



LG&E Energy LLC
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

April 30, 2004

RECEIVED

APR 30 2004

PUBLIC SERVICE
COMMISSION

Mr. Thomas Dorman, Executive Director
Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, Kentucky 40602

**RE: LOUISVILLE GAS AND ELECTRIC COMPANY'S ANNUAL EARNINGS
SHARING MECHANISM FILING FOR CALENDAR YEAR 2003
CASE NO. 2004-00069**

Dear Mr. Dorman:

Please find enclosed and accept for filing the original and seven (7) copies of the Response of Louisville Gas and Electric Company ("LG&E") to the First Data Request of Commission Staff dated April 15, 2004, in the above-referenced matter.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Sincerely,

Robert M. Conroy
Manager, Rates

Enclosures

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

LOUISVILLE GAS AND ELECTRIC COMPANY'S)	
ANNUAL EARNINGS SHARING MECHANISM)	CASE NO.
FILING FOR CALENDAR YEAR 2003)	2004-00069

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO THE COMMISSION'S FIRST DATA REQUEST
DATED: APRIL 15, 2004

FILED: APRIL 30, 2004

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2004-00069

Response to the Commission's First Data Request

Dated: April 15, 2004

Question No. 1

Responding Witness: Valerie L. Scott

Q-1. Refer to the March 1, 2004 Annual Earnings Sharing Mechanism Filing ("2004 ESM Filing"), Form 1. Does LG&E know why the net operating income for 2003 was \$19,388,059 below the lower equity limit? If yes, provide the reason(s) for the lower net operating income and include any documentation, calculations, or assumptions supporting the reason(s). If no, explain why LG&E has not attempted to determine why the 2003 net operating income was below the lower equity limit.

A-1. Yes. A comparison was made between 2003 and the latest year LG&E was in the deadband, 2001. The reasons are stated below. Also, see response to Question No. 2.

**LOUISVILLE GAS AND ELECTRIC COMPANY
2003 VS 2001 ELECTRIC OPERATING INCOME CHANGES
(\$ 000)**

	<u>2001</u>	<u>2003</u>	<u>Increase/ (Decrease)</u>
Total Operating Revenues	672,866	745,401	72,535
Fuel	172,227	200,884	28,657
Power Purchased	49,322	79,621	30,299
O&M	204,785	250,993	46,208
Depreciation & Amortization	82,946	95,007	12,061
Taxes	57,842	42,880	(14,962)
Net Operating Income	<u>105,744</u>	<u>76,016</u>	<u>(29,728)</u>
Amount Under Deadband			(19,388)

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2004-00069

Response to the Commission's First Data Request

Dated: April 15, 2004

Question No. 2

Responding Witness: Valerie L. Scott

- Q-2. Refer to the 2004 ESM Filing, Form 2, Column 6 – Adjusted Electric and the February 28, 2003 Annual Earnings Sharing Mechanism Filing, Form 2, Column 6 – Adjusted Electric filed in Case No. 2003-00076.¹ For each account listed below, describe the reason(s) for the change in the account balance shown in Column 6 between December 31, 2002 and December 31, 2003.
- a. Total Sales to Ultimate Customers.
 - b. Sales for Resale.
 - c. Operation Expenses.
 - d. Depreciation Expense.
- A-2.
- a. Total sales to ultimate consumers decreased \$5.3 million in 2003 compared to 2002 primarily because of reduced sales volumes due to milder summer weather, partially offset by increased recoveries of base fuel from the May 1, 2003 roll-in.
 - b. Sales for resale increased \$52.1 million in 2003 compared to 2002 primarily because of a 20.1% increase in volume, and a 20.7% increase in pricing.
 - c. Operation and maintenance expenses increased \$45.6 million in 2003 over 2002. The increase resulted from an increase in fuel burned of \$18.8 million due to an increase in generation and cost of fuel burned and an increase in power purchased of \$17.7 million to meet off-system sales requirements. Other operations and maintenance expenses increased \$9.1 million primarily due to an increase in MISO expenses of \$6.9 million, and an increase in demand side management programs of \$2.5 million.
 - d. Depreciation expense increased \$7.6 million in 2003 due to a 4.3% increase in utility plant in service. There have been no changes to underlying depreciation rates or practices. The most significant increases in utility plant were related to Steam Production, Electric Distribution and Gas Distribution plant, which increased 5.12%, 5.25% and 8.79%, respectively. Steam production projects included the Mill Creek 2 control upgrade, and Trimble

¹ Case No. 2003-00076, Louisville Gas and Electric Company's Annual Earnings Sharing Mechanism Filing for Calendar Year 2002.

County boiler modifications. Increases in electric and gas distribution were related to the normal replacement and installation of electric distribution lines and gas distribution mains.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2004-00069

Response to the Commission's First Data Request

Dated: April 15, 2004

Question No. 3

Responding Witness: Doug Leichty

- Q-3. Refer to the 2004 ESM Filing, Form 3(b). Explain why it is necessary to adjust the determination of the cost of long-term debt for the "Environmental Compliance Rate Base" in Column 7 and the "Environmental Interest Expense" in Column 8. Include with the explanation the reason(s) supporting the environmental-related adjustments.
- A-3. The environmental-related adjustments on Form 3(b) to the determination of the cost of long-term debt in the ESM Filing for Calendar Year 2003 are consistent with the ESM Filings for Calendar Years' 2000, 2001, and 2002. The environmental-related adjustments made in the determination of the cost of long-term debt are pursuant to the Commission's Order in Case No. 98-426 issued June 1, 2000, on pages 4 and 5 where it states, "The Commission has considered the arguments made by LG&E and agrees that the blended interest rate calculations should have recognized the assignment of the environmental surcharge adjustment to long-term debt, at an interest rate equal to the rate of return provided in the environmental surcharge mechanism." The ESM reporting requirements provide that the cost rates for debt shall be presented in a manner consistent with that adopted by the Commission in Case No. 98-426.

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2004-00069

Response to the Commission's First Data Request

Dated: April 15, 2004

Question No. 4

Responding Witness: Carol A. Foxworthy / Doug Leichty

- Q-4. Refer to the 2004 ESM Filing, Form 3(f), pages 2 and 3 of 3.
- a. On page 2 of 3, in the "Post-1995 Plan" section, Column D, the amounts shown for April and May 2003 for Accumulated Depreciation do not agree with the corresponding amounts included in LG&E's monthly environmental surcharge reports. Indicate which amounts for the April and May 2003 Accumulated Depreciation are correct. If the amounts shown on page 2 of 3 are incorrect, resubmit all schedules impacted by the correction of the Accumulated Depreciation amounts.
 - b. On page 3 of 3, reference is made to Exhibit CAF-2 from Case Nos. 2002-00193² and 2003-00236.³ Provide copies of Exhibit CAF-2 as submitted in the referenced cases.
- A-4.
- a. LG&E filed revised ES Form 2.11 for April and May 2003 with the June 2003 monthly environmental surcharge report. The accumulated depreciation amounts on ESM Filing Form 3(f), page 2 agree with the revised accumulated depreciation amounts submitted on July 24, 2003.
 - b. Please see the attached Exhibit CAF-2 from Case No. 2003-00236 (Page 1 of 2) and Case No. 2003-00193 (Page 2 of 2).

² Case No. 2002-00193, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and Electric Company for the Six-Month Billing Periods Ending April 30, 2000, October 31, 2000, October 31, 2001, and April 30, 2002 and for the Two-Year Billing Period Ending April 30, 2001

³ Case No. 2003-00236, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Louisville Gas and electric Company for the Two-Year Billing Period Ending April 30, 2003.

Calculation of Revenue Requirement for Roll-In:

		1995 Plan	Post-1995 Plan	Post-1995 Plan
			at Feb. 28, 2003	average over
				Review Period
Environmental Compliance Rate Base				
Pollution Control Plant in Service	ES Form 2.0, February 2003	78,836,562	48,298,015	37,142,118
Pollution Control CWIP Excluding AFUDC	ES Form 2.0, February 2003	-	139,632,848	104,557,213
	Subtotal	<u>78,836,562</u>	<u>187,930,863</u>	<u>141,699,331</u>
Additions:				
Cash Working Capital Allowance	ES Form 2.0, February 2003	-	12,296	11,705
	Subtotal	<u>-</u>	<u>12,296</u>	<u>11,705</u>
Deductions:				
Accumulated Depreciation on Pollution Control Plant	ES Form 2.0, February 2003	25,379,814	1,048,106	496,035
Pollution Control Deferred Income Taxes	ES Form 2.0, February 2003	4,910,473	193,089	108,071
Pollution Control Deferred Investment Tax Credit	ES Form 2.0, February 2003	-	-	-
	Subtotal	<u>30,290,287</u>	<u>1,241,195</u>	<u>604,107</u>
Environmental Compliance Rate Base		<u>48,546,275</u>	<u>186,701,964</u>	<u>141,106,929</u>
Rate of Return – Environmental Compliance Rate Base	ES Form 1.1, February 2003	5.28%	11.86%	11.86%
Return on Environmental Compliance Rate Base		<u>2,563,243</u>	<u>22,142,853</u>	<u>16,735,282</u>
Pollution Control Operating Expenses				
12 Month Depreciation and Amortization Expense	See Support Schedule A	2,754,848	463,018	463,018
12 Month Taxes Other than Income Taxes	See Support Schedule A	76,676	134,706	134,706
12 Month Insurance Expense	See Support Schedule A	19,824	-	-
12 Month Environmental Permitting Fees	See Support Schedule A	810,680	-	-
12 Month Operating and Maintenance Expense	See Support Schedule A	-	74,086	74,086
Total Pollution Control Operating Expenses		<u>3,662,028</u>	<u>671,810</u>	<u>671,810</u>
Gross Proceeds from By-Product & Allowance Sales	See Support Schedule B	<u>216,947</u>		
Total Company Environmental Surcharge Gross Revenue Requirement – Roll In Amount				
Return on Environmental Compliance Rate Base		2,563,243	22,142,853	16,735,282
Pollution Control Operating Expenses		3,662,028	671,810	671,810
Less Gross Proceeds from By-Product & Allowance Sales		(216,947)	-	-
Roll In Amount		<u>6,008,324</u>	<u>22,814,663</u>	<u>17,407,092</u>
Jurisdictional Allocation Ratio – Roll In	See Support Schedule C	82.4013%	82.4013%	82.4013%
Jurisdictional Revenues for 12 Months for Roll In	See Support Schedule C	<u>569,970,904</u>	<u>569,970,904</u>	<u>569,970,904</u>
Roll In Jurisdictional Environmental Surcharge Factor:				
Total Company Environmental Surcharge Gross Revenue Requirement – Roll In Amount		6,008,324	22,814,663	17,407,092
Jurisdictional Allocation Ratio – Roll In		82.4013%	82.4013%	82.4013%
Jurisdictional Environmental Surcharge Gross Revenue Requirement – Gross Roll In Amount		4,950,935	18,799,569	14,343,662
Less Jurisdictional Environmental Revenue Previously Rolled In (Case No. 2002-193)		4,077,800		
Jurisdictional Environmental Surcharge Gross Revenue Requirement -- Net Roll In Amount		873,135		14,343,662
BESF		0.1532%	3.2983%	2.5166%
Total Combined BESF using Average Rate Base for Post 1995 Plan				2.6698%
Total Combined BESF using February 28, 2003 Rate Base for Post 1995 Plan			3.4515%	

Louisville Gas and Electric Company
Environmental Cost Recovery Periodic Review
Case No. 2002-00193

Calculation of Revenue Requirement for Roll-In:

Environmental Compliance Rate Base		
Pollution Control Plant in Service		53,800,579
Pollution Control CWIP Excluding AFUDC		-
	Subtotal	<u>53,800,579</u>
Deductions:		
Accumulated Depreciation on Pollution Control Plant		12,196,917
Pollution Control Deferred Income Taxes		3,761,652
Pollution Control Deferred Investment Tax Credit		-
	Subtotal	<u>15,958,569</u>
Environmental Compliance Rate Base		<u>37,842,010</u>
Rate of Return -- Environmental Compliance Rate Base		5.60%
Return on Environmental Compliance Rate Base		<u>2,119,153</u>
Pollution Control Operating Expenses		
12 Month Depreciation and Amortization Expense		2,638,281
12 Month Taxes Other than Income Taxes		80,935
12 Month Insurance Expense		16,060
12 Month Emission Allowance Expense		-
12 Month Permitting Fees		764,483
Less O&M Expenses Already Included in Base Rates		<u>(454,490)</u>
Total Pollution Control Operating Expenses		<u>3,045,269</u>
Gross Proceeds from By-Product & Allowance Sales		<u>173,491</u>
Total Company Environmental Surcharge Gross Revenue Requirement -- Roll In Amount		
Return on Environmental Compliance Rate Base		2,119,153
Pollution Control Operating Expenses		3,045,269
Less Gross Proceeds from By-Product & Allowance Sales		<u>(173,491)</u>
Roll In Amount		<u>4,990,931</u>
Jurisdictional Allocation Ratio -- Roll In		<u>81.7042%</u>
Jurisdictional Revenues for 12 Months for Roll In		<u>\$ 519,739,967</u>
Roll In Jurisdictional Environmental Surcharge Factor:		
Total Company Environmental Surcharge Revenue Requirement -- Roll In Amount		\$ 4,990,931
Jurisdictional Allocation Ratio -- Roll In		<u>81.7042%</u>
Jurisdictional Environmental Surcharge Revenue Requirement -- Roll In Amount		<u>\$ 4,077,800</u>

LOUISVILLE GAS AND ELECTRIC COMPANY

CASE NO. 2004-00069

Response to the Commission's First Data Request

Dated: April 15, 2004

Question No. 5

Responding Witness: Valerie L. Scott

- Q-5. Refer to the 2004 ESM Filing, Appendix B.
- a. For both employee labor costs and contractor costs, provide the capitalized amounts, the expensed amounts, and the total amounts (capitalized plus expensed) for 2002 and 2003. Also provide the capitalization ratios for employee labor and contractor costs for 2002 and 2003.
 - b. The employee headcount was 1,272 at December 31, 2002 and 1,245 at December 31, 2003, a decrease of 2.12 percent. Explain why employee labor costs increased from \$94,498,537 in 2002 to \$100,590,877 in 2003, an increase of 6.45 percent.
 - c. Identify the types of costs included in the burdened labor costs and provide the specific percentage increases in the various components of burdened labor costs between 2002 and 2003.
 - d. Identify whether changes in the ratios of capitalized costs and expensed costs impacted the percentage increase for employee labor.
 - e. Contractor costs decreased from \$64,494,415 in 2002 to \$58,483,807 in 2003, a decrease of 9.46 percent.
 - (1) Provide a schedule summarizing the increases or decreases in operation and maintenance contractor costs by functional areas.
 - (2) Provide a detailed explanation for the decrease in contractor costs between 2002 and 2003, including the extent to which changes in the capitalization ratios impacted the magnitude of the decrease.
- A-5. a. Employee labor cost and contractor cost capitalized and O&M amounts and the labor total for 2002 and 2003:

	2002	2003	Difference
EMPLOYEE LABOR (includes burdens)			
Capital	\$14,738,416	\$14,623,821	(\$114,595)
O&M	\$94,498,537	100,590,877	6,092,340
Total	\$109,236,953	\$115,214,698	\$5,977,745
CONTRACTOR			
Capital	\$143,753,426	\$115,849,071	(\$27,904,355)
O&M	64,595,415	58,483,807	(6,111,608)
Total	\$208,348,841	\$174,332,878	(\$34,015,963)

Employee and contract labor costs are not allocated to capital and O&M based on ratios but charged directly based upon the actual work performed.

- b. Direct employee labor cost had a net increase in 2003 of approximately \$3.5 million due to wage increases and other employee changes (i.e., changes between labor charged to capital versus expense). The remaining O&M labor increase is from the overall increase in burdens of \$2,600,494 in 2003 as identified in response to c.
- c. Employee burden cost by type for 2002 and 2003:

	2002	2003	Difference	Percent
Vacation and Holiday	\$6,981,676	\$6,325,949	(\$655,727)	(9.4)
Hospitalization	6,031,845	4,499,830	(1,532,015)	(25.4)
Thrift Plan	1,735,942	1,783,046	47,104	2.7
Off Duty and Sick	1,314,411	1,354,745	40,334	3.1
Workers Compensation	995,597	768,328	(227,269)	(22.8)
Pensions, Dental, Post Retirement, Group Life Insurance, and Post Employment Benefits	14,050,504	17,233,040	3,182,536	22.7
Team Incentive Award	3,296,600	5,042,131	1,745,531	52.9
Total	\$34,406,575	\$37,007,069	\$2,600,494	7.6

- d. Employee and contract labor costs are not allocated to capital based on ratios but upon the actual work projects performed.

- e. (1) Contractor costs decreased from \$64,595,415 in 2002 to \$58,483,807 in 2003. Listed below is the summary of the decrease in O&M contractor costs for functional areas.

FUNCTION	2003 vs. 2002 Contractor O&M Increase/(Decrease)
Steam	(\$4,277,039)
Hydraulic	(223,702)
Other Power Generation	(138,971)
Other Power Supply	8,446
Electric Transmission	99,484
Electric Distribution	(303,624)
Other Gas Supply	(67,609)
Underground Storage	(102,180)
Gas Transmission	188,060
Gas Distribution	426,524
Customer Accounts	(246,466)
Customer Service and Informational	388,943
Sales Expenses	88,088
A&G Total	(1,951,562)

Total	(\$6,111,608)

- e. (2) Steam generation contractor O&M expenses decreased in 2003 versus 2002 due to a decrease in outage repairs at Cane Run in 2003.

Administrative and general expenses decreased due to the reclassification of charges for field services contractors and contractors used for customer satisfaction surveys. The field services were charged to administrative and general in 2002 and electric distribution in 2003. The customer satisfaction surveys and related items were charged to administrative and general in 2002 and customer service and informational expenses in 2003. The remaining decrease was due to decreased legal expenses incurred in 2003 as compared to 2002 for legal expenses associated with the E. W. Brown combustion turbine litigation.

The contractor charges are directly assigned to O&M and capital based on work performed. Allocations are not used to charge capital or O&M.