

RECEIVED

MAY 19 2005

PUBLIC SERVICE
COMMISSION

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.1. Please provide copies of all testimony presented by Mr. Brown Kinloch to any regulatory agency or court in the last ten (10) years relating to certificates of convenience and necessity for electric generating stations, electric load forecasting, the timing of the addition of generating capacity, the need for base load capacity or the selection of particular base load options.

Answer:

Mr. Brown Kinloch has presented testimony in the following cases with respect to certificate cases and the need for new capacity in the last 10 years:

Case No. 2000-056 – Certificate for East Kentucky Power Cooperative
Case No. 2000-079 – Certificate for East Kentucky Power Cooperative
Case No. 2001-053 – Certificate for East Kentucky Power Cooperative
Case No. 2002-00029 – Certificate for LG&E and KU
Case No. 2003-030 – Certificate for East Kentucky Power Cooperative
Case No. 2003-0052 - Union Light, Heat and Power generation acquisition case

These testimonies are too voluminous to copy. These testimonies are on file at the Kentucky Public Service Commission. They may also be reviewed and/or copied by contacting Mr. Brown Kinloch directly at (502) 589-0975, to make appropriate arrangements.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

- Q.2. On page 5, lines 7-8 of his testimony, Mr. Brown Kinloch states that “the Companies have experienced no load growth for the last 5 years.”**
- a. Please state in detail the factual basis for that testimony, and produce copies of all documents which the AG claims support that testimony (or, if in the record in this proceeding, provide citations to such documents sufficient to locate the specific portions relied upon for the testimony).**

Answer:

As stated on page 5, lines 3-7 of my testimony, the Companies’ Peak Load has only grown by 44 MW on a weather normalized basis over the last 5 years. This is based on the Companies’ Response to the Commission’s First Data Request, Question 17, page 2 of 3.

- b. Is Mr. Brown Kinloch referring in this testimony only to peak demand?**

Answer:

The testimony was referring to peak demand because this is the basis upon which the need for capacity is based. It should be noted that during the same time frame Winter Peak has only grown by 155 MW over 5 years on a weather normalized basis. The Companies have experienced some growth in energy sales over this period, which should result in better utilization of existing generating resources.

- c. **Does Mr. Brown Kinloch have the same opinion regarding annual energy demand? If so, produce copies of all documents which the AG claims support that opinion (or, if in the record in this proceeding, provide citations to such documents sufficient to locate the specific portions relied upon for the opinion).**

Answer:

No. See response (b) above.

- d. **Does Mr. Brown Kinloch believe that the Companies' energy forecast is reasonable? If not, please set forth in detail the reason why the energy forecast is not thought to be reasonable, and describe each and every change Mr. Brown Kinloch would make to the Companies' energy forecast in order to make it reasonable.**

Answer:

The Companies' energy forecast is much more reasonable than demand forecasts.

Energy forecast growth rates for the next few years are higher than what has been experienced in the past 5 years, but not significantly.

- e. **Does Mr. Brown Kinloch believe that there is a long-term relationship between the annual growth in energy and peak demand? If, so please describe the relationship and the factual basis for that belief. If not, please describe why not and the factual basis for that belief.**

Answer:

The relationship between peak load and energy sales is reflected in a utility's load factor. It is the goal of most utilities to increase load factor, or the amount of energy sales per unit of peak demand, in order to get better utilization of existing generating resources. The advantage of higher load factors is to increase energy sales for given fixed costs, thus spreading fixed costs over more sales and lowering cost per kWh for ratepayers.

In recent years, the Companies have increase sales using the same amount of generating capacity. This should be of benefit to both the Companies and ratepayers. The long-term relationship between sales and peak load referred to in this question has been changing over recent years as load factor has increased. It is difficult to tell at this time if this new relationship will become a long-term relationship.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

- Q.3. On page 7, lines 1 - 5 of his testimony, Mr. Brown Kinloch uses the Companies' 2004 actual weather normalized peak demand as the starting point for his projection (Exhibit DHBK-2), and uses the growth rates contained in Mr. Sinclair's Exhibit DSS-1 to project future peak demand.**
- a. Other than the "starting point," does Mr. Brown Kinloch believe that the Companies' peak demand will change by the growth rates shown in Exhibit DHBK-2?**

Answer:

Not necessarily. As stated clearly in my testimony, it is unclear when the Company's peak load will begin growing again and at what rate. The purpose of Exhibit DHBK-2 was not to adopt the Companies' projected growth rate, but to simply show the impact on the Companies' exhibit if the actual weather normalized data for 2004 was used at the starting point, with no other changes.

- b. If not, at what rate does Mr. Brown Kinloch believe the Companies' peak demand will grow? Please provide the projection and the factual basis for the projection.**

Answer:

Mr. Brown Kinloch has not performed a load growth analysis for the Companies.

- c. Does Mr. Brown Kinloch believe that his approach to forecasting peak demand should be used if the 2005 weather-normalized peak is greater than the Companies' forecast? Please explain the answer.**

Answer:

Mr. Brown Kinloch has not performed a load growth analysis for the Companies.

- d. If the 2005 weather-normalized peak is greater than that shown in DHBK-2, would this change Mr. Brown Kinloch's forecast of the Companies' peak demand? Please explain the answer.**

Answer:

No. Quoting from page 5 of Mr. Sinclair's testimony, "One year does not make a trend." Please refer to my testimony, page 23, lines 1 through 18.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.4. Please provide each of the exhibits in Mr. Brown Kinloch's testimony in electronic format (preferably in Microsoft Excel) with the formulas intact.

Answer:

The requested exhibits are provided in Microsoft Excel format on the attached CD.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.5. Please provide all worksheets, work papers and spreadsheets that were utilized by Mr. Brown Kinloch in his analysis in both paper and electronic format, with formulas intact.

Answer:

Please see response to Question 4.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

- Q.6. On pages 16-20 of his testimony, Mr. Brown Kinloch discusses the value of Green Tags. With respect to that testimony,**
- a. Please provide all supporting references and data, including copies of all supporting documents, for the opinion by Mr. Brown Kinloch that there is any marketable value whatsoever to the Companies for Marketer F's Green attributes.**

Answer:

Please see the Response to the Commission's Request, Question 4.

- b. Please provide all supporting references and data, including copies of all supporting documents, for the specific Green Tag value presumed in Exhibits DHBK-5 and DHBK-6. Provide any documents supporting the claim that an "assumption of the Green Tags being worth 6 mils" is "more realistic" in this specific case.**

Answer:

Please see the Response to the Commission's Request, Question 4.

- c. Please provide all supporting references and data, including copies of all supporting documents, for the testimony that "Green Tags associated with hydro are being marketed to the retail market on the East Coast for 12 mils." Have any of those marketed Green Tags actually been sold? If so, state the value and provide documents describing the sale and the value of the Green Tags.**

Answer:

The Green Tags referred to are being sold by EAD Environmental. For further information, go to the website: www.EADenvironmental.com. Click on "Buy Now." EAD Environmental offers six renewable Green Tag options. The fourth of the six is

“Home-grown Hydro Certificates – 500 kWh blocks”, which are being sold for \$6.00 each, or for 12 mils per kilowatt-hour.

d. Please provide all supporting references and data, including copies of all supporting documents, for the testimony that “Current hydro Green Tags in the Midwest” have any marketable value whatsoever. Provide specific descriptions, together with supporting documents, of any actual sales, including the price received, of “hydro Green Tags in the Midwest” in the last three years.

Answer:

Please see the Response to the Commission’s Request, Question 4.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.7. On page 20, lines 15-17 of his testimony, Mr. Brown Kinloch asserts that “it appears that the General Assembly’s policy” to foster and encourage use of Kentucky coal “would be difficult to apply in this case” because TC2 “may only partially use Kentucky coal.” Please explain in detail the basis for that conclusion, including the citation to authorities and the production of any documents relating to the answer to this question.

Answer:

Please see Mr. Voyles’ testimony, page 9, lines 1 through 7. Trimble County 2 will have a fuel blending system and is being constructed to burn both eastern coals and “western sub-bituminous (Powder River Basin) coals.”

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.8. Is it Mr. Brown Kinloch's opinion that the expected fuel source for TC2, as proposed by the Companies, is itself or in combination with any other factor a basis for denying the Companies' Joint Application? Please explain in detail the factual and legal bases for the response.

Answer:

No. It is my belief that the General Assembly's policy of preference for Kentucky coal would simply not apply as Trimble County 2 is being built to burn both Kentucky coal and other coals blended together. The Commission must base its decision in this case on whether there is a need for new capacity to meet the demands of ratepayers.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.9. Mr. Brown Kinloch states, on page 23, lines 15-18, of his testimony, that “[b]ased on the construction schedule the Companies proposed in this case, it appears that the Companies have at least a two year window where growth can occur, to demonstrate a new growth trend, before construction needs to begin.” Please explain in detail, with specific references to any testimony or documents, the basis for the claim that there is such a two year window under the Companies’ proposed construction schedule before construction needs to begin.

Answer:

Please see the Response to the Commission’s First Data Request, Question 1.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding:

Q.10. Please refer to the Attorney General's Office's Motion in Support of Intervenor IBEW's and Trades Council's Motion for Reconsideration and Motion to Compel Discovery Requests filed on April 13, 2005, in this proceeding. Is it the AG's position that he will not oppose the recovery in rates of any additional labor costs that might be incurred by the Companies if a project labor agreement is executed as recommended by the IBEW and the Trades Council in this proceeding? Please explain the response in detail.

Answer:

The primary question presented by this case is whether new baseload generation is needed now at all. Should it be determined that the construction of Trimble County 2 is necessary now, any costs incurred by the Companies should be related to bids that are both least and best cost.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.11. Please refer to Mr. Brown Kinloch's testimony, page 5, lines 3-5.

a. Please provide the source of the peak demand data in that testimony.

Answer:

Please see the Companies' Response to the Commission's First Data Request,
Question 17, page 2 of 3.

b. Please provide the source of the weather normalization information in that testimony.

Answer:

Please see the Companies' Response to the Commission's First Data Request,
Question 17, page 2 of 3.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.12. Please refer to Mr. Brown Kinloch's testimony, page 11, lines 19-23. With respect to that testimony,

- a. Does Mr. Brown Kinloch agree that additional environmental constraints would cause him to suggest retirement of one or more of the Companies' generating units? Please explain the answer in detail.**

Answer:

Not necessarily. In the past, the Companies have not retired generating units until a comprehensive cost-benefit analysis was performed to determine if the generating units would continue to have benefits for ratepayers if the units were to be upgraded or used in a different manner (such as limited use to meet reserve margins). I would expect a similar comprehensive analysis would be done by the Companies before any unit was retired for environmental or any other reasons.

- b. If generating capacity is retired in the near term, and considering the lead time of construction of a base load generating unit, how does Mr. Brown Kinloch suggest that the Companies meet their load requirements economically? Please explain the answer in detail.**

Answer:

The Companies' 2005 Integrated Resource Plan shows that the Companies do not plan to retire any units in the 15-year planning window through 2019. Assuming that the "near term" referred to in this question is within the next 15 years, this question is inconsistent with the Companies own long-term plans.

c. Does Mr. Brown Kinloch agree that delay in the construction of TC2 could cause difficulty in securing engineering and labor considering the demand for environmental-related projects and could result in increased costs of construction of any base load generating unit? Please explain the answer in detail.

Answer:

No. Please see the Response to the Commission's First Data Request, Question 2.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.13. Please refer to Mr. Brown Kinloch's testimony, page 13, lines 11-16. With respect to that testimony, does Mr. Brown Kinloch agree that the construction of TC2 prior to the commencement of a purchase power agreement with Marketer F produces a lower net present value revenue requirement than the Marketer F option? If not, please explain the answer in detail.

Answer:

Not necessarily. This question is addressed directly in my testimony at Question 19. Please see page 16 through 22 of my testimony.

**Response of the Attorney General to
Requests for Information from
Louisville Gas & Electric Company
Case No. 2004-00507**

Witness Responding: David H. Brown Kinloch

Q.14. Please refer to Mr. Brown Kinloch's testimony page 19, line 3 - page 20, line 3.

With respect to that testimony,

a. Does Mr. Brown Kinloch agree that the \$10/ton carbon tax utilized in the Companies' IRP analysis is representative of a potential emission market? If not, please state what level of carbon tax is representative of a potential emission market and explain in detail the basis for such level of carbon tax.

Answer:

Yes. A figure of \$10/ton is one "potential emissions market" price. Projections of future prices vary widely. I have seen projections that vary between \$5 and \$50/ton of Carbon Dioxide. The LG&E/KU range of \$10 to \$40 falls within these common projections. In addition, CO₂ prices could also vary widely, if an allowance trading system was implemented, as has been seen with the SO₂ market.

b. Does Mr. Brown Kinloch believe that carbon regulations will be implemented by 2010? Explain in detail the basis for the answer.

Answer:

I am unwilling to speculate on an exact date when carbon restrictions will be implemented. However, I do think there is a general consensus that some type of carbon restrictions will be implemented at some point in the future.