and 23,  
35 respectively, of his testimony. This amount is the accumulated normal cost of removal  
36 embedded in account 108, accumulated depreciation, and now separately tracked in  
37 account 108 sub-accounts. This amount has accumulated over time through the

1 application of depreciation rates approved by the Commission and was calculated with  
2 the assistance of Earl Robinson to allow the Companies to comply with the provisions of  
3 FERC Order 631. The Companies' continuing depreciation practice of including a cost  
4 of removal component in its depreciation rates ensures that customers benefiting from the  
5 use of the assets are also paying a portion of their ultimate replacement or removal costs.  
6 Mr. Majoros' contention of a \$456 million over-collection from ratepayers is without  
7 merit, and costs of removal is further addressed in the rebuttal testimony of Mr.  
8 Robinson.

9 **Obsolete Inventory and Carbide Lime Adjustments**

10 **Q. Please describe the positions of the witnesses for the AG and KIUC concerning**  
11 **LG&E's adjustment for obsolete inventory write-off.**

12 A. Mr. Henkes recommends that the Commission reject the adjustment on the grounds that it  
13 is a non-recurring event. For the same reason, Mr. Kollen also contends that the  
14 adjustment should be denied. He further asserts that, because the obsolete inventory is  
15 recoverable through the 2003 ESM, it should not be recovered through base rates.

16 **Q. Does LG&E agree with these recommendations?**

17 A. No. For reasons I will discuss, the Commission should reject the contentions of these  
18 witnesses and accept the pro forma adjustment for obsolete inventory.

19 The objective of the test period is to set a representative ongoing level of costs  
20 going forward to be recovered through base rates. The obsolete inventory adjustment of  
21 LG&E meets that objective. Rejecting the adjustment, as recommended by Mr. Henkes,  
22 simply disallows a frequently-incurred, reasonable cost of providing service. Including  
23 the adjustment, based upon a three-year amortization, more fully reflects a representative  
24 level of annual expenses for ratemaking purposes. This is especially so for the write-off

1 of obsolete inventory because it is an investment in utility property. In LG&E's 1988  
2 rate case, Case No. 10064, the Commission, in reviewing the early retirement of certain  
3 scrubbers and the abandonment of underground gas storage fields, treated these items as  
4 extraordinary property losses. The Commission did not completely disallow cost of this  
5 property, but instructed LG&E to establish deferred asset accounts and begin an  
6 amortization of those assets. This ratemaking treatment allowed LG&E to recover the  
7 total cost of the utility plant no longer in service, but did not allow an earned return on  
8 the plant retirements or abandonments. The same ratemaking treatment should be  
9 afforded LG&E in this case.

10 **Q. Please describe the positions of the witnesses for the AG, KIUC and DOD**  
11 **concerning LG&E's adjustment for the carbide lime adjustment.**

12 **A.** Mr. Henkes recommends that the Commission reject the adjustment on the grounds that it  
13 is a non-recurring event. For the same reason, Mr. Kollen also contends that the  
14 adjustment should be denied. He further asserts that, because the carbide lime is  
15 recoverable through the 2003 ESM, it should not be recovered through base rates. Mr.  
16 Prisco also recommends the Commission reject LG&E's pro forma adjustment for the  
17 carbide lime write-off because the payments occurred before the test year.

18 **Q. Does LG&E agree with these recommendations?**

19 **A.** No. The Commission should reject the contentions of these witnesses and accept the pro  
20 forma adjustment for carbide lime. The witnesses for the Intervenors are asserting a  
21 standard that fails to recognize that LG&E should be able to recover its prudently  
22 incurred costs. LG&E made an investment in the carbide lime now being written off.  
23 The Company should, as a matter of principle, be provided an opportunity to recover its

1 investment, irrespective of whether a write-off occurs every year or only once in 30  
2 years. None of the Intervenor witnesses claim, or otherwise demonstrate, that any of these  
3 investments were improperly incurred or otherwise imprudent. The Intervenor witnesses,  
4 however, have put forward an unsuitable standard for evaluating whether a utility should  
5 be allowed to recover an investment made to provide service to customers. By their very  
6 nature, investments in utility property are nonrecurring until they are replaced years later.

7 **Q. Do you agree with Mr. Kollen's recommendation that the Commission should not**  
8 **allow LG&E to defer and amortize the amounts associated with the write-offs of**  
9 **carbide lime and obsolete inventory?**

10 A. No. Mr. Kollen contends that these are non-recurring amounts that were subject to the  
11 ESM for the 2003 operating period and, for that reason, it is appropriate to remove what  
12 he asserts to be non-recurring amounts set in base rates prospectively. The write off of  
13 carbide lime occurred in 2002; accordingly, it was not included in the ESM for 2003. As  
14 previously discussed, these costs should be included to better reflect the representative  
15 level of annual expenses for ratemaking purposes going forward or to recover prudently  
16 incurred costs. The fact that these costs are included in the ESM is not a reason to  
17 exclude them as and at a representative level of these types of costs going forward for  
18 purposes of establishing base rates. Indeed, it is disingenuous on the part of KIUC to  
19 claim that the non-recurring write-offs of carbide lime and obsolete inventory should be  
20 disallowed from base rates because they will be recovered through the 2003 ESM and  
21 then in a different part of its testimony recommend to the Commission that the Company  
22 should not be permitted to complete the billing of the 2003 ESM. Mr. Kollen wants to be  
23 selective with regard to certain expenses and disregard the expressed operation of the



1 the Commission's data request PSC KIUC No. 2, Mr. Kollen admitted to the punitive  
2 impact of his recommendation when he confessed that KU would only collect 40 percent  
3 of its ice storm expenses for approximately four months and "under the assumption that  
4 such ice storm costs are on the margin."

5 The cumulative effect of KIUC's recommendation is almost a complete  
6 disallowance of a prudent and reasonable level of costs associated with extraordinary  
7 storm damage expense. Challenged with this inconsistency, Mr. Kollen then  
8 acknowledged in the same data response that the Company "was not entitled to any more  
9 than the 40% recovery of the ESM rate plan that was in effect for the calendar year  
10 2003."

11 **LG&E Cane Run Insurance Proceeds and Corporate Office Lease**

12 **Q. Does Mr. Kollen make a recommendation concerning adjustments LG&E proposes**  
13 **to remove from test year costs associated with Cane Run insurance proceeds and the**  
14 **corporate office lease?**

15 **A.** Mr. Kollen does not object to LG&E's pro forma adjustments to remove non-recurring  
16 credits recorded in the test year related to pre-test year expenses for the Cane Run  
17 insurance proceeds and the corporate office lease. However, he indicates that if the pro  
18 formas to recover a portion of the ice storm costs, obsolete inventory write-off, and  
19 carbide lime write-off, all expenses within the test year, are allowed that the Cane Run  
20 inventory proceeds and corporate office lease credits should be deferred and amortized,  
21 as well. Mr. Kollen bases his conclusion on the fact that all these costs and credits were  
22 included in the calculation of the 2003 ESM. Like the other adjustments, the Company-  
23 proposed adjustments to remove credits related to the Cane Run insurance proceeds and

1 the corporate office lease expense are made to adjust to a representative level of expenses  
2 on a going forward basis in base rates. Their treatment in the 2003 ESM calculation, or  
3 relative to expenses incurred during the test year given that they are credits for costs  
4 incurred prior to the test year, should not be considered in setting base rates. The  
5 Commission should reject KIUC's recommendation that LG&E defer and amortize these  
6 two amounts over a three-year period and reduce the revenue requirement accordingly.  
7 To do so would include these credits into base rates going forward as if these non-  
8 recurring amounts would continue in the future. For the same reason, Mr. Prisco's  
9 recommendation to normalize LG&E's corporate lease expense and Cane Run repair  
10 fund over a three-year period should be rejected.

11 **KU OMU NO<sub>x</sub> Expense**

12 **Q. Does KU agree with the recommendation of Mr. Kollen that the Commission should**  
13 **not allow the adjustment to operating expenses to reflect an increase in purchase**  
14 **power demand cost?**

15 **A.** No. As explained in my direct testimony, under the current power contract between KU  
16 and Owensboro Municipal Utilities ("OMU"), KU has a contractual obligation to pay  
17 OMU an increase in demand charges for KU's portion of the costs associated with  
18 OMU's compliance with NO<sub>x</sub> regulations proposed during the test period. The  
19 adjustment reflects KU's estimate of increases in demand charges that will begin July 1,  
20 2004. The contractual responsibility for these demand charges is known. The estimate of  
21 the increases in demand charges is reasonable. It is therefore not only appropriate to  
22 recover these costs through base rates, but it is also appropriate to pro form the test period  
23 to reflect the ongoing level of these costs going forward. The suggestion by KIUC that  
24 the Company could seek to have the Commission include such costs in its environmental

1 compliance plan and recover them through the ECR once they are known and measurable  
2 is appropriate only if the Commission makes a determination in this proceeding that KU  
3 can include the costs in its environmental compliance plan and recover them through the  
4 ECR beginning with the expense month July 2004 for billing in September 2004.  
5 KIUC's suggestion otherwise delays the recovery of KU's costs due to regulatory lag.

6 **ESM Audit Expenses**

7 **Q. Do you agree with Mr. Prisco's recommendation that the ESM audit expenses**  
8 **should be shared 50/50 between customers and shareholders?**

9 A. No. Mr. Prisco's testimony does not identify how any of the recommendations from the  
10 ESM audit benefit shareholders. This expense is no different than the cost of  
11 management audits. Pursuant to KRS 278.255(3), the cost of such an audit is borne by  
12 the utility, but the Commission is required to include such costs in the utility's cost of  
13 service for ratemaking purposes. An update of the actual costs associated with the ESM  
14 audit is attached hereto as VLS Rebuttal Exhibit 5.

15 **Merger Surcredit Agreement**

16 **Q. Do LG&E and KU agree with the recommendation of Mr. Higgins to reject selective**  
17 **provisions of the 2003 Settlement Agreement and LG&E's and KU's adjustment for**  
18 **shareholder merger savings?**

19 A. Absolutely not. Notwithstanding the very serious regulatory policy issues raised by Mr.  
20 Higgins' recommendation, as addressed by Mr. Beer in his rebuttal testimony, the  
21 Companies categorically reject his objections as I describe hereafter.

22  
23  
24



1 **Q. Do you agree with Mr. Higgins' first objection that the merger savings are not**  
2 **known and measurable amounts?**

3 A. No. The professional consulting firm, Deloitte & Touche, which has experience in  
4 identifying and evaluating the potential savings that could be created from synergistic  
5 mergers, independently developed the estimated savings. These estimates were then  
6 subject to full review, discovery and comment by the parties and Commission scrutiny  
7 during Case No. 97-300. There was no objection to their estimated nature by any party  
8 then or by any customer since then who has received the benefits from the operation of  
9 the merger surcredit mechanism. Since July 1998, the merger surcredit mechanism has  
10 successfully operated to provide customers with their fifty percent share of the non-fuel  
11 savings. Indeed, it is unlikely, in the absence of these rate cases, that Kroger would  
12 object to the use of these estimated savings for purposes of calculating the merger  
13 surcredit mechanism.

14 **Q. Do you agree with Mr. Higgins' second objection that the inability of the Companies**  
15 **to track the actual savings realized as a result of the merger shifts the risk**  
16 **associated with any achievement of the projected savings to customers?**

17 A. No. Mr. Higgins has created an argument without support. His testimony fails to  
18 demonstrate that the Companies have not achieved the estimated savings from the LG&E  
19 /KU merger. Indeed, his contention ignores the fact that the savings identified by  
20 Deloitte & Touche were undertaken during the first three to five years following the  
21 merger. Instead, he simply assumes the various savings initiatives are not complete or  
22 are yet to be undertaken. His contention further disregards the fact that, after the first  
23 three years, the increase in the estimated savings used for purposes of the merger

1 surcredit is largely due to the function of cost-escalation factors. Thus, his objection  
2 concerning the risk of achievement of the merger savings under current conditions is  
3 diminished because the cost-saving initiatives identified by Deloitte & Touche were  
4 undertaken many years ago, and the estimated savings associated with the initiatives are  
5 escalated over time. His second objection therefore should be rejected.

6 **Q. Do you agree with Mr. Higgins' contention that the merger surcredit benefit to**  
7 **customers is purely illusory?**

8 A. No. Under the ratemaking approved by the Commission's Order of October 16, 2003,  
9 customers and shareholders will continue to share in the benefits of the savings on a  
10 50/50 basis. This ratemaking is completely consistent with the Commission's  
11 determinations in Case Nos. 98-426 and 98-474 "that an adjustment should be made to  
12 secure the shareholder portion of the merger savings." Order, p. 82; Order, p. 80. In both  
13 cases, the Commission found it reasonable to use the gross level of merger savings as the  
14 amount to adjust expenses and specifically included eight months of the gross savings as  
15 the level of merger savings during the test period by an adjustment to increase operating  
16 expenses. This adjustment was necessary then, just as it is now, to eliminate the  
17 shareholders' merger savings from the return calculations.

18 Kroger's argument is illusory because, in effect, it would grant one hundred  
19 percent of the savings to customers and cause LG&E's and KU's returns to be overstated.  
20 This ratemaking treatment is necessary to provide the shareholders the benefit of their  
21 fifty percent share of the synergies created by the merger. If this ratemaking treatment is  
22 not awarded, the shareholders will be penalized twice for the merger costs: once by the

1 write-off below-the-line of the one-time merger cost recorded as an expense to Other  
2 Income and Deductions and again by an overstated rate of return.

3

4 The following illustrates the 50/50 balance between customers and shareholders  
5 struck by the Commission in its Order in Case No. 97-300:

	<b>Pre-Merger</b>	<b>Customer Savings</b>	<b>Shareholder Savings</b>	<b>Pro forma Adjustment for Shareholder Savings</b>	<b>Post-Merger Surcredit</b>
Revenues	\$1,000	\$(50)			\$950
Expenses	\$500	\$(50)	\$(50)	\$50	\$450
Pre-tax net operating income	<u>\$500</u>	<u>\$0</u>	<u>\$50</u>	<u>\$(50)</u>	<u>\$500</u>

6

7 This table assumes an overall \$100 savings, which is shared 50% by the customers and  
8 50% by the shareholders. The customers' 50% share of the \$100 savings is paid to the  
9 customers through the surcredit that reduces revenues by \$50. The shareholders' 50%  
10 share of the \$100 savings without the pro forma adjustment would increase pre-tax net  
11 operating profit by \$50. The pro forma adjustment for the shareholder savings brings  
12 pre-tax net operating profit back to the pre-merger amount and provides the shareholders  
13 for recovery of their 50% share of the savings. Without the pro forma adjustment the  
14 customers would receive 100% of the savings, 50% as a surcredit and 50% as an increase  
15 in pre-tax net operating profit.

16

17

1 **Q. Do you agree with Mr. Higgins' opinion that the impact of the shareholder savings**  
2 **adjustment cancelled any future benefits to customers from the 2003 settlement?**

3 A. No. As previously stated, the adjustment increased operating expenses to reflect the  
4 shareholders' portion of the merger savings and was necessary to eliminate the  
5 shareholders' portion of the merger savings from return calculations. Clearly, if this was  
6 an appropriate adjustment in the calculation of the revenue sufficiency in Case Nos. 98-  
7 426 and 98-474, it is even more appropriate to make the same adjustment in the  
8 calculation of the present revenue deficiency. The impact of Mr. Higgins'  
9 recommendation is to provide customers with one hundred percent of the savings from  
10 the merger and would be a punitive result.

11 **Q. Do you agree with Mr. Higgins' assertion that the shareholders of the merged**  
12 **utilities have already experienced enough of the benefits from 1999 through 2003**  
13 **and are no longer entitled to receive further benefits?**

14 A. No. Mr. Higgins' argument is contrary to the well-established determination by the  
15 Commission, made nearly seven years ago, that customers and shareholders should share  
16 the merger savings on a 50/50 basis. That fundamental determination, which was crucial  
17 to the decision to consummate the LG&E/KU merger, was established in the  
18 Commission's September 1997 Order in Case No. 97-300. It was then affirmed in the  
19 ratemaking treatment determination contained in the Commission's orders in Case Nos.  
20 98-426 and 98-474; and again in the six orders approving LG&E's and KU's annual ESM  
21 filings from 2000 to 2002. Most recently, this determination was reaffirmed in the  
22 Commission's October 2003 orders in Case Nos. 2003-0043 and 2003-0044. In those  
23 orders, the Commission approved the continuation of the 50/50 sharing of the merger

1 savings for another five-year period through the existing merger surcredit mechanisms  
2 and the long-standing ratemaking treatment of the shareholders' portion of the merger  
3 savings in the calculation of the annual ESM filings and base rate revenue requirements  
4 in these proceedings. Mr. Higgins' results-oriented contention should be rejected  
5 because is not consistent with the long-standing determination by, and numerous orders  
6 of, the Commission. The shareholders' 50 percent portion of the merger savings should  
7 not be confiscated for the benefit of ratepayers simply because it provides a convenient  
8 result in these rate proceedings.

9 **Q. What is your recommendation to the Commission concerning the proposal by**  
10 **Kroger?**

11 A. The Commission should reject the recommendation of Mr. Higgins concerning the  
12 merger surcredit, and continue to follow its established ratemaking determinations and  
13 prior orders concerning the regulatory treatment of the shareholder savings.

14 **Q. Do you agree with Mr. Prisco's recommendation to eliminate the pro forma**  
15 **operating revenue adjustment for merger savings?**

16 A. No. Mr. Prisco bases his contention apparently on the misunderstanding that the merger  
17 surcredit should have been accrued in account 449, Provision for Rate Refunds. This is  
18 not correct.

19 The merger surcredit is recorded as it is provided to customers as credits against  
20 billings. This treatment follows the matching principle of accounting whereby revenues  
21 and related expenses are recorded in the same period. Merger savings occur each month  
22 as costs are saved by the synergies created by the merger; accordingly, the allocation of

1 the customers' portion of those costs not incurred are credited to the customers' billings  
2 each month and recorded when credited. No accrual for refund is required.

3 The adjustments proposed by the Companies are to recognize the higher level of  
4 savings due to the customers under the settlement agreement approved by the  
5 Commission in October 2003. In that settlement the accounting for the refunds was  
6 clearly established and the settlement clearly indicates the amount of the adjustment for  
7 the shareholders' savings in any base rate case and indicates that the customers' portion  
8 of the savings will be adjusted to an equal amount (paragraphs 3.1.2 for LG&E and 3.2.2  
9 for KU). The adjustments proposed at Reference Schedule 1.22 reflect these amounts per  
10 the settlement agreement.

11 For these reasons, Mr. Prisco's recommendation should be rejected.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

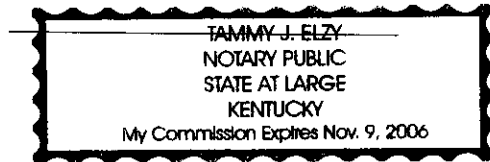
The undersigned, **Valerie L. Scott**, being duly sworn, deposes and says she is the Director of Financial Planning and Accounting-Utility Operations for Louisville Gas and Electric Company, that she has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of her information, knowledge and belief.

*Valerie L. Scott*  
\_\_\_\_\_  
VALERIE L. SCOTT

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 23<sup>rd</sup> day of April 2004.

*Tammy J. Elzy* (SEAL)  
\_\_\_\_\_  
Notary Public

My Commission Expires:



LOUISVILLE GAS AND ELECTRIC COMPANY  
CASE NO. 2003-00433

Schedule of Rate Case Preparation Costs

Response to Commissioner's Order  
Dated December 19, 2003

Question No. 57c

Responding Witness: Valerie L. Scott

Account	Date	Journal # / Check #	Vendor #	Vendor Name	Description	Amount	Hours	Rate/Hr
0100.111.008570.026900.186021.0321.0000	16-Jul-03	46268	16680	OGDEN NEWELL AND WELCH	LGE Electric rate case preparation	12,493.50	54.32	230.00
0100.111.008570.026900.186021.0321.0000	15-Sep-03	48681	16680	OGDEN NEWELL AND WELCH	LGE Electric rate case preparation	5,124.45	22.28	230.00
0100.111.008570.026900.186021.0321.0000	23-Sep-03	48681	16680	OGDEN NEWELL AND WELCH	LGE Electric rate case preparation	1,410.75	6.13	230.00
0100.111.008570.026900.186021.0321.0000	19-Nov-03	50331	16680	OGDEN NEWELL AND WELCH	LGE Electric rate case preparation	2,515.75	10.94	230.00
0100.111.008570.026900.186021.0321.0000	2-Dec-03	50407	16680	OGDEN NEWELL AND WELCH	LGE Electric rate case preparation	10,148.50	43.19	235.00
0100.111.008570.026900.186021.0321.0000	8-Dec-03	50407	16680	OGDEN NEWELL AND WELCH	LGE Electric rate case preparation	34,864.10	148.36	235.00
<b>TOTAL LEGAL OUTSIDE COUNSEL LG&amp;E ELECTRIC</b>						<b>66,557.05</b>		
0100.111.008570.021440.186021.0305.0000	7-Nov-03	48964	53957	EDGEWOOD CONSULTING INC	Rate-of-return studies for LGE Electric rate case	10,659.59	47.38	225.00
0100.111.008570.021440.186021.0305.0000	5-Dec-03	49783	53957	EDGEWOOD CONSULTING INC	Rate-of-return studies for LGE Electric rate case	4,785.49	21.27	225.00
0100.111.008570.021440.186021.0305.0000	2-Feb-04	51403	53957	EDGEWOOD CONSULTING INC	Rate-of-return studies for LGE Electric rate case	2,019.60	8.98	225.00
0100.111.008570.021440.186021.0305.0000	26-Mar-04	1317	53957	EDGEWOOD CONSULTING INC	Rate-of-return studies for LGE Electric rate case	2,602.37	10.50	225.00
0100.111.008570.021440.186021.0305.0000	3-Jul-03	45428	36895	MANAGEMENT APPLICATIONS CONSULTING INC	Paul Normand - LGE Electric rate case loss studies	630.00	3.94	160.00
0100.111.008570.021440.186021.0305.0000	1-Aug-03	46916	36895	MANAGEMENT APPLICATIONS CONSULTING INC	Paul Normand - LGE Electric rate case loss studies	1,092.00	6.83	160.00
0100.111.008570.021440.186021.0305.0000	3-Oct-03	48137	36895	MANAGEMENT APPLICATIONS CONSULTING INC	Paul Normand - LGE Electric rate case loss studies	1,386.00	8.66	160.00
0100.111.008570.021440.186021.0305.0000	7-Nov-03	48926	36895	MANAGEMENT APPLICATIONS CONSULTING INC	Paul Normand - LGE Electric rate case loss studies	7,182.00	44.89	160.00
0100.111.008570.021440.186021.0305.0000	5-Dec-03	50533	36895	MANAGEMENT APPLICATIONS CONSULTING INC	Paul Normand - LGE Electric rate case loss studies	5,502.00	34.39	160.00
0100.111.008570.021440.186021.0305.0000	29-Mar-04	1374	36895	MANAGEMENT APPLICATIONS CONSULTING INC	Paul Normand - LGE Electric rate case loss studies	668.07	4.18	160.00
0100.111.008570.021440.186021.0305.0000	9-Jul-03	45339	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	11,258.34	75.06	150.00
0100.111.008570.021440.186021.0305.0000	5-Aug-03	45687	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	17,541.67	116.94	150.00
0100.111.008570.021440.186021.0305.0000	4-Sep-03	46575	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	15,625.00	104.17	150.00
0100.111.008570.021440.186021.0305.0000	6-Oct-03	47909	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	14,300.00	95.33	150.00
0100.111.008570.021440.186021.0305.0000	4-Nov-03	48940	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	33,025.00	220.17	150.00
0100.111.008570.021440.186021.0305.0000	11-Dec-03	50043	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	27,050.00	180.33	150.00
0100.111.008570.021440.186021.0305.0000	8-Jan-04	50928	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	29,650.00	197.67	150.00
0100.111.008570.021440.186021.0305.0000	17-Feb-04	51828	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	11,950.00	69.50	150.00
0100.111.008570.021440.186021.0305.0000	11-Mar-04	52561	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	17,500.00	111.00	157.66
0100.111.008570.026120.186021.0314.0000	13-Apr-04	1846	40674	THE PRIME GROUP LLC	Various Consultants - LGE Electric rate case cost of service study	18,300.00	101.50	180.30
0100.111.008570.026120.186021.0314.0000	2-Jun-03	44543	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	655.73	3.45	190.00
0100.111.008570.026120.186021.0314.0000	30-Jun-03	45262	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	1,727.50	9.09	190.00
0100.111.008570.026120.186021.0314.0000	30-Jun-03	45262	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	337.50	2.25	150.00
0100.111.008570.026120.186021.0314.0000	4-Aug-03	46637	58967	AUS Consultants	David Sheffer - LGE Elec rate case depreciation study	337.50	2.25	150.00
0100.111.008570.026120.186021.0314.0000	4-Aug-03	46637	58967	AUS Consultants	Various Consultants - LGE Elec rate case depreciation study	12,930.25	68.05	190.00
0100.111.008570.026120.186021.0314.0000	1-Sep-03	47628	58967	AUS Consultants	Various Consultants - LGE Elec rate case depreciation study	2,585.63	17.24	150.00
0100.111.008570.026120.186021.0314.0000	1-Sep-03	47420	58967	AUS Consultants	Various Consultants - LGE Elec rate case depreciation study	6,007.50	31.62	190.00
0100.111.008570.026120.186021.0314.0000	6-Oct-03	48758	58967	AUS Consultants	Various Consultants - LGE Elec rate case depreciation study	2,324.22	12.23	190.00
0100.111.008570.026120.186021.0314.0000	6-Oct-03	48758	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	3,708.15	19.52	190.00
0100.111.008570.026120.186021.0314.0000	3-Nov-03	50779	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	1,140.00	6.00	190.00
0100.111.008570.026120.186021.0314.0000	3-Nov-03	50779	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	5,364.75	28.24	190.00
0100.111.008570.026120.186021.0314.0000	25-Mar-04	1397	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	1,822.88	9.59	190.00
0100.111.008570.026120.186021.0314.0000	25-Mar-04	1397	58967	AUS Consultants	Earl Robinson - LGE Elec rate case depreciation study	690.83	4.61	150.00
<b>TOTAL CONSULTANTS LG&amp;E ELECTRIC</b>						<b>281,298.86</b>	54.57	170.00



LOUISVILLE GAS AND ELECTRIC COMPANY  
CASE NO. 2003-00433

Schedule of Rate Case Preparation Costs  
Response to Commissioner's Order  
Dated December 19, 2003

Question No. 57c

Responding Witness: Valerie L. Scott

Account	Date	Wire # / Journal # / Check #	Vendor #	Vendor Name	Amount	Description	Hours	Rate/Hr
0100.111.008570.026900.186021.0670.0000	22-Dec-03	50123	59656	NATIONAL SERVICE INFORMATION INC	176.00	Corporate - retrieval - articles of incorporation		
0100.111.008570.026900.186021.0670.0000	23-Dec-03	50174	59656	NATIONAL SERVICE INFORMATION INC	20.00	Corporate - retrieval - assumed business name search		
0100.111.008570.026900.186021.0670.0000	23-Dec-03	50174	59656	NATIONAL SERVICE INFORMATION INC	40.00	Corporate - retrieval - good standing - short form		
0100.111.008570.021440.186021.0240.0000	8-Dec-03	50572	57676	HENDERSON SERVICES LLC	50.91	LGE Electric rate case related electrical work in Regulatory dept.	1.00	50.90
0100.111.008570.021440.186021.0301.0000	8-Dec-03	51357	18904	HENDERSON SERVICES LLC	525.96	LGE Electric rate case related electrical work in Regulatory dept.		
0100.111.008570.021440.186021.0604.0000	21-Jan-04	51184	18904	THE COURIER JOURNAL	9,301.48	LGE Electric rate case related electrical work in Regulatory dept.	10.33	50.90
0100.111.008570.021440.186021.0604.0000	22-Jan-04	51137	18904	THE COURIER JOURNAL	26,660.08	Newspaper ads		
0100.111.008570.021440.186021.0301.0000	20-Jan-04	51136	24102	XEROX CORP	833.94	Coping services - data response		
0100.111.008570.021440.186021.0301.0000	21-Jan-04	51136	24102	XEROX CORP	379.83	Coping services - data response		
0100.111.008570.021440.186021.0301.0000	26-Feb-04	52144	24102	XEROX CORP	1,353.60	Coping services - data response		
0100.111.008570.021440.186021.0301.0000	26-Feb-04	52144	24102	XEROX CORP	1,710.90	Coping services - data response		
0100.111.008570.021440.186021.0301.0000	26-Feb-04	52144	24102	XEROX CORP	1,150.25	Coping services - data response		
0100.111.008570.021440.186021.0301.0000	30-Mar-04	1473	24102	XEROX CORP	8,680.04	Coping services - data response		
0100.111.008570.021440.186021.0301.0000	31-Jan-04	9041100	21652	JONES LANG LASALLE	1,237.64	Overtime HVAC		
0100.111.008570.021440.186021.0620.0000	29-Feb-04	9041203	21652	JONES LANG LASALLE	119.25	Overtime HVAC		
0100.111.008570.021440.186021.0620.0000	31-Mar-04	1473	21652	JONES LANG LASALLE	112.77	Overtime HVAC		
0100.111.008570.021440.186021.0670.0000	24-Feb-04	52038	53655	MERRILL COMMUNICATIONS LLC	287.50	File 8K related to rate case		
<b>TOTAL SUPPLIES / SERVICES - OTHER LG&amp;E ELECTRIC</b>					<b>52,640.15</b>			
<b>TOTAL ELECTRIC RATECASE EXPENSES @ 4/19/2004</b>					<b>400,496.06</b>			
0100.131.008570.026900.186022.0321.0000	23-Jul-03	46279	40033	STOLL KEENON AND PARK LLP	12,643.42	LGE Gas rate case preparation	48.63	260.00
0100.131.008570.026900.186022.0321.0000	16-Oct-03	49827	40033	STOLL KEENON AND PARK LLP	3,776.08	LGE Gas rate case preparation	14.52	260.00
0100.105.018570.026900.186022.0321.0000	6-Nov-03	49745	40033	STOLL KEENON AND PARK LLP	6,997.50	LGE Gas rate case preparation	26.91	260.00
0100.131.008570.026900.186022.0321.0000	10-Nov-03	48642	40033	STOLL KEENON AND PARK LLP	10,668.83	LGE Gas rate case preparation	41.03	260.00
0100.131.008570.026900.186022.0321.0000	23-Feb-04	52009	40033	STOLL KEENON AND PARK LLP	18,987.51	LGE Gas rate case preparation	71.50	260.00
0100.131.008570.026900.186022.0321.0000	24-Feb-04	52048	40033	STOLL KEENON AND PARK LLP	39,061.16	LGE Gas rate case preparation	150.00	260.00
<b>TOTAL LEGAL-OUTSIDE COUNSEL LG&amp;E GAS</b>					<b>92,134.50</b>			
0100.131.008570.021440.186022.0305.0000	7-Nov-03	48964	53957	EDGEWOOD CONSULTING INC	5,329.79	Rate-of-return studies for LGE Gas rate case	23.69	225.00
0100.131.008570.021440.186022.0305.0000	12-Dec-03	49783	53957	EDGEWOOD CONSULTING INC	2,392.75	Rate-of-return studies for LGE Gas rate case	10.63	225.00
0100.131.008570.021440.186022.0305.0000	2-Feb-04	51403	53957	EDGEWOOD CONSULTING INC	1,009.80	Rate-of-return studies for LGE Gas rate case	4.49	225.00
0100.131.008570.021440.186022.0305.0000	30-Mar-04	1405	53957	EDGEWOOD CONSULTING INC	1,301.19	Rate-of-return studies for LGE Gas rate case	5.25	225.00
0100.131.008570.021440.186022.0305.0000	9-Jul-03	45339	40674	THE PRIME GROUP LLC	9,683.33	Various Consultants - LGE Gas rate case cost of service study	64.56	150.00
0100.131.008570.021440.186022.0305.0000	5-Aug-03	45687	40674	THE PRIME GROUP LLC	7,916.67	Various Consultants - LGE Gas rate case cost of service study	52.78	150.00
0100.131.008570.021440.186022.0305.0000	4-Sep-03	46575	40674	THE PRIME GROUP LLC	13,275.00	Various Consultants - LGE Gas rate case cost of service study	88.50	150.00
0100.131.008570.021440.186022.0305.0000	6-Oct-03	47909	40674	THE PRIME GROUP LLC	10,500.00	Randall Walker - LGE Gas rate case cost of service study	70.00	150.00
0100.131.008570.021440.186022.0305.0000	18-Nov-03	48940	40674	THE PRIME GROUP LLC	15,000.00	Various Consultants - LGE Gas rate case cost of service study	100.00	150.00
0100.131.008570.021440.186022.0305.0000	11-Dec-03	50043	40674	THE PRIME GROUP LLC	16,950.00	Various Consultants - LGE Gas rate case cost of service study	113.00	150.00
0100.131.008570.021440.186022.0305.0000	8-Jan-04	50928	40674	THE PRIME GROUP LLC	21,650.00	Various Consultants - LGE Gas rate case cost of service study	144.33	150.00
0100.131.008570.021440.186022.0305.0000	17-Feb-04	51828	40674	THE PRIME GROUP LLC	6,850.00	Various Consultants - LGE Gas rate case cost of service study	42.50	161.18

LOUISVILLE GAS AND ELECTRIC COMPANY  
CASE NO. 2003-00433

Schedule of Rate Case Preparation Costs  
Response to Commission's Order  
Dated December 19, 2003

Question No. 37c

Responding Witness: Valerie L. Scott

Account	Date	Journal # / Check #	Wire # / Journal #	Vendor #	Vendor Name	Amount	Description	Hours	Rate/Hr
0100.131.008570.021440.186022.0305.0000	11-Mar-04	52561		40674	THE PRIME GROUP LLC	9,100.00	Various Consultants - LGE Gas rate case cost of service study	56.50	161.06
0100.131.008570.021440.186022.0305.0000	13-Apr-04	1846		40674	THE PRIME GROUP LLC	8,075.00	Various Consultants - LGE Gas rate case cost of service study	44.50	181.46
0100.131.008570.026120.186022.0314.0000	2-Jun-03	44543		58967	AUS Consultants	218.58	Earl Robinson - LGE Gas rate case depreciation study	1.15	190.00
0100.131.008570.026120.186022.0314.0000	30-Jun-03	45262		58967	AUS Consultants	675.00	David Sheffer - LGE Gas rate case depreciation study	4.50	150.00
0100.131.008570.026120.186022.0314.0000	30-Jun-03	45262		58967	AUS Consultants	112.50	David Sheffer - LGE Gas rate case depreciation study	0.75	150.00
0100.131.008570.026120.186022.0314.0000	4-Aug-03	46637		58967	AUS Consultants	6,646.05	Various Consultants - LGE Gas rate case cost of service study	34.98	190.00
0100.131.008570.026120.186022.0314.0000	4-Aug-03	46637		58967	AUS Consultants	861.87	Various Consultants - LGE Gas rate case cost of service study	5.75	150.00
0100.131.008570.026120.186022.0314.0000	1-Sep-03	47420		58967	AUS Consultants	14,830.00	Various Consultants - LGE Gas rate case cost of service study	78.05	190.00
0100.131.008570.026120.186022.0314.0000	1-Sep-03	47428		58967	AUS Consultants	2,002.50	Various Consultants - LGE Gas rate case cost of service study	10.54	190.00
0100.131.008570.026120.186022.0314.0000	6-Oct-03	48945		58967	AUS Consultants	2,365.00	Earl Robinson - LGE Gas rate case cost of service study	13.50	190.00
0100.131.008570.026120.186022.0314.0000	6-Oct-03	48945		58967	AUS Consultants	380.00	Earl Robinson - LGE Gas rate case cost of service study	2.00	190.00
0100.131.008570.026120.186022.0314.0000	6-Oct-03	47858		58967	AUS Consultants	1,955.50	Earl Robinson - LGE Gas rate case cost of service study	10.29	190.00
0100.131.008570.026120.186022.0314.0000	3-Nov-03	50779		58967	AUS Consultants	607.62	Earl Robinson - LGE Gas rate case cost of service study	3.20	190.00
0100.131.008570.026120.186022.0314.0000	31-Mar-04	1397		58967	AUS Consultants	890.39	Earl Robinson - LGE Gas rate case cost of service study	5.94	150.00
0100.131.008570.026120.186022.0314.0000	22-Mar-04	1397		58967	AUS Consultants	230.27	Earl Robinson - LGE Gas rate case cost of service study	1.54	150.00
					<b>TOTAL CONSULTANTS LG&amp;E GAS</b>	<b>161,008.81</b>			

0100.131.008570.021440.186022.0240.0000	8-Dec-03	50572		57676	HENDERSON SERVICES LLC	50.91	LGE Electric rate case related electrical work in Regulatory dept.	1.00	50.90
0100.131.008570.021440.186022.0301.0000	8-Dec-03	50572		57676	HENDERSON SERVICES LLC	525.97	LGE Electric rate case related electrical work in Regulatory dept.	10.33	50.90
0100.131.008570.021440.186022.0604.0000	21-Jan-04	51357		18904	THE COURIER JOURNAL	9,301.48	Newspaper ads		
0100.131.008570.021440.186022.0604.0000	20-Jan-04	51184		18904	THE COURIER JOURNAL	26,660.08	Newspaper ads		
0100.131.008570.021440.186022.0301.0000	20-Jan-04	51137		24102	XEROX CORP	833.94	Coping services - data response		
0100.131.008570.021440.186022.0301.0000	21-Jan-04	51136		24102	XEROX CORP	379.83	Coping services - data response		
0100.131.008570.021440.186022.0301.0000	26-Feb-04	52144		24102	XEROX CORP	1,353.60	Coping services - data response		
0100.131.008570.021440.186022.0301.0000	26-Feb-04	52144		24102	XEROX CORP	1,710.90	Coping services - data response		
0100.131.008570.021440.186022.0301.0000	26-Feb-04	52144		24102	XEROX CORP	1,150.25	Coping services - data response		
0100.131.008570.021440.186022.0301.0000	30-Mar-04	1473		24102	XEROX CORP	8,680.04	Coping services - data response		
0100.131.008570.021440.186022.0620.0000	31-Jan-04	9041100		21652	JONES LANG LASALLE	1,237.64	Overtime HVAC		
0100.131.008570.021440.186022.0620.0000	29-Feb-04	9041203		21652	JONES LANG LASALLE	119.25	Overtime HVAC		
0100.131.008570.021440.186022.0620.0000	31-Mar-04	1473		21652	JONES LANG LASALLE	112.77	Overtime HVAC		
					<b>TOTAL SUPPLIES / SERVICES - OTHER LG&amp;E GAS</b>	<b>52,116.66</b>			

					<b>TOTAL GAS RATE CASE EXPENSES @ 4/19/2004</b>	<b>305,259.97</b>			
					<b>TOTAL RATE CASE EXPENSES @ 4/19/2004</b>	<b>705,756.03</b>			

KENTUCKY UTILITIES COMPANY  
CASE NO. 2003-00434  
Schedule of Rate Case Preparation Costs  
Response to Commission's Order  
Dated December 19, 2003  
Question No. 57c  
Responding Witness: Valerie L. Scott

Account	Date	Invoice #	Journal # / Check #	Wire # / Check #	Vendor #	Vendor Name	Amount	Description	Hours	Rate/Hr
0110.105.018570.026900.186023.0321.000	16-Jul-03	109389	46268		16680	OGDEN NEWELL AND WELCH	12,493.50	KU Electric rate case preparation	54.32	230.00
0110.105.018570.026900.186023.0321.000	15-Sep-03	110781	48681		16680	OGDEN NEWELL AND WELCH	5,124.46	KU Electric rate case preparation	22.28	230.00
0110.105.018570.026900.186023.0321.000	23-Sep-03	111024	48681		16680	OGDEN NEWELL AND WELCH	1,410.75	KU Electric rate case preparation	6.13	230.00
0110.105.018570.026900.186023.0321.000	19-Nov-03	112322	50331		16680	OGDEN NEWELL AND WELCH	2,515.75	KU Electric rate case preparation	10.94	230.00
0110.105.018570.026900.186023.0321.000	2-Dec-03	113192	50407		16680	OGDEN NEWELL AND WELCH	10,148.50	KU Electric rate case preparation	43.19	235.00
0110.105.018570.026900.186023.0321.000	8-Dec-03	113330	50407		16680	OGDEN NEWELL AND WELCH	34,864.10	KU Electric rate case preparation	148.36	235.00
<b>TOTAL LEGAL OUTSIDE COUNSEL KU ELECTRIC</b>							<b>66,557.06</b>			
0110.105.018570.021440.186023.0305.000	4-Nov-03	33401	48964		53957	EDGEWOOD CONSULTING INC	10,659.59	Rate-of-return studies for KU Electric rate case	47.38	225.00
0110.105.018570.021440.186023.0305.000	5-Dec-03	33402	49783		53957	EDGEWOOD CONSULTING INC	4,785.49	Rate-of-return studies for KU Electric rate case	21.27	225.00
0110.105.018570.021440.186023.0305.000	3-Feb-04		51403		53957	EDGEWOOD CONSULTING INC	2,019.60	Rate-of-return studies for KU Electric rate case	8.50	225.00
0110.105.018570.021440.186023.0305.000	3-Feb-04		1317		53957	EDGEWOOD CONSULTING INC	2,602.37	Rate-of-return studies for KU Electric rate case	10.50	225.00
0110.105.018570.021440.186023.0305.000	3-Jul-03	20030714	45428		36895	MANAGEMENT APPLICATIONS CONSULTING INC	630.00	Paul Normand - KU Electric rate case loss studies	3.94	160.00
0110.105.018570.021440.186023.0305.000	1-Aug-03	20030809	46916		36895	MANAGEMENT APPLICATIONS CONSULTING INC	1,092.00	Paul Normand - KU Electric rate case loss studies	6.83	160.00
0110.105.018570.021440.186023.0305.000	3-Oct-03	20031007	48137		36895	MANAGEMENT APPLICATIONS CONSULTING INC	1,386.00	Paul Normand - KU Electric rate case loss studies	8.66	160.00
0110.105.018570.021440.186023.0305.000	7-Nov-03	20031109	48926		36895	MANAGEMENT APPLICATIONS CONSULTING INC	7,182.00	Paul Normand - KU Electric rate case loss studies	44.89	160.00
0110.105.018570.021440.186023.0305.000	5-Dec-03	20031208	50533		36895	MANAGEMENT APPLICATIONS CONSULTING INC	5,502.00	Paul Normand - KU Electric rate case loss studies	34.39	160.00
0110.105.018570.021440.186023.0305.000	29-Mar-04	20031208	1374		36895	MANAGEMENT APPLICATIONS CONSULTING INC	668.06	Paul Normand - KU Electric rate case loss studies	4.18	160.00
0110.105.018570.021440.186023.0305.000	9-Jul-03	45339	45339		40674	THE PRIME GROUP LLC	4,633.33	Sleve Seelye - KU Electric rate case cost of service study	23.17	200.00
0110.105.018570.021440.186023.0305.000	5-Aug-03	45687	46074		40674	THE PRIME GROUP LLC	14,516.66	Randall Walker - KU Electric rate case cost of service study	96.78	150.00
0110.105.018570.021440.186023.0305.000	4-Sep-03	46575	46575		40674	THE PRIME GROUP LLC	6,600.00	Various Consultants - KU Electric rate case strategic analysis support	44.00	150.00
0110.105.018570.021440.186023.0305.000	6-Oct-03	47909	47909		40674	THE PRIME GROUP LLC	2,600.00	Sleve Seelye - KU Electric rate case cost of service study	13.00	200.00
0110.105.018570.021440.186023.0305.000	4-Nov-03	48940	48940		40674	THE PRIME GROUP LLC	14,750.00	Various Consultants - KU Electric rate case cost of service study	98.33	150.00
0110.105.018570.021440.186023.0305.000	11-Dec-03	50043	50928		40674	THE PRIME GROUP LLC	30,800.00	Various Consultants - KU Electric rate case cost of service study	205.33	150.00
0110.105.018570.021440.186023.0305.000	8-Jan-04	50928	51828		40674	THE PRIME GROUP LLC	30,762.50	Various Consultants - KU Electric rate case cost of service study	205.08	150.00
0110.105.018570.021440.186023.0305.000	17-Feb-04	51828	51828		40674	THE PRIME GROUP LLC	12,075.00	Various Consultants - KU Electric rate case cost of service study	70.00	163.93
0110.105.018570.021440.186023.0305.000	11-Mar-04	52561	52561		40674	THE PRIME GROUP LLC	17,300.00	Various Consultants - KU Electric rate case cost of service study	110.00	157.27
0110.105.018570.021440.186023.0305.000	13-Apr-04	1846	1846		40674	THE PRIME GROUP LLC	16,950.00	Various Consultants - KU Electric rate case cost of service study	93.00	182.26
0110.105.018570.026120.186023.0314.000	30-Jun-03	88884	45262		58967	AUS Consultants	1,825.04	Earl Robinson - KU Elec rate case depreciation study	12.17	150.00
0110.105.018570.026120.186023.0314.000	2-Jun-03	88668	44543		58967	AUS Consultants	874.32	Earl Robinson - KU Elec rate case depreciation study	4.60	190.00
0110.105.018570.026120.186023.0314.000	4-Aug-03	89069	46637		58967	AUS Consultants	6,240.25	Various Consultants - KU Elec rate case depreciation study	32.84	190.00
0110.105.018570.026120.186023.0314.000	1-Sep-03	89308	47420		58967	AUS Consultants	6,271.25	Various Consultants - KU Elec rate case depreciation study	33.01	190.00
0110.105.018570.026120.186023.0314.000	6-Oct-03	89508	48856		58967	AUS Consultants	10,284.55	Various Consultants - KU Elec rate case depreciation study	54.13	190.00
0110.105.018570.026120.186023.0314.000	3-Nov-03	89754	50779		58967	AUS Consultants	4,395.00	Earl Robinson - KU Elec rate case depreciation study	23.13	190.00
0110.105.018570.026120.186023.0314.000	19-Mar-04	89754	1138		58967	AUS Consultants	2,500.00	Earl Robinson - KU Elec rate case depreciation study	13.16	190.00
0110.105.018570.026120.186023.0314.000	25-Mar-04	89754	1397		58967	AUS Consultants	8,511.53	Earl Robinson - KU Elec rate case depreciation study	50.07	170.00

KENTUCKY UTILITIES COMPANY  
CASE NO. 2003-00434  
Schedule of Rate Case Preparation Costs  
Response to Commissioner's Order  
Dated December 19, 2003  
Question No. 57c

Responding Witness: Valerie L. Scott

Account	Date	Invoice #	Journal # / Check #	Wire # / Journal # / Check #	Vendor #	Vendor Name	Amount	Description	Hours	Rate/Hr
<b>TOTAL CONSULTANTS KU ELECTRIC</b>							<b>228,416.54</b>			
0110.105.018570.026900.186023.0670.000	23-Dec-03		50174	59656	NATIONAL SERVICE INFORMATION INC	56.00	Corporate - retrieval - assumed business name search			
0110.105.018570.026900.186023.0670.000	23-Dec-03		50174	59656	NATIONAL SERVICE INFORMATION INC	41.00	Corporate - retrieval - good standing - short form			
0110.105.018570.026900.186023.0670.000	23-Dec-03		50174	59656	NATIONAL SERVICE INFORMATION INC	71.00	Corporate - retrieval - articles of incorporation			
0110.105.018570.026900.186023.0670.000	23-Dec-03		50174	59656	NATIONAL SERVICE INFORMATION INC	45.50	Corporate - retrieval - articles of incorporation			
0110.105.018570.026900.186023.0670.000	23-Dec-03		50174	59656	NATIONAL SERVICE INFORMATION INC	20.00	Corporate - retrieval - assumed business name search			
0110.105.018570.026900.186023.0670.000	23-Dec-03		50174	59656	NATIONAL SERVICE INFORMATION INC	30.00	Corporate - retrieval - good standing - short form			
0110.105.018570.021440.186023.0210.000	27-Dec-03	21630	50572	57676	HENDERSON SERVICES LLC	50.92	KU Electric rate case related electrical work in Regulatory dept.		1.00	50.90
0110.105.018570.021440.186023.0210.000	27-Dec-03	21630	50572	57676	HENDERSON SERVICES LLC	525.97	KU Electric rate case related electrical work in Regulatory dept.		10.33	50.90
0110.105.018570.021440.186023.0210.000	20-Jan-04		51137	24102	XEROX CORP	2,501.82	Coping services - data response			
0110.105.018570.021440.186023.0210.000	21-Jan-04		51136	24102	XEROX CORP	379.84	Coping services - data response			
0110.105.018570.021440.186023.0210.000	26-Feb-04		52144	24102	XEROX CORP	4,060.80	Coping services - data response			
0110.105.018570.021440.186023.0210.000	26-Feb-04		52144	24102	XEROX CORP	5,132.69	Coping services - data response			
0110.105.018570.021440.186023.0210.000	26-Feb-04		52144	24102	XEROX CORP	3,450.75	Coping services - data response			
0110.105.018570.021440.186023.0210.000	30-Mar-04		1473	24102	XEROX CORP	26,040.13	Coping services - data response			
0110.105.018570.021440.186023.0210.000	31-Jan-04		9041100	21652	JONES LANG LASALLE	2,475.28	Overtime HVAC			
0110.105.018570.021440.186023.0210.000	29-Feb-04		9041203	21652	JONES LANG LASALLE	238.50	Overtime HVAC			
0110.105.018570.021440.186023.0210.000	31-Mar-04		1473	21652	JONES LANG LASALLE	225.53	Overtime HVAC			
0110.105.018570.026900.186023.0670.000	24-Feb-04		52038	53655	MERRILL COMMUNICATIONS LLC	287.50	File 8K related to rate case			
0110.105.018570.026900.186023.0604.000	5-Feb-04		51672	03125LKO	KENTUCKY PRESS SERVICE INC	312,078.27	Newspaper ads			
0110.105.018570.026900.186023.0604.000	5-Feb-04		51672	0412LKO	KENTUCKY PRESS SERVICE INC	223,348.87	Newspaper ads			
<b>TOTAL SUPPLIES / SERVICES - OTHER KU ELECTRIC</b>							<b>581,060.37</b>			
<b>TOTAL RATE CASE EXPENSES AT 4/19/2004</b>							<b>876,033.97</b>			

LOUISVILLE GAS AND ELECTRIC COMPANY

Adjustment for Injuries and Damages FERC Account 925  
For the Twelve Months Ended September 30, 2003

	<u>Electric</u>	<u>Gas</u>
1. Injury/Damage provision based upon ten year average	\$ 2,714,892	\$ 723,506
2. Injury/Damage expenses incurred during the 12 months ended September 30, 2003	<u>1,504,891</u>	<u>411,928</u>
3. Adjustment	<u>\$ 1,210,001</u>	<u>\$ 311,578</u>

Year	Electric	Gas	CPI-All Urban Consumers	Adjusted Electric	Adjusted Gas
2003 *	\$ 1,504,891	\$ 411,928	1.0000	\$ 1,504,891	\$ 411,928
2002	3,369,044	354,333	1.0160	3,422,949	360,002
2001	726,180	323,911	1.0440	758,132	338,163
2000	1,750,482	770,436	1.0780	1,887,019	830,530
1999	1,912,057	1,048,283	1.1000	2,103,262	1,153,111
1998	1,666,969	757,523	1.1160	1,860,337	845,396
1997	1,286,765	607,735	1.1380	1,464,339	691,602
1996	(1,006,929)	764,769	1.1680	(1,176,093)	893,250
1995	(5,085,639)	725,262	1.1960	(6,082,424)	867,413
1994	17,517,597	690,399	1.2220	21,406,504	843,668
Total				<u>\$27,148,915</u>	<u>\$ 7,235,064</u>
Ten Year Average				<u>\$ 2,714,892</u>	<u>\$ 723,506</u>

\*Test year amount

Revised CPI for 1997 from original data response, PSC 2-16(g)(4). Corrected 1997 CPI agrees with amounts provided on PSC 2-16(f) page 1 of 6 and Storm damage pro forma adjustment, Rives Exhibit 1, Reference Schedule 1.14.

KENTUCKY UTILITIES

Adjustment for Injuries and Damages FERC Account 925  
For the Twelve Months Ended September 30, 2003

1. Injury/Damage provision based upon ten year average	\$ 3,233,546
2. Injury/Damage expenses incurred during the 12 months ended September 30, 2003	1,861,201
3. Adjustment	1,372,345
4. Kentucky Jurisdiction	88.826%
5. Kentucky Jurisdictional adjustment	\$ 1,218,999

Year	Amount	CPI-All Urban Consumers	Adjusted Amount
2003 *	\$ 1,861,201	1.0000	\$ 1,861,201
2002	2,510,515	1.0160	2,550,683
2001	1,609,827	1.0440	1,680,660
2000	1,637,520	1.0780	1,765,246
1999	2,126,017	1.1000	2,338,619
1998	2,187,039	1.1160	2,440,735
1997	3,355,659	1.1380	3,818,740
1996	4,579,884	1.1680	5,349,305
1995	4,496,799	1.1960	5,378,172
1994	4,216,123	1.2220	5,152,102
Total			\$ 32,335,463
Ten Year Average			\$ 3,233,546

\*Test year amount

Revised CPI for 1997 and 1998 from original data response, PSC 2-16(g)(4).  
 Corrected CPI agrees with amounts provided on PSC 2-16(f)(1) page 1 of 6.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY FOR AN ORDER	)	
APPROVING AN ACCOUNTING ADJUSTMENT TO	)	CASE NO.
BE INCLUDED IN EARNINGS SHARING	)	2003-00426
MECHANISM CALCULATIONS FOR 2003	)	

AND

APPLICATION OF KENTUCKY UTILITIES	)	
COMPANY FOR AN ORDER APPROVING AN	)	
ACCOUNTING ADJUSTMENT TO BE INCLUDED	)	CASE NO.
IN EARNINGS SHARING MECHANISM	)	2003-00427
CALCULATIONS FOR 2003	)	

O R D E R

On November 14, 2003, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively the "Companies") filed applications seeking approval of an accounting adjustment to their respective Earnings Sharing Mechanism ("ESM") filings for calendar year 2003. The accounting adjustment is related to the Companies' adoption during 2003 of Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*.

The Kentucky Industrial Utility Customers, Inc. ("KIUC") sought and was granted intervention in this proceeding.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, with an effective implementation date of January 1, 2003. In October 2002, the Federal Energy Regulatory Commission ("FERC") issued a Notice of Proposed Rulemaking to

modify the Uniform System of Accounts and the FERC annual report forms. FERC issued its final rule on April 9, 2003, generally adopting the requirements of SFAS No. 143.<sup>1</sup>

In conjunction with the adoption of SFAS No. 143, the Companies were required to recognize the "cumulative effect impact" on their respective financial statements, which represents the asset retirement obligation ("ARO") asset depreciation and ARO liability accretion that would have been recorded had the asset and liability been recorded by the Companies when the original asset was placed into service.<sup>2</sup> The timing of cost recognition under SFAS No. 143 and differences in rate recovery methods could result in the need for the Companies to record regulatory assets or liabilities. As part of the entries to record the adoption of SFAS No. 143, LG&E and KU have each recorded a regulatory asset and a regulatory liability.<sup>3</sup>

LG&E and KU state that the accounting required in conjunction with the adoption of SFAS No. 143 results in their respective net operating incomes for calendar year 2003 being overstated for ESM calculation purposes. The overstatement occurs because the cumulative effect impact adjustments are recorded "below the line" while

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<sup>1</sup> FERC Docket No. RM02-7-000, Order No. 631, *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations*, Final Rule Issued April 9, 2003.

<sup>2</sup> LG&E has recorded a net cumulative effect impact of \$5,281,000 while KU has recorded a net cumulative effect impact of \$9,926,000. See Application, Exhibit 1 for LG&E and KU.

<sup>3</sup> LG&E has recorded a regulatory asset of \$5,281,000 and a regulatory liability of \$59,000 related to the adoption of SFAS No. 143. KU has recorded a regulatory asset of \$9,926,000 and a regulatory liability of \$910,000. See Response to the Commission Staff's First Data Request dated December 5, 2003, Item 4(b).



the corresponding regulatory credit is recorded "above the line." The Companies request authorization to offset this "above the line" regulatory credit when performing their respective ESM calculations for calendar year 2003. The Companies also request Commission approval to establish the regulatory asset and liability accounts associated with the adoption of SFAS No. 143.<sup>4</sup>

On December 19, 2003, the Companies and KIUC filed a stipulation agreement ("Stipulation") where the parties recommend the Commission issue an Order granting the applications of LG&E and KU subject to the accounting procedures described in the Stipulation. The parties request the Commission issue an Order which:

- 1) Approves the regulatory assets and liabilities associated with adopting SFAS No. 143 and going forward;
- 2) Eliminates the impact on net operating income in the 2003 ESM annual filing caused by adopting SFAS No. 143;
- 3) To the extent accumulated depreciation related to the cost of removal is recorded in regulatory assets or regulatory liabilities, such amounts will be reclassified to accumulated depreciation for rate-making purposes of calculating rate base; and
- 4) The ARO assets, related ARO asset accumulated depreciation, ARO liabilities, and remaining regulatory assets associated with the adoption of SFAS No. 143 will be excluded from rate base.<sup>5</sup>

A copy of the Stipulation is attached to this Order as Appendix A.

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<sup>4</sup> Response to the Commission Staff's First Data Request dated December 5, 2003, Item 2(c). The Companies did not previously seek approval to establish the regulatory asset and liability accounts based on the assumption that the cost of removal was covered by the Commission's previous approval of the depreciation rates currently in effect. However, the Companies stated that if the Commission did not agree with the assumption, the Companies also request the approval of the regulatory asset and liability accounts in this proceeding.

<sup>5</sup> Stipulation at 5.

The Commission has reviewed the information provided by the Companies and the terms of the Stipulation, and finds that the requested accounting treatments should be approved. The cumulative effect impact reflects the restatement of account balances in accordance with the requirements of SFAS No. 143. The determination of the calendar year 2003 ESM calculations should exclude this change in accounting treatment when determining the Companies' net operating income for ESM purposes.

Concerning the establishment of the regulatory asset and liability accounts, LG&E and KU are reminded that the prior approval of the Commission is required before these accounts are established. However, given the fact the regulatory asset and liability accounts established by the Companies were a direct result of the adoption of SFAS No. 143, in this case the Commission will approve the establishment of these regulatory asset and liability accounts. This approval is for accounting purposes only, and the appropriate rate-making treatment for these regulatory asset and liability accounts will be addressed in the Companies' next general rate case. LG&E and KU are reminded that in the future the Commission's prior approval will be required before regulatory asset or liability accounts are established.

The Commission is not clear as to the exact meaning of Nos. 3 and 4 on page 5 of the Stipulation. When the Stipulation is read as a whole, it appears to address the accounting treatment for the adoption of SFAS No. 143 and how the associated accounting entries will be treated in the calendar year 2003 ESM calculations. However, both discuss rate-making treatments for the calculation of rate base without distinguishing whether the rate base treatments described apply only to the calendar year 2003 ESM calculations or to a general base rate proceeding. Based upon our

understanding of the provisions of the Stipulation, the Commission finds that Nos. 3 and 4 should be approved for purposes of the calendar year 2003 ESM calculations only. Consistent with our approval of the regulatory asset and liability accounts, the Commission will address the rate-making treatment for base rates in the next general rate case. The Commission will ask the Companies and KIUC to indicate their acceptance of our approval as described above.

In responses to the Commission Staff's data request, LG&E indicated that no assets associated with AROs are currently included in LG&E's environmental surcharge while KU indicated that three assets associated with AROs are currently included in KU's environmental surcharge.<sup>6</sup> KU estimated the impact of SFAS No. 143 on its environmental surcharge calculations, and expressed the opinion that the asset removal costs impacted by the adoption of SFAS No. 143 should continue to be recovered through the environmental surcharge.<sup>7</sup>

While the Commission believes it was reasonable to determine whether the adoption of SFAS No. 143 could have an impact on the Companies' environmental surcharge, we find it is not reasonable to resolve that issue in this proceeding. The record is not sufficiently developed to support a decision addressing what changes, if any, should be made to KU's environmental surcharge due to the adoption of SFAS No. 143. Therefore, KU should address the affects the adoption of SFAS No. 143 has had on its environmental surcharge as part of its next 6-month environmental surcharge review.

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<sup>6</sup> Id., Item 1(b).

<sup>7</sup> Id., Item 1(c).

IT IS THEREFORE ORDERED that:

1. The accounting treatment for LG&E's and KU's adoption of SFAS No. 143 and the related treatment in the calendar year 2003 ESM calculations as described in the Stipulation are approved as modified in this Order.
2. The regulatory asset and liability accounts established by the adoption of SFAS No. 143 are approved for accounting purposes only.
3. The rate base treatments discussed in Nos. 3 and 4 of page 5 of the Stipulation are adopted for calendar year 2003 ESM calculation purposes only. LG&E, KU, and KIUC shall within 10 days of the date of this Order file written statements agreeing to this interpretation of the Stipulation.

Done at Frankfort, Kentucky, this 23rd day of December, 2003.

By the Commission

ATTEST:

Deputy

  
\_\_\_\_\_  
Executive Director

Case No. 2003-00426  
Case No. 2003-00427

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION  
IN CASE NOS. 2003-00426 AND 2003-00427 DATED December 23, 2003.

RECEIVED

DEC 19 2003

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND )  
 ELECTRIC COMPANY FOR AN ORDER )  
 APPROVING AN ACCOUNTING ADJUSTMENT ) CASE NO: 2003-00426  
 TO BE INCLUDED IN EARNINGS SHARING )  
 MECHANISM CALCULATIONS FOR 2003 )

AND

APPLICATION OF KENTUCKY UTILITIES )  
 COMPANY FOR AN ORDER APPROVING )  
 AN ACCOUNTING ADJUSTMENT TO BE ) CASE NO: 2003-00427 ✓  
 INCLUDED IN EARNINGS SHARING )  
 MECHANISM CALCULATIONS FOR 2003 )

STIPULATION

WHEREAS, Louisville Gas and Electric Company ("LG&E") filed an application for an order approving an accounting adjustment with the Kentucky Public Service Commission ("Commission") on November 14, 2003 in Case No. 2003-00426;

WHEREAS, Kentucky Utilities Company ("KU") filed an application for an order approving an accounting adjustment with the Commission on November 14, 2003 in Case No. 2003-00427;

WHEREAS, the Kentucky Industrial Utility Customers, Inc. ("KIUC") was granted intervention by the Commission on December 4, 2003;

WHEREAS, the parties wish to facilitate the disposition of these two proceedings through the submission of a joint stipulation on the accounting issues; and,

NOW; THEREFORE, pursuant to 807 KAR 5:001 Section 4(6) the parties stipulate as follows:

1. SFAS No. 143, *Accounting for Asset Retirement Obligations*, and FERC Order 631, *Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations*, specify the accounting LG&E and KU must follow relative to legal obligations for the ultimate disposal of assets effective January 1, 2003. The companies have proposed accounting for these asset retirement obligations ("AROs") using a method which both complies with the required accounting literature and is consistent with the current ratemaking treatment.

2. The purpose of this stipulation is to state the accounting treatment which will negate, on a net basis, the income statement effects of implementing SFAS No. 143, so that there is no effect from SFAS No. 143 on LG&E's or KU's operating income for accounting or ratemaking purposes.

3. Effective January 1, 2003, the Companies recorded the entries as summarized on Exhibit 1. Upon implementation of SFAS No. 143 and FERC Order 631, LG&E and KU were required to remove the cost of removal ("COR") component from accumulated depreciation for assets with a legal obligation at retirement (Exhibit 1, Entry 4). The Companies were also required to record the expected future cost of the AROs discounted back to the date the assets were placed in service as ARO liabilities in FERC Account 230 (Exhibit 1, Entry 1). Offsetting ARO assets, equal to the ARO liabilities at the assets' original in-service dates, were recorded in FERC Accounts 317, 347 or 359.1, to represent the additional cost of the assets, due to the ultimate removal cost (Exhibit 1, Entry 1). Each of the ARO assets and ARO liabilities was then incremented to 2003 values by recording depreciation expense and accumulated depreciation from the in-service date of the underlying asset for the ARO asset (Exhibit 1, Entry 2) and by

recording accretion expense incrementing the ARO liability from the in-service date of the underlying asset (Exhibit 1, Entry 3). The net of the previously recorded COR, depreciation on the ARO assets, and the accreted ARO liabilities from the in-service date to January 1, 2003 (the amounts that would have been recorded in prior periods had the standard always been in effect) was recorded as a cumulative effect charge to the income statement using FERC Account 435 (Exhibit 1, Entries 4, 2 and 3, respectively). In order to remove the effect of adopting SFAS No. 143 and retain the ratemaking accounting approved by the Commission, the Companies recorded an offsetting regulatory credit in the income statement in FERC account 407 to counter the impact of the cumulative effect charges (Exhibit 1, Entry 5). The regulatory credit was offset against a regulatory asset in FERC Account 182.3 (Exhibit 1, Entry 5).

4. LG&E and KU made applications to the Commission on November 14, 2003 requesting that they be allowed to offset the amount recorded in the cumulative effect with the amount recorded in the regulatory credit since the cumulative effect was recorded below the line and the regulatory credit was recorded above the line, resulting in inconsistent treatment of these amounts for ratemaking purposes.

5. Exhibit 2 illustrates the entries that will be recorded beginning in 2003. LG&E and KU will continue recording depreciation expense and accumulated depreciation on the ARO asset and will continue incrementing the value of the ARO liability through accretion expense (Exhibit 2, Entries 1 and 3). In order to continue removing the effect of adopting SFAS No. 143 and retain the ratemaking accounting approved by the Commission, the Companies will offset all depreciation expense and accretion expense related to ARO assets and liabilities through a credit to the regulatory credit account (FERC account 407) and a charge to a regulatory asset account (FERC account 182.3) (Entries 2 and 4). LG&E and KU will continue to record the COR



component of depreciation on the underlying assets, by charging depreciation expense (Exhibit 2, Entry 5). The COR depreciation will be offset by a credit to the regulatory liability in FERC Account 254 (Exhibit 2, Entry 5). Non-COR depreciation on the underlying assets will continue to be charged to depreciation expense and credited to accumulated depreciation (Exhibit 2, Entry 5).

6. For ratemaking purposes, the regulatory liability associated with the COR depreciation expense, including the portion netted against regulatory assets in the cumulative effect at adoption of SFAS No. 143, will be included in the calculation of rate base since this amount represents the accumulated depreciation for the COR under Commission approved depreciation rates. The ARO assets, related ARO asset accumulated depreciation, ARO liabilities, and remaining regulatory assets associated with the adoption of SFAS No. 143 will be excluded from rate base.

7. KU and LG&E stipulate to the accounting described above, given that Commission approval is received both for the offset of the cumulative effect against the regulatory credit for the initial adoption of SFAS 143 effective January 1, 2003, and for recording the associated regulatory assets and regulatory liabilities, at initial adoption and on an on-going basis.

8. KIUC's consent and agreement to the terms of this Stipulation is without prejudice to any position KIUC may take on the merits of the issues discussed herein in future ratemaking proceedings before the Commission, except and excluding LG&E's and KU's annual Earning Sharing Mechanism filings for the 2003 operating periods and thereafter.

The parties request the Commission issue an order which:

(1) approves the regulatory assets and liabilities associated with adopting SFAS No. 143 and going forward,

(2) eliminates the impact on net operating income in the 2003 ESM annual filing caused by adopting SFAS No. 143,

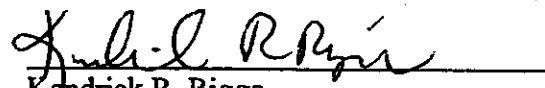
(3) to the extent accumulated depreciation related to the cost of removal is recorded in regulatory assets or regulatory liabilities, such amounts will be reclassified to accumulated depreciation for ratemaking purposes of calculating rate base, and

(4) the ARO assets, related ARO asset accumulated depreciation, ARO liabilities, and remaining regulatory assets associated with the adoption of SFAS No. 143 will be excluded from rate base.

The parties recommend the Commission issue an order granting the applications of LG&E and KU subject to the accounting procedures described herein.

Dated: December 19, 2003

Respectfully submitted,



Kendrick R. Riggs  
Ogden Newell & Welch PLLC  
1700 PNC Plaza  
500 West Jefferson Street  
Louisville, Kentucky 40202  
Telephone: (502) 560-4222

and

Linda S. Portasik  
Senior Corporate Attorney  
LG&E Energy Corp.  
220 West Main Street  
Louisville, Kentucky 40202

Counsel for Louisville Gas and

Dated: December 19, 2003

Respectfully submitted,

---

Kendrick R. Riggs  
 Ogden Newell & Welch PLLC  
 1700 PNC Plaza  
 500 West Jefferson Street  
 Louisville, Kentucky 40202  
 Telephone: (502) 560-4222

and

Linda S. Portasik  
 Senior Corporate Attorney  
 LG&E Energy Corp.  
 220 West Main Street  
 Louisville, Kentucky 40202

Counsel for Louisville Gas and  
 Electric Company and Kentucky  
 Utilities Company




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Michael L. Kurtz  
 Boehm, Kurtz & Lowry  
 36 East Seventh Street, Suite 2110  
 Cincinnati, Ohio 45202

Counsel for Kentucky Industrial  
 Utility Customers, Inc.

293045.03

**Rate-making Implications of Adopting SFAS No. 143 & FERC Order 631**

<b>Louisville Gas and Electric Company</b>					
	<b>Pre-SFAS No. 143</b>	<b>Impact of SFAS No. 143</b>	<b>Post SFAS No. 143 *</b>	<b>Pro forma Adjustment **</b>	<b>Adjusted Net Operating Income</b>
Operating revenues	1,079,301,129		1,079,301,129		1,079,301,129
Operating expenses	900,595,380	(5,280,909)	895,314,471	5,280,909	900,595,380
Income taxes	56,447,778	2,131,507	58,579,285		58,579,285
Net operating income	122,257,971	3,149,402	125,407,373	(5,280,909)	120,126,464
Other and interest expense	28,832,688		28,832,688		
Net income before cumulative effect of accounting change	93,425,283	3,149,402	96,574,685		
Cumulative effect of accounting change	-	(5,280,909)	(5,280,909)		
Income tax on cumulative effect	-	2,131,507	2,131,507		
Net cumulative effect of accounting change	-	(3,149,402)	(3,149,402)		
Net income	93,425,283	-	93,425,283		

\* All amounts presented can be found in Section 42 of the filing requirements.

\*\* The pro forma adjustment agrees to Reference Schedule 1.25 of Rives Exhibit 1. Taxes on the pro forma adjustment are calculated on Line 40 of Rives Exhibit 1, Page 3 of 3.

<b>Kentucky Utilities Company Jurisdictional</b>					
	<b>Pre-SFAS No. 143</b>	<b>Impact of SFAS No. 143</b>	<b>Post SFAS No. 143 *</b>	<b>Pro forma Adjustment **</b>	<b>Adjusted Net Operating Income</b>
Operating revenues	768,801,159		768,801,159		768,801,159
Operating expenses	648,923,963	(8,434,618)	640,489,345	8,434,618	648,923,963
Income taxes	38,739,860	3,404,423	42,144,283		42,144,283
Net operating income	81,137,336	5,030,195	86,167,531	(8,434,618)	77,732,913
Interest expense	20,391,767		20,391,767		
Net income before cumulative effect of accounting change	60,745,569	5,030,195	65,775,764		
Cumulative effect of accounting change	-	(8,434,618)	(8,434,618)		
Income tax on cumulative effect	-	3,404,423	3,404,423		
Net cumulative effect of accounting change	-	(5,030,195)	(5,030,195)		
Net income	60,745,569	-	60,745,569		

\* All amounts presented can be found in Section 42 of the filing requirements.

\*\* The pro forma adjustment agrees to Reference Schedule 1.25 of Rives Exhibit 1. Taxes on the pro forma adjustment are calculated on Line 38 of Rives Exhibit 1, Page 3 of 3.

Louisville Gas and Electric Company ESM Audit Expenses

Account	Date	Vendor #	Vendor Name	Amount	Description
0100.113.008570.021440.186021.0312.0000	Jun-03	59046	Barrington Wesley Group	38,046.94	Audit
0100.113.008570.021440.186021.0312.0000	Jul-03	59046	Barrington Wesley Group	33,548.32	ESM Audit
0100.113.008570.021440.186021.0312.0000	Aug-03	59046	Barrington Wesley Group	24,727.74	Audit
0100.113.008570.021440.186021.0312.0000	Nov-03	59046	Barrington Wesley Group	8,300.44	Audit
0100.113.008570.021440.186021.0312.0000	Dec-03	59046	Barrington Wesley Group	32,725.90	Audit
0100.113.008570.021440.186021.0312.0000	Jan-04	59046	Barrington Wesley Group	4,343.49	Audit
0100.113.008570.021440.186021.0312.0000	Feb-04	59046	Barrington Wesley Group	225.00	Audit
0100.113.008570.021440.186021.0305.0000	Sep-03	53957	Edgewood Consulting	1,984.03	Consulting - ESM
0100.113.008570.021440.186021.0305.0000	Feb-04	53957	Edgewood Consulting	12,145.06	Analysis - ESM
0100.113.008570.021440.186021.0305.0000	Nov-03	19195	Towers Perrin	13,752.00	Services rendered
0100.113.008570.021440.186021.0305.0000	Apr-03	40674	The Prime Group	8,750.00	ESM Audit
0100.113.008570.021440.186021.0305.0000	May-03	40674	The Prime Group	5,050.00	ESM Audit
0100.113.008570.021440.186021.0305.0000	Jun-03	40674	The Prime Group	800.00	Esm Audit
0100.113.008570.021440.186021.0305.0000	Nov-03	40674	The Prime Group	7,400.00	ESM Audit
Total				<u>7,400.00</u>	
				<u>\$ 191,798.92</u>	

Kentucky Utilities Company ESM Audit Expenses

Account	Date	Vendor #	Vendor Name	Amount	Description
0110.105.018570.021440.186023.0312.0000	Jun-03	59046	Barrington Wesley Group	38,046.94	Audit
0110.105.018570.021440.186023.0312.0000	Jul-03	59046	Barrington Wesley Group	33,548.32	ESM Audit
0110.105.018570.021440.186023.0312.0000	Aug-03	59046	Barrington Wesley Group	24,727.75	Audit
0110.105.018570.021440.186023.0312.0000	Nov-03	59046	Barrington Wesley Group	8,300.45	Audit
0110.105.018570.021440.186023.0312.0000	Dec-03	59046	Barrington Wesley Group	32,725.89	Audit
0110.105.018570.021440.186023.0312.0000	Jan-04	59046	Barrington Wesley Group	4,343.49	Audit
0110.105.018570.021440.186023.0312.0000	Feb-04	59046	Barrington Wesley Group	225.00	Audit
0110.105.018570.021440.186023.0305.0000	Sep-03	53957	Edgewood Consulting	1,984.03	Consulting - ESM
0110.105.018570.021440.186023.0305.0000	Feb-04	53957	Edgewood Consulting	12,145.06	Analysis - ESM
0110.105.018570.021440.186023.0305.0000	Nov-03	19195	Towers Perrin	13,752.00	Services rendered
0110.105.018570.021440.186023.0305.0000	Apr-03	40674	The Prime Group	8,750.00	ESM Audit
0110.105.018570.021440.186023.0305.0000	May-03	40674	The Prime Group	5,050.00	ESM Audit
0110.105.018570.021440.186023.0305.0000	Jun-03	40674	The Prime Group	800.00	ESM Audit
0110.105.018570.021440.186023.0305.0000	Nov-03	40674	The Prime Group	7,400.00	ESM Audit
Total				<u>7,400.00</u>	
				<u>\$ 191,798.93</u>	